

Market Entry Strategy of Multinational Enterprise (MNE): A Case Study of Harley Davidson¹

Introduction

Globalisation divides scholars into pros and contras. As the supporter of Globalisation, Latham (2000) categorised the dispute into two perspectives: optimists view and pessimists view. The optimists point out globalisation as the opportunity of wider economic activity, extraordinary growth, smaller and more flexible business units while considering few numbers of threats. Other scholars define Globalisation as the fading out of international barriers such as geography, social and cultural constraint (Waters 1995). However, some scholars believe that globalisation would never really exist (Ndhlovu 2012; Rugman & Moore 2001). In fact, the trade is controlled by certain regulation and rules. These rules can be in form of formal and informal institution (Peng 2013).

Harley Davidson management, as a big player in USA motor bikes market likely viewing globalisation from optimist's view. It can be deduced from various attempts of its management to approach worlds market since 2012 (Palepu and Lane, 2015). There are some implications of globalisation when Harley Davidson decided to expand its market outside home country, USA. The implication is affecting firms in four main forces, which is technological, political and legal forces, social forces and economic forces. Particularly for Harley Davidson, the strongest driver is economic and social forces. First of all, economic forces. It is reflected by the need of global expansion due to the maturity of the US market. Between 2002-2008, it reached 50% share of the US heavyweight motorcycle market that affirming Harley Davidson to be the market leader of the industry (Checkcapital, 2008). This fact trigger Harley Davidson to open itself to the global market.

Second economic force is the global crisis in 2008 that make the sales of Harley Davidson fell 13.1% while the profit sank nearly 30% (Gray, 2008). This fell of the selling is not because Harley Davidson is less appealing to American consumers but it is because the disposable income for luxury items has fell down as the impact of the crisis, which is a form of social force. Although the crisis might also impact other countries in many cases, but the fact of the changing world trade share will likely bring new potential contribution to the overall company growth when the FDI opportunity is opened up. Those all forces make Harley Davidson to build relatedness and interdependence to other countries.

Besides, the reason of Harley Davidson choosing to enter India market is an attractiveness of the world's second largest motorcycle market. Other reason is to seek for efficiency considering India as the home base of international offshoring. This study is an applied business research aimed to provide scientific review of market entry strategy conducted by Harley Davidson, and whether it increases the performance of Harley Davidson. The contribution of this research is the dissemination of knowledge of applied business research as well as managerial contribution for multinational enterprises managers as the tool of benchmarking to expand their business overseas.

Literature Review

Internationalisation strategy, particularly market expansion strategy should consider several aspects: political-economy, national culture, and international business strategy such as intended strategy, deliberate strategy and emergent strategy.

Political-economy is a term used to refer the interaction of politics and economics, how politics affect economic outcome in one country. Furthermore, this term is also used to stress that the political, economic and legal systems of a country are interdependent, interact and influence each other (Hill, 2015). International business, particularly concern on what economic policy to adopt and emerge from a specific political process. Hill (2015) uses another term called political system to represent the system of government in a nation. Different political systems may affect the climate of business on particular

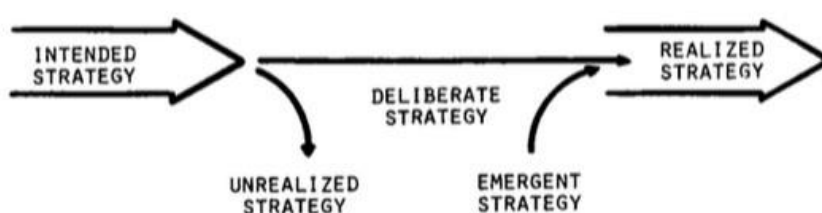
¹ Prepared based on the paper: Ria Triwastuti, Market Entry Strategy of Multinational Enterprise (MNE): A Case Study of Harley Davidson, The University of Adelaide, Australia, THE INTERNATIONAL JOURNAL OF APPLIED BUSINESS, Volume 1 Nomor 2, November 2017

country. This would affect the decision maker of Multinational Enterprise to set their business strategy, let alone the the strategy to expand the business to other countries. The concern of MNE managers about political-economy and political system are usually on the two polarisation of government system. Firstly, the degree to which they emphasize collectivism as opposed to individualism. Secondly, the degree to which they are democratic or totalitarian. All of those are related to the degree of freedom and the business climate of a nation. Difference in political-economy and political system between home and host country would raise uncertainty that might bring benefit, costs and risk for a MNE business.

