

Strategy formulation and processes | new balance



New Balance began as a Boston-based arch support company in the early 1900's, developed into a specialized shoe manufacturer in the 1970's, and has grown to become a leading global athletic products company. Today New Balance is a family of brands including New Balance, Dunham, PF Flyers, Aravon, Warrior and Brine.

Since the days of selling arch supports to police officers and waiters, New Balance has been a brand concerned with meeting the needs of the everyday athlete. Part of producing superior footwear and athletic apparel is manufacturing it to fit all widths and sizes, because a better fit produces better performance.

To ensure the best fitting, best performing shoes and apparel, New Balance focus on improving their technology and production methods. A big part of that is maintaining five manufacturing facilities here in the United States where they continue to produce shoes and apparel that meet the standards. They have also remained committed to a core set of values that include integrity, teamwork and total customer satisfaction. New Balance began as a Boston-based arch support company in the early 1900's, developed into a specialized shoe manufacturer in the 1970's, and has grown to become a leading global athletic products company. Today New Balance is a family of brands including New Balance, Dunham, PF Flyers, Aravon, Warrior and Brine.

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Because feet don't come in one or two widths, and because shoes that fit better perform better, New Balance shoes come in a wide range of widths and sizes. New balance philosophy is simple. Listen, learn and refine. It's an approach to technology that puts them face to face with world class athletes and everyday athletes alike.

New Balance has made significant strides in apparel, taking a more progressive approach with innovative fabrics and features, an attractive color palette, and timeless designs. Like their footwear, the apparel line features the New Balance hallmark of fit, performance and comfort.

An increasing segment of the New Balance business, NB apparel includes a large collection of garments - from technical running gear to athletic workout wear. Engineered to be versatile and durable, our apparel collection incorporates advanced moisture management liners, breathable microfibers, and water-resistant coatings to provide consumers the ultimate in comfort and weather protection.

In a global economy where quality components come from all over the world, New Balance continues to manufacture a percentage of its shoes in the USA. New Balance has five factories in New England - three in Maine and two in Massachusetts. With a high-quality labor force, unique modular teams that are continually challenged to offer creative alternatives to foreign competition, and the confidence to be different, New Balance is able to survive and thrive, and take a leadership position in an industry that has sent most of its production overseas.

They have remained true to who we are by remaining focused on driving innovation to produce superior products that meet and exceed the expectations of our valued consumers.

Business process management software helps shoe maker New Balance apply lean manufacturing principles in the office

Despite its industry's reputation for less-than-scrupulous globalised manufacturing practices, training shoe maker New Balance still makes some of its shoes in the UK. In fact, it can do so more cheaply than many of its Far Eastern suppliers.

The reason for this is that since 2005 the company has adopted the principles of 'lean' manufacturing, which advocate the elimination of waste and constant efficiency improvement.

New Balance turned to lean manufacturing after a customer satisfaction audit found that retail partners thought it inflexible and unresponsive to fluctuations in demand. By painstakingly mapping out the processes by which New Balance creates value for its customers, the company could identify points of waste, which it proceeded to eliminate - starting on the factory floor.

The results were impressive. For one of the company's key retail partners, for example, the replenishment cycle went from 110 days to five days, allowing it to match stock levels to demand and preventing New Balance from manufacturing unwanted shoes. And quite amazingly, the annual output of the UK production facility tripled.

" The management's response to this was, 'Great, now let's 'lean' the office,'" recalls operations director Eddie McDermott. However, in applying lean principles to administrative processes, success was much harder to come by. " Our experience was not positive," he says.

Two problems beset the lean office project. Firstly, it was much harder to map administrative processes and to see where the inefficiencies lay. " In the office environment, we couldn't see where the problems were," says McDermott.

And even when it had identified areas for improvement, it was impossible to make process changes stick. " Even after a year's worth of employee workshops, we still couldn't deploy or sustain the agreed process improvements," explains McDermott. " We were passionate, but we couldn't move beyond documentation."

