

New Balance: Fanning a Video Firestorm

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Introduction

The social media outcry was growing louder. In November 2016, Matthew LeBretton hadn't intended to anger a significant portion of his company's customer market. With emotions very raw, America was deeply divided after a contentious 2016 presidential election. The stage was set, therefore, for severe backlash against any company that hit on impassioned nerves relating to the election (Bhasin, 2016; Garcia, 2016; Wilder, 2016). As vice president of public affairs for New Balance Athletics, Inc., however, LeBretton and his company quickly discovered how easily its customer base could be divided simply by supporting a newly elected president's trade plans.

The social media outcry occurred swiftly after LeBretton's interview with the *Wall Street Journal*, in which he supported President-to-be Donald Trump's anti-Trans-Pacific Partnership (TPP) stance. LeBretton's support of Trump's trade policies appeared to be in New Balance's best interests as Trump's plans would offer New Balance significant competitive and financial advantages. Immediately after the presidential election, however, the country's electorate was passionately divided in regards to each of the two principal presidential candidates, Hillary Clinton and Donald Trump. By supporting Trump's position to withdraw the US from the TPP, LeBretton had inadvertently hit on a deep emotional nerve for many US citizens. To express their extreme displeasure, scores of New Balance customers were posting videos of themselves lighting their New Balance shoes on fire (Bhasin, 2016; Garcia, 2016; Wilder, 2016). Facing such angry backlash, New Balance had to decide quickly how (or if) to respond.

Highly Combative Political and Social Climate

The 2016 presidential election had been deeply contentious. The polarizing election captured and sustained the attention of a global audience with its controversial candidates and dramatic news stories that swirled throughout the election.

Former First Lady, Senator, and Secretary of State, Clinton was nominated by the Democrat Party. The reality television star and billionaire businessman, Trump, was chosen by the Republican Party. Each candidate had staunch supporters, but overall both candidates were widely disliked by the American people.

Clinton faced backlash from “opposers” (voters who did not support her) about the security of her private email-server during her time in the State Department. Trump faced concerns over his political and social civility, as well as questionable business practices (Goldmacher & Schreckinger, 2016). In the final polls before the election, each candidate had remarkably low approval ratings with Clinton sitting at 47% and Trump at 36%.

The stark disapproval of the two major-party candidates was accompanied with extreme political animosity that divided Democrats and Republicans in 2016. In a study of over 4,300 adults, the Pew Research Center found that “across a number of realms, negative feelings about the opposing party [were] as powerful – and in many cases more powerful – as positive feelings about one’s own party” (Pew Research Center, 2016). Additionally, in a thermometer rating of 0-100, or cold to warm perceptions, 68% of Democrats in the study gave Trump a zero, the lowest possible rating, while 59% of Republicans gave Clinton the same minimal mark (Partisanship and Political Animosity in 2016, 2016). It was clear that American citizens were anxious, angry and afraid for the uncertain future of America which was worsened by their negative views of the opposing side. According to the American Psychological Association, 52% of American adults were coping with “high levels of stress brought on by the election” as election day neared (Alderman, 2016).

Partisanship had reached its most negative peak in the last twenty-five years (Partisanship and Political Animosity in 2016, 2016). In many cases, voters had picked sides and were cutting ties with people and things associated with any of their opposing views. The situation seemed only to worsen as Trump’s approval rating ultimately became the worst rating of an elected president in Gallup’s polling history (Saad, 2016).

New Balance

LeBretton’s company, New Balance, began in 1906 in Belmont, Massachusetts as the New Balance Arch Company, manufacturing arch supports and orthopedic shoes. The company did not enjoy dramatic growth until joining the athletic shoe market in the 1970s. Known for its quality, New Balance quickly became one of the top athletic shoe brands.

Company Priorities

Despite the potential to reduce production costs dramatically, the company had resisted the temptation to manufacture its shoes overseas. As company sales grew, these potential cost savings grew as well.

