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CEO SPOTLIGHT

## CEO Keith Wandell Has Revved Up Harley-Davidson's Engine

*Under Keith Wandell, the fabled motorcycle maker has recovered from the financial crisis and is making tracks with new models, a more diverse customer base, and rising sales. Leno on the LiveWire.*

By **DYAN MACHAN**

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Although Harley-Davidson CEO Keith Wandell picked up the requisite M.B.A. and climbed the corporate ladder, he's proud of his working-class roots. The son of a union boss, Wandell often sports dusty jeans and a scruffy beard, much like the motorcycle maker's customers, and never seeks to impress others with his corporate role. "I despise arrogance," he says, with a twang that belies his southern Ohio roots.

Not that Wandell, 65, wouldn't have plenty to boast about. A longtime executive at Johnson Controls (ticker: JCI), he became CEO of Harley (HOG) in May 2009, just a few months after Warren Buffett and money manager Davis Select Advisers each lent Harley \$300 million to shore up its finances in the wake of the credit crisis.

Wandell has spent the ensuing years overhauling Milwaukee-based Harley to ensure that it can withstand the next financial crisis, and turn a tidy profit until then. The company repaid Buffett's 15% interest-rate loan last spring.



Wandell has preserved Harley's culture and strengthened its dealer network. "People will run through barbed wire for him," says a Harley director.  
 Photo: Bob Stefko for Barron's

**WANDELL HAS RETOOLED** Harley's manufacturing plants, introduced new and innovative products, and focused on international expansion. Earnings have surged since his arrival, and the share price has soared more than 200%, to \$66, far outstripping a gain of 140% in the same span in the Standard & Poor's 500 index.

Harley is on track to earn \$843 million, or \$3.86 a share, this year, up 15% from 2013, on a 6% jump in revenue, to \$5.6 billion. Analysts have pegged 2015 earnings at \$4.39 a share.

Wandell "walked into an economic crisis, an older manufacturing base, and weak information technology," says Barry Allen, a Harley director since 1992.

But, as CEO, he was able to inspire the organization, strengthen its dealer network, and preserve its culture. "People will run through barbed wire for him," says Allen.

Founded in 1903, Harley sells motorcycles, parts, accessories, and clothing through independent dealers. It also offers credit to dealers and customers through its finance arm. One of the company's top sellers is its \$39,649 CVO Road Glide Ultra.

When the credit crisis hit in 2008, demand for motorcycles plummeted and financing dried up. U.S. sales of heavyweight bikes bottomed in 2010 at 360,000 units, down from 725,000, and the market has been growing by 3% to 4% a year since then, says Doug Nathman of Trefis Research.

Harley, which derives almost 90% of its revenue from sales of motorcycles and related products, has done better than the market while steadily gaining share. Sales in the U.S., where the company competes against Honda, BMW, Polaris Industries, and others, have been growing by 6% annually since 2010, and Harley's market share has widened to 55% from under 50% before the financial crisis.

Brian Zied, CEO of Charter Bridge Capital Management, says Harley's annual motorcycle shipments could grow by near-double digits in coming years, a result of product resets and launches. "There's comfort in a company whose logo is tattooed on people's biceps," he says.

**TOTAL HARLEY MOTORCYCLE** sales, estimated at 275,000 in 2014, remain nearly 20% below prefinancial-crisis levels. Whether the decline is secular or cyclical is "the bazillion-dollar question," says Sharon Zackfia, an analyst at William Blair.

But the question is less relevant to Harley than it once might have been. Leaner and more productive today than five years ago, the company is generating the same gross profit on lower sales volume.

Its success owes in part to Project Rushmore, the largest new-product launch in the company's history, featuring eight new models with customer-led product enhancements, including faster acceleration, better braking technology, and greater passenger comfort. Launched in 2013, the models have been selling robustly.

■ IN THE SPOTLIGHT

Last year, Harley introduced The Street, an entry-level bike for global distribution. The 500-cc and



750-cc versions are more manageable for smaller men and women than Harley's typical 1,200-cc bikes, and sell for only \$6,000 to \$8,000, less than half the cost of a touring bike. (The "cc" refers, in cubic centimeters, to the amount of fuel mixture moved through one rotation of the engine cycle, and relates to engine size.)

Sales of The Street are beating expectations and could total 8% of Harley's shipments in 2015, according to Trefis. About 70% of Street buyers are new to Harley, an especially promising development.

Wandell also has had little trouble whipping up excitement for a planned electric bike, called Project LiveWire. Customers such as Peter Fonda, whose exploits in the movie *Easy Rider* helped stoke Harley's badass image, have given the LiveWire prototype a thumbs up. Jay Leno has praised the bike for its ability to go from zero to 60 miles an hour in just four seconds, and has said he likes the recorded jet-engine sound that replaces the signature "potato-potato" sound of a typical Harley engine.

But the electric bike's public debut, once thought possible for 2017, has yet to be confirmed by Harley. One issue raised by potential buyers is the bike's current 53-mile limit between charges.

