C to C Interaction Management: Cases of Harley-Davidson Japan Dealers

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Abstract: Two dealers of Harley-Davidson Japan who are remarkably different in terms of sales performance were selected and analyzed for a case study. It was found that these dealers were very different in their management of customer-to-customer (C2C) interactions. The high-performing dealer put into practice the following aspects, which were not seen with respect to the low-performing dealer: (i) creating groups of customers in their customer community according to “new owner,” “intermediate,” and “advanced” groups; and (ii) sponsoring original events for each group. The customer vehicle replacement rate and sales performance rose not only for C2C interactions within groups for activities (i) and (ii) but also for C2C interactions between groups.

Keywords: C to C interaction, customer heterogeneity, customer community

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Introduction

A large motorcycle manufacturer Harley-Davidson has gained a favorable image through product design, product customizability, and product appearances in many movies, with a history and narrative extending over 100 years, strong customer appeal for its products, and a powerful brand. Harley-Davidson Japan (HDJ), a wholly owned subsidiary of US-based Harley-Davidson, is Harley-Davidson's master distributor in Japan. It began with forty million yen in capital and less than twenty employees in 1989. HDJ has top market share in Japan, even as the domestic market for large motorcycles (defined as those with engine capacity of 750 cc or more) has shrunk. HDJ has made no capital investment in any of its authorized dealers, and in 2007, all 150 dealers averaged annual sales of 550 million yen with an average employee headcount of 10.9 (Okui, 2008).

When purchasing a Harley-Davidson vehicle from a dealer, customers join the Harley Owner Group, or HOG, after paying an annual membership fee of 10,000 yen. HOG is the largest riders group in the world, covering over 131 countries worldwide, with a total global membership of more than 900,000. Japan accounts for approximately 35,000 of those members. Dealers in Japan operate customer communities termed "chapters," and HOG members have the benefit of being able to join a chapter.

Each chapter operates around a structured annual event plan. Harley-Davidson touring events are different from normal motorcycle tours as they are managed by corporations (HDJ and dealers). First, each chapter will have a regular touring event once a month as per HDJ's directions. In addition, some dealers have original touring events (ladies touring, beginners touring, and overseas trips). Other motorcycle manufacturers indicate HDJ's customer community to be a success factor. It is certain that

spontaneous customer-to-customer (C2C) interactions increase the value addition of products and are even known to determine value addition (Kokuryo, 1998). In the open source area, software development is undertaken through frequent C2C interactions within customer communities (Fujita & Ikuine, 2014; Ikuine & Fujita, 2014; Shiu & Yasumoto, 2016).

However, there have been many reports of consumers gathering on internet forums to criticize companies or to form boycotts (Kokuryo, 2001); moreover, in some cases, C2C interactions have ceased once consumers have discovered that a company representative has attempted participating in an internet forum to guide the discussion therein according to company aims (Kokuryo, 1997). In other words, C2C interactions can be skillfully managed as simply as they can be poorly managed. In actuality, the two HDJ dealers with very different levels of sales performance (high-performing Dealer A and poor-performing Dealer B) selected for this case study had major differences in how they managed C2C interactions within their chapters.

Case Analysis

This paper uses internal data provided by HDJ through 2012. Each dealer is registered within HDJ's CRM system (including vehicle data), and the HDJ stores aggregate this information. In addition, we conducted face-to-face interviews with HDJ employees (11), dealers (13 stores nationwide for a total of 17 times), and customers (2).

High-performing Dealer A

Dealer A is an exemplary dealer who has received awards from HDJ with regard to CRM. HDJ has collected information on Dealer A's customer-focused management, placed this information onto a DVD, and distributed the DVD to all its dealers nationwide. Other dealers

have acknowledged Dealer A's ability to ensure high customer satisfaction. There are two characteristics in the manner they manage C2C interactions.

1. Customers participating in chapters are organized by the dealer into groups according to the customer's touring skills.
2. Original events are held for each customer group five times per year.

