

New balance: a case study



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Abstract

A case study of New Balance Corporation are discussed in 3 different perspectives such as observations on strategic marketing plan, evaluation on manufacturing processes and the company financial profitability. A complete analysis of these three perspectives and suggestion on how to stay competitive is explained further in this report. The marketing perspective will focus on the evaluation of its current marketing methods and proposal on effective marketing strategy. The manufacturing perspectives study the operation and provide recommendation quality planning. The financial perspectives will review the cost, profitability and loss in investment of New Balance Corporation.

Introduction

In 2004, New Balance Athletic Shoe Inc. Became one of the biggest athletic shoe manufacturer in the United State of America. by New Balance became more famous with its unique and creative philosophies that included an “endorsed by no one” stand, withholding of 25% manufacturing in the US, and it target middle-aged customer as its target and the company grew and gained market share in the highly competitive athletic shoe industry. In marketing perspective, the research is done on strategic marketing approaches to meet customer’s satisfaction. In manufacturing perspective, the research is concentrates on manufacturing process of New Balance shoes and importance of Quality planning and control together. In financial perspective, the research is about financial management while maintaining quality. This report summarizes the difficulties faced by New Balance Corporation and the solutions to the problems encountered.

1. Marketing Perspective

New Balance Corporation manufactures basketball, running, hiking, tennis and cross training shoes with offering its shoes in a range of sizes. Because of not undertake celebrity or superstar to endorse its products, New Balance Corporation lose out to gaining awareness on a global marketing. Its make their lacks endorsements in major sporting events and also make them at a disadvantages when it comes to brand building and the company also faces its limited output. For reach their product line in marketing, the company make a few changes in management; it was well trained employees for working by team, makes them different jobs, switching tasks and also operates computerised sewing equipment and automated stitches. New Balance Corporation has been faced manufacturing cost, with its competitors outsourcing most of their manufacturing to others countries such as China

1. 1 Job design

Job design or work arrangement is important parts to make the company's raise productivity levels by offering non financial rewards such as greater satisfaction from a sense of personal achievement in meeting the increased challenge and responsibility of one's work. Few techniques can be use in job design and it was job enlargement, job improvement, job rotation and job simplification.[2] New Balance Corporation employed just a smaller quantity than a dozen in 1970. At that time the employees made each shoe by hand, one at the time and third pairs for daily production. [1] As the company has grown and changed, their manufacturing also changed by the improvement in the company's marketing and manufacturing. New Balance was introduced a new technologies to make the shoe and also trained the

employees with working in small teams with 5 or 6 employees and technical skills.[1] When the employees work by team, there can know each other and became friendlier. This will make the companies environment in good situation. The company manufacturing was improved by switching task every few minutes and helping each other to make the products in quality. [1] By switching task, the employees can be more experience in kind of works. Other than that, the employees also trained to operate computerised sewing equipment and automated stitches. It's make the workers to do the work of 20. This cause the company save the time with delivered highest quantity of products. But to reach their product in local or global marketing, New Balance didn't undertake celebrity to endorse its products and because of this New Balance face their output in limited than other competitor.

1. 2 Method of work organisation

To make the product reach in marketing New Balance Corporation use few method in their work organisation. The company is known for innovative products designs, excellent relation with buyers and a strong commitment to social responsibility. New Balance became famous in global after manufactured special designed orthopaedic shoe for baseball players and track and field athletes, in 1930. They also concentrate on customer's target. They made running shoe with the target customer's mileage, size, strength, the prices of the shoe and the running environment.[1] The company also control and adjust the new products design depends on customer's interest and competitor challenges. This process at New Balance is working well. Other method used by New Balance Corporation was advertisement campaign. Bill Bruce, chief creative officer at New Balance agency, was the

lead to the campaign. Example of advertisement by New Balance is “ Running is hard. People aspire to it because it’s not easy” and “ The shortest distance between two points is not the point”. [1]

With develop in designs, improve quality and innovate their processes a capability is not enough for the company to reach their manufacturing process and New Balance Corporation known it, so the company share 10% market of athletic shoes in china. It would be the equivalent of 100 million customers.