To help in both mapping existing processes and implementing process changes, New Balance turned to business process management (BPM) software from UK vendor Nimbus. Deploying the Nimbus tool on employee desktops gave New Balance visibility into how work flowed through the organisation. The system also allows process changes to be pushed straight out to employee desktops.

One example of the benefits of this approach comes from the financial operation of New Balance's German subsidiary. The subsidiary had €1. 2 billion of overdue payments as a result of operational errors such as incorrect shipping.

Using the Nimbus software, the company was able to link financial events - including overdue payments - back to the operational processes that preceded them, and stop the errors at the source. Within three months of the Nimbus deployment, the total value of overdue payments was down to €750, 000, and it has since fallen to €160, 000.

By substantiating business processes in a visible and manageable form, New Balance's Nimbus implementation is allowing it to pursue the lean ethos across the entire organisation.

"'Lean' has been the impetus," says McDermott, " but without Nimbus we wouldn't have had the information we needed."

New Balance Mission and Core Values: The New Balance Mission: To be the world's leading manufacturer of high performance athletic and active lifestyle products while operating in a socially responsible manner is supported by conducting our internal and external relationships according to these Core Values: Integrity, Teamwork and Total Customer Satisfaction. This is the underlying principle steering New Balance business throughout the world. We strive for continuous improvement by exemplifying the core values in all of our operations and relationships.

With this underpinning, we have developed a comprehensive Code of Conduct, built an organization to manage and monitor human rights compliance issues, and integrated a series of programs to monitor manufacturing and sourcing activities into our daily operations.

Our Compliance Program:

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New Balance cares about ALL workers who make New Balance product and the conditions in which they work, regardless of the country in which they work. We have been aggressively promoting our standards, and monitoring and correcting conditions for many years and will continue to do so.

The company's program operates under the leadership of a Social Responsibility Steering Committee whose focus is to understand the issues and find creative solutions to improving working conditions and increasing the standard of living for those who make our products. On this team are three members of the senior executive staff and five senior managers.

Our requirements are defined in the New Balance Code of Conduct to which all our U. S. and overseas subcontractors must sign and adhere. The Code is rigorously applied through a process which includes training, establishing standards of performance, sharing of ideas and methods for compliance, monitoring by New Balance, and monitoring by an independent third party. Anytime a requirement is not being met, we have worked aggressively with the subcontracting partner to remedy the issue in a timely fashion. If after substantial effort has been made and the subcontractor fails to remedy the situation, the relationship is terminated.

Consistent with our Core Values, we believe any effective Compliance Program must be focused on continuous improvement. New Balance has established what is probably a unique approach to accomplish this. In addition to the U. S. based corporate management responsible for the program including a Steering Committee and a Corporate Compliance Manager, we employ a senior level New Balance Compliance Program

Manager in China who is native to the area. This key manager and his staff, one of whom is based in each of our core factories, are dedicated to working on improvement programs in partnership with each factory, reporting results and problems, and overseeing daily conditions in all of our subcontracted Asian factories. These steps are taken with local plant management to indicate the seriousness of our intent to do business only with suppliers who maintain fair and safe working conditions, demonstrate tangible improvement and exhibit a consistent willingness to change.

In 1998, wanting a thorough, independent and ongoing assessment of conditions in our subcontracting factories, New Balance sought out a third party organization who could help with monitoring and the continual development of our program. We selected Verité, an independent, non-profit monitoring organization, with a history of excellent work in helping various types of organizations with their Human Rights Compliance efforts around the world.

Verité has conducted a number of comprehensive factory evaluations at the factories where New Balance shoes are made in China. All evaluations are done under the strict guidelines of the Verité organization to ensure independence, comprehensiveness and accuracy, and all include independent interviews with workers. The evaluations confirm successful achievement of our Human Rights goals and the substantive progress we have made with our subcontractors in adhering to the Code.