Not all customers are the same; they will have a mix of touring skills, ages, genders, and experiences of riding Harley-Davidsons. Dealer A divides customers into groups of "new owner," "intermediate," and "advanced" based on the comprehensive determination of the dealer as to whether they have been riding Harley-Davidsons for a short or a long time, whether they have the strength and ability to skillfully ride a heavy bike, and whether they drive dangerously. If customers improve in skill as they participate in touring, dealers advance them to a higher group.¹

Table 1 provides a summary of the impact of C2C interactions from chapter events. The vertical axis indicates those that are influenced by C2C interactions, and the horizontal axis indicates those that influence C2C interactions.

HDJ mandates that regular chapter touring events must be conducted once a month, involving customers of all skill levels. When grouping into a "new owner," "intermediate," and "advanced" group is undertaken similar to Dealer A's practice, riders belonging to different groups are able to have C2C interactions across different groups. Dealer A conducts "new owner touring" and "ladies touring" events for new owners, longer tours for intermediate owners, and

¹ For customers, new to large motorcycles, advancing from "new owner" to "intermediate" or advanced" is generally known to take three years, though customers who have already experienced riding large motorcycles from other manufacturers can move to "advanced" in three months.

Table 1. The effect of C to C interaction

to be influenced \ to influence	New owner	Intermediate	Advanced
New owner	<ul style="list-style-type: none"> • Fostered fellowship between new owners leading better event retention rate of new owners • Easy to participate in events • Fun to communicate with the same level of the riders 	<ul style="list-style-type: none"> • Follow customizations riders' customizations and touring style • Taught the knowledge of Harley's motorcycle, its customizations and touring styles 	<ul style="list-style-type: none"> • Follow advanced riders' customizations and touring style • Taught the knowledge of Harley's motorcycle, its customizations and touring styles
Intermediate	<ul style="list-style-type: none"> • Boost customizations of their motorcycles and purchase of apparel for touring in order to win recognition from new owners • Fun to teach the knowledge of Harley's motorcycle, its customizations and touring styles 	<ul style="list-style-type: none"> • Boost customizations of their motorcycles and purchase of apparel for touring in order to win recognition from the same level of the riders • Fun to communicate with the same level of the riders 	<ul style="list-style-type: none"> • Follow advanced riders' customizations and touring style • Taught the knowledge of Harley's motorcycle, its customizations and touring styles
Advanced	<ul style="list-style-type: none"> • Boost customizations of their motorcycles and purchase of apparel for touring in order to win recognition from new owners • Fun to teach the knowledge of Harley's motorcycle, its customizations and touring styles 	<ul style="list-style-type: none"> • Boost customizations of their motorcycles and purchase of apparel for touring in order to win recognition from customizations • Fun to teach the knowledge of Harley's motorcycle, its customizations and touring styles 	<ul style="list-style-type: none"> • Boost customizations of their motorcycles and purchase of apparel for touring in order to win recognition from the same level of the riders • Fun to communicate with the same level of the riders

overseas tours for advanced owners at places for “within group C to C interaction,” shown in color in Table 1.

Among these, events for new owners create a sense of camaraderie and comfort; this leads to more opportunities of participating in regular chapter tours with friends made during these events. Further, the passion for Harley-Davidson only increases during the first year of purchasing a Harley-Davidson; thus, while sponsoring events for new owners, Dealer A further differentiates them. For example, Dealer A may structure a well-balanced event such that new owners who have purchased a Harley-Davidson within the past month can

participate with owners who purchased their Harley-Davidson between one and three months ago. In doing so, the passion of the latter group will naturally be conveyed to the former group during the event, which will increase their favorability toward Harley-Davidson. Similarly, new owners who have purchased a Harley-Davidson within the last one to three months interact with new owners who have purchased a Harley-Davidson within the last three months to one year.

The sales performance comparison between Dealers A and B

This type management allows Dealer A to accomplish the following:

- (a) More advanced riders become a point of reference with regard to next purchases, and they provide instructions through C2C interactions between groups.
- (b) Riders who are at the same level are considered rivals, and C2C interactions within groups engender a “competitive spirit” that compels riders to procure a more advanced motorcycle, customizations, or use fashionable Harley-Davidsons. However, in the case of new owners, the existence of other new owners provides a sense of security.
- (c) C2C interactions between groups are where riders show a “sense of vanity” and help riders to perfect their own style so that they can earn respect of riders below their level.