1. 3 Advantages and disadvantages of going global.

1. 3. 1 Advantages

International markets able to expand if New Balance Corporation distributes their products in global marketing. The company can sales shoes with new design and comfortable price for the customers. Other than that, New Balance able to build reliable sources of supply and keep abreast of the latest trends and technologies. Payment for the workers at America is \$23 to \$21 an hour. But at the China the coast is very low depending on America; it’s just \$2. 63 and \$0. 67 an hour. The American workers receive roughly the equivalent amount of money for working 1 hour as a Chinese worker earns in a 40 hour week. This made New Balance Corporation safe the coast of the workers. [3]

1. 3. 2 Disadvantages

Nike and Adidas were strongest global branded names. So that, New Balance has to invest the highest coast in product manufacturing such like new design, quality of product for keep strongest from their competitor.[4]

Director Emeritus

John Larsen Figure 1: Organisation chart of New Balance

Chairman of the Board

James Davis

Executive Vice President, Apparel

Kerry Kligerman

Executive Vice President, Commercial

Herb Spivak

Chief Executive Officer, President

Robert DeMatini

Executive Vice President, Global Footwear, Product & Marketing

Joe Preston

Executive Vice President, International

Alan Hed

Executive Vice President, Manufacturing

John Wilson

Executive Vice President, North American Sales

Chris Quinn

Vice President, Consumer Experience

Paul Heffernan

Executive Vice President, value chain

Dave Crosier

Vice Chairman of the Board & Executive Vice President, Administration

Anne Davis

Vice President, Advanced Concepts

Edith Harmon

Vice President, Finance

Bill Hayden

Vice President, Global Design & Development

Jim Connors

Vice President, Global Logistics

Kevin Holin

Vice President, Human Resources

Carol O'Donnell

Vice President, Intellectual Property

Edward Haddad

Vice President, Responsible Leadership

Christine Madigan

Vice President, Retail

Stephanie Smith

Vice President, Sourcing & Procurement

Jim Scaibarrasi

Vice President, St. Louis

Joe Clendenny

Corporate communication Manager

Amy Dow

Vice President Treasurer

Alan Rosen

Vice President Key Account Sales

Peter Zappala

2. Observe the strategy formulation and processes to continuously improve to meet the customer needs, and quality at lower cost.

New Balance Corporation has been carried out a lot of processes to improve their customer needs, and quality at lower cost. They have carried out many of processes continuously for a couple of years.

2. 1 Strategy formulation

The first step they took for begin this process is, they have started to produced close to their customers. This step allows quick turnarounds on new designs and order execution able to remain competitive at home by creatively adapt new technologies to shoemaking constantly training their employees in teamwork and technical skills work in teams, sharing

responsibilities and helping one another to make sure everything gets done. Previously they faced a problem about staying in a particular country only, but now they also managed to solve that issue. Today their capable to managed several numbers of Asian suppliers and monitor them more closely. On the other hand, it is possible that current management and production methods can produce high ability with fewer workers and equalize cheaper pay in Asia[5]. They also come out with another new plan that is they have decided to give 22 hours of training in teamwork and production techniques to train the new employees. New Balance is leaving its tradition of communicating through its consumers with low-key, convincing sincerity, and approval instead a colourful commercial campaign which is known as “ Love/Hate”[8]. Little articles that importance to capture the spirit of the experiences and relationships public have with their running shoes. The most powerful quality they have is their confident level towards their business. This fact is proven by the never ending confident level they showed in those years when the other competitors companies recorded lacklustre growth on their business, finally they succeeded [5].

2. 2 Process Quality Improvement

Staying involved with the developed process helps New Balance develop better designs, improve quality, and innovate their processes capabilities. The corporation is doubling its marketing budget to make sure as many people as possible experience this special communication. In order to remain competitive, New Balance highly focuses on quality and productivity improvement.

