Team #1

MGMT 280-01

New Balance Athletic Shoe, Inc.

Jordan Biggar, Kendra Kerr, Courtney Fillmore, Ashley Carroll
1. Key Facts
   A. Players
      1. Main Characters
         William J. Riley - Founder
         Arthur Hall - Riley’s business partner in 1934
         Eleanor and Paul Kidd - Owners in 1954
         Jim Davis - Bought company in 1972 and is current owner
         Herb Spivak - Executive Vice President of Operations
         Jim Tompkins - Chief Operating Officer
         John Withee - Chief Financial Officer
         Paul Heffernan - Executive Vice President of Global Marketing
         Fran Allen - Executive Vice President for Sales and Services
         John Wilson - Vice President of Manufacturing
      2. Competitors
         Nike, Inc.
         Adidas-Salomon AG.
         Reebok International Ltd.
         Fila USA
         Puma
K-Swiss
Converse
Saucony
Asics

3. **Partners** - None

**B. Financial Performance**

2004- $1,500,000,000- Worldwide Sales

US Athletic Footwear Sales- $1,022,000,000

New Balance maintains 8%-12% market share

2005- Media expenditure- $17.3 million

1972- Davis bought company for $100,000

**C. Timeline of the Case**

1906-New Balance founded as New Balance Arch by William J. Riley

1934- Riley went into partnership with Arthur Hall

1954- Hall sold business to Eleanor and Paul Kidd

1961- Kidds launched the Trackster (1st shoe from New Balance that was not support or prescriptions specific)

1972- Jim Davis bought New Balance on the day of the Boston Marathon
1978- First international sales office and first European manufacturing facility opened

1982- reached $60 million in sales and debuted 990 running shoe (first running shoe priced at $100)

1984- Anne Davis, wife of Jim, joined New Balance, focusing on building a distinct culture.

1990s- New Balance suspension system unveiled

1992- Advertising campaign: “Endorsed by No One”

1994- New Balance sold $84 million of footwear in US

2001- Average lead time for cut-through-assembly batch is 8.5 days

2003- Nike acquired Converse

2004- New Balance adopted New Balance Executonal Excellence


August 2005- 3 warehouses had $9 million worth of raw materials

2006- New Balance expected to use $21 million on ad campaign

2. Issues
   A. Conflicts
      1. Management
         - New Balance only has 8%-12% of the market. It needs to establish itself more in the market. It currently has two major
companies who have acquired other companies within the industry. New Balance needs to decide whether or not to acquire one of the smaller companies in the industry like Nike and Adidas did with Converse and Reebok.

- Needs to decide whether to stick with what New Balance is good at, customer loyalty and functionality or does it need to break into the “trendy” design. Nike and Adidas are not just making running shoes, they make casual shoes, specific sportswear, etc. In order to obtain more market share New Balance needs to decide if change is necessary.

- New Balance needs to decide on how to get more customers. They already have a loyal customer base. New Balance needs to expand this customer base. This may mean a need to increase design creativity, marketing campaigns, etc.

- In order to compete with Nike and Adidas, New Balance needs to look into moving manufacturing plants (final assembly phase overseas). Nike and Adidas do all manufacturing out of the country. There are pros and cons to manufacturing out of country, but New Balance has established itself as a company that keeps part of the manufacturing in the United States.

- 2005 was a hard year for New Balance. There were operations logistics that need to be worked out. New Balance will need to deal
with this problem before it can move on to compete with Nike and Adidas.

- Nike and Adidas have always had cutting edge marketing campaigns. They endorse the popular athletes and have international customers. New Balance has never had global campaigns. They have stuck to their American roots, but need to branch out.

2. Legal- None

3. Ethical- None

B. Central Problem

1. Nike and Adidas have dominated the athletic shoe industry for many decades. Both Nike and Adidas have acquired other small shoe companies, Converse and Reebok, which increase the companies’ market shares. New Balance must maintain and strive to increase market share. New Balance needs to figure out if acquisition of a company is going to increase market share or just create more headaches.