**HARLEY HAS BEEN** headquartered in the same six-story red-brick building in Milwaukee since 1912. But like the company itself, much has changed within. As the elevator opens onto the executive floor, one steps onto flooring resembling a steel skid plate, and beyond that, a wood-plank floor with motorcycle burnout, or skid marks, in the shape of the letters H.D. Outside Wandell's glass-walled office sits his assistant, wearing a vintage Harley T-shirt under a jacket.

When Wandell joined the company, says the CEO, people "didn't understand the gravity of the situation." Sales had all but halted in 2008, and yet Harley kept producing. Dealers were swimming in inventory. Worse, banks were repossessing Harleys when buyers defaulted on loans. That created additional problems, as Harley bikes typically have a high trade-in value, which is critical to generating new sales, and the defaults dented that value.

Wandell cut production, reduced the number of dealers to 600 from 700, and encouraged dealers to buy repossessed bikes though the company's financial-services arm. About 3,500 people, equal to 25% of the workforce, lost their jobs. Two factories and a distribution center closed, and Harley stopped production on its Buell line of sport bikes. The company sold its MV Agusta Italian high-performance motorcycle units to focus exclusively on the Harley brand.

Wandell's changes made the remaining factories, all based in the U.S., more sensitive to customer demand. He also shortened the wait for fast-selling models. He recounts walking into a Harley dealership in 2002, psyched to buy a motorcycle, only to leave in a huff when told he'd have to wait almost a year for the model he wanted. When he first joined the company and employees noted that the new chief wasn't a Harley owner, he would say, "That's your fault," and tell them the story.

Today, Harley can ramp up production on short notice with a temporary labor force, and adjust its model mix according to what's selling best. In addition, the company has halved the time needed to bring a new design to market; it now takes three years.

**HARLEY HAS SUFFERED** from the perception that its typical customer is an aging, overweight man with a beard and a rebellious streak. While some "hog" lovers fit the bill—the reference is an acronym for the Harley Owners Group—Wandell scoffs at the notion that Harley is vulnerable to an aging core buyer. "Everybody gets hung up on this average age of the customer [about 50]—how every one of our customers is going to be dead," he says. "It's the mortician's view of life."

The U.S. census, he notes, indicates there will be just as many 47- to 49-year-olds in two decades as there are now, although there could be fewer whites and more blacks and Latinos. Harley has made an aggressive effort to attract nonwhites, as well as women and customers in the 18 to 34 age bracket, who have been buying Harley bikes at twice the pace of its core customers, according to IHS Automotive data.

Wandell grabs a piece of lined notebook paper from his desk, and starts drawing a distribution curve with the ages of buyers across the bottom. "This is what analysts don't get," he says, explaining that Harley's sales to both younger and older customers have been growing.

The over-50 crowd favors models like the three-wheel Tri-Glide, introduced in 2009. Focusing on the average customer age, he says, ignores what he calls his "fatten the tails" strategy—that is, selling to other market segments, not just core customers.

While Harley is expanding both in the U.S. and internationally—it now has 650 dealerships overseas—the competition isn't sitting still. Polaris has sunk millions of dollars into Indian motorcycles, and Italy's Moto Guzzi has launched a premium-price retro-style model—the California 1400—to good reviews. Japanese motorcycles also continue to sell worldwide.

Harley's best defense is the ability to promote myth as well as machines in forceful ads that proclaim, "We don't do fear" and "Screw it. Let's Ride." The company nurtures an active social network of riders, and sponsors rallies worldwide. "It wouldn't be cool to show up on a Honda Gold Wing," says Craig Kennison, an analyst at R.W. Baird.

**WANDELL AND HIS SIBLINGS** grew up in Lima, Ohio. His father, raised in an orphanage, was elected bargaining chairman of his United Auto Workers local chapter at age 23. Wandell recalls his dad returning to the Superior Coach plant after dinner when the school-bus maker ran double shifts. "Dad had a unique ability to listen to people," he says.

While his father worked long hours and eventually became a supervisor and then president of the company, his mother was the disciplinarian at

home. "You did not cross Joanne," he says.

Wandell worked at Superior Coach and later at Lima Electric, when the bus plant closed. But he spent much of his career at Johnson Controls, the industrial-products company that recruited him in 1988. Wandell was asked to manage a Toledo, Ohio, battery plant, the worst-performing unit in its division. "It was not deeply, deeply troubled," he says. "It was deeply, deeply, deeply troubled."

The first night on the job as the new boss, he walked in and no one looked up. "There were radios blaring and someone on the loudspeaker was yelling about cooking hamburgers out back," he recalls. The radios and the barbecue grill were soon gone, replaced by a lot of what Wandell calls "straight talk." Wandell loves to manage by walking around a plant floor, says Bruce McDonald, vice chairman of Johnson Controls. "You know exactly where he stands."

Within 18 months, the battery plant was a top performer, and Wandell was promoted to president of the battery division. In the 10 years in which he ran the business, earnings grew to \$400 million from \$30 million.

Wandell's success led in 2003 to his promotion to Johnson's automotive group, and in 2006 he became the company's president and chief operating officer. He was recruited by Harley in 2009. "I never sought to be a CEO," he says.

But the lure of putting a storied American brand back into gear proved irresistible. "It was a calling," he says.

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