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New Balance Athletic Shoe, Inc.
Case Study: New Balance

I. Key Facts
   • Players
     o Jim and Anne Davis – Owners of New Balance
     o Herb Spivak – Executive Vice President of Operations
     o Jim Tompkins – President and COO
     o John Withee – CFO
     o Paul Heffernan – VP of Global Marketing
     o Fran Allen – VP of Sales and Service
   • Timeline
     o New Balance was founded in Boston in 1906.
     o In 1954, the company was sold to Eleanor and Paul Kidd.
     o New Balance released the Trackster in 1961, the world’s first performance running shoe.
     o Jim Davis purchased the company in 1972 for $100,000.
     o New Balance’s first international sales office and first European manufacturing facility both opened in 1978.
     o 1982 the company debuted the 990 running shoe.
     o 2005, the 990 series still represented the top selling product for New Balance, accounting for roughly 3.5% of the company’s sales.
     o 1990’s, New Balance unveiled, the New Balance Suspension System.
     o Donated $2 million to the Asian Tsunami relief.
     o 2007, New Balance reached $1 billion in Revenue.
     o August 2005, three warehouses held $9 million of inventory.

II. Issues
   • Conflicts
     o Jim Tompkins was planning a switch from batch production to pair-by-pair flow to approach a 100% availability while reducing inventory costs.
     o Due to operational issues, in 2005, there were many quality problems, late deliveries and late samples.
   • Central Problems
     o Greater competition between competitors due to the sale of Reebok to Adidas
     o The executive team had to keep the employees enthused about the New Balance Executional Excellence initiative. It was supposed to increase quality and efficiency of the company’s operational processes through the application of lean manufacturing.
Small advertising budget compared to its competitors. New Balance budgeted only 20 million dollars for advertisements, while competitors like Nike spent more than $200 million.

 Had to work toward differentiating products as sales declined. They looked into developing a fashionable athletic shoe.

III. Analysis (narrative)
  - Qualitative and/or quantitative analysis
  - What are the causes?
    - Internal and external
      - Internal- Deliveries are late, products are late, and samples are late, high inventory costs.
      - External- Competitors are advertising more, producing faster products, and they are trying to change up their production formats.
  - What are the rules and how do they apply?
    - There were deadlines but they were not met.
  - Are there any gray areas?- N/A
  - What is happening?-
    - Within the company there are many conflicts affecting the overall company as a whole. Inventory costs are up, competition is increasing, deliveries are late, samples are late, products are late, income is decreasing, and competition is doing more with their products and advertising. The biggest thing is that they want to switch their production from batch to pair by pair flow.
  - What do they want to have happen? (GAP analysis)
    - In simple terms they want to approach 100 percent availability for their products while reducing their inventory costs.
    - They also want to increase their income while decreasing problems.

IV. Identify Alternatives
  - Pros/cons-
    - Pros- If they make the switch they will be able to better their company in many ways. They will make more money, produce more products at a faster and more appropriate pace, and they will also lower their inventory costs.
    - Cons- If they do choose to go through with the switch the transition can take time, workers may not like the switch, it could put people out of work, and could possibly not work out as perceived.

V. Conclusion and Recommendation (the “what“)
  - The absolutely must make the change. They are in an extremely competitive industry that is very image conscious. If they do not make their products appear fresh or “cool” they will likely burn out. Granted New Balance shoes have never been marketing as the sleekest shoe, but they do have a respectable image. They already cannot advertise at the level of the other companies so they need their product to do the talking.
Can this solution apply in a larger way? (microcosm extended to macro level)

- This can apply to almost every small business in America. They need to be as efficient as possible and bring the best value to the customer possible, so that ideally through word of mouth they can compete with the bigger companies.

VI. Action (the “how”)

- By bringing in new fresh employees this will give a new start to the project. New employees will try to work as efficiently and to their full potential on projects to try to beat out their competition. New employees also bring out new ideas which could be extremely beneficial. Since they are hiring people who could easily have previous work in the field, they will also likely know some of the other companies’ secrets.