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## TOO MANY CHIEFS, NOT ENOUGH INDIANS

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# Too Many Chiefs, Not Enough Indians

By Lee Parks

**W**ith record sales in 2003 and much-anticipated 2004 models about to be released, Indian Motorcycle Company shocked many of us when it ceased operations Sept. 19 without warning. *MPN* immediately called IMC Executive Vice President Fran O'Hagan for an exclusive interview to get some perspective on what happened to the quixotic-turned-promising American brand.

IMC promoted O'Hagan to executive vice president in July, following record retail sales during the first half of the year. O'Hagan joined IMC in 2001, and was most recently senior vice president of sales, service, marketing and product management.

Prior to joining IMC, O'Hagan was vice president of retail operations for Jaguar. Before that, he oversaw regional sales and marketing for BMW, and managed the launch of the M-Class sport-utility for Mercedes-Benz. He has been an avid motorcycle enthusiast for more than 20 years and has owned more than 30 motorcycles. Today an Indian Chief Vintage, Suzuki GSX-R1000, Suzuki DR-Z400 and six kids' dirt bikes of various sizes call the O'Hagan garage home.

**MPN:** During Indian's "second coming," how many dealers were set up and how many bikes were sold?

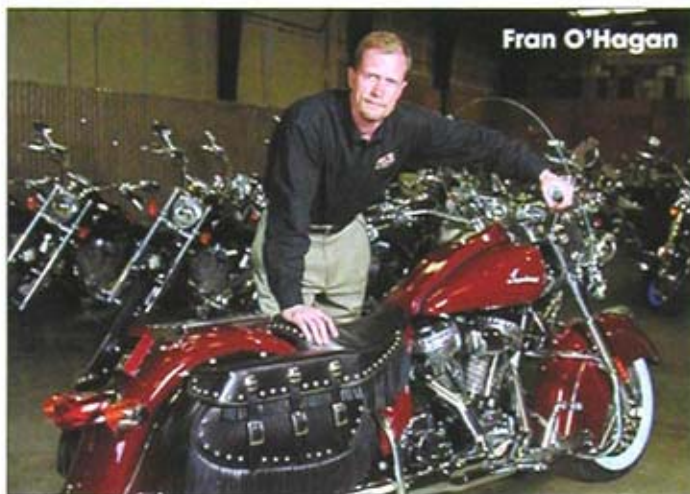
**O'Hagan:** Our latest dealer count was right at 200, and our dealers retailed about 13,000 motorcycles from 1999 through 2003.

**MPN:** Indian received a lot of initial criticism for being nothing more than a Harley clone with big fenders. Finally, the 2002 model was the first to have a proprietary engine. What future plans were there for powertrain development?

**O'Hagan:** The 2002 Chief was the first of our bikes to feature the Powerplus 100 proprietary engine. For the 2004 model year, we were set to release another new engine, the Powerplus 92, in the Scout and Spirit models. The objective of the Powerplus 92 program was to create a powertrain with a family resemblance to the round-barreled Powerplus 100, while also featuring class-leading durability and performance in a smaller package. The powertrain team was able to boost performance dramatically (35 percent added horsepower and 42 percent more torque) throughout the RPM range, by optimizing compression, valves, cam, intake and exhaust.

**MPN:** What accomplishments are you most proud of during your tenure?

**O'Hagan:** By far, I'm most proud of the distance the IMC team traveled over the past two years. In 2001 there was no future product plan, no product program budgets or time frames, no accurate measure of cost-of-goods-sold, no sales field force, no service parts operation, or dealer parts accounts, no accessory business, no measurement of cus-



Fran O'Hagan

tomor satisfaction or dealer satisfaction, no measurement of dealer profitability, no dealer advisory board, no dealer training classes—I could continue. In addition, there was no appreciation that the global motorcycle business has been around for 100 years, and might offer opportunities to learn from the success of other motorcycle OEMs. Parts sourcing tended to be either from local shops without prior motorcycle industry experience, or from suppliers with a background in the motorcycle aftermarket. At that time, there were no powertrain engineers and only two chassis engineers.

