Callaway Golf Case Essay, Research Paper

Contents

1 Introduction to the case 2

2 Analysis of the environment 3

2.1 Listing of environmental factors influencing the company (PEST Analysis) 3

2.1.1 Political and legal factors 4

2.1.2 Economic factors 4

2.1.3 Socio-cultural factors 5

2.1.4 Technological factors 7

2.2 The international golf equipment market Introduction 8

2.3 Analysis of the competitive forces (Five-Forces-Analysis) 10

2.4 Anal. of the Drivers Of Change in the industry and their impacts 12

3 The companies and their strategy 15

3.1 Which companies are in the strongest/weakest competitive Position 15

3.2 Recommendation of strategic moves 17

3.3 Key factors For competitive success in the Industry 18

3.4 The prospects for above average profitability in the golf-equipment industry 20

4 Callaway Golf Company Resources and Competitive Capabilities 23

4.1 The present strategy 23

4.2 The company s strengths and weaknesses 24

4.3 External opportunities and threats 25

4.4 The company s prices and costs 26

4.4.1 Analysis of the companies competitive position 26

4.4.2 Analysis of Stakeholder Expectations 28

5 SWOT Analysis 31

6 Sources of reference 32

1 Introduction to the case

The task is to execute a strategic analysis for Callaway Golf Company and to determine the actual position of the firm and its environments. The amalysis will result in verifying if there is a change of the present strategy necessary to continue Callaway s success story.

2 Analysis of the company s environment

2.1. LISTING OF ENVIRONMENTAL FACTORS INFLUENCING THE COMPANY (PEST)

2.1.1 POLITICAL AND LEGAL FACTORS

Generally one can mention that the activities of governments worldwide during the last decade tended to globalize the industry. The trade policies of core markets like the European Union, most of Asia and the United States encouraged free markets between nations. However, country specific laws are still reality, and enterprises are still affected by them. The actual tendency is clearly orientated to furthermore encourage global competition, a fact, companies of all kinds have to respect. However, in some countries we still have Foreign trade regulations aiming at protecting the own economy. As well all the major markets are stable democracies which act with a great political and government stability, therefore this does encourage spends for leisure activities.

Monopoly restrictions may get more important for the golf equipment sector, as we already have a high grade of concentration.

As Callaway Golf is an American enterprise it deals under American law protection. The United States possess a strong developed patent right combined with a system of lawyers fees based on commission, which in the past affected the company in a way that as a consequence of settled lawsuits against competitors, mostly with knockoff imitations, it was awarded more than USD 5 million in judgments and fines for imitative infringement.

Finally it should be mentionen that theincreasing popularity of environmental protection legislation may affect future production costs in general.

2.1.2 ECONOMIC FACTORS

The company is (because of social cultural factors and its policy) mainly affected by the economical development in three key markets, which are the United States, Japan and Europe. In some of those markets the company actually noted a decrease of the total dollar volume; if the trend holds on it could affect production costs because of over-capacities.

As it would be necessary to perform an analysis of the economical influences not only in the home country, but as well in every target market, I will skip this point and solely give some basic information about the development of the world economy.

In the year 2000 we find world economy once again in a better shape. With a general increase of world industry output of 2.9 % that is about 0.3 % higher than in 1999 the world economy finally seem to have recovered from the negative influence of the Asian crisis in 1997.

2.1.3 SOCIO CULTURAL FACTORS

The socio cultural factors are very much influencing the success of an enterprise like Callaway which dedicates itself to the development and production of goods useful for just one determined target group: The golfer

In 1995 there were 25 million of americans (representing a nine percent share of the total population) playing golf, which was by far the most important target market of Callaway.. The second important target market was Asia were about 16.5 million people were playing golf. Europe with just 2.3 million is on third place. As a tendency we can say that golf is practices in the developed countries, the developing ones are not very significant for the golf industry. The typical golfer had a relatively large annual household income of USD 57.000 to USD 59.000. A level of income of which in developing countries just a small percentage of the population dispose. However this might be a problem: The target market consists of high income persons and in spite of the notable decrease of the average green fee to the 1998 GBP 17.50 during the last years, playing golf in some countries (for example Italy or in Switzerland) keeps a luxury activity. Figure 1 shows us the average joining fees in a golf club by country in GBP. Easily we can see that joining a golf club still causes costs not affordable for everyone, this still limits the target group. However, playing golf seems to be a modern phenomena. Even in Europe we noted the opening of more or less 250 new golf courses every year in the beginning on the nineties, and about 150 annual opening in the second half of the decade. And the US shows us how it could be the future. From its 25 million golfers 5.4 million were female ones and about 2 million were teenagers. states. Especially the involvement of teenagers in the sport gives us an insight in the potencies the sport offers. And in Europe still only 1.4 % (2.3 million) of the total population plays golf at least once a year. Figure 2 shows the the coverage of the population of some European countries with Golf courses. While the US offers one golf course for every 23.000 people in 1998, we can see that Europe steps far behind with a medium of one golf course per every 77.000 people. As well we can see sharp differences between the European countries themselves. As well we can detect more potential for the sport in the former communist block countries like Poland, Hungary and Russia. In Russia the first country club opened in 1993 and until 2015 an availability of more than 100 golf courses in the country is expected. Western Europe counts more than 5000 golf courses today, but the opening rate is not supposed to decrease. Finally it must be mentioned that with the opening of more and more golf courses around the world competition is increasing, with all its consequences, but mostly we will see falling joining fees for private clubs and falling green fees in the public one. This will furthermore increase the target group for Callaway Golf. Golf forms today an important part of the upper classes life and is absolutely en vogue . As well we have to see that golf is not an one time investment, players usually buy other clubs, frequently buy golf balls etc. All these goods belong to the product line Callaway offers. As a conclusion let me mention that in spite of the specialization on golfers Callaway has excellent opportunities, because Golf is in , the rapid growth in one core market, the United States, is not supposed to come to an end soon, and the potential in other markets is enormous.