Besides understanding the government system, other important aspect that distinguish international business is cross-cultural literacy. An understanding of how cultural differences across and within nations can affect the way a business is practiced. There are several determinants of culture, norm and value systems, which is the foundation of national culture, namely social structure, language, education, economic philosophy, political philosophy, and religion (Hill, 2015). Upon their existence in global market, the considerable concern of MNE is determining how a society's culture affects the value found in the workplace. Management process and business practices may need some adaptation according to culturally determined work-related values. Hofstede isolated six dimensions that summarized different national cultures related to workplace: power distance, individualism versus collectivism, uncertainty avoidance, masculinity versus femininity, long term versus short term orientation, and indulgence (Hill, 2015; Hofstede, 2015).

Those above-mentioned aspects are significant for the MNE managers to consider when deciding their international business strategy, particularly when deciding host country to expand the market. For a MNE, entering new foreign market needs some other basic entry decisions, other than deciding where to expand. Those other aspect includes: timing of entry, scale of entry and strategic commitments (Hill, 2015). Once attractive host country has been decided, it is important to determine when to enter. Typical timing for entering new market can be categorized as two: early or late entry. Early entry has an advantage called first-mover advantage: the ability to pre-empt rivals and capture demand by establishing a strong brand name. However, this timing has a drawback, often referred to as pioneering costs. The costs that an early entrant has to bear that a later entrant can avoid. That is, an early entrant disadvantage is the later entrant advantage (Hill, 2015). Lastly, the scale of entry and strategic commitments. Entering a market on a large scale involves the commitment of significant resources (Hill, 2015). Prior to the implementation of a strategy, formulation stage is done by the managers. Mintzberg and Waters (1985) explore the variety of strategy formation process by elaborating it into several categories: intended strategy, deliberate strategy, emergent strategy, unrealized strategy and realized strategy (Ehn et. al, 2006; Mintzberg and Waters, 1985). Intended strategy is the strategy arranged by top management with the process of negotiation and compromise with stakeholders in an organisation. Deliberate strategy is the journey of strategy intended by the top management to the realization of strategy. Pure deliberate strategy happens when realized strategy to form exactly as intended. In fact, realized strategy as argued by Mintzberg and Waters (1985) is a combination between intended strategy and emerging strategy. Whereas, emergent strategy is formed to adapt to the changing external circumstances within a complex business process, while unrealized strategy means unmet intentions or strategy done with no consistency (Ehn et. al, 2006; Mintzberg and Waters, 1985). Figure 1 illustrates the link between those types of strategy.

Figure 1. Intended, Deliberate and Emergent Strategy



Source: Mintzberg and Waters 1985

Method

Method used in this research is qualitative analysis with case study approach. Case study is widely regarded as an effective research method for studying the nature of business situation across a range of firms that is able to accommodate the complexity of business. This approach has a significant strength for applied business research, particularly in identifying and assessing comprehensive attributes in its natural setting. Therefore, researcher can organize data at the micro level (Gregson, 2015; Zaidah, 2007). Case study approach contains the following phases: business context, objectives, case statement, data collection and analysis (Gregson, 2015; Crowe, et. al, 2011).

This study provides analysis on international market expansion, with Harley Davidson as the case study. The context of this study is based on the complexity of internationalisation. Internationalisation could bring both opportunity and threat for a MNE. The opportunity to gain larger market is interesting, however, there are various barriers to overcome before reaping the favourable gains. The objective of this study is to describe and evaluate the entry market strategy conducted by a Multinational Enterprises when entering new foreign market. Special case to explore in this paper is the strategy of Harley Davidson to open up new market in India. Data is collected by documenting information yielded from publicly available documents of Harley Davidson, including annual report in qualitative and quantitative form. The qualitative data were analysed systematically in a matrix comprising stakeholder, cultural and strategy aspects. Quantitative data were descriptively reported to see the trend of Harley Davidson profitability before and after entering India market. Then, SWOT analysis was conducted to discuss the case as well as to formulate strategic recommendations.