Contrast that to September 2003. The 2004 model year was finished on time and on budget, and the 2005, 2006 and 2007 model years had been approved and were underway. The accessory department introduced 318 items in the past year, quadrupling its business. The service parts operation recorded a 98 percent parts fill-rate. A professional field force worked with dealers to maximize profitability through sales, service and parts. The Indian Riders Group was promoted, dealer and customer satisfaction was measured and managed, and so on.

In terms of product, the progress was substantial: The 2004 models featured all new lighting, Brembo braking systems, new hand controls and foot controls, all new wheels, tires, axles and swingarms, new front forks, new exhaust systems, as well as the new Powerplus 92 engine in the Scout and Spirit. Plus, by designing and engineering our own parts and by sourcing through proper OE motorcycle suppliers, we were able to reduce costs enough for a \$1,000 reduction in MSRPs. With the introduction of the 2004 model year, finally the products required no explanation or apology when compared to any other OEM product.

**MPN:** How many employees did Indian have at its closing and is there someone companies can contact if they want to inquire about hiring any of them?

**O'Hagan:** There is a tremendous opportunity for companies looking for skilled motorcycle industry employees. Whether it's engineers, designers, sales and marketing folks, field managers, dealer development managers or any other discipline, chances are the 380 employees from Indian Motorcycle will be valuable to other companies in the motorcycle industry. Please e-mail inquiries to [ximcjobs@earthlink.net](mailto:ximcjobs@earthlink.net), and I'll put you in touch with the right people.

**MPN:** It obviously takes a huge financial commitment to start a motorcycle company. How was Indian able to secure the funding to purchase the name and begin R&D and production?

**O'Hagan:** I just finished a biography about Henry Kaiser, the man who grew wealthy manufacturing victory ships during World War II and then decided to start a car company. After the company eventually failed 10 years later, Kaiser said, "I had no idea I could throw \$200 million into the automotive pond and see it disappear without a ripple." That's a car industry example, but the parallel is still there. The motor vehicle industry has very long time horizons and is hugely capital intensive.

Indian Motorcycle attracted investment because the brand is so strong. Brand recognition and the Indian Motorcycle tie-in to Americana is what attracted investment in 1998 and 2001, and I wouldn't be surprised if it happens again.

**MPN:** What were the biggest growing pains faced by the company?

**O'Hagan:** Psychologists talk of "Maslow's Hierarchy," one level of which is "unconscious incompetent," or in other words, "You don't know what you don't know." The biggest hurdle to success at Indian Motorcycle was the fact that for a long time IMC wasn't even aware that it wasn't in the OEM motorcycle business. It was impossible for IMC to compete with OEM cost structures, without being an OEM. Only after that was acknowledged did the company make significant progress reducing product costs to pave the way for reducing retail prices and increasing retail sales.

**MPN:** How many dealers were stand-alone Indian retailers and what do you think will happen to their businesses? Do you believe many of them will try to acquire franchises from some of the Harley clone makers?

**O'Hagan:** Only a small number of Indian Motorcycle dealers sold no other brand, although a third of our dealers featured Indian Motorcycle as the primary brand. I expect that the same business savvy that Indian Motorcycle dealers directed at selling Indian motorcycles will now be directed in other directions.

**MPN:** What did Audax bring into the company in terms of management and operations intellectual capital?



**O'Hagan:** Private equity organizations bring expertise from lessons learned in other businesses and are often successful in attracting new investors.

**MPN:** How much money did Audax put in, and do you think it just wants to get out, or is it looking for an equity partner?

**O'Hagan:** Audax announced in 2001 that it was investing up to \$45 million in Indian Motorcycle. Audax expected to maintain its investment along with another new investor.

**MPN:** To what do you attribute the high value of the brand—which had been closed for 45 years—that has captivated so many investors?

**O'Hagan:** The romance attached to the Indian Motorcycle brand stems from a rich product history through dominating the early years of motorcycling, but also from the brand's tie-in with Americana. Ask 10 people if they've heard of Indian Motorcycle, and not only will eight say yes, two of them will tell you all about how their uncle or grandfather rode an Indian.