New Balance, however, chose to focus on quality and on market responsiveness at the expense of these potential cost savings. As explained by fundinguniverse.com, New Balance owner James Davis described the pressure he felt in 1989 from his own company executives:

Davis's leading executives urged him to shutter the company's domestic manufacturing operations and move production overseas. The benefits of such a move were easily identifiable. Instead of paying \$10 an hour plus benefits to its

U.S. workers, New Balance could conduct its manufacturing in Asia and pay manufacturing workers \$1 dollar a day or less. Moreover, all of New Balance's biggest competitors had made the move overseas years before and were realizing startling financial growth – companies such as Nike, which was hurtling past the \$1 billion sales mark while New Balance was beginning to flounder below the \$100 million sales mark. Despite the overwhelming evidence, Davis could not be swayed. He insisted on keeping his production facilities close to the company's headquarters and, in fact, did the opposite of what his management team was prodding him to do. Davis began pouring money into his U.S. manufacturing facilities, entrenching his position as others persuaded him to move abroad. ... Davis reasoned that New Balance's strength was its attention to quality and the company's ability to respond quickly to retailers' needs, both of which would diminish if the company began subcontracting manufacturing thousands of miles away across the Pacific Ocean (Fundinguniverse.com, n.d.).

By 2016, New Balance was the only athletic shoe to be manufactured in the United States (Forester, 2016) as New Balance produced approximately 25% of its US shoe sales in Maine (Aepfel, 2014). The rest of New Balance shoes were produced in Asia (Carpenter, 2016). At times, New Balance had enjoyed media praise for its stance on maintaining some of its production within the US (Woolf, 2016).

Recent Company Growth

New Balance sales had been experiencing significant growth. 2015 sales revenues were more than double what they had been five years earlier (see Table 1). Such growth represented a healthy CAGR of 15.76%. During this time, New Balance had placed particular emphasis on younger consumers (Vizard, 2015).

Table 1: New Balance Sales Revenues by Year

Year	Sales Revenue
2010	\$1.78 Billion
2011	\$2.04 Billion
2012	\$2.39 Billion
2013	\$2.93 Billion
2014	\$3.3 Billion
2015	\$3.7 Billion

(Forbes, 2016; SportOneSource Media, 2015)

Competitors in the Athletic Wear Market

In 2016, New Balance faced several large competitors in the athletic wear market. Like New Balance, each of these competitors relied heavily on athletic shoes for a large percentage of its revenues.

Nike

The largest competitor, Nike, enjoyed (calendar year) sales revenue of over \$31 billion in 2015 (Strider, 2016). Nike was a US-based company (headquarters were in Beaverton, Oregon) that was producing its products almost exclusively in Asia (Brotherton-Bunch, 2016).

Adidas

A German manufacturer of athletic shoes and apparel, Adidas was second in sales revenue with more than \$16 billion (Strider, 2016). In addition to its Adidas brand, the company had also owned and manufactured the well-known Reebok brand. Adidas had purchased the formerly British company in 2005 (Petrecca & Howard, 2005).

Under Armour

Under Armour ranked fourth in 2015 sales revenues at \$3.6 billion (Strider, 2016). The company's sales were only slightly below third-place New Balance's sales of \$3.7 billion. Under Armour was headquartered in the US (Baltimore, Maryland), but produced its products in Asia and in Mexico for cost-saving reasons (Rodricks, 2015).

Matthew LeBretton

Matthew LeBretton had joined New Balance in 2009 as Director of Public Affairs and had been in that role up to the present day. LeBretton had earned a Juris Doctor (JD) from Suffolk University in Massachusetts and then worked to support and advise numerous governmental and political organizations, including a gubernatorial campaign and Massachusetts legislature, prior to joining New Balance.

As his primary responsibility was to communicate with New Balance constituencies and the broader public regarding matters of industry collaborations, public policy initiatives, and other strategic initiatives, LeBretton was no stranger to public statements. That said, his tweet supporting Trump's opposition to the Trans-Pacific Partnership (TPP) was arguably the first to put him personally in the limelight and possibly significantly jeopardize New Balance's hard-earned reputation.

Trans-Pacific Partnership

LeBretton's comments stemmed from President-elect Trump's trade policies of supporting certain international trade barriers that could benefit US business interests. Supporting such trade barriers explained Trump's opposition to US inclusion in the TPP.