2.1.4 TECHNOLOGICAL FACTORS

In the golf equipment industry there was nearly no technological progress for decades. With the introduction of perimeter weighting in the late sixties we experienced a tendency to more and more introduce advanced technology in golf equipment. The next key invention was made in the early 80 s with metal woods, in the late 80 s followed graphite shafts and in the early 1990 s finally appeared the oversized club head. From the late 80 s on we have seen more and more expenditures into Research & Development, and the appearance of advanced technology completely changed the market structure.

A further consequence was that product innovation caused shorter life cycles and stimulated sales, because of the customer supposition that the technology will improve their game. Technology transfer was still possible in short time, and the market leader were steadily attacked by companies with knockoff imitations.

2.2. THE INTERNATIONAL GOLF EQUIPMENT MARKET INTRODUCTION

During the last years the market size of golf equipment generally experienced rapid growth. Solely the US market had a total sales volume of an estimated USD 2.410 million in 1997. Compared with 1996 we noted a growth rate of about 5 %, slightly less than 1995/1996 when sales in golf equipment rose by about 7%. That means as well that the share of golf equipment sales in the total sports equipment market raised from 9% in 1986 to 15% in 1997, a sign for an increasing popularity of golf (see chapter 2.1.3.).

Competitors

The worldwide market for golf equipment is highly competitive and extremely dynamic. However in 1997 there were more than 350 enterprises involved in manufacturing golf equipment, but only six of them dominated over 80% of the market. Therefore we can talk of a high grade of concentration. As well it was estimated that only those six companies were profitable. Callaway Golf finds itself among some very strong competitors; the best positioned ones are Karsten Manufacturing, Taylor Made, Cobra Golf (which belongs to the Fortune Brands group, which actually as well is home for two other golf equipment companies: Titleist and Foot-Joy), and the old fashioned competitors like Wilson, Spalding and MacGregor who even with the introductio of technologically advanced clubs- were not able to regain the market share they lost before. These companies are well established and well financed and in possession of recognized brand names. Apart from that there are a couple of small uprising companies attacking the market leaders with knockoff imitations (see chapter 2.1.1). In the golf ball segment, which is as well highly competitive we can find one competitor with an estimated market share of more than 50%. Callaway Golf ball company s mayor competitors are brand names like Slazenger, Titleist, Spalding, Wilson and Maxfly. But on all mayor golf markets in the world Callaway Golf still remains the number one in sales.

As distribution channels we see mostly on-course pro shops and some off-course retailers specialized on golf equipment. Examples are Edwin Watts and Nevada Bob s. During the flow of time the last ones gained more importance because of offering a wider range of brands and more aggressive marketing. But they generally only hold pro-line equipment on stock, and offer as well qualified personnel or even computerized systems to fit the golfer with the for him optimal club. While high-end manufacturer still keep this distribution system (necessity of custom fitting ), we find as well low-end manufacturer who are distributing through discounters, mass merchandisers and sporting-goods stores. They attract basically newbies to the sport as well as occasional golfers who don t want to spent that much money in equipment.

The golf equipment market today is very dynamic, and with increasing spending for Research & Development we experience shorter and shorter product life cycles.

As well because of the more and more advanced technologies implemented in a simple golf club the necessities on raw material and goods delivered by subcontractors as well increase. Today it deals with to a high grade customized products which leads to high switching costs and bigger interruption times when it comes to a change of buyers. However the companies consider it still not too complicated to find alternative suppliers. As well the raw materials are available and until now there are signs of shortage in the future.

As already mentioned only six of the more than 350 competitors on the golf equipment market are profitable.