Result

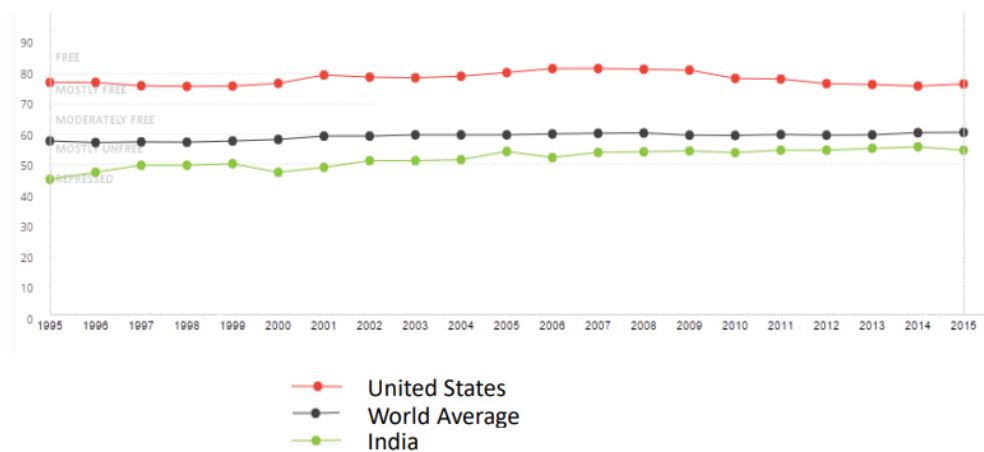
The Implications of Differences in Political-Economy between America and India

America and India have a quite high difference in term of economic freedom. As it is described in the graph, US has mostly free economic while India is almost repressed. The implication in the case is shown by the difficulty of the negotiation between Harley-Davidson and India government. The government intervenes in the economic, for instance, demanded an exchange of favour by selling Indian agricultural products to the US. Other intervention is a high export tariff as an effort to protect local industries. As a result, the cost of doing business of Harley- Davidson is increasing for the export tariff and those negotiations and contractual agreements. Moreover, in a low economic-freedom country, it is possible for the government to break the agreement with the firm by applying new policy. Furthermore, if a worst case happens, there is a high uncertainty to bring the case to the court due to the risk of the lacking of law enforcement.

Despite the potential that might be good for Harley Davidson, the decision of going global bring Harley Davidson to some Liability of Foreignness (LoF) that have three sub aspects, namely, Unfamiliarity Hazard, Discrimination Hazard and Relational Hazard (Peng 2013). In entering India market, the most severe LoF exposure that Harley Davidson encounter is Discrimination Hazard. This hazard comes from the high cultural distance between home and host country. Although in most developed countries trade barriers is fading out, in emerging country like India, high trade barrier might be justified for protecting local entrepreneurs, especially for luxury products like heavy-motorbike by Harley Davidson. This local protection by the government in some cases become a form of discrimination for a foreign firm. For instance, the export tariff barrier in which counted as 30-60% of the value, and special requirement from India government to exchange the license of doing business with a contract of exporting Indian mango to the US (Palepu and Lane, 2015). The other challenge arises from different political economy is the constraint faced by Harley Davidson to conduct marketing communication activity by selling Harley Davidson apparels which is imported from China. Again, high export tariff is the issue.

Nevertheless, although some challenges arise by time due to the difference of political economy between home and host country, Bremmer (2005) considers that India is in a position between moderate and high stability in political risk for it consistently shows favourable result in his research using four stability indicators (government, society, security and economy) for three months in 2005. Although some problems did appear such as poor performance of government and relatively low human development index, some indicators show a good score. Security indicator shows a good score as the peace agreement between India, China and Pakistan was signed, opens up potential gain of globalization. In relation to this, economy score shows a moderate to high score as India shows the intention of more welcome to the global trade (Bremmer, 2005). Therefore, despite some challenges, doing business in India is argued to be relatively safe with reasonable risk in the perspective of political-economy. Figure 2 depicts the comparison of economic freedom between USA, India and the rest of world.