**MPN:** Of the 200 or so Indian dealers, how many were related to automotive businesses?

**O'Hagan:** About a third of the Indian Motorcycle dealers also owned automotive franchises.

**MPN:** What was the thinking behind the strategy to sell to automotive dealers, or was it just a short-term solution to get capital?

**O'Hagan:** As a 20-year consumer of motorcycles, I've bought bikes in all kinds of dealerships. Some are excellent, but far too many don't seem to appreciate the cause-effect relationship between prospect satisfaction and sales success. The auto industry evolved beyond the "don't care" level over the past 15 years, to a point where it's now accepted as a given that customers are



greeted when they arrive at a dealership, and are called back later. It's a model that has proven to be successful selling motorcycles, too. However, to be successful, facilities must be motorcycle-specific, and employees must be motorcycle-specific.

**MPN:** Is the liability of outstanding warranty claims (especially of the 1999-2001 models) a big deterrent to new companies investing in the company?

**O'Hagan:** Most of the 1999-2001 vehicles are now out of warranty, and fortunately, after a number of nagging problems were fixed, those bikes now prove to be very reliable. The company made huge strides in improving product quality in 2002 and 2003, which directly reduced warranty expenses.

**MPN:** In the event of a new interest buying out the company, would changing manufacturing locations to the Midwest—where laws are more favorable to business—be a good idea?

**O'Hagan:** There are reasons why most motor vehicle manufacturing operations are located in the Midwest or Southeast: partially manufacturing costs and business climate and partially logistics. However, Indian Motorcycle had a very supportive home in Gilroy, Calif.

**MPN:** At the dealer meeting in February of 2003, Audax executives told dealers it had plenty of money and not to worry. What went wrong?

**O'Hagan:** The commitment from Audax was strong in February, and strong all the way to the end. In the end, a large investment from another entity fell through unexpectedly at a time of the year when costs were high.

**MPN:** Many dealers have complained about having too much close local competition with other Indian dealers. What was the strategy behind allowing such small territories?

**O'Hagan:** Ask any dealer about the distance to his nearest fellow dealer, and the answer is never "too far." On the other hand, ask any customer and it's never "too close." The dealer development strategy was based upon target market coverage, which tends to be mostly straight math rather than opinions. It's clear that dealer profitability is the only route to success in any other part of the business, and with only 200 dealers nationwide, there was plenty of market for everyone.

**MPN:** Will any of the OEM suppliers continue to manufacture and support the parts they produced. Will they warranty individual parts?

**O'Hagan:** Good questions. I don't know what the individual suppliers will do.

**MPN:** What will the dealers do to sell current inventory now that the word is out, and will riders still be able to get financing?

**O'Hagan:** The dealers had been selling 400 to 500 new motorcycles per month during 2003. Dealer inventory was about 1,500 bikes at the end of September. The math suggests that dealers will run out of inventory before next spring, even if retail is slow.

**MPN:** Do you think someone is in the wings to purchase the company?

**O'Hagan:** I'll be watching along with everyone else. Although I don't know what the future holds, I do know that the Indian Motorcycle brand has a long history of attracting investment.

**MPN:** Is Indian in better shape than before Audax got involved, and is there any good news at this point?

**O'Hagan:** There's no question that the Indian Motorcycle brand was much stronger in 2003 than in 2001. The dealer network was more capable and more profitable, the products were vastly improved, IMC was staffed with skilled designers and engineers, retail sales were setting new records every month, product costs were dropping, and so on. However, without employees or dealers, a company is just a dormant brand.

**MPN:** What would you do different if you had to do it all over again?

**O'Hagan:** It's difficult to second-guess decisions. Indian in September 2003 was an OEM by all measures, and was executing a plan that delivered success for customers, dealers, employees and investors. Change fate one degree, by avoiding the delay in investment, and we might have been marveling in 2006 over the success story that was Indian Motorcycle. The good news is that the team accomplished everything that was set out for them to accomplish, but without gas in the tank, it's hard to finish on the podium. ■