2. 2. 1 Total Quality Management (TQM)

New Balance introduced a new activity known as Total Quality Management (TQM) into their organization. TQM is a system for creating competitive advantage by focusing the organization on what is important to the customer[5]. Principles of TQM are Do it right the first time and an approach for zero defects[6]. According to TQM, good quality reduces time of rework and able to spent more time in manufacturing. TQM recommends management to find new ways to meet or exceeds customer's needs. Awareness and skill training of top-level manager to non-manager, full employee empowerment and effective communication both vertically and horizontally of all levels must be in practice to improve the quality goals[5].

2. 2. 2 Continuous Improvement (CI)

Another activity carried by New Balance is continuous improvement (CI) or 'Kaizen'. They decided to continue with this to remain competitive. CI focused in unlimited improvement of material, machine, labor use and production method and waste elimination to attract their customers [5]. New Balance started to apply some of the CI approaches such as Statistical process control (SPC), PDCA cycle, Pareto analysis, Fishbone diagram, Benchmarking and Just-in-Time (JIT) method. SPC is a tool to identify problems in production process in order to prevent poor quality by using Statistical Control Chart [5]. PDCA or Plan-Do-Check-Act cycle provides guidance on problem solving process. They carried out the process with the new improvement for continual improvement according to the customer needs. Pareto principle describes that 80% of the problem come from 20% of the cause[5]. They also stated that the solution to 20% will solve 80% of the problem. Fishbone

diagram was developed to identify potential causes to a problem[5].

Benchmarking is an approach for setting goals and efficiency measures based on best-industry practices[6]. Benchmarking involves recognition of a process that needs progress and identification of world-lead organization that performing this process. And, analyzing data obtained by contacting the organization [5]. By implementing JIT method in Bedford plant, New Balance will deal with fewer raw materials, less WIP inventory and low finished goods inventory. Less inventories save more space, which can be rented for subcontract to other corporation. JIT is about delivery of necessary parts in the right amount at the right time and place with minimum conveniences usage[7].

2. 2. 3 Total Productive Maintenance (TPM)

To full fill the consumer's satisfactions New Balance begins to apply Total Productive Maintenance (TPM), to update the old and outdated equipments of Bedford plant. By the help of TPM system they started to concentrates on precautionary maintenance, where inspection and maintenance should be conducted occasionally to prevent downtime. TPM also requires employees to be trained and retrained, so they are updated on machine operations. Another changes made by PTM is purchasing of new equipments to maximize productivity and designation of protective maintenance plan. Application of TPM gives out tremendous success for the New Balance Corporation.

2. 2. 4 Cost reduction

New Balance decided to strengthen their position by producing low- cost quality products. There are two ways of cost reduction method has been

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used by them which is known as alternative raw material and process improvement. New Balance Company replaced their actual alternative raw material, with another raw material which has the same quality but lower in cost. For the process improvement New Balance has practiced Business Process Reengineering (BPR), where BPR brings gradual improvements in the processes. The principle of BPR is to analyze the firm's plan, elimination of non-value added steps and making the remaining ones simple and flexible to accomplish desired outcome[5].

3. Manufacturing Perspective

Manufacturing perspective focuses in shoe manufacturing process and key factors in the designs of the products and services while discussing the importance of quality planning and quality control process for the company in order to achieve high performance products and services.

3.1 Shoe Manufacturing Process

Creating a group of components at a workstation is the manufacturing technique as called batch production. This will be the next step before moving the group in production. This production is common in the manufacture of sports shoes. Pharmaceutical ingredients (APIs), inks, paints, adhesives and bakeries are also including. [12] Batch production is manufactured at Boston. Blend of gel inserts, heel counters, and a greater selection of sizes are manufactured by them with variants technical innovations. In order to fulfil customers need, New Balance required to produce modified and number of different product. Near location to their customers is an advantage for New Balance. [11] They able to fulfil and turnaround on new design according to their customers order. New Balance

running shoes have as many as 30 templates in batch production. The basic components are the shoe has two main parts where the upper, which covers the top and sides of the foot. However, the bottom part makes contact with the surface. There are three main parts at the bottom which are outsole, midsole, and wedge.