Callaway uses as well sales companies established in the target markets, as partnerships with other companies. Since the year 2000 in Japan for example the products are delivered directly to retailers by a wholly owned sales company. This is supported by a new product introduction policy which encourages retailer support and as well assures client support before and after the purchase of Callaway equipment.

As well there exists a certain quantity of products that are sold through unapproved outlets or distribution channels, but mark a notable part of the total sales.

One of the core points in advertising is to be present at all the grand international opens. An important indicator of popularity is the use of drivers or clubs of a certain brand by pros in international tournaments. The golf equipment manufacturing companies try to endorse the most popular players, and in history for some of them this became instrumental, one is example is Cobra Golf who contracted Greg Norman, another Titleist with the endorsement of Tiger Woods. However, endorsement of players gets more and more costly, because the contract amounts get bigger and bigger.

2.3. ANALYSIS OF THE COMPETITIVE FORCES (FIVE-FORCES-ANALIYSIS)

Competitive rivalry

By the end of the 90 s competitive rivalry in the golf equipment market was high. Only six manufacturers dominated more than 80% of the world market, and most of them had roughly the same size.

This development was relatively new in the market, because earlier we have seen an oligopoly market structure, dominated by three old fashioned companies. With the introduction of advanced technology in the sport a couple of new enterprises took over the market and its structure changed rapidly.

Buyer Power

Buyer Power varies. With increasing size of the companies they demanded bigger and bigger amounts of raw materials from the suppliers, so it tends to increase. However, golf clubs are not that material intensive, therefore we still consider the buyers power here low.

When it comes to customized goods like shafts etc., we consider Buyer Power as high because of a high grade of concentration, the tendency to backward integrate suppliers etc. This is at least valid for the graphite shaft segment, the steel shaft supply differs a lot because the supplier side there is highly concentrated.

Supplier Power

Supplier power was dependent on the product. As most golf club producers don t believe that grips make a difference to the golfer, supplier power in this segment was quite low. They purchase a limited of grips from one producer, but in case they would be easily ready to change their source.

When it comes to Golf club shafts, supplier power was higher. Because of the very high entry investment in the steel shaft market there are only a few companies competing, the reputation having True Temper.

The graphite shaft market again comes up with very low supplier power. Because of the relatively cheap investments necessary to produce graphite shafts we see some more manufactures on the market as well as buyers tendencies to backward integrate suppliers. As well we have to take into account that with the demand of more and more customized product from the buyers side, the supplier power will grow.

In Raw Materials Supplier Power is still low.

Threat of substitutes

Golf clubs are basically a generic product and must be aware that there is always the threat of substitutes. Companies fight for their share of a relatively small target market. As companies pay high sums to link professionals with their products, they offer high quality before and after purchase service to keep their clients in the line.

Threat of entry

The threat of entry in the economy is not that big because the market is relatively small size and today a successful engagement on the golf equipment segment needs skill and enormous startup investments, mostly in Research & Development. As well it takes time to establish a new brand in the market, when it has to be build up from the scratch.

However keeping in the potential the golf market offer it might be possible that i.e. other sporting goods manufacturers will give it a try.

2.4. ANALYSIS OF THE DRIVERS OF CHANGE IN THE INDUSTRY AND THEIR IMPACTS

Changes in industry growth rate

The market for golf equipment worldwide amplified notably during the last fifteen years. As example in Table 1 we can see the development of market size in the United States and the annual growth rate:

Year Sales of Golf Equipment (in million USD) Groth rate (related to the year before)

1986

1993

1994

1995

1996

1997 (est.) 740

1.490

1.793

2.130

2.295

2.410 Not available

Not available

20.34 %

18.79 %

7.75 %

5.01 %

The historical analysis shows that we had a couple of Boom Years in the early nineties and a decreasing growth rate later on. We still see the market of golf equipment grow moderately. Interesting is that the number of golfers during those years remained stable or was growing moderately. This means that the growth of market size was more attributed to the golfer s preference to can choose between a number of woods, than to the entry of new golfers on the demand side of the market. That furthermore means that the introduction of advanced technology in the game led to a change of costumer preferences. Golfers bought the high technology clubs to see their possibilities and to generally improve their game, and they liked to have different clubs to choose from. This preference demands a higher grade of product differentiation to satisfy the necessities. Taking this change of attitude into account and as well reviewing the socio cultural factors we can draw the conclusion that the decrease of the growth rate will probably come to an end and we will see a stable annual growth rate of around 1 or 2% in the future because of the following facts:

Golf as a sport is still en vogue

Increasing competence between private and public golf courses will lead to a further decrease of green fees and joining fees; that will furthermore lead to an enlargement of the target group

Finally the opening of golf courses in Russia may have signalized an increasing convergence of markets worldwide. Customer preferences become more and more similar. Therefore there is a big possibility that the possible size of target groups worldwide will close up to the one of the United States, where 9 % of the population are more or less active golfers. In Western Europe and Asia we are still far behind that rate, which finally means that those markets offer enormous potential.

