
Ducati seeks to build on its brand name

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Editor

The fastest growing OEM in terms of new unit sales percentage growth.

An exploding apparel business, with sales of \$20 million in 2008 very reachable.

A rapidly improving hard parts division that's now in tune with new unit launchings, translating into nearly double the business from a year ago.

With all of that going for it, Ducati North America (DNA) used its recent national dealer network meeting in Monterey, Calif., not to cast the spotlight on its 2008 line of bikes or PG&A but on its franchise as a whole.

The Italian manufacturer, which has seen dramatic new unit sales growth the past three years, is seeking to build value into its franchise, something another motorcycle manufacturer with high brand appeal — Harley-Davidson — has been able to do effectively.

"Harley has been in a league of its own on this, that there is a value attached to the franchise over and above the day-to-day operations," said DNA CEO Michael Lock. "Well, I need our guys to think like this now.

"Mr. Dealer, it's all about you. It's not only about your responsibilities, it's actually us together growing the value of something other than the bikes on the floor or your balance sheet. It's now about building something for the long term because if the franchise has value, regardless of any products attached to it, then that's hugely important" to you.

Lock spoke to Powersports Business before the dealer meeting, where DNA was scheduled to show two new motorcycles that will not be unveiled to the public until November in Milan, Italy. Although Lock could not comment on the new bikes, Internet chatter has centered around rumors that Ducati would release a racing version of the 1098, a sport bike that was introduced in 2007 and has done extremely well for DNA. Former Ducati CEO Federico Minoli also said previously that the company would consider building a less powerful version of the 1098 if the bike proved to be a retail success.

DNA has certainly had that in 2007, with retail sales up 27 percent over last year through August. Lock expects DNA to end the year with a 25 percent boost in sales, which would mean approximately 10,000 new units sold in 2007. That's significantly higher than the approximately 7,000 sold two years ago.

"In a year that is flat for sport bikes and a bit of a disaster for everything else (in the powersports industry), for us to show such strong growth is worth shouting about," Lock said.

And the growth is more than just new bike sales. DNA is expecting to sell \$10 million in apparel this year, leaps and bounds over the \$700,000 that was sold just four years ago. Plus, the company, which launched its fall and winter apparel collection in Monterey, expects to possibly double this year's sales total next year. This summer, DNA flew the apparel managers of its top 50 dealers to its corporate headquarters in Cupertino, Calif., to view new product at its newly built apparel showroom. The result: close to \$15 million in advanced orders.

Lock calls the opportunity for DNA to expand its apparel business "frightening," noting many dealers still are not fully capitalizing on the apparel side of the business.

One segment Ducati has progressed in is its ability to get hard parts available to North American

dealers when its new bikes, like the 1098, are shipped. "Italy, to their credit, really stepped up this year," Lock said. Because of that, DNA is looking at ending the year with \$12 million in hard-part sales, almost double the amount from the previous year.

Hard parts continue to be a high-margin product for DNA and its dealers, with the latter making more money on a full-race system for the 1098 than metric dealers make on an average new unit sale, Lock said.

With retail growth in its various revenue streams, DNA is now turning attention to the value of its franchise.

"We are going to be measuring our dealers differently going forward than we ever have before," Lock said. "We are going to be rewarding them differently than we ever have done before. It's all going to be about creating a Ducati franchise that is the most valuable in the industry."

Part of those new steps that will measure and potentially reward dealers include:

- a first-ever definition of a dealer's sales territory;
- a mandatory mystery shopping program that uses a prospect satisfaction index, rather than customary customer satisfaction scoring;
- bonuses for dealers that participate in Ducati Management Groups, 20 groups that are run by the RPM Group.

The latter two were started last year at DNA's national dealer meeting, with each being voluntary. The 20 groups have made such a difference — dealers earning 7-8 percent in profit margin in previous years are now up near 20 percent — that Lock is tying a retail bonus to the program. Only dealers that attend the RPM Group meetings can earn the bonus.

The mystery shopping program also will have a retail bonus tied to it, with dealers needing to meet or exceed benchmarks that Ducati establishes in order to get a portion of their bonuses. Dealers will be mystery shopped three times per quarter, with their average scores during that period being compiled to see if they qualify for the bonus.

The program, put together by California-based management company Pied Piper, provides dealers full access to the results of the surveys. Dealers also will be able to compare their results against area competitors as well as dealers from around the nation.

Lock said DNA opted against using the more common measuring stick — customer satisfaction surveys — because "it's creating the wrong type of relationships between the dealer and the customer." Lock said such surveys put pressure on dealer staff to convince consumers to give them high scores on such surveys. With the prospect satisfaction index, which uses an independent third party to shop dealerships, the valuation of a dealership's retail practices are kept between the dealer and the OEM, and does not involve the customer, something Lock sees as key.

Something else Lock sees as important for the coming year is the company's goal of setting exclusive dealer territories. The company's past volatile business prevented DNA from establishing such territories.

"Dealers came and left too regularly to build up long-term relationships," Lock said, also noting that such territories weren't established because "we weren't good enough to do it."

Lock sees setting such territories as a key to building value into the franchise. Plus, establishing set territories "makes everybody a lot more honest than they ever used to be, us and the dealers."

DNA will set a sales target and operating standards for each territory. "If the dealer can't meet them, then the two of us will sit down and revise the sales territory," Lock said.

"We want to make sure we have enough dealers that we can reach America, but not so many dealers that dealers can't feel confident about making an investment for future profitability. We're very sensitive to the fact that one dealer too many is one dealer too many."

Lock sees the new defined territories not necessarily affecting areas where dealer density is adequate, including the West Coast and much of the East Coast, at least from Maine to Virginia.

But other strategic areas — Florida, Texas, Colorado and Illinois to name a few — could be affected.

Lock says that DNA will work to help explain to dealers the significance that the territories have in the company's ongoing efforts to keep improving the value of the franchise. "We haven't had those conversations before now," he said. "It's all been a bit of smoke and mirrors."