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Marketing Management

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Syndicate 4

Analysis of the case study:

**New Balance South Africa: Outrunning the Opposition**

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## Background:

New Balance (NB) international is a serious contender in the global foot-ware and apparels business, claiming to be the 4<sup>th</sup> biggest in the world. They have grown strongly over the last two decades with revenue increasing by 700% from \$210m in 1991 to \$1.54bn in 2005. The company's origin was in orthopaedic shoes, and quality and performance have always been key to their brand image as opposed to style. Even to this day despite a change in ownership the company largely focuses on high performance niche products at competitive prices.

NB South Africa initially started as a franchise system licensed to Futura, a European brand, in 1976 and had little market penetration a decade later. When Jim Davis (owner NB International) visited South Africa in 2000 he saw strong potential for growth in the market but as a subsidiary and not a licensee. Jim Van Rooyen was head hunted from Nike to be the GM of the new subsidiary. Under his leadership sales began to climb strongly with a 56% increase in revenue in 2000 over the previous year and a further 100% revenue increase on 2000's numbers in 2001. By 2006 NB RSA was a highly profitable company with a 3% share of the R 4bn market (roughly 250 000 pairs of shoes per annum).

All the NB stock is imported to ensure quality which is risky with the volatile R/\$ exchange. NB also produce a wide variety of sizes and fits as part of their value proposition, this makes manufacturing costs relatively high but is considered worth the allocation. Even so Van Rooyen has opted for a lower margin than some of the competitors (38 -40% as opposed to Nike and ASICS margin of 50%).

The case study, © 2006 Graduate School of Business Administration WBS-2006-19, concerns the history of NB RSA's value proposition and its take to market strategy as a new subsidiary of NB International. The strategy for its growth potential to be fulfilled is then discussed and questioned.

## Question 1

Discuss New Balance SA's internal strengths and weaknesses. Analyse how the external environment provides opportunities and threats to New Balance.

### *Internal Strengths and Weakness & External Opportunities and Threats*

Porters Generic Strategy: New Balance follows a focus strategy on very specific target markets as well as differentiation through niche quality products.

<p style="text-align: center;"><b>S</b></p> <ol style="list-style-type: none"> <li>1. Strong relationships with retailers and customers</li> <li>2. Niche product</li> <li>3. Quality products</li> <li>4. Product range, sizes and widths</li> <li>5. Engaged and motivated local employees that are passionate about the industry (positive corporate culture and employee VP)</li> <li>6. Good growth in sales and market share</li> <li>7. Cost leadership</li> <li>8. Below the line marketing</li> <li>9. Strong international parent company</li> </ol>	<p style="text-align: center;"><b>W</b></p> <ol style="list-style-type: none"> <li>1. Supply chain risks with no locally oriented R&amp;D</li> <li>2. New market entrant</li> <li>3. Higher R&amp;D cost per shoe sold</li> <li>4. Higher advertising cost per shoe sold</li> <li>5. Higher manufacturing cost per shoe sold</li> <li>6. Lack of Resources to expand</li> <li>7. Heavy reliance on relationships</li> <li>8. Lack of focus on the youth target market</li> </ol>
<p style="text-align: center;"><b>O</b></p> <ol style="list-style-type: none"> <li>1. Grow through branded stores</li> <li>2. Expansion into Southern Africa</li> <li>3. Expand range to include additional niche sports as well as multi-discipline products</li> <li>4. Start or sponsor its own branded customer club</li> <li>5. Expand target market demographics E.g. women. Children and fashion</li> <li>6. Concept stores in associated retailers</li> <li>7. Co-branded Corporate clothing</li> <li>8. Grow apparel range</li> <li>9. Embrace and grow the virtual market</li> </ol>	<p style="text-align: center;"><b>T</b></p> <ol style="list-style-type: none"> <li>1. Existing Competitors can change focus to New Balance market and strategies.</li> <li>2. Growth of Brands that currently have small SA market share.</li> <li>3. R/\$ exchange</li> <li>4. Aging target market with no replacement from the younger market</li> <li>5. Category decline</li> <li>6. Alienation of Independent retailers</li> <li>7. Ever increasing clutter of direct marketing reducing customer engagement</li> </ol>

10. Continued below the line initiatives

11. Growth in the longer marathons

## Question 2

Conduct a detailed competitor analysis

**Table 1: Competitive Organizational Profile**

	<i>New Balance</i>	<i>Asics</i>	<i>Nike</i>	<i>Adidas</i>
<b><i>Mission</i></b>	To be recognized as the world's leading manufacturer of high performance footwear and apparel	To become the number one brand for sports enthusiasts	To bring aspiration and innovation to every athlete	strives to be the global leader in the sporting goods industry with sports brands built on a passion for sports and a sporting lifestyle
<b><i>Core competencies</i></b>	Quality products, building strategic partnerships, industry knowledge	Quality focused products, maintained a long standing reputation with target market	High brand value based on advertising and sponsorships, fashion icon	Above the line branding and corporate alliance with strategic partners and sporting teams
<b><i>Major marketing activities</i></b>	Event Sponsorship with media exposure, industry magazines, in store innovations, direct marketing	Print advertising, In store promotions, Television and Online.	High profile athlete sponsorship, emotive above the line TV advertising very present in online space	Above the line TV advertising targeting sports fans, sponsorship of high profile sports teams
<b><i>R&amp;D</i></b>	Large R&D Budget. Annual adjustments to products, focus on comfort, reliability and performance	Specific to running industry the focus is on developing own innovations further	Focus on developing comfort and fashion trends	Focus on innovation only for more popular sports
<b><i>Generic Strategies</i></b>	Differentiated focus, strategy on specific niche sports such as technical running, netball and others	Focused strategy on one specific sector namely running based on continual product improvements	Market leader, differentiated by style and fashion targeting a young trendy market	Cost leadership based on mass production and distribution. Competitor pricing based on being cheaper than Nike and Asics
<b><i>Personnel and experience of employees</i></b>	Employees must be customers and actively participate in a sport	Smaller teams with less specific roles	Corporate environment, large complex departments	Multinational and global teams with focus on cross functional teamwork
<b><i>Apparent running shoe market share in South Africa ( based on Comrades marathon shoe count</i></b>	Average assuming equally weighted yearly percentages = 11.33%	Average assuming equally weighted yearly percentages = 36.73%	Average assuming equally weighted yearly percentages = 27.51%	Average assuming equally weighted yearly percentages (Reebok + Adidas) = 15.02%