Product innovation led to a change in buyer s behavior, it gets more and more common to have more than one driver and a series of woods, this as well improves market size.

However with a persistent tendency to globalization there might appear other companies in the business attacking the already established ones in certain target markets or just compete in their home market. As well it cannot be excluded that other major companies will entry the golf equipment industry, but because of the high grade of concentration we already see this would result in huge marketing and R&D expenses to get a high rating of name recognition. In the golf equipment industry this requires most of all high quality products, we already know that even companies with decades of experience in the golf business are experimenting heavy problems in regaining the market share they lost because of unawareness of the their clients necessities.

However it would easily be possible that companies exit the market segment. As already mentioned above it was estimated in 1997 that only six of the more than 350 competitors in the business are profitable. It is logical that companies generally not maintain an unprofitable commitment in the golf equipment sector for too long time. Indeed, exceptions are possible, for example when companies spend money they earn in other sectors to establish themselves in the golf equipment industry or maintain their position because of other reasons (i.e. image).

Marketing innovation seems to be a driver of change of less importance in the golf equipment industry, the main marketing activity remains the endorsement of pros.

Research and development already is of huge importance, the technological innovation in the golf equipment industry not only forms an entry barrier to the market, it could even lead to the disappearance from the market of companies not able to keep pace with the general technological development for whatever reason.

Anyways, mainly because of the seasonal character the industry has the capacity of remaining companies would be big enough to satisfy the demand.

Government policy changes generally are not supposed to influence the industry dramatically; it may appear an increase of direct or indirect taxes and other , indeed, but the expected consequences would be moderate because of:

relatively high income level in the target group (not very elastic to indirect taxes)

direct taxes would affect the company but could be compensated by moving the company to an other country, etc. (consequence of globalization)

special taxes levied for ecological protection are mostly related to companies causing danger to natural resources or to energy intensive industries. They would only affect enterprises who are in possession of founding facilities etc. and could i.e. be compensated by pricing measures.

More effect on the industry could have the alternations of standards established by organizations like the United States Golf Association USGA or the Royal and Ancient Golf Club of St. Andrews R&A . There is neither a guaranty that existent or future products of involved companies will not be affected by changes of the standards, nor that those changes will not effect sales dramatically. (i.e. it could be possible that a certain golf ball product cannot be used in tournaments because of a change in standards).

Changes in cost and efficiency as well are one of the more important drivers. Apart from the influence of labor unions in some countries that could affect the companies efficiency with demands for i.e. additional payments, more spare time etc. or with measures applied to satisfy their demands (call of strikes etc.) there exists a certain dependence on subcontractors and materials. In the industry there is a certain tendency to backward integrate subcontractors, but at least the prices of some raw materials, i.e. Titanium, could dramatically affect production costs.

As well costs could appear in case of unwanted violation of any patents, trademarks etc., already existing on the market. This point has as well to be seen connected with government policy and their changes, because the implementation of laws and the process of lawsuits should be categorized as part of that driver of change.

3 The companies and their strategy

3.1. WHICH COMPANIES ARE IN THE STRONGEST/WEAKEST COMPETITIVE POSITION

To determine what companies are in the strongest or weakest competitive position the first step is to compare strategic characteristics and basics on which companies compete. For this strategic group analysis we will take into account all the companies active in the golf equipment industry we can consider competitors.

That means: Callaway Golf, Cobra Golf, Karsten, Taylor Made as well as the more traditional manufacturers (i.e. Spalding Sporting Goods) and the competitors which lack a notable market share (i.e. Dunlop).

The characteristics we will review are the following:

Extent of geographical coverage

- As golf is an international sport and it is necessary for manufacturers to be present at all the most important international tournaments we cannot identify differences in that area

Number of market segments served

- Here we can identify differences. Exist companies we can see as alrounders like Callaway golf (production of clubs, steel shafts, graphite shafts, golf balls), exist as well companies who specialize themselves on a certain field like Karsten Manufacturing (does not produce graphite shafts)

Distribution channels used

- Regarding this area we can identify two groups. The first one consist of those enterprises just distributing via pro shops (custom fitting), the other group use mass merchandisers and large sporting good stores.

Extent of branding

- Callaway using more brand names than for example Karsten Manufacturing

Technological leadership

- In Golf equipment actually we can see a clear technological leadership of Callaway, companies like Taylor Made as well have a certain capacity, others like Cobra Golf are followers and do not intend to go fore a kind of technological leadership

Extent of vertical integration

- Cobra Golf is with its inhouse graphite shaft production leading in vertical integration

Product Quality

- In product quality the differences are small, the four main competitors have more or less the same quality standards.