Although no major non-compliance issues have currently been identified, each report from Verité has recommendations for correction or remediation,

improvement in standard or adherence level, or an increase in monitoring. We take these recommendations seriously and aggressively take appropriate steps to address the items reported. For example, Verité's audit determined that workers' input to the factory management was not being adequately heard by the senior level of factory management and by New Balance. The factory team and our staff remediated the problem by developing comment boxes throughout the facilities for communication directly to factory management or to New Balance, providing open feedback to all questions through the use of bulletin boards, running a series of awareness programs for all workers, and establishing worker/supervisor project teams to help identify issues that go unresolved from the worker's perspective.

Other examples of improvements stemming from the Verité work include training programs for workers and factory management, increasing factory safety measures in the use of equipment and the facility; improving air quality, light and noise levels in the factory; increasing dorm space and improving living conditions, cleanliness and safety; and increasing worker earnings.

We are able to benchmark improvements and identify areas still in need of attention. Following each successful change there has been an increase in trust from local management that these changes improve morale, quality, and productivity.

It is important for anyone interested in this subject to seriously explore the efforts made and results accomplished by any company in establishing standards, managing an improvement process, and monitoring compliance.

All efforts must be made to improve working conditions within the business environment of a factory in a country in which government oversight and working standards are weak. A long-term commitment to a sound and comprehensive program by any company is needed to succeed. New Balance is proud of the results we have obtained to date. And the results are not only good for the workers, but also have produced substantial positive results in terms of quality and delivery of product. Satisfied workers do indeed produce higher quality product.

It is our hope that this information has helped you understand our commitment to holding our suppliers to strict standards and to maintaining safe and fair working conditions for all people who make New Balance footwear.

Current sustainability efforts on behalf of New Balance and NB-owned brands Dunham, Aravon, and PF Flyers include:

- Each brand is committed to operating their businesses in an environmentally sensitive manner. All brand suppliers (both factories producing finished products and suppliers of materials and components) are required to be in full compliance with local laws and regulations regarding environmental and product safety.
- All New Balance, Dunham, Aravon and PF Flyers footwear are made without the use of PVC (Polyvinyl chloride), a substance considered to be harmful to the environment.

- New Balance, Dunham, Aravon and PF Flyers shoe boxes are made from 100% recycled materials and are 100% recyclable. The glue, inks, and varnishes used are all non-toxic and environmentally-friendly. All materials that are used are in compliance with the guidelines for environmental safety prescribed by the U. S. and EU regulations. The structure of the box is designed to create very little waste throughout production process. All stuffing and tissue wrap are made from 100% recycled materials and are 100% recyclable

- New Balance Domestic Facilities management goals include LEED design and operational elements to achieve LEED certification for Existing Buildings.

- New Balance has undertaken a corporate wide sustainability initiative targeting three main areas:

- o Product - Manufacturing - Facilities

Within the U. S. Footwear division goals have been established for all styles under development for Fall/Winter 2008 to contain some Environmentally Preferred Materials (EPMs). The range of targets varies from 10% to 30% of the upper components.

New Balance defines EPMs as:

Materials with a minimum of 20% recycled content

Materials made from sustainable/renewable resources

Leathers made by tanneries that meet strict industry standards for environmental management

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NonPVC synthetic leather with reduced solvent/energy use

New Balance has sourced or specifically developed over 500 EPM items.

Many of these will be used in our Fall/Winter 08 line. We have challenged both our suppliers and associates to increase our use of EPM beyond our existing goals.

The target for Outdoor products is to have 30% of the upper components comprised of EPMS. By tracking the percentage of components, New Balance is able to manage our program using our Product Data Management System.

- New Balance Facilities in Massachusetts recycle almost 100% of their waste. Cardboard, metal, plastic, paper and wood are separated offsite at Harvey & Sons in Westboro, MA.

- o In 2006, more than 2, 280 tons of waste (125 tons in paper) was recycled, an equivalent to saving more than 5, 000 Douglas Fir trees, one million kilowatts of electricity and 2 million gallons of water.