Figure 2. Economic Freedom Comparison between US and India



Source: Heritage.com

The Similarities and Differences in Cultural between America and India

Based on the cultural dimensions by Hofstede, US and India have a close dimension in term of Masculinity and Uncertainty Avoidance. This will bring advantage for Harley Davidson. Masculine societies are driven by competition, achievement and success. As this value match with the US value, it will be beneficial particularly in realizing some big and ambitious plans for Harley Davidson India such as a big investment in establishing wholly owned subsidiary and produce special bike for India market and Asia region.

The biggest gap is the Individualism. US is categorised as Individualist society, while India is the opposite. In a group work, this value would trigger silence action to avoid conflict, including the productive ones. The combination with Masculinity might cause a closed rivalry that avoid openness and positive confrontation for problem solving. This would likely challenging for the human resource management when involving employees from both nations.

Another big gap is in the Power Distance. While US is considerably low, India is high. The employees that share this value may become low in term of decision making as they delay the decision until the highest or at least higher position approved. At worse, some innovation from bottom level of management may not be quickly realized as those persons might rely on the decision of the power holder. Harley Davidson India adopts matrix organizational structure where the marketing director for Europe, for instance, reported to a general manager for marketing operations, who in turn reported to the chief marketing officer, and dotted line to the managing director for Europe. As a result of matrix organisational structure and high power distance score, the decision making might become slow and perpetuate massive organizational tension (Palepu & Lane 2014).

In preventing these cultural issues, Harley-Davidson has recruited India CEO who have a background in both US and India culture. This is very helpful to reconcile the gap between those high cultural distance. At least, it will bring a meaningful impact in term of the visible value (Trompenaars 1996). However, although the CEO was born from Indian family, but he raised, educated and worked in the US. Therefore, he is strongly imposed more to the US culture. Figure 3 depicts the comparison of Hofstede's Cultural Dimensions between US and India, and the following table 1 is prepared to sum up the cultural distance consideration between US and India.

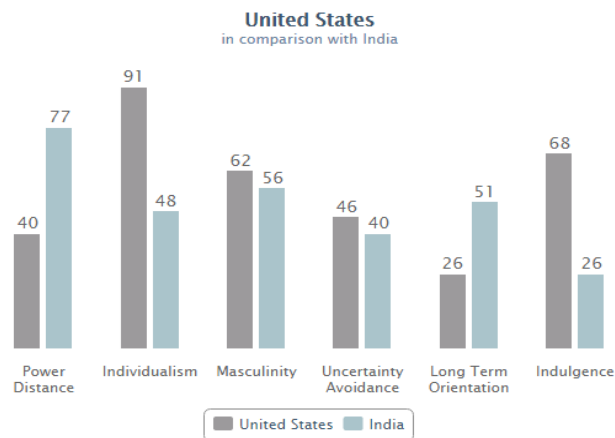


Figure 3. Cultural Dimensions Comparison between US and India Source: Hofstede 2015

Table 1. Stakeholder Analysis on Cultural Impact

Stakeholder Group	Relevant Business Functions/Processes/Task/Managerial Functions	Cultural Effects to Consider	Management Strategy
Customer	Customer Insight, Research and Development	Taste in term of size, price, CC engine	Localization strategy
Suppliers	Supply Chain Jobs	Long term orientation Collectivist society	Community-based marketing
Employees	Human Resource Department	Collectivist society, high power distance: less productive conflict Slow decision making for the sake of group interest	Recruitment and training process includes cultural intelligence test;
Distributor	Supply Chain Jobs	Long term orientation; high uncertainty avoidance	Strong and long term contractual agreement
Government	Top Management	High Power Distance and the fact of moderate economic freedom: the decision maker is the highest position that possibly corrupt	Strengthen the contract agreement while building strong personal relationship.