R&D Capability

- In R&D Capability Callaway Golf with its Helmstetter Test Center still is number one

Pricing policy

- In pricing policy we can divide three groups. The first one are high end manufacturers like Callaway, Taylor Made and Karsten Manufacturing, who demand high prices for a very high standard of technical innovation. The second group is represented by cobra golf, as well offering high quality products but less innovative and cheaper because of a good vertical integration. The third group are producers like Spalding, Mc Gregor and Dunlop which mainly sell without custom fitting via mass merchandisers and mainly attract customers through a low price.

The following matrixes allow us to see how the main competitors are positioned. The first one deals with technological leadership and price.

CALLAWAY

TAYLOR MADE

KARSTEN

COBRA GOLF

SPALDING, DUNLOP ETC.

The second one relates the channels of distribution with the number of market segments served.

KARSTEN M. TAYLOR MADE CALLAWAY

COBRA

DUNLOP

Once again we can clearly extract that the main competitors use one level of distribution channels. Dunlop as an example for low end manufacturers cannot be seen as direct competitor. The first matrix allows us to define even more exact the main competitors in the high end market segment. Because of technological innovation and the same price level we can say that Callaway competes with Karsten manufacturing and Taylor Made directly, Cobras target group mainly already is different because of pricing and less advanced technology. However Cobra has a very strong position because of successful marketing and integration. Callaway has probably the best position because it is not only market leader in most segments, it as well is number one in spending for R&D and can be considered as well as technology leader. Taylor Made with Salomon has a strong parent company and a unique technology with the Bubble shaft and Karsten finally has as well a strong brand name (Ping), a good product with the fame to be very innovative, but limits itself on steel drivers. The strongest position clearly is owned by Callaway Golf.

3.2. RECOMMENDATION OF STRATEGIC MOVES

Callaway Golf is market leader in drivers and (tpgether with Cobra) in irons, with a couple of strong brands. It was as well technology leader, therefore it is important for Callaway to keep one step beyond the competitors in research & development and to avoid that knockoff imitations reduce its market share. What happened to Wilson, Spalding and Mc Gregor Golf in the end of the eighties can always happen in such dynamic markets the golf equipment one belongs to. Product differentiation is the most important factor and Callaway will do its best to make its products easily distinguishable from the ones of competitors.

As well it will be very important to draw profit from increasing popularity of some product, that means to widen the product range of a series, as we noted earlier todays golfers likes to have a variety of woods in his caddy, Callaway will try to increase sales because of that phenomenon.

Cobra Golf Company, the number three in drivers, will try to increase market share with products of high quality, just a bit less innovative than the Callaway ones but by far better in price. As well Cobra will maintain the pro endorsements in tournament and should be attentive that the name Cobra Golf is present at all the tournaments. Cobra has the advantage of a good vertical integration and as well will profit from cost sharing synergies with the other golf equipment manufacturers in the Fortune Brands combine. However, with Callaway entering the Golf Ball Segment there will be another market segment of direct competition between both companies.

Karsten Manufacturing will as it always did try to compete with Callaway in Research & Development but with a slightly different philosophy. The ongoing refuse of relatively expansive titanium drivers brings costs advantages for Karsten. Karsten as well is market leader in putters and will try to keep this position. The drivers are not very popular. Therefore for Karsten R&D and Marketing are the most important factors to respect.

Taylor Made still profits from the technologically advanced bubble shaft, which is still very popular. The driver is the industries second best selling one, which supports Taylor Made with the necessary funds to go on with research and be a threat for Callaway and Karsten. As well Marketing and the try to consolidate or even further increase the Market Share will be the next steps.

3.3. KEY FACTORS FOR COMPETITIVE SUCCESS IN THE INDUSTRY

Generally we talk about the necessary resources a company must have to compete in the business connected with the threshold competences. If a company tries to be competitive successful that may not be enough and it is necessary to have unique resources and core competences.

From the customer demand point of view there exist a couple of factors which are of critical importance for their buying decision. These are the following:

Following the clients self-assessment the willingness to pay a certain maximum price

The possibility to notably improve the golfers game because of advanced technology clubs

The availability of the clubs in reach of the potential buyer and the pre-purchase service quality

Customer perception of the companies quality (image)

As a consequence of the first one a company needs to have sufficient financial resources and as well a good cost efficiency. If a product is too high priced compared to competitors products it will probably have problems to find buyers. On the other hand the selling price on long-term view must be profitable, otherwise the company will get driven out of business. Cost efficiency is affected by supply costs, experience, product & process design and the influence of economies of scale, which we can term as key success factors.

The second point demands a good product, or better an outstanding product, which provides advantages compared with the products of the competitors. For the company it means that R&D becomes critically important (necessity of facilities) and that as well there must be an efficient quality control, better tending to Total Quality Management.

The availability links with an efficient net of distribution and sufficient production capacity to provide the customer with the demanded amount of clubs. The net of distribution includes the necessary sales personnel etc.