## Competitor analysis per event

**Comrades Marathon 2003-2006 (refer to Figure 1);** As can be seen from figure 1 NB has been the 3<sup>rd</sup> largest brand by representation in the comrades marathon since 2004. As a trend ASICS are attracting more runners to their brand consistently, whilst Nike has remained at roughly 30% representation except for 2005 where this representation decreased by one third. NB has a relatively stable representation above 10% of the total runners in all years analysed.

**Two Oceans Marathon 2006 (refer to figure 2);** As can be seen in figure 2, ASICS are leading the charge with a well balanced representation in both the full and half marathon. Contrasted to Nike, NB and Adidas who have better representation in the half marathon than in the full marathon. NB particularly has the lowest relative representation within the full marathon. New balance, as in the case with the Comrades marathon, is the third most represented brand in both the full and half marathon.

**OUTurance Gun Run 2006 (refer to figure 3);** It is interesting to note that in figure 3 NB is the second most represented brand, just short of ASICS. Once again the trend holds true that NB has the lowest relative representation in the longer race, with ASICS being the only brand to have a higher representation in the 20km run. The trends represented in figure 2 and figure 3 represent the marketing and brand strategy of NB quite effectively. As NB has a significantly larger representation in the smaller event as opposed to the two larger events, which are targeted very heavily by the larger brands. NB needs to work on its representation within the longer runs in all cases however.

## Question 3

What value does New Balance create for its customers (retail channel and end-users)? What would you like to receive in evaluating whether to buy New Balance shoes?

### *Value to end-users*

- High Quality long lasting product
- Innovative and reliable
- Speed to market
- Sport specific
- Well priced
- Sponsoring events in the interest of their customers
- Technology to get customers to buy the right shoes size, width and type
- Free product given out by NB to attract market share

## Value to retail customers

- Flexible stock ordering and returns for small businesses
- At time of writing NB had very few self branded stores and thus does not compete with retailers
- Focus specifically on small independent retailers, an underserved market before
- Provide technology to assist in the sales of the product
- Focus on relationship building with the little guys, a first in the market

## Question 4

As Gary van Rooyen, would you establish your own chain of retail stores? Discuss the pros and cons. If not, what would you do instead to grow the business?

### *Retail Route and other Recommended Growth Strategies*

*If we were Gary Van Rooyen we would not place large emphasis on the growth of its own branded stores. The reasons being...*

**Core competency;** NB are not currently in the retail game, they have a small group of motivated staff who's function is to grow the brand through relationship building and being brand representatives.

**Resources;** NB are not as resource rich as the top brands and thus cannot compete openly in the above the line space within its current model. They would also have limited resources for the backing of large and capital intensive expansion.

### **Required for a chain of branded stores:**

- Change in model to a larger and more diversified staff base (affecting corporate culture, brand message and HR overhead) will be required to staff these stores. Alternatively the stores could be setup in a franchise model, which could damage the brand message further, and NB has failed as a franchise in RSA before.
- Capital intensive process of identifying the store locations, renovating them to spec and then stocking the entire shop with NB merchandise and sales equipment. The overheads in terms of rent, utilities, salaries, wages, point of sales software and others could force the margins on the product to be increased.
- NB will have to diversify its core competencies which are always a risk.

- NB will have to increase its above the line marketing spend, as it will now be in head to head competition with some of the larger brands who are adopting this strategy and have larger pockets.

### **Recommended alternatives**

- A better option would be to continue with the concept stores located in specific retail partner stores, thus reducing all forms of overhead whilst still increasing the brand awareness and look and feel, and reducing the risk of alienating its current retail relationships.
- Another retail option would be an online store, as this would enable new balance to sell directly with reduces costs. They can also use this platform to gather end user data and advertise online. Relationships like that with men's health etc can be leveraged through marketing both in their magazines as well as their online stores.
- Other options may be to focus on more specific target markets ie. Under penetrated markets within sectors such as the female running market, or children and teenagers.
- Also the rise of multi discipline exercise in RSA (triathlons etc) should give rise to additional niche product developments and markets. As these events tend to be small, the current strategy of NB sponsoring such events will be in line with their current brand message and will allow their continued organic growth.
- Growth into sub Saharan Africa is also a good strategy as economies such as Namibia and Botswana are growing, and have similar operating principles as RSA.



## Appendix

### Graphs

Figure 1: Comrades Marathon 2003-2006

**Figure 2: Two Oceans Marathon 2006**

**Figure 3: OUTsurance Gun Run 2006**

**Figure 4: Running Market Attractiveness Matrix**

## References

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