Source: Analysis

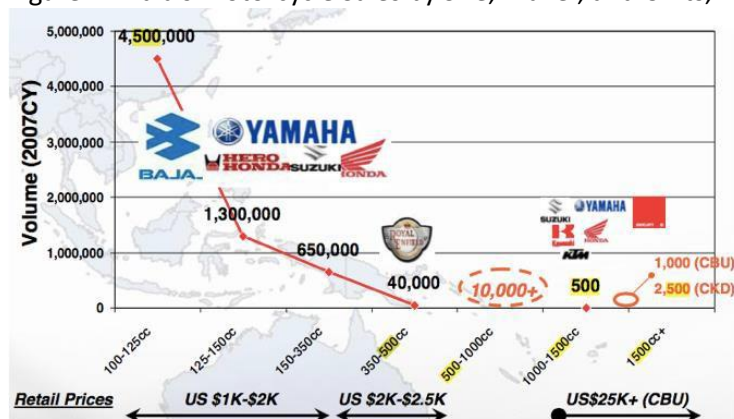
Harley Davidson: Intended Strategies, Deliberate Strategies and Emergent Strategy

According to Mintzberg and Waters (1985), intended strategy is the precise intentions that involve details and reach a consensus from most actors. Furthermore, Mintzberg (1978) divides intended strategy into two categories: unrealized and realized. Realized-intended strategy is also known as deliberate strategy. Harley-Davidson have several intended strategies to enter India market: exporting Completely-Built Unit (CBU) motorcycles and establishing assembly plant to sell Completely Knocked-Down (CKD) motorcycles (Palepu and Lane, 2015). Exporting is an entry mode that has been planned as the first step of entering new market in India. The plan was approved by management boards before being implemented. Upon the implementation, it successfully sold a total of 1,100 motorbikes in three years,

despite the high pricing as the impact of high import tariff. The success of exporting CBU motorcycles is a pure deliberate strategy. Harley Davidson management under the leadership of Indian born yet American educated CEO is able to overcome the challenge in political-economy and cultural distance between two countries as well as institutional barrier such as high import tariff. The achievement has made the Indian team become more ambitious to innovate in reaching more costumers with wider income-range, particularly by cutting the price arose from the tariff.

As a result, Harley Davidson India took a big leap to build assembly plant in 2010. In 2011, the plant assembled CKD kits and sell the assembled motorcycles instead of importing CBU from the US. The saving from avoiding import tariff was transferred to the consumer by setting a lower price. As the price dropped, the selling numbers in India is going uphill. The success in India is not a standing-alone success as the CKD parts are all imported from the US. Furthermore, in order to reach more consumers, Harley Davidson India enter 500-1,000 cc motorbikes market as it less targeted by competitor (see figure 4). Both Harley Davidson US and India are gaining in this situation. The idea of building assembly plant is not the intended strategy of Harley Davidson America. Instead, the strategy emerged in the journey of adapting to India business environment. The strategy that was not intended by Harley Davidson prior their existence in India market but eventually realized successfully. Mintzberg (1978) defined this strategy as Emergent Strategy.

Figure 4. India's Motorcycle Sales by Size, Maker, and Units, 2007



Source: Palepu and Lane (2015)

The Performance of Harley Davidson in India

Harley Davidson has been an international heavy motorcycle producer. It sells to the rest of the world as much as it does in the United States. However, the income from 2003-2009 showed a downward trend. Moreover, global crisis in 2008 has sent its income to a rock bottom in 2009. From this point, Harley Davidson attempted to target emerging economy as their new market, and started to enter India market by exporting CBU in mid 2009. The sales in India market has contributed significantly to overall Harley Davidson annual income by 2010 that is, recorded as the highest growth between 2003-2014, epic revival after catastrophic loss in 2009. The following year, 2011, is the second peak of income rise, then it became steady with average growth of 12%. The following tables show income growth of Harley Davidson before (2003-2008) and after (2009-2014) entering India Market in the same time range (six consecutive years).

Table 2. Net Income Before Entering India Market (in Million USD)

Year	2003	2004	2005	2006	2007	2008
Net Income	760.9	889.8	959.6	1043.2	933.8	654.7
Growth		17%	8%	9%	-10%	-30%

Source: Harley Davidson Annual Report

Table 3. Net Income After Entering India Market (in Million USD)

Year	2009	2010	2011	2012	2013	2014
Net Income	-55.1	146.5	599.1	623.9	734	844.6
Growth		366%	309%	4%	18%	15%

Source: Harley Davidson Annual Report

In the beginning of entering new market, the income was decreasing dramatically, but it grows up by the time. It implies that the investment in India brings a positive contribution for Harley Davidson global in a certain period of time. The trend shows it will be increasing in the long run. However, the net income has not reached the highest achievement before the crisis, where in 2006 it reached the highest income in the recent decade.