The perceived value by customers of a couple of factors the customers values most in golf equipment. Normally there is an hierarchical order. In the golf equipment industry we can identify more or less the following order:

1. Technical quality

2. Delivery reliability

3. Post-Sales Service

4. Overall Reputation

This order may vary from costumer to customer.

Once achieved a competitive advantage facilitates the business, but it has to be maintained. For example Cobra s in-house production of graphite shafts is a competitive advantage, which makes the company more independent to supplier power. Besides it is not very easy to imitate, it needs to undertake massive investments in facilities etc. But once gained by competitors as well a competitive advantage is not anymore. It is very important to use it to gain market share etc.

3.4. THE PROSPECTS FOR ABOVE AVERAGE PROFITABILITY IN THE GOLF-EQUIPMENT INDUSTRY

The number of golfers on the US Market has only seen a very moderate growth during the last 10 years. This might be a sign for that the target group reached its maximum size with a 9% of the total population and that golf in that market is at the climax of its popularity. Further growth of the target group could be linked to the population growth rate, but not higher. But in spite of the target group remaining at nearly the same level, we had an exploding market volume in the nineties. Thanks to advanced technology we experienced a change in costumer preferences, the costumer replaced his old iron by the new one, which promised to help him to improve his game. We experienced Research & Development as key factor in the business and companies dominating the market for decades nearly disappeared in a few years.

Because of increasing worldwide market convergence we can today preview the popularity of golf worldwide will close up to the north American level. Therefore there is huge growth potential in the industry, which we can suppose above-average.

With increasing globalization and concentration in the industry we will see a weaker threat of entry in the industry for the following reasons:

Immense marketing costs to enter

Immense R%D Investments

Market structure close to oligopoly

Built up customer preferences to stick to their company in major markets

Only a few of the competing companies will be profitable

Risk loss of R&D expenses because of intervention of R&A or USGA

Huge dependency of retailers on the companies (Pro shops)

The Buyers Power on the other Hand is supposed to increase in the future because of a high grade of concentration opposing a larger number of operators on the supplier side. Another reason is the tendency to backward integrate suppliers in the industry. The switching costs from one supplier to another remain still low.

Linked with the increase of Buyers Power we will see a decrease of suppliers power, with the exception of steel shaft producers like True Temper who possess an excellent brand recognition.

The threat of substitutes will remain stable or slightly decrease. To play golf people always will need a club and therefore will always appear generic substitution. In case of slight decrease it will be caused by the disappearance of some manufacturers from the market. With more and more implication of advanced technology it will be as well more complicated to produce knockoff imitations and attract costumers with a similar product for a lower price.

Competitive rivalry will probably decrease when the first manufacturers withdraw themselves from the market because of a no profitable activity. In for the costumer worst case the development could lead to an oligopoly.

Callaway Golf s position in the industry is very strong and with it s expansion to the Golf ball market it enters the market of consumer goods. If it will gain a certain market share and recognition on that segment this may result in a stable supplementary income. However the segment is nearly dominated by one company Callaway s innovative strategy may have success.

Callaway acts on a market very much linked to people s lifestyle. Significant changes in the lifestyle, for example a decreasing attractiveness of golf as a sport could lead to significant cuts in sales.

With the Helmstetter test center and Callaway s capabilities in research and development the company matches perfectly one of the factors of critical importance to success in the industry. Another important factor is, that Callaway Golf with three wholly owned sales Companies in the key market distributes it s products under it s own label and will better be able to control service quality in distribution.

Besides there will not appear costs to contract a third company for distribution as it was the case earlier with sumitomi .

The continued participation of the company in the golf equipment market already created a very good image in customers perception, and would possibly help to entry in other industries, at least in sports equipment business.

4 Callaway Golf Company Resources and Competitive Capabilities

4.1. THE PRESENT STRATEGY

Since 1993 Callaway is stably the number one seller in all major golf markets in the world. The 1999 net sales with USD 714,471,000 reached an all time high. This represents roughly as much net sales as Callaway Golf s competitors in 1999 made together. Gross profits were about USD 338,066,000. In spite of a startup loss of USD 38,425,000 remained USD 55,322,000 net profit. Therefore the board s goal to return the company to reasonable growth was so far achieved. As well we have to mention that the company s net profit always was increasing, except in 1998 when the company firstly had to report a loss, which was because of the creation of a golf ball business from the scratch, coinciding with a decrease of net sales by 18 % caused by companies heavy attacking Callaway with knockoff imitations. The Figure 4 shows the development of Callaway s pretax and net incomes as percentage of sales.

