

Analysis of expansion factors new balance

Business



Introduction New Balance has experienced a rapid increase in growth within the last few years in the market for running shoes and has become one of the most innovative and customer oriented shoe companies in the world. Sales increased by almost 361% from 1974 to 1976 and has been accompanied by moving the production facility to Boston in order to keep up with the rising demand and to increase production.

New Balance's innovations provide excellent heel and forefoot cushioning and availability in all widths, making New Balance one of the top contenders in the shoe market.

This rapid growth and recognition gives the company a number of choices concerning its future direction, New Balance can either aggressively expand overseas and contest the shoe market internationally or stay in the United States and continue to maintain the lead in a high-quality niche market. Establishing a plant in Texas is highly recommended due to the relatively low amount of risk and allowing New Balance to expand without having to sacrifice production and quality.

Texas is also the middle ground between these options, Ireland and Lawrence, has lesser total costs, and will also reduce delivery time to an expanding market on the West Coast of the United States. Forecasting Growth New Balance is currently in an exponentially expanding market, as illustrated in the Exalt 4 Trendsetter model, and environment. Recreational sports such as football and basketball are becoming increasingly popular.

As sports become a bigger part of our lives, individual fitness will become a greater priority.

Most fitness minded consumers are not professional runners but they will research to find the most effective and comfortable shoes by looking into runner magazines, such as Runner's world. As New Balance continues to be featured in running publications and magazines and individual fitness continues to become a daily part of American livelihood, maintained growth and increase in market share becomes a likely possibility for New Balance. However, we may become overly optimistic when forecasting with an exponentially increasing set of data values due to the recent rapid growth. By utilizing an exponential smoothing model, overly optimistic forecasting can be minimalist.

The smoothing model allows for the estimation of future growth levels while accounting for trends such as seasonality and the influence of outliers, with the optimism of the forecast depending on the chosen trend modifier. The trend modifier varies on three sets of values. A value greater than one indicates an exponential trend where growth is continually increasing at a positive rate.

A value of one indicates a linear trend where actual previous data is the very next set of forecast data. A value less than one indicates a damped trend where growth is at declining positive rate.

Exhibit 1 shows the "smoothing" of data by mainlining the trends and seasonality of actual data, in column D, and outputting seasonality data in column L while including values for the seasonal indexes in column K. This new set of data in column L is then carried over to the forecast model in

Exalt 2 column D. The seasonal Indexes are also Inputted In the column next to it.

Together, the combination of column D and E in Exhibit 2 outputs a smoothed 1 OFF Treats In column F, winch Is teen grapnel knelt 4). I chosen a trend mettle AT .

85 so that it is lower than an aggressive modifier of . 9 but higher than a conservative modifier of . 8. I do not believe that New Balance's current growth rate can be sustained for a long period of time without dampening out. I do believe that New Balance still has room to grow and expand its market share. Exhibit 4 illustrates a damped trend forecast while having a sustained growth but at a slower rate.

The damped trend model is highly important as it gives the most reliable estimate of future growth while not being affected by outliers and seasonality that are common to any production company. This model forecasts over the next few years that production should be around a level of 44, 000 to 45, 000 pairs, but there still is an already-present backlog of 100, 000 pairs. Meeting this level of demand will be highly difficult and impossible under the present circumstances. Expansion is required to meet this level of demand, but there are numerous factors that must be considered before deciding a location to expand to.

Analysis of Expansion factors New Balance currently has three different locations to choose from, with each location being representative of a different type of business model. The three options are Ireland, Lawrence, or Texas.

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Ireland represents a more aggressive expansion model and would signify international expansion similar to Puma and Aids. Expanding to Ireland will most likely allow New Balance to obtain a substantial share of the growing market and increase the demand for New Balance, but at the cost of maintaining the high shoe quality that sets New Balance apart from competitors.

Lawrence, on the other hand, would represent New Balance conservatively staying in the niche market because of the close proximity to Boston but will limit the expansion of New Balance and the loss of potential demand increase if it were to not expand elsewhere. Texas, though, stands as a middle ground between the two options of either Ireland or Lawrence and offers both expansion and the increase for potential demand. Texas will help retain the high quality that sets New Balance apart from its competitors and will aid in the expanding market in the west.

Expansion is not without its risks and can potentially destroy a company if it does not take the proper time and consideration of all relatable factors.

Dimensional analysis allows for the analysis of both the tangible and intangible information available while also giving the ability to measure and evaluate these intangibles and combine them with the tangible measurements into an overall value index. This is done by first choosing the factors that are most important to the decision-makers. Numerical weights are then assigned to these factors with the most important factors being given the heaviest and highest weights.

In New Balance's case, some of the most important factors include distance, purchase cost of the new plant, attitude of the local government, expansion opportunities, production capacity, operating cost, and the labor market at the new location. Using the equation in column E of Exhibit 3, the dimensional analysis spreadsheet, these factors are combined into a value called the preference number and a decision is made based on the result. Depending whether or not smaller values are better or worse for the decision decides which option is the better choice.

In this exhibit, smaller values are better, which also explains why the plant purchase cost has a weight of negative two. Due to the equation that the dimensional analysis uses, only two factors can be compared at a time, so I compared Ireland and Lawrence, TX, in no particular order. The results show that ten expansion opportunities provided by a plant in Ireland are not enough to offset the distance and risk it would represent. Ireland was then eliminated from the options and Texas replaced Ireland in the comparison.

Lawrence is the safest location but it adds little increase in production capacity, while Texas gives a significant amount of expansion opportunities at a reasonable distance. By utilizing dimensional analysis, Texas is the recommended option to build a plant and expand New Balance.

Conclusion In the face of growing backlogs and ever-increasing demand for New Balance shoes, New Balance refused to add a second shift to its workers' schedules or subject them to increased overtime, a decision that confirmed the company's dedication to quality over quantity. When confronting expansion, the approach should remain the same.

Although opening a new plant in Ireland will present exciting possibilities, it does come with heavy disadvantages such as the low levels of productivity due to unskilled labor and distance from the main plant in Boston. Showing commitment to the European market has its merits but overseas expansion feels premature and too risky for this situation. Expanding to Lawrence, Massachusetts will add to the Meany's reputation as a quality brand and offers an experience, skilled labor market, but in terms of expansion, New Balance would be selling itself short and not maximizing the expansion opportunity.

Texas offers the best resolution.

It will allow the company to tap into the West Coast, especially the California market, the labor force is skilled, tax and wage rates are low, and the distance from Boston would not force a sacrifice in quality. By choosing Texas as the new area for expansion, New Balance shows that it is a serious competitor to Aids and Nikkei and that quality will always remain New Balance's number one priority.