In addition, motorcycles, customizations, and fashions viewed and actually used in C2C interactions are, unlike items in catalogs or on display in stores, actual living examples. Direct information from customers is highly credible and has a major effect in terms of promoting sales. In fact, interviewees made the following comments. “The job of dealers is to set the stage for customer activity.” “Customers often decide what to purchase next by seeing living examples from other customers at events.” “When there is an event, I

do not need to sell anything, customers do it naturally for me.”

Customers typically make all their vehicle purchases and vehicle customizations and ensure that all their maintenance is done at the same dealer. However, with regard to the average spending on vehicle purchases, customizations, and apparel, customers spend the most on vehicles and customizations, as shown in Table 2. There is a major difference in sales performance in this area, with C2C interactions (a), (b), and (c) having a positive impact on sales performance as the percentages of those replacing vehicles or undertaking customizations increase.

In actuality, Dealer A responded to interviews by indicating that their vehicle replacement rate is high, at 25%. In contrast, Dealer B, who does not segment their customers into groups, asserted that their vehicle replacement rate is only 10%. In either case, both HDJ, which is aware of management index for all dealers, and other dealers asserted that these numbers were credible and very close to reality.

Dealer B, which does not segment customers, has been warned by HDJ that their CRM-related activities are not at the given standards, and the company does not have a good reputation among other dealers. Dealer B said in interviews, “We are requested to hold events by HDJ and have to conduct them.” “All we can do is follow HDJ in whatever they tell us to do.” “We know that we need to work on events,

Table 2. Average purchase for each motorcycle model

Model	SPORTSTER	SOFTAIL/DYNA	TOURING	FLHTK ANV
Motorcycle Price	0.99mil yen～	2.07mil yen～/1.79mil yen～	2.73mil yen～	3.46mil yen～
Average custom purchase	0.25mil yen (motorcycle price ratio : 25%)	0.49mil yen(24%)/0.36mil yen(20%)	0.60mil yen(22%)	0.45mil yen(13%)
Average number of customazations	4.1	5.1/4.9	6.3	5.4
Average apparel purchase	0.172mil yen			

Table 3. Sales performance comparison between Dealers A and B in 2012

	Dealer A	Dealer B	National average
Number of employees	10	10	approx.14
Recurring profit margin	1.00%	-1.50%	
ROA	3.60%	-0.80%	
Motorcycle switching ratio	25%	10%	20%
Unit sales	approx. 90 unit	approx. 80 unit	
		including approx. 50 unit for B to B sales	
Chapter members	280	170	
Sales per employees	43mil yen	28mil yen	40mil yen
Chapter members per	30	24	

similar to successful dealers, but we cannot afford to do that.” In actuality, Dealer B had intermediate and advanced riders with long histories of participation in regular chapter tours spontaneously organized into exclusive groups. The new owners present there worried that they would not be able to keep up with chapter events that included intermediate and advanced riders, making it harder for them to participate. As a result, retention rates for new owner events are low.

For these reasons, Dealer A has maintained its recurring profit margin, even after the 2008 financial crisis. As can be seen in Table 3 (all data is from 2012), the 2012 ROA was 3.6%, that is, 2.2% higher than the national average. The recurring profit margin of Dealer B, in contrast, was in negative territory for three years in a row after the financial crisis, and in 2012, the ROA was also negative at -0.8%.

Conclusion

Customers are possibly not entirely homogeneous (Kubota, 2003). Ignoring this and assuming a monolithic customer community for each product and service, and then working on engaging a

Figure 1. C to C interaction effect and sales performance of Dealer A

community will not only limit the effect of the engagement but can even have a negative effect. However, as a company's organizational identity changes, along with responses to consumers of the company, C2C interactions will also possibly change (Yamashiro, 2015).

High-performing Dealer A employs an integrated approach of dividing its customers into “new owner,” “intermediate,” and “advanced” groups and sponsoring original events for each customer group that encourages C2C interactions between groups at regular events and C2C interactions within groups at original events for each group. This has had a positive effect on vehicle replacement rates and vehicle customizations, leading to better sales performance (Figure 1).

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