2. New Balance has never endorsed professional athletes. Nike and Adidas are known for the professional athletes that wear their apparel. Nike and Adidas develop their marketing campaigns around the different athletes wearing their products. New Balance needs to create a marketing campaign that not only reaches its loyal customer base, but it also needs to be international market.
3. In 2005, New Balance experienced some operational issues. New Balance needs to iron out all the wrinkles in the new, less inventory system. It needs to maintain its short lead-time as well.

4. New Balance must decide on what to do with the manufacturing plants. Its competitors outsource all manufacturing out of country. New Balance does final assembly in the United States. This creates a problem because all of the pieces must be sent to the east coast of the United States to be assembled. The shoes are then sent out from this point.

3. **Analysis**

New Balance takes pride in its loyal customer base. It has built this base through keeping the company the same since it was founded. It is not about what the shoe looks like but what the shoe does for the foot. New Balance has maintained its culture and essence of the company over the years. It has not want to stray away from creating shows that support and are functional.

New Balance only holds a small percentage of market share in the athletic footwear market. This must change because of the recent acquisitions by Nike and Adidas. New Balance is now at a disadvantage. It needs to some how gain more market share.

New Balance has stuck to a marketing strategy throughout the years. It does not endorse professional athletes. It has stuck this through the decades, but has hurt them in the long run. Average people want to be like the professionals. They want to wear what the professionals wear. Nike and Adidas recognized this opportunity. New Balance now has to play catch up again.
Finally, New Balance needs to increase its market share. The way Nike and Adidas have done this in recent year is through the acquisition of other companies in the athletic shoe industry. New Balance needs to make for this deficit somewhere. This means New Balances must decide whether it is going to acquire another shoe company or not.

4. Identify Alternatives

- New balance should look into some of the smaller athletic shoe companies that they could acquire. Acquiring a smaller company would increase market share, increase customer base, and diversify the types of products being produced.

- New balance could begin a new advertising campaign that endorses celebrities. As long as they chose celebrities that have not been publicly ridiculed for doing something unethical they will be sticking to the New Balance values. An endorsement could bring in a new customer base while still promoting New Balance in the same fundamental way as before.

- New Balance could also outsource more of its production (mainly final assembly). Along with doing this New Balance could become a public enterprise and sell stocks to shareholders. This plan would decrease expenses through outsourcing while increasing capital through selling shares. From here New Balance could use the money to work on new designs in order to gain a competitive advantage.

- New Balance could focus primarily on manufacturing and lead time. They realize there are some operational issues at this time, so they if they put time and effort into sorting these out it may help the overall company. This could be done without needing to outsource. They could keep the outline of their manufacturing process the same, while
just rearranging fundamental things in order to shorten lead time and keep customer satisfaction high.

5. **Conclusion and Recommendations**

Based on the problems New Balance is having they definitely need to do something in order to stay competitive. New Balance should definitely look into acquiring a smaller athletic shoe company. New Balance has been doing fairly well so acquiring another company is not completely out of the picture for them. Although this could be an expensive decision for New Balance it would be best in the long run. New Balance could take that new company and expand their own to incorporate it. It would allow them to produce a more diverse scope of products without having to start at square one in order to expand. If they tried expanding on their own they would not have the plans and capabilities to produce new products for quite some time. However, a company that already exists already has the means to develop and produce a variety of products. New Balance could take over these products, and their customers. They could then put the New Balance value into the new products and create an even larger loyal customer base.

This plan then allows New Balance to afford an endorsement deal with a well-respected athlete. This endorsement will help bring on a new marketing campaign promoting the expanded New Balance company.

All this can be done without losing the integrity of what New Balance stands for. They will not have to outsource more or turn their company public, but they will be increasing their market share and staying competitive within the industry.
6. **Action**

New Balance will need to research smaller shoe companies and decide if they want to acquire one within the athletic shoe market or to acquire one outside of that specific field. Once some research has been done they can approach the company they want with an offer. It will want to acquire a company that produces shoes that it does not already. This way, it will diversify the company. It will help the company continue to compete with the always expanding, Nike and Adidas.