SWOT Analysis of Harley Davidson in India and SWOT Strategy Matrix Recommendation

In India, motorcycles market is large, however most rider in India emphasis motorcycles as its function to commute rather than leisure, recreational and hobby. As a result, heavyweight motorcycle sales is insignificant. Harley Davidson among its big competitors perform a small volume of sales. In this case, smaller in volume does not mean smaller in revenue. However, it seems hard to reach the sales volume as big as the competitors do because of market acceptance rate. Therefore, Harley Davidson differentiates its market to the less targeted one, by focusing more to the specific engine size (500 cc – 1,000 cc). This strategy made Harley Davidson the only player in this specific area (Palepu & Lane 2014).

Table 4. SWOT Analysis

Aspects to Consider	Strength	Weakness	Opportunity	Threat
Performance in Indian Market	Consumers value High Differentiation,	High price, thus narrow market	GDP per capita and the middle class are growing (as well as the	High export tariff that make the motorcycles less competitive
	Unique Products		disposable income)	advantage in pricing, particularly when the customers compared it with US price.
Value Chain in India	Strong partnership: dealership, suppliers and distributors Possibly give high margin for the dealers Having Asia Regional Cluster (headquartered in Singapore)	Lack of qualified technicians & customer services standby in dealers, lack of spare-parts available in dealers for post-purchase services	Decrease cost by cutting costly value chain (merchandise/T-Shirt supplier case) Gain women and younger riders. Produce lighter and faster motorcycles for targeting new potential consumers.	Difficulty to find distributors (partners) because of the narrow target market

Source: Analysis

Conclusion

Considering Performance in Indian market, consumers in India value the high differentiation and unique products offered by Harley Davidson. It means consumers value matches with company's strength. Besides, the high GDP growth and rising numbers of middle class societies is an opportunity of the targeted market segment. Therefore, maintaining focus to the current business strategy as well as niche market is recommended.

In value chain point of view, targeting new consumers by making intensive marketing promotion through strong partnership with dealer. Based on the initial survey in India, it can reach attention from young riders compared with the ageing consumers in the US. Therefore, it is recommended to utilize the network with the dealers to gain young and women riders through collaborative promotional events. Moreover, establishing regional cluster can help the company to focus on new market potency such as lighter motorcycles as the demand are likely come from the same regional cluster. This is supported by the argument of clustering the world (Rugman 2001).

SWOT analysis suggested that the opportunity of the growing numbers of middle-class society resulted in the increasing of disposable income for heavyweight motorcycles. The opportunity actually answers the weakness of India market that have a high export tariff. With a high purchasing parity, Harley Davidson has an option not to decrease the price. However, to look back the strategic intent of the company in which stakeholder value maximisation, it is recommended for Harley Davidson to give back the saving to the customers thus consumers surplus will be higher, then overall stakeholders' value is maximized. From the point of view of supply chain, more investment is needed in training support and/or recruiting technicians for the dealers'. It is aimed to provide best post-purchase service, then hopefully can attract new riders segment.

Taking consideration of strength point of Indian market performance in which unique products is valued by consumers while the weakness is arisen from the high tariff barrier, it is recommended to leave direct export but focus on CKD export. In the value chain point of view, it is recommended to maintain the strong relationship with existing dealer. This is supported by the cultural aspect that Indian society expect a long time relationship. Meanwhile, the effort to gain new dealer could be done by using high margin trigger.

The fact that Harley Davidson has a narrow market as well as high export tariff to India, it is recommended that the company would be used the situation to boost the image of prestigious and exclusive. In the value chain point, as a case of disappointed customer for post-purchase service arose, it is urgent to invest more in the technician training or recruitment. The limitation

of the analysis is arisen from the detail aspects. The deeper analysis on each type of products, sales contribution of each product and their relation to the company's strength, weakness, opportunity and threat might be needed for more specific recommendation. Besides, the analysis of the dealership is limited to the number of the dealers but less considering the capability of those dealers.