The first step in running shoe manufacture involves die cutting the shoe parts in cookie cutter fashion. Next, the pieces that will form the upper part of the shoe are stitched or cemented together. At this point, the upper looks not like a shoe but like a round hat; the extra material is called the lasting margin. After the upper is heated and fitted around a plastic mold called a last, the insole, midsole, and outsole are cemented to the upper.

Figure 2: Process of shoe stitches

Die cutting the shoe parts is the initial step in running shoe manufacture where they use cookie cutter fashion. Together the upper part of the shoe are stitched or cemented. These will look more like a round hat. The extra material is called the lasting margin. The insole, midsole, and outsole are cemented to the upper after the upper is fitted around a plastic mold. The mold is called a last. The midsole are designed for shock absorption specifically. The heel is supported by the wedge. The arch support also has been containing inside the sole. The importance of skilled man power is been realize because of the cost of producing the many components of running shoes. This proves that shoemaking is a labor-intensive process. Precision and expertise are required in each steps of production. Low-graded shoe will be a result of taking shortcuts for cost saving. To ensure better quality and

to avoid human errors, computerized sewing equipment and automated stitches are provided. This allows one person to do the work of 20.

3. 2 Key Factors in designs of products and services

New Balance remains competitive by adapting new technologies to shoemaking. They had also borrowed technology from clothes manufacturers by using see and sew machines aid to their products. Sewed show gives more adhesion between the templates and it also last long compared to glued type. They also keep updated with new trend by production different and latest design of shoes. Having production operations close to home where they believed they could exert greater control over manufacturing quality. This also enables them to fulfill customers order and allows quick turnarounds on new designs. They also able to ship orders on time and faster.

4. Importance of Quality Planning and Quality Control

4. 1 Quality Planning

The definition of quality planning is, it's a systematic process that translates quality policy into measurable objectives and requirements. It's in a sequence of steps for realizing them in a specific timeframe. In order to maintain the quality of products, proper planning must be done. This is also to avoid overdue deadlines and perform shipments on time with output of good product. Total Quality Management (TQM) should be introduce into New Balance Corporation's organization for creating competitive advantage by focusing the organization on what is important to the customer. Does it right the first time and an approach for zero defects are the principles of TQM. Spending more time in manufacturing will reduce time of rework. This <https://assignbuster.com/new-balance-a-case-study/>

is according TQM. Moreover, finding new ways to meet or exceeds customer's needs and to provide support and direction is stress by TQM. This is to ensure the quality improvement concepts into their management and process planning is been implement. Effective communication between top-level managers to non-manager must be in practice to improve the quality goals. So, awareness and skill training must be done. They also can use guideline process like Six Sigma. This will help them for developing and delivering virtually perfect products and services.

DMAIC_roadmap_75. gif

Figure 3: Six sigma

Initially the problem need to be defined followed by the voice of the customer, and the project goals, specifically.

Then key aspects of the current process and collect relevant data need to be measured.

Once measured, the data need to be analyzed to investigate and bear out cause-and-effect relationships. Determine what the relationships are, and attempt to ensure that all factors have been considered. Seek out root cause of the defect under investigation.

Current process need to be improved upon data analysis using techniques such as design of experiments work to create a new, future state process. Set up pilot runs to establish process capability.

Control the future state process to ensure that any deviations from target are corrected before they result in defects. Implement control systems such as statistical process control, production boards, and visual workplaces, and continuously monitor the process. New Balance should apply some Quality tools such as Process Flow Chart, Cause-and-Effect Diagram, Check Sheet, Pareto Analysis, Scatter Diagram, Statistical Process Control Chart and Histogram to do proper planning and to control quality related issues.