- In 2006, air quality projects at four U. S. facilities via improved lighting and adding variable air compressors saved an estimated 2. 872 million kWh = \$292, 834 of electric power and 63, 453 therms = \$9, 518 in natural gas.

- o These projects equal a reduction in green house gasses (GHG) of 2, 720, 900 lbs. of carbon dioxide; 8, 780 lbs. of sulfur dioxide; and 4, 200 lbs. of nitrous oxide or the equivalent to planting 367 acres of trees, removing 238 cars from the road and saving 178, 229 gallons of gasoline

- In 2007 a New Balance team worked with a leather supplier to develop a new standard trim hide program. This project is estimated to reduce solid waste by 27 tons during the remainder of 2007.

- In the past 12 months, the New Balance Foundation has distributed over \$700, 000 to local environmental non-profits. Key organizations include:
 - o Western Mountains Foundation in support of the 180-mile trail and hut system intended to preserve and provide access to some of the best backcountry terrain in Western Maine, while stimulating environmentally sensitive eco-tourism opportunities.

 - o Charles River Watershed - in support of Charles River Earth Day clean-up in which NB associates participated.

 - o The Food Project - The Farmers' markets are a critical component of The Food Project's Summer Youth Program. Run by summer youth participants, the markets give youth the opportunity to interact directly with community members and share the food they worked so hard to grow.

 - o The Riverside Trail - trail system throughout Norway, ME connecting regional schools, town centers and recreation areas.

Incorporated: 1906 as The New Balance Arch Company

NAIC: 316210 Footwear Manufacturing

Company Perspectives:

Which would you prefer? Athletic shoes built around the belief that the marketing prowess of an NBA superstar can sell anything? Or athletic shoes built around the belief that better fit and technology mean better performance?

We prefer the latter; that's why we adhere to a unique "Endorsed By No One" philosophy. Instead of paying celebrities to tell you how great our products are, we invest in research, design, and domestic manufacturing and let our products speak for themselves. By adhering to this philosophy, we are able to celebrate the true stars: every day athletes who choose New Balance footwear and apparel because they fit and because they perform.

New Balance Athletic Shoe, Inc., manufactures running, hiking, tennis, basketball, and cross-training shoes, offering its footwear in a broad range of width sizes. New Balance, in contrast to its larger competitors, manufactured nearly all of its footwear in the United States, as opposed to manufacturing its merchandise overseas. The company's five company-owned manufacturing facilities during the late 1990s were all located in Massachusetts and Maine. In addition to its lines of footwear, New Balance also produces a variety of athletic apparel.

The New Balance Wear Test Program

Our paramount goal at New Balance is to design and manufacture the best possible athletic shoes and apparel. You can help us reach this goal by putting our products to the test through the Wear Test Program.

This crucial program collectively engages New Balance designers, product managers, manufacturing associates and you - our consumers - throughout the product development process. The Wear Test Program requires testing products under real life conditions. We believe that subjecting our product line to rigorous field testing ensures that all of our products perform at their peak-so you can too.

Process

Once a product test is initiated, members of the Wear Test team identify the most appropriate volunteer testers based on requirements such as shoe size, demographic profile, geographic location, activity or athletic profile, etc. The test product is then sent to each tester with specific instructions. Testers wear/use the test product as often as possible for the duration of the test period according to the test instructions. Test durations can be from 1 day to 12 or more weeks, but the vast majority of tests last 6-8 weeks.

Testers log in to this site periodically during and at the conclusion of the test period to provide written feedback about their experiences using the test product.

At the end of the test period, the product is returned to New Balance where it is inspected and evaluated based on the following criteria:

Fit and Comfort

Performance and Functionality

Durability

Manufacturability

Aesthetics

Like the test products, testers are also evaluated for their effectiveness.

Testers are graded on how well and often they used the test product, the quality of the written feedback, and their ability to adhere to deadlines.

Better testers are more likely to receive test products more often.