

# New Balance Athletic Shoe, Inc.

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Case 9-606-094

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## I. Key Facts

### A. Players

#### 1. Main Characters or companies

- Jim Davis and Anne Davis
- William J. Riley –Founder of New Balance
- Arthur Hall –Partner of William J. Riley
- Eleanor and Paul Kidd
- Herb Spivak –Executive Vice President of Operations
- Jim Tompkins –President and Chief Operating Officer
- John Withee –Chief Financial Officer
- Paul Heffernan – Executive Vice President of Global Marketing
- Fran Allen –Executive Vice President for Sales and Service
- John Wilson –Vice President for Manufacturing

#### 2. Competitors

- Nike
- Reebok
- Adidas-Salomon
- Puma
- Vans
- K-Swiss
- Stride-Rite

#### 3. Partners: Chinese Suppliers

### B. Financial Performance

Jim bought the company for US\$ 100,000 and within two years sales grew from \$100,000 to \$300,000. In 1982, the company reached \$60 million in sales.

Other Statistics:

New Balance Worldwide sales; \$ 1,500 million

New Balance US Athletic Footwear sales: \$ 1,022 million

New Balance US Athletic Media Expenditure: \$10.9 million

### C. Timeline of the Case.

- 1906 –Foundation of New Balance Arch by William J. Riley
- 1934 –Riley partnered with Arthur Hall
- 1954 –Hall sold the business to Eleanor and Paul Kidd
- 1961 –Trackster Launched
- During 60's –Popularity of New Balance's reputation for manufacturing innovative performance footwear grew

- 1972 –Jim committed himself to uphold the company’s founding values
- 1978 – Anne joined New Balance
  - New Balance’s First international sales office and first European manufacturing facility opened
- 1980 –New Balance set up new manufacturing facilities in New England and signed on international distributors
- 1982 –Company reached \$60million in sales and debuted the well-received 990 running shoe
- 1984 –Jim and Anne got married
- 1990 –Company unveiled its New balance Suspension System
- 2004 –New Balance declared that it would match whatever possible its associates donated.
  - New Balance adopted New Balance Executional Excellence (NB2E)
- 2005 -990 series proves to be top leading product
- 2006 -made a decision to spend \$21billion on its advertising campaign.

## II. Issues

### A. Conflicts

#### 1. Management

- The acquisition of Reebok (third largest)by Adidas (second largest)
- Dynamic competitive landscape was shifting.
- Saturation of producers of athletics footwear in US market.
- Maturation of consumer interest in sports and fitness activities
- Nike the largest athletics footwear accounted for 36% of the US footwear market.
- Outsourcing of jobs by competitors
- The US trade deficit in shoes had increased about 7% per year since 1999.
- Competitors’ huge expenditure in marketing and advertisements.
- Hegemony of competitors over retail stores.
- Competitors’ extravagant use of celebrities in advertisements
- Limitations on delivering products to the shorter-cycle, fashion-oriented segments of the market.
- New Balance largest retail customer was influenced by Nike.
- Historically, they had significant amount of lead time.
- Need of improvement in the production process at New Balance.
- Inventory cost was high during the application of “Brute Force”.
- First half of 2005 was not up to the par because of various operational issues. Consequences of that were late deliveries, quality problems,

and late samples inhibiting the effectiveness of New balance's salespeople.

### III. Analysis

Nike was the big player but now New Balance had to swallow the news of Adidas acquiring Reebok. New Balance was already competing with 800 pound gorilla but now there were two. To address this situation New Balance decided to analyse their situation in various aspects.

#### Distribution Channel:

Nike and Adidas dominated and had unprecedented amount of influence over retail stores because of their huge spending power. World's leading retailer of athletic shoes and apparel, Foot Locker, contributed slightly less than 10% to Nike's annual sales, but products represented as much as 50% of sales.