International trade could produce efficiency gains and lead to better allocation of resources by allowing a country to produce a surplus of goods that it was skilled at producing, then trading the surplus to other countries for goods that the country was not skilled at producing. Trade between nations could be more effective when any barriers to trade such as tariffs (taxes placed on an imported good when the good enters the importing country) and quotas (a numerical limit on the amount of an imported good allowed into the importing country) were reduced, which led to the development of “free-trade” agreements between nations.

One of the first major pacts of this sort was the North American Free Trade Agreement (NAFTA), which attempted to establish free trade between Canada, the United States and Mexico. NAFTA had been rather controversial in the United States; proponents of NAFTA had suggested that US consumers would benefit from lower-priced imported goods, while critics had said that NAFTA would open the door for US firms, particularly those in manufacturing, to move to Mexico where low-skilled manufacturing jobs could be filled by Mexican workers at a fraction of the wages paid to American workers. NAFTA was passed despite the concerns, and took effect in 1994.

In the ensuing years, improved technology and transportation made international trade much more feasible, and dozens of trade agreements were drafted among various nations of the world. One of the more ambitious proposals, the Trans-Pacific Partnership, had originally started as the much smaller Trans-Pacific Strategic Economic Partnership Agreement, a trade pact between Brunei, Chile, New Zealand and Singapore which passed in 2005. In 2008, eight additional countries (Australia, Canada, Japan, Malaysia, Mexico, Peru, the United States, and Vietnam) expressed interest in joining what would then become the TPP. This new group would form a very robust trade alliance, as roughly 40 percent of world gross domestic product (GDP) would be represented among this group of twelve nations.

It was originally hoped that negotiations regarding the TPP would be completed by 2012, but the inclusion of more countries created additional issues, and the talks continued through 2016. During that time, a number of other nations including South Korea, India, Philippines and Colombia, showed interest in joining the TPP, so a second round of admission would be likely at some point in the future.

As negotiations continued, the large and rapidly-growing economy of China took on the role of “the elephant in the room.” Inclusion of China made sense geographically, but several of the prospective TPP members felt that China was becoming the dominant economy in the Pacific Rim, and that other nations needed some combined leverage to combat China’s engine of growth. Excluding China from the agreement could perhaps provide that leverage. Others felt that having the two largest world economies (the US and China) in the TPP would make it a larger and more formidable entity. China had never been formally approached regarding potential membership in the TPP, and was consistently noncommittal when asked about their level of interest in TPP.

In February 2016, the twelve original members completed their negotiations and were ready to go forward with the TPP. The agreement would go into effect if all twelve nations ratified the

agreement by 2018; if all twelve nations had not ratified the agreement within two years, it would still go into effect if at least six nations, representing at least 85 percent of the GDP of the twelve nations, had ratified.

In the US, the Obama administration had been strongly in favor of the TPP. President Obama, therefore, had been eager to include the US in the TPP. President-elect Donald Trump, however, had consistently called the TPP a “bad deal” for the United States, hence he would not support it. Without the US involvement, the 85 percent GDP ratification threshold could not be reached, which could effectively end the TPP. Some considered the possibility of replacing the US with China, which would restore most of the new group’s economic strength, but some of the prospective members remained reluctant to get involved with China. Trump’s election appeared to be bad news for supporters of the TPP.

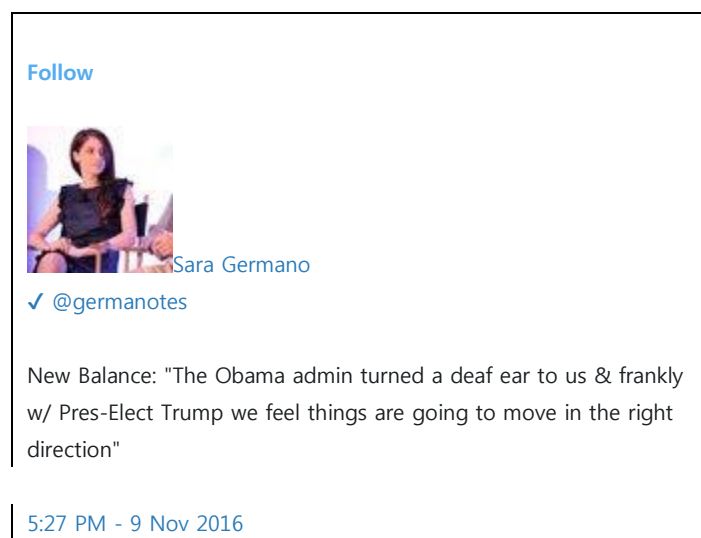
It also seemed to be bad news for a company such as Nike which outsourced considerable production to Pacific Rim (and prospective TPP) nations. Nike had looked forward to solid cost savings as tariffs and other barriers to trade were rolled back over time.