Process Flow Chart is a diagram of step in a process which helps focus on where in a process a quality problem might exist. They also can use Cause - and- Effect Diagram to categories the causes of the problem. Check Sheets also can be used as a toll for tallying the number of defects for a list of previously identified problem causes. Pareto analysis can be used to identify few causes that lead to the quality problems. Pareto principle describes that 80% of the problem come from 20% of the cause.[9] Pareto analysis concentrated only on the 20% of cause and the solution to 20% will solve 80% of the problem. Then the Scatter graph can be plot to show the identify the pattern that may cause quality problems. Finally Control Chart can be used view the upper and lower limit of the process which will enable New Balance to control and reduce the possibilities of occurrence of quality issues.

4. 2 Quality Control

Quality can be defined as a measure of excellence or state of being free from defects and significant variations. Consistent adherence to measurable and verifiable standards would be important to achieve uniformity of output that satisfies specific customers. Organizations must place great emphasis on

managing quality controls. It is vital to ensure that the products and services offered to customers are reliable and truly meet the customers' needs. New Balance Corporation's financial will be affected and have direct impact by poor quality products. Both the company's revenues and its profits will be influence by this effect. Ever more demanding customer expectations, complex guideline, innovative products will be the reason of essential quality products. This is also to accomplish competitive edge over the challenges of rising competition and emerging markets. The effective growth strategies will be enhance by quality products where all operating processes and functional boundaries is been watched. Sensible and insightful quality commitment on customers' evolving approach and preferences is required in financial growth. If New Balance develops and delivers poor quality products, there will be a number of consequences as it been state below.

4. 2. 1 A Poor Quality Company is a result from poor quality products.

The company's financial performance, its stock price, product innovation, delivery on commitments is the base of a company's reputation. The major determination of a company's reputation will be the quality of a product. So, the reputation of New Balance products can be destroying by poor product quality. Customer's perception when New Balance produce poor quality products as coming from poor quality company will bring even more serious impact. This inconsistencies and inability to produce defect-free products by New Balance Corporation will lead the existing customers to decline orders.

4. 2. 2 Lost of opportunity

The opportunity to improve the bottom line will be deprived by the poor quality. Improving scrap, rework, and warranty cost will bring good values. Looking for the root cause of these will be even greater because of the greater return. Quality deficiency that cause losses can be prevented if product standards are used by practicing good quality. Commitment, knowledge and effort can be discovered by losses due to quality. Moreover, this can be the source of huge opportunity and a clear competitive advantage once discovered.

4. 2. 3 Revenue lost

Lots of time and money on unnecessary tasks and wasted materials is poor quality that leads to opportunity lost. Estimating the cost of all efforts undertaken in an organization can measure the cost of poor quality. Processes used in assembling the products that does not provide value to customers and material been use are include. These are the non value-added activities in the context of lean manufacturing. Sum of all non value-added costs divided by the total revenue that's generated will be the cost of poor quality at New Balance. The percentage from resulting measurement is revenue that's lost due to waste. Excess inventories, unnecessary motion, and supplier nonconformance are the waste that builds up from losses. More obscure wastes, such as unnecessary paperwork, large lot sizes, and excessive auditing will also see that losses can be occur. Additional losses will lead by these wastes.

4. 2. 4 New Balance's core value is the quality.

The important aspect of quality management is to determine customer needs accurately. This is because to avoid rectifying mistakes in defining customer requirements before the product been produce. This is to save cost compare to rectify mistake after the production. So, well spending the time and effort to figure out the requirement is batter. Identifying what the customer wants should be the goal of New Balance Corporation. Moreover, to ensure the customers need, New Balance should fine-tune the process. Reduced quality product will put New Balance Corporation's financial endanger.