#### Being different:

New Balance opts not to spend money on celebrities and athletes. They want to send the message that their products are performance not fashion based. They provide their retailer with ample supply of inventories. Also their inventories are stock piles of every products desired by their retailers. They do not have problem of pleasing their shareholders as they are private company and channel some of their profits in social responsibilities. Beyond this financial flexibility, the company prides in its operations and strategic uniqueness. They say they are manufacturing- and operations-based not marketing based like their mammoth-sized competitors.

#### Culture:

Team work was the underlying basis of the company. They believe that since their inception it was everything about teamwork which developed into culture with time and now it is the cornerstone of the enterprise. They have established long standing commitment to social responsibility and it is one of the integral parts of their operation. Manufacturing employees, organized in cross-functional teams, representing one of the greatest forces for change in the company highlights the company's entrepreneurial culture.

#### Endorsement:

New Balance put its energies and investment into research, design, and domestic manufacturing, and let the resulting products speak for themselves. They did not feel it was necessary to follow the bandwagon leading by big companies spending money

on ad campaigns and endorsement deals. Despite a US market share of just 3% New Balance extended its product-focused strategy to its branding efforts in 1992 with its “Endorsed by No One<sup>TM</sup>” campaign.

#### Product Design:

New Balance’s focus on width sizing and fit had historically dictated the design of many of its products which has provided the competitive edge. New Balance’s product design and development team’s focus on two fronts: 1. Incremental development of existing models and 2. Incorporation of new technologies such as Absorb EX-a premium, visible cushioning technology –and ZIP , a patented responsive –cushioning technology is geared towards attracting younger customer base. A lot more is being done towards improving design as it has been the cornerstone on product differentiation.

#### Sales and distribution:

According to John Withee, New Balance heavily focuses on supporting the smaller type of service oriented customer like smaller retailers, and family footwear shops. Its largest retail customer was Foot Locker. The division of retailers into two groups – key accounts and specialty dealers is the systematic way to control its sales and distribution. Furthermore those two groups are divided into six strategic accounts and 49 other key accounts (key accounts) and three major channels (specialty retailers). They have given importance to fortifying relationships with both small and large retailers. New Balance does not have in house accounts but rely heavily on independent agents when it comes to sales force. They are motivated by the commission they get and give their best. Consequently, they are loyal and stick to the organization for years.

#### Supply Chain and Manufacturing:

New Balance outsourced 75% of its US Volume. Final product assembly took place in one of New Balance’s five factories in the northeastern United States for the remaining 25%. This enable them control their manufacturing processes. They have well strategized assembly process called cut-through-assembly and sourced upper to meet the needs of domestic customers. With this they have cut down on the lead time. Chinese suppliers are their main clients.

#### The New Balance Workforce –A key to Operations Management

New Balance have unique way hiring and training new employees. “Buddy” helps new hires in training and puts them at ease. The company’s US workforce is not

unionized which provides flexibility to workers and are more multi-faceted and versatile. Workforce is motivated by the company's hourly compensation plan.

#### NB2E

New Balance adopted New Balance Executional Excellence (NB2E). The main principle of NB2E is to move the company's manufacturing plants from batch production to pair-by-pair flow. The result of NB2E was huge success as it provided 100 percent availability within 24 hours which reduced the inventory level significantly.

#### IV. Conclusion and Recommendations

New Balance's approaches like New Balance Suspension System and NB2E provides the uniqueness in their manufacturing process. They help create an image which in turn appeals customer. They have focused on domestic production rather than outsourcing all their manufacturing activities. This helps the workforce of US. Also this shows that the company is not just oriented towards making profits but is also committed towards fulfilling social responsibilities.

#### V. Action.

Nike and Adidas can marvel on their profits but New Balance has the satisfaction of being customer oriented organization. Retailers favor New Balance's distribution and manufacturing process over their rival's indifferent approach. New Balance cannot fight and beat two 800 pound gorillas at the same time but their approach provides the shelter to foster and fend off any aggressive tactics used by competitors gearing towards destabilizing New Balance. New Balance is the example of how an underdog company can survive under the hegemony of big corporates. It is working and proves a huge hit.