Conversely, Trump’s election offered competitive benefits for a company such as New Balance. Since New Balance was still utilizing some domestic production, it would be less affected by the decision of the US to withdraw from TPP, as its cost savings would be less than some of its competitors.

The Igniting Incident

Economically and competitively, LeBretton’s comments, therefore, seemed consistent with his company’s best interests. An emotionally charged public, however, wasn’t happy. Just one day after the election, when post-election emotions were likely at their highest, Sara Germano of the *Wall Street Journal*, posted the following quote (see Figure 1) from LeBretton:

Figure 1



(Bergstein, 2016; Woolf, 2016)

Interestingly, LeBretton's comments had not been the first related to the trade deal. In April of 2016, New Balance, which leveraged its "Made in America" label as part of its branding efforts, had previously asserted that TPP would undermine American manufacturing jobs and New Balance's domestic manufacturing approach (Sutherlin, 2016). Among his comments, for example, LeBretton noted that, "I would say that when Hillary Clinton, Bernie Sanders and Donald Trump all agree on something, then it has to be given a closer look; and they all agree that TPP is not the right policy," he said. Unlike in April, however, customers' and the some of the public's response to LeBretton's comments seemed to stem from the deep emotional divide Americans felt after the 2016 election, possibly posing significant company damage.

Instead dozens of customers posted videos of setting their shoes ablaze, tweeted denunciations of New Balance, and other signals of their outrage. For example, @artsy_indy posted a video of her shoes in the toilet, commenting "Let's just pretend like they're flushed." Twitter account holder @calexit posted a video of shoes afire on a sidewalk. Suggesting significant potential customer fallout, Reebok seized the opportunity by offering Reeboks as replacement shoes. (Reflecting this, Reebok Classic responded to @artsy_indy with "Since it looks like your toilet may be clogged, shoot us a DM & we'll send you some kicks to walk to the closest backroom." Potentially even more damaging, a Neo-Nazi blogger declared New Balance shoes "the official shoe of white people." The United States major news outlets, including CNN, New York Times, Washington Post, Los Angeles Times, and the Chicago Tribune all published stories regarding the frenzied outcry.

Companies often pursue favorable legal environments for doing business – particularly ones that offer advantages competitively. A company representative publicly stating support for a particular presidential candidate, appearing to speak on behalf of the company, however, involves significant risks, particularly when emotions are very passionate – both positively and negatively – regarding a particular candidate.

How and Whether to Extinguish the Fire?

As the number of videos, tweets, and posts burning New Balance shoes proliferated, so did the urgency for deciding if and how to respond. Burning shoe videos seemed to be spreading like wildfire (i.g. Figure 2).

Figure 2



8:14 PM - 9 Nov 2016 – Twitterpost

The firestorm appeared to present the possibility of significant harm to New Balance’s corporate brand and reputation should it opt not to take some action to address it . . . and soon. What impact might LeBretton’s comments have on New Balance’s hard-earned brand assets? What options were available to stem the possible tide of reputational damage? Were some strategies more likely to assuage customers’ anger? Should, for example, New Balance fire Matthew LeBretton, signaling contrition for his statements? Should New Balance “double down” on LeBretton’s statements, issuing a corporate public statement disfavoring TPP? Should New Balance come out in favor of Trump’s candidacy in light of New Balance “Made in America” strategy? Or should New Balance do nothing on the assumption that political discontent would quickly subside after the election and LeBretton’s statements be forgotten? In sum, what should New Balance do to stem the tide of negative social media attention?

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