SWOT Analysis
Callaway Golf Inc.

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Business Strategy in Sport and Recreation Management
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November 17th, 2015
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1. Company Overview

Callaway is known for its high quality golf products such as golf clubs, golf balls, golf bags, and various other golf-related accessories. Part of their reputation is derived from their extensive efforts in the research and development of their products every year. Callaway does this so that their buyers can be confident that they are receiving the most technologically advanced product possible. Callaway is recognized as one of the top companies in the golf industry with products are for all skill levels, from the average to the professional golfer (Callaway Golf Form 10-K, 2015).

Callaway’s business is split into two basic segments consisting of golf clubs and golf balls. The golf club segment includes woods, hybrids, irons, wedges, and any other accessories that would complement the use of the products in this category. The golf ball segment only entails the designing, manufacturing, and sale of Callaway’s golf balls. In the golf club segment (drivers, fairway woods, and irons) the company competes with the likes of TaylorMade, Ping, Acushnet (Titleist Brand), Puma (Cobra Brand), SRI Sports Limited (Cleveland and Srixon brands), Mizuno, Bridgestone, and Nike. Callaway’s competition for putters is somewhat smaller as they compete with mainly Acushnet (Titleist brand), Ping and TaylorMade. The golf ball market is not as friendly as Acushnet enjoys occupying over 50% of the golf ball market share in the United States, as well as leading in numerous places outside of the United States (Callaway Golf Form 10-K, 2015).

Callaway’s annual report for fiscal 2014 indicates the first profit the company has generated in five years. While this recent success is certainly an indicator of increased performance it is worth noting that the three quarterly reports for fiscal 2015 have been severely impacted by poor foreign currency rates. While the company suffered a net loss in the third
quarter they are still reporting a profit for business activities in the first three quarters of fiscal 2015 (Callaway 10-Q, 2015).

1.2 SWOT Matrix

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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<tbody>
<tr>
<td>• Research and development for golf clubs and balls</td>
<td></td>
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<tr>
<td>• Performance centers</td>
<td>• Hovering finances</td>
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<tr>
<td>• Brand</td>
<td>• Marketing</td>
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<td></td>
<td>• Little recognition from professional athlete sponsorship</td>
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<tr>
<td>Opportunities</td>
<td>Threats</td>
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<tr>
<td>• Activating sponsorships with top-of-the-line technology like the mobile application GolfLogix</td>
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<tr>
<td>• Baby boomers will be in retirement shortly with more leisure time to spend how they seem fit</td>
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<tr>
<td>• Junior golfers (younger demographic) are showing an increased interest with 0.5 million more participants this past year</td>
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2. Assessment of the General Environment

Golf is an outdoor experience, for the most part, and just like most outdoor activities, golf can be considered seasonal. During the winter season, it can be expected to see a drop in sales of equipment and play due to the seasonality of the sport (Callaway Golf Form 10-K, 2015). Golf equipment sales also saw a decrease in sales and participation during the recession and shortly after as people found themselves with less discretionary income as well as less leisure time. These low periods are projected to return back to normal and increase for several
reasons. It is assumed that individuals held onto their old equipment throughout the recession and for quite some time after, holding out on buying new clubs and balls longer than one would usually do. This suggests that there will be an influx of individuals having to upgrade their equipment and this happens with consumers gaining confidence in their financial situation as well as the economy. The other reason is recognizing that baby boomers, individuals above the age of 50 in 2014, make up the majority of those who have played in the past and they are going to be heading into retirement shortly, so it can also be assumed that these individuals will have more time on their hands to participate (O’Donnell, 2012).

The younger generation can be just as important, if not more important that the aging population heading into retirement. When surveyed, teens and young adults had a decreased interest from 26% in 2009-2010 to 15% in 2011-2012 (O’Donnell, 2012). However, with younger athletes like Jordan Spieth (22), Rickie Fowler (26), and Jason Day (27) all doing well in the sport, they have the opportunity to inspire and appeal to the millennial generation that golf desperately desires. The new group of talent seems to be doing just that as the National Golf Foundation and Sport Fitness Industry Association report that the 2.7 million junior-aged golfers that participated in 2012 has increased to 3.2 million in 2014. The millennials can better identify with the athletes that look like them, act like them, and are close in age; simply put, the targeted audience can now relate with the individuals that are at the top of the sport. This next generation of golfers can now attempt to compete with the millennial idols that teenagers or young adults identify with in the big four sports that possess athletes that come out of high school or college to compete professionally at their peak (Lombardo, 2015).

A common trend in sports today is a constant state of analysis or using analytics in as many aspects of the sport or performance as possible. These analytics can come in the shape of
watches, gadgets embedded in clothing, or mobile applications. Under Armour and Nike have already tapped into the clothing lines with technology integration so the opening seems to be in the mobile application segment. The number one golf application, GolfLogix, allows the golfer to search tee times around them or in a future location as well as tracking their performance on the course and get lessons from golf professionals on their performance. It also serves as the new leading GPS system used by golfers (Product Info.). With guidelines limiting what technologies Callaway can use to advance its clubs and balls, this type of technology will play an integral role in a golfer’s experience and whichever company partners with or buys out GolfLogix will put themselves in a unique situation in that they will be leading a new movement in golf.

Golf is also a global industry, which means companies going outside of the United States for sales, purchases, or any other transactions will be dealing with foreign currency and their respective exchange rates. Companies are at the mercy of the exchange rate and the extent to which it fluctuates at any given time. Depending on whether or not the U.S. dollar is stronger or weaker than the foreign currency at hand, the company will be facing a gain or a loss for every transaction they make. This goes without saying that there is an inherent risk in going global because if the company is not paying attention to the exchange rates as carefully as they should be, they could be losing substantial revenue. The exchange rate is also somewhat unpredictable, so forecasting how a currency will be doing an n\textsuperscript{th} amount of months or years down the road proves to be a daunting task (Callaway Golf Form 10-K).

3. Assessment of Competitive Environment

Callaway relies on getting their supplies from a select group of suppliers, sometimes even single suppliers, and thus any issues with those few suppliers could substantially impact their
distribution ability and sales. This holds true for the production of club heads, shafts, and golf balls alike. Not only is there a limited number of the suppliers, but those suppliers are chosen because of their specialized and customized product that is specific to the Callaway brand. If any issues arise with these suppliers, it will become inherently more difficult to find new sources that can provide the same quality of product that would fit Callaway’s expectations and the expectations of their respective buyers. While it is noted that Callaway buys the materials to produce equipment it has outsourced most of its manufacturing, these are still threats to consider. With this all in mind, suppliers undoubtedly have a frightening amount of power and it would be worthwhile to search for other suppliers so that down the road the impact of a supplier going out of business or raising their costs can be better avoided (Callaway Golf Form 10-K, 2015).

The buyers also possess a considerable amount of power over Callaway. Even though no single consumer was responsible for more than 8% of Callaway’s consolidated revenues dating back to 2012, the top five distributors of their equipment have made up to 30% of their golf ball sales and 25% of their golf club sales. Though this number has staggered from 23% to 25%, almost a quarter of Callaway’s sales coming from their top five buyers is alarming and could significantly affect their sales if these buyers for some reason wanted to switch to other companies offering golf equipment. The buyers could also use this power to drive prices down with the threat of leaving for other companies as the market demand is shared with various companies such as TaylorMade and Titleist (Callaway Golf Form 10-K, 2015).

On the bright side, Callaway does not have to worry as much about potential new entrants into the business for several reasons. The golf equipment industry demands high capital requirements in order to get to the level of Callaway or its competitors and they enjoy the benefit of having economies of scale over any new entrant looking to start up or tap into the market. The
golf industry also has high exit barriers, which may also act as a deterrent for those looking to come into the market. Sport industry powerhouse Nike only occupied 7% of the golf market share in 2013 (Brettman, 2013). If Nike is having this much trouble while having had athletes wearing and using their brand like Tiger Woods and Rory McIlroy, one can only imagine how much trouble anyone else would have trying to join them for a piece of the golf market share. However, there are plenty of alternatives to spend your free time rather than play a round of golf or even just go to the driving range or practicing your short game on a putting green. The two biggest discrepancies with the game of golf is that it takes too long and costs too much. On average, the normal 18-hole golf outing at a public course will take about four hours and cost $43.00. This has resulted in about one third of those who would consider themselves avid golfers admitting they are not golfing as much. Alternatives could include fishing, hunting, and attending sporting events. In the U.S., about $55 billion is spent annually on fishing, hunting, and other wildlife related excursions. These numbers have seen no potential drop off and threaten to tap into those who golf or have golfed in the past (Thompson, 2014). 82% of those who play golf cite “for fun” as the main reason for playing and four hours is a substantial chunk of leisure time to spend on one activity, especially if it is just for fun. The other alternatives offer cheaper and less time consuming options for fun outings as well, which is something Callaway seems to be attempting to counterbalance with TopGolf. TopGolf will be covered in more detail when discussing corporate level strategies, but it is worth a mention here to show that Callaway notices the threat of substitutes is high, warranting a response to lessen those threats (O’Donnell, 2012).

Callaway also has to deal with a highly competitive industry. They have two competitors in each of its two product categories (golf clubs and golf balls). Callaway competes with Fortune Brands and Titleist in the golf ball market and Titleist and TaylorMade/Adidas in the golf club
market. TaylorMade, Callaway, and Acushnet (Titleist) are by far the leading companies in the market, while the rest are more evenly spread out (Badenhausen, 2012). Brand recognition and athlete sponsorships add to this competition. These companies are forced to differentiate themselves from each other and look for the right athletes to wear and use their brand so that the everyday user will want to invest in their product over the competitors’. The gap in the cost of new clubs and used clubs is also narrowing and can affect how each competitor prices their product. Each company continues to spend significant time and money on tour and advertisement expenditures that will only increase the level of the competition between all of the companies within the industry. This is where the golf ball segment is specifically affected because most of its success is based on marketing techniques and it also happens to be where the largest gap between competitors’ respective market shares are with Acushnet (Titleist) having over 50% (Callaway Golf Form 10-K, 2015).

4. Internal Analysis

4.1 Value Chain Analysis

Primary Activities: Primary activities in Callaway’s value chain include inbound logistics such as its inventory control systems that allow them to forecast demand for products based on seasonality. (Callaway Golf Form 10-K, 2015) Callaway’s operations, including the production control systems that ensure quality, which are outsourced to various locations globally, add value to the products Callaway distributes. The operations have allowed Callaway to maintain its reputation in developing innovative and high quality products. In 2015 Callaway was awarded the most gold medals for its product line in Golf Digest’s Hot list. (‘Callaway Golf-Investor Relations’, 2015)
Another way in which Callaway creates value is through its Outbound Logistics. With a large portion of the company’s sales coming from online channels it’s important for Callaway to create value along its chain. In order to increase storage efficiencies and maximize economies of scale, without shifting architecture, in 2010 Callaway adopted the SAP practices from EMC corporations (Buckman, 2010) To ensure on time delivery of products to consumer from online retailers, Callaway entrusts UPS to handle deliveries in both the US, Europe, and Korea. Using UPS services also provides Callaway global visibility on all shipments through UPS’s Quantum View. (UPS Callaway Case Study | UPS the New Logistics, 2015)

Marketing Sales has been identified as a weakness along Callaway’s value chain. While Callaway advertises mainly in-store along with a combination of print ads from magazines such as Golf Magazine, Golf Digest, and Sports Illustrated they neglected to spend money activating sponsorships at important events such as the PGA tours. They also leave advertising and sales in foreign countries, which is 52% of their net sales, to subsidiaries which while based on the Company’s global principles may devalue Callaway’s reputation in foreign countries. (Callaway Golf Form 10-K, 2015).

The final value adding aspect along Callaway’s value chain is the service component. Value is created for the consumer through Callaway’s effort to enhance and maintain the value of their clubs and balls. Callaway offers customers a Trade In! Trade Up! Program in which golfers can trade in used golf clubs for rebates to buy new Callaway clubs. (Callaway Golf Form 10-K, 2015). This service provided by Callaway not only help retain current customers but also allows Callaway to refurbish old products to resell.

Support Activities: Support activities along Callaway’s value chain include its general administration such as CEO Oliver Brewer, brought on in 2012 after working as Director of
TopGolf International, Inc. in which Callaway Golf has a minority ownership interest. Under Oliver’s leadership the company has launched Cost Reduction Initiatives and seen their first profit over the past five years. (Callaway Golf Form 10-K, 2015).

Another crucial support activity along Callaway’s value chain is technology. They provide innovations with their services such as CPAS, which aids in analyzing and correcting swing faults. (CPAS, The Annika Academy, 2014) They also continuously launch new equipment that establishes new performance standards in all categories such as the Apex Iron that was launched in September. The success of these clubs was due to Callaway’s ability to produce industry leading technologies such as the face cup that is forged into the iron to promote increase distance. (Golf, 2015)

4.2 Resource Based View Analysis

**Tangible Resources:** Callaway Golf Inc. has several strengths and weakness among its tangible resources that affect its ability to maintain a competitive advantage. The company owns about 3,000 US and foreign trademarks as well as 1,100 patents relating to products, designs, processes and research and developments concepts. (Callaway Golf Form 10-K, 2015). Callaway owns four buildings in Carlsbad, California, which include performance centers, manufacturing, research and development, warehousing and distribution facilities. (Callaway Golf Form 10-K, 2015). Among the several facilities a core asset includes Callaway’s 15 performance centers. The centers utilize Callaway’s other tangible resources including CPAS technology, which allows golfers to customize their equipment. The fitting utilizes CPAS technology for more efficient swing dynamic and can aid in improving the consumer’s game of golf, allowing golfers to analyze and fix their swing. (CPAS, The Annika Academy, 2014) Callaway owns and leases properties both in the United States and internationally, in eight different countries that allow the
company to thrive globally. (Callaway Golf Form 10-K, 2015) Global facilities create value for the consumer because it leads to more efficient distribution processes and customer service.

While Callaway owns several operating facilities that are essential to its practices it had recently dissolved several facilities. In 2013 it sold it Massachusetts golf ball plant, leasing back only a portion of the facility to continue its golf ball manufacturing. Owning the large plant became a weak tangible asset that was inefficient in creating value for the customer. Other weak tangible resources for Callaway include its financial resources because of the volatility of its main revenue generating markets and liquidity. Callaway quick ratio of 0.95 (‘Callaway golf Co’, 2015) show that Callaway can only cover .95 cents of every dollar of it’s current liabilities with assets other than inventory while competitor Adidas can cover $1.10 for every dollar of liabilities. (‘Adidas AG ADR’, 2015) Callaway receives 52% of its net sales from foreign markets which can be a weakness in Callaway’s finances because of the volatility of foreign exchange rates. (Callaway Golf Form 10-K, 2015).

**Intangible Resources:** Callaway’s difficult to imitate and account for intangible resources include its human, innovation, and reputation resources. The combined 1,700 employees working for Callaway encompass capabilities and managerial skills that cannot be replicated and assist Callaway to “deliver the best performing products the game has ever known” (Callaway Golf-About Us, 2015) Callaway’s innovations within its products add value for Callaway consumers. Callaway spent $31.3 million (3.5% of net sales) in 2014 to maintain innovations that help golfers game in successful lines such as the Big Bertha and the X Hot families, which both drove gross margin increases in 2014. (Callaway Golf Form 10-K, 2015). Callaway also maintains a strong brand reputation enhanced by its innovative technologies and
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customer service. They offer warranties on all of their products as well as counterfeit club warnings. (Legal-Callaway Golf, 2015)

A weak intangible asset for Callaway golf that affects consumer value is in it’s marketing and advertising resources. Recent cuts in spending toward marketing and sponsorship of PGA & LPGA tour players (Guglani, 2012) has allowed competitor Adidas’s SLDR irons and drivers to become the number one driver on the 2013-2014 PGA Tour Season. (Adidas Group, 2015) While Callaway has a long standing and valuable relationships with golf professional Phil Mickelson and capitalizes on his success they fail to capture sponsorships from other big names such as Young Star, Jordan Speith who has been noted for using Titleist clubs (Myers et al., 2015) and has recently signed major sponsorship deals with Nike. This inability to capture sponsorship deals creates weakness in Callaway’s marketing resources. According to Business Insider “In terms of consumers aspiring to be like certain celebrities, Spieth is No. 1 among athletes” (Gaines, 2015) Consumers aspirations to be like the professional could potentially lead to an increase sales of the products used by these professionals.

**Organizational capabilities:** Among Callaway’s strong organizational capabilities are the company’s ability to maintain relationships among the value chain, its product development capabilities, and the ability to combine strong tangible and intangible resources to maintain a competitive advantage. Callaway stresses the importance of their relationships with suppliers and distributors highlighting “A change in the Company’s relationship with significant distributors could negatively impact the volume of the Company’s international sales. (Callaway Golf Form 10-K, 2015) With international sales being more than 50% of the company’s net sales, the company has proved its strength in maintaining relationships with suppliers and buyers. Callaway is also able to utilize its human capital and manufacturing facilities to forecast demand.
for its products in order to ensure it maintains balanced inventories.(Callaway Golf Form 10-K, 2015).

Weaknesses in Callaway’s organizational capabilities are its inability to integrate vertically and horizontally in comparison to major competitors like Adidas. Adidas owns golf brands such as TaylorMade, one of Callaway’s key competitor for golf woods and balls but also owns other entities in the golf category such as Adidas Golf, Adams Golf and Ashworth. (Adidas Group, 2015) This allows Adidas to effectively capitalize on sponsorship deals by not only providing professionals with equipment but also with apparel from head to toe. In an effort to improve the financial state of the company Callaway has condensed its portfolio of assets selling failing entities such as Top-Flite, Ben Hogan, and SunTech. The company also sold some of its tangible assets such as buildings entering into lease agreements to increase their cash but limited their ability to vertically integrate. (Callaway Golf Form 10-K, 2015).

4.3 Financial Ratio Analysis

In analyzing Callaway’s financial ratios it is important to make comparisons to both historical values and values of their competitors. For Callaway two key competitors Auschnet and PING are privately traded and not required to provided annual reports of financial information. For that reason this analysis will compare Callaway’s finances to Adidas, the umbrella corporation that owns TaylorMade, a key competitor for Callaway.
**Liquidity:** Callaway’s current ratio has been relatively stable over the past five years, averaging a 2.2 current ratio. (Callaway Golf Co. Current Ratio, n.d) A current ratio indicates that the company is moderately healthy and able to pay off liabilities in the short term with current assets but an ideal current ratio would be able to cover 4 times the amount of their current liabilities with current assets. In comparison Callaway is more able to cover current liabilities with current assets than Adidas who has maintained a financially unstable current ratio, averaging less than two over the past five years.

It is important to note, however, that as previously mentioned in Section 4.2 Callaway’s quick ratio (.95) is lower than competitor Adidas (1.10) meaning the company is less able to cover current liabilities with assets other than inventories. Also while Adidas’ current ratio is relatively lower than Callaway’s the number may be skewed by their 2006 purchase of Reebok that may have increased their current liabilities. (Adidas Annual Report, 2014) In comparing Callaway to a core competitor the financial health of the company in terms of liquidity is moderate and could be at risk of major changes to the economy.
Profitability: Callaway Gross Profit Margin, while slowly increasing, are low compared to industry competitors. Adidas’s gross profit margins for 2014 and 13 were 47.6 and 49.3 respectively. (Adidas Annual Report, 2014) While net sales have increased and Callaway has launched initiatives to reduce cost sales, spending on general administration, operating expenses and research and development diminish the gross profit, leaving the company with income losses over the past four years (Income Statement, Callaway Golf Annual Report, 2014)

Leveraging Debt: Callaway has been more reliant on borrowing money as a source of financing assets than competitor Adidas. Generally the ratio should parallel competitors in the
industry. Shareholders examine the ratio as an indicator of both growth and risk. For Callaway this means they have lower equity and higher debt than its competitors, while this can signify Callaway’s strategies for growth it also increases the level of risk for shareholders to invest. (Investopedia, Debt/Equity, 2015) In comparison, shareholders may find it better to invest in competitor Adidas who still maintains a significant ratio to show growth but almost 20% less than Callaway’s ratio showing they are less dependent than Callaway on leveraging debt.

5. Life Cycle Assessment

Callaway has seemingly rescued itself from decline and solidified its maturity status. The fiscal years of 2009 through and including 2013 all resulted in losses for Callaway, mainly due to the economic climate out of the company’s control. The decreased number of sales and market share as well as an inefficient value chain and leadership seemed to indicate Callaway was entering the decline stage as the stock plummeted from over $14 to as low as $5 at times during the economic crisis. Desperately needed to reestablish their maturity status in the lifecycle Callaway had to be very strategic. Their specific strategies securing their maturity status are outlined below and are mainly characterized by hiring a new and accomplished CEO, capitalizing on current trends in the golf industry as a whole, evaluating and making calculated changes along their value chain, and releasing new products that did very well with consumers.

The new CEO was necessary to make the proper repositioning moves the company needed as a whole; namely in regard to selling off brands and refocusing on the Callaway and Odyssey brands. The current trends in the golf industry as well as release of new products that have succeeded in the market have led to profit maximization by actually generating a profit rather than incurring a loss. Atypical of a traditional business in the maturity stage, Callaway’s