5. Financial perspective

Financial perspective represents stability, viability, and profitability of the Boston based new balance corporation meanwhile explains effects of reduced quality products to their financial status. A product free from defects maintains high uniformity of output and ensures customer satisfaction and profit. Management should enhance the reliability of the product and customer service to achieve high quality standards. [13]

5. 1 Reduced quality impacts on financial growth

New Balance Corporation should realize that to achieve good sales, they need to achieve highest quality products. Form the article, new balance encourage multi-tasking employee in small group of five to accomplish daily target but this indirectly affects the quality of the output. New balance will experience less sales when fails to meet the customer satisfaction by releasing high percentage of defects products into the markets. Moreover new balance faced with counterfeiting issues in china, unauthorized shoe <https://assignbuster.com/new-balance-a-case-study/>

makers with new balance mark sell their products and this directly reduce the new balance markets. Quality is the bridge for pricing and customer requirements therefore below listed factors contributed low competitiveness of new balance. [14]

5. 1. 1 Reduced Quality diminished company's reputation

In order excel in shoe marketing business, new balance must aware of its financial performance, product innovation, stock price, delivery and commitments. To achieve all these criteria, new balance must supply high quality product so they able to sustain good sales in shoe markets. When customers realize a defect in new balance shoes, they will reject orders due to inconsistency in supplying defect-free products.

5. 1. 2 Cost of poor quality

This cost is a result of producing defective material and lead to lose of valuable resources including money, time, materials, processes and operation cost.

Figure 4: Shoe manufacturing cost involved in percentage

Above pie chart illustrate involved processed to manufacture a pair shoe in percentage referencing \$100 per pair of shoes. Note only 2% of profit gained by the manufacture itself, when customer rejects non-value added products. New balance will lost the 2% of profit and have to bear all the wasted 48% expenditure per shoe. Thus new balance will experience distortion in their profit margin. This happen when they try to decrease the flush between desired and actual product, service quality. Cost of poor quality is sum of overall non-value added costs divided by the total revenue generated. Loses generated from supplier nonconformance, unnecessary motion and excessive inventories.

5. 1. 3 Cost of lost opportunity

This term best to describe when fixing a rejection using resources including the rework process, labour, material, and disposition cost. Fixing a rejection means losing gained profit. However a good quality standards practice will help new balance to remain competitive in the market and eliminate all the unnecessary waste of resources. This usually happened due to the production process are not aligned with acceptable quality standards.

5. 1. 4 New balance quality objective

New balance should reinforce high quality level standards in their daily operation. Research must be done on the shoe manufacturing process, operation cost structure, and the technology involved to guide new balance run on right defects-free tracks. In the other hand, they should investigate industry revenue growth, imports, and export and employee wages to avoid conflicts with the output quality.

5. 2 Financial analysis on shoe manufacturing technology

Nowadays technology growing very fast and there is high expectation on the output quality. Technological improvement in the shoe manufacturing process will be helpful to reduce the error done by human. Shoe manufacturing process involved three main step of stamping, stitching, making. New equipment will optimize the shoe fabrication time with defect-free output. Conventional operation full depending on man power clearly state that a lot of problem will arise in terms of wages and operation hours. Employee need to be trained periodically and still unable to achieve zero defects output. [14]

5. 2. 1 Technology application benefits

High-tech equipment has the capability to run the manufacturing process smoothly. Starts with stamping process, machines able to continuously produce programmed output without and error. It's also able to produce prototypes and small test run on shoes in a short period. Equipment's such as NC controlled machines can be programmed to perform a task for various size manufacturing. Robots can perform high level task like moulding, injection moulding, and trimming. These process actually designed for cost saving and design method is easy to manufacture. Through the use of the technology, the company can manufacture high output per day with reduced error or defects compared to conventional human involvement.[15]

5. 2. 3 Hard dollar saving idea

Hard dollar saving idea originally derived from Lean and Six Sigma benefits which designed for organization to run the manufacturing business with less man power replaced by machine and equipment. The idea developed to:

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Minimize Defect rate by terminating the rework processes

Minimize the claim due to defected product

Fast delivery in order to be competitive in market.

5. 2. 4 Initiate continues improvement

Use of technology in shoe manufacturing process surely will upgrade the new balance financial status. Delivering products with zero-defects will obtain customers satisfaction and new