We can see the 1998 loss and the recovery 1999. This is a positive trend and the company s restructuring goes on. However, some major markets in 1999 suffered a decrease in net sales. In Japan we noted a decrease by 5.5 % and in the United States by 5%. In Europe sales remained constant at USD 115,700,000 and in the rest of Asia and the rest of the world we noted a strong increase by 114% respectively 16%. The enormous growth rate in the rest of Asia is mainly due to economic recovery in Korea and is not supposed to hold on in the next period. In working capital Callaway nearly touched once again the 1997 level with USD 205,198,000. Total assets were reduced by nearly USD 40,000,000, to USD 616,783,000. Long term liabilities as well were reduced by USD 7,000,000 down to USD 11,575,000. This as well is a positive trend. The high amount of Cash and Cash equivalent Callaway possessed in 1999 led to an increase of interest income to USD 9,2 million. It is held to eventually buy back shares, because on of the weak points of the company is the stock price. However, since it seems to be a global phenomenon that excellent companies worldwide have lost a notable percentage of their stock price this is not caused by bad management or mistakes in the strategy. The problem solely is that there is no guaranty for an increase of the stock price in case of buying back stocks.

Callaway has an excellent reputation with it s costumers and is considered to manufacture products of very high quality. Besides Callaway during the nineties was always seen as technology leader in the market, since it came out with the oversized Big Bertha Clubs.

As a conclusion we can mention that Callaway s actual strategy is doing quite good and that there is no need for radical changes in its strategy. The restructuring Callaway started will contribute to further increased cost efficiency and better distribution systems of the company. The final important point is that Callaway already and with more than one year anticipation launched a plan for leadership succession which will contribute to the trust stakeholder have in the company.

4.2. THE COMPANY S STRENGTHS AND WEAKNESSES

As strength we can consider the following characteristics Callaway has:

technological know-how

R&D capacity and skilled human resources

good reputation it has for its products

presence at all big tournaments and endorsements of skilled players

a system of wholly owned distribution facilities

a couple of strong brand names

position as market and technology leader

clear defined leadership succession

relatively short development time

Weaknesses are the following:

relatively low stock prices, which facilitates takeovers

high warranty expenditures because the Big Bertha extra long graphite shafts experience shaft breakage at a rate higher than other metal woods

negative impact of the newly built up golf ball business on cash flows

As core competence and distinctive competence is the experience and the skill of Richard Helmstetter and his engineers in the Helmstetter Test Center which is as well equipped with the necessary funds to perform their work (Callaway is number 1 in R&D expenses).

4.3. EXTERNAL OPPORTUNITIES AND THREATS

The main threats are the following:

golf is to be seen as seasonal and might be affected by unusual weather conditions

subjective preferences of golf club purchasers may be subject to rapid and unanticipated changes

Generally there is no guaranty that a return on company s R&D investments will be realized, threat of consumer rejection

Insecurity if markets allow the company to achieve cost advantages because of economies of scale

Failure to successful distribute in Japan because of cultural differences

Company is affected to the impact of foreign currency fluctuations (monetary differences may result in less competitive markets)

Dependencies on raw material prices

As main opportunities we can define the following:

very good standing because of consideration of market and technology leader

good reputation and possibility to expand in other sport goods markets

if subjective preferences of club purchaser will not be subject to significant changes Callaway implied changes in its structure will lead to advantages in production and distribution.

The golf ball business could turn very profitable because of the characteristics of the golf ball and Callaway s good reputation

If market further increases Callaway would draw benefits from economics of scale

4.4. THE COMPANY S PRICES AND COSTS

In 1999, the company achieved a gross margin of 47%, which indicates that the company is profitable. With the restructuring program implied in 1999 the company will produce even more efficient. Especially the decrease of general and administrative expenditures by 13% will have positive effects.

4.4.1 ANALYSIS OF THE COMPANIES COMPETITIVE POSITION

Value chain analysis

The value chain analysis describes the activities within and around an organization, and relates them to an analysis of the competitive strength of an organization.

The primary activities are the following:

Inbound logistics

Callaway is dependent on a limited number of suppliers, but believes that it would be possible to find alternative suppliers in case. However, many of the materials are customized for Callaway and there is a certain dependency on suppliers and in case of interruptions this would lead to negative consequences. The same is valid for raw materials. There is no tendency to backward integrate suppliers notable, the company tends to concentrate itself on its core competences.

Operations

At Callaway Golf the manufacturing area run by Ron Drapeau. During the phase of restructuring he made in possible to increase efficiency and increase output while maintaining the determined level of quality.

Outbound logistics

Callaway Golf restructured as well its distribution channels and actually possesses wholly owned distribution companies. Callaway Golf still believes that on a long term basis controlling the distribution of their products in the worlds major markets will be an key element for future success. However, in Japan for example, may occur problems because of cultural differences therefore it is not probable that the sales there will notably increase.

The company mainly uses United Parcel Service for ground shipments to its costumers. Part of the restructuring of the company was the identification of alternatives to reduce its reliance on UPS.

Marketing and sales

The company reduced its selling expenses by 3 % (as a percentage of net sales), which was attributable to reductions in advertising, pro tour and other promotional expenses. In 1999 USD 131,9 million were spent for selling, which includes USD 55 million for advertising and promotion.

Callaway introduced a remarkable product introduction policy which will increase the level of pre and after purchase service. Additionally it should have positive effects on retailer support.

As well there is a program, which supports sales of non-current product through price reductions etc.

Professionals, who are not contracted by the company, but use Callaway Equipment, can be rewarded for that through Cash Pools .

Service

In Service the company grants a written two-year warranty to its costumers, as well it provides testing facilities for endorsed pros.

Each of these groups has to be seen connected with support activities like

Procurement

Actually Callaway relies on a limited number sources, but the company is observing the market to find alternatives and to be in condition to react faster in case of delivery interruptions etc.

Technology development

Callaway s technology development section run by R.Helmstetter is the source for its enormous innovative capacity which made it possible to improve the offered product in very short development periods (full product pipeline) and to maintain the position as technology leader.

Human resources management

Callaway s Human resource management does very well, provides the long term leadership succession plan and finally provided the company with a number of talented people recruited through different channels.

Infrastructure

By delivering the necessary data for restructuring the primary activities of the company the systems of planning, finance etc. as well demonstrated that they function well

The combination of all these factors in the case of Callaway Golf led to a quite good gross margin of 47%.

The internal linkages at Callaway function very well (see above), external we have seen the reconfiguration of the value chain by deleting activities outside the core business (Callaway Golf Media Ventures etc.) and the acquisition, restructering and integration of Odyssey to complete the product scope..

Comparative analysis and benchmarking

The historical analysis I did integrate in chapter 4.1. The Present Strategy . Because of the lack of industry norms I am not able to execute an industry norm analysis at this point. The same is valid for Benchmarking.

4.4.2. ANALYSIS OF STAKEHOLDER EXPECTATIONS

Stakeholders are individuals or groups who depend on the organization to fulfill their own goals. We categorize them after their level of Interest and Power.

\* Group A has low Interest and low Power, it cost the company a minimal effort

Group B has high interest and low power, mostly it is sufficient to keep them informed

Group C has low interest but high power, the company should keep them satisfied

Group D is with high interest and high power of critical importance

In the case of Callaway Golf we can identify the following groups of stakeholders. Every of these groups we can divide up in some more groups, for example not every shareholder is of the same importance for the company, not every subcontractor has the same extend of power, not every administration has neutral attitude to the companies strategy etc. I will limit myself on detecting the different groups of stakeholders, because to identify and to categorize more profound we need more particular information.

Shareholders

They are mainly interested in the payment of dividends and in a raising stock price, this could cause problems for Callaway because the Stock price is very low. However, Callaway paid a stable dividend of USD 0.28 per share during the last 3 years. For example the shareholder interests could force Callaway Golf to launch a program to buy its own shares back, just to stabilize the share price. The shareholders are key players in the stakeholder analysis because of their possibility to directly influence the policy of the company. Most important appear the institutional ones who are quite powerful.

Employees

For employees the stock price is not that important, it is more in their interest to keep there jobs, to be contempt with their job and to earn money. Basically we can say that the success of the company is their most vital interest. As well we can consider them as key players, they affect very much productivity and success of a company. In case of Callaway they are very supportive.

Consumers

The consumers orientate themselves in service and quality of the product, they like to be able to gain support from the company as well after purchase and to get informed about products etc.

As reputation and image of the company is very important for further success we can consider them as well as key players. The Consumers seem to be mostly contempt with Callaway s product pipeline and service, because statistically they stick to the company.

Government

It is in the interest of the government that the Company earns money and pays taxes. The government influences the company directly, but because of the general character government decisions inherit the significance of the government is secondary to medium.

Administrations

Administrations can be of high importance, but as well can be very neutral. We can say the same as for governments

Subcontractors

Importance depends on their power, in case of Callaway they are relatively important because they are delivering customized goods.

Banks

Generally have a high grade of importance because there decisions can directly influence a company s strategy

Labor Unions

It s usually sufficient to satisfy them

5 SWOT Analysis

Environmental Issues

Strengths &

weaknesses

Regulatory Influences Internationality of the market Competitive Markets Market potential Market Size Linked to lifestyle

(insecurity)

Main strengths

Capacity for innovation

(Core Competence) 0 + ++ ++ + +

Strong and wholly controlled distribution system 0 ++ + + 0 0

Good Reputation

(Core Competence) + + ++ ++ + +

Good internal linkage

0 + + 0 0 0

Technological leadership

+ ++ ++ ++ ++ +

Weaknesses

Dependency on suppliers (Insufficient Integration) 0 – — – 0 0

Stock price

0 – — 0 0 0

2/0 7/2 8/4 7/1 4/0 3/0

6 Sources of Reference

5th semester Business Strategy, Course documentation, Kaefer, 2001

Exploring Corporate Strategy, 5th Edition, Johnson / Scholes, 1999

www.golf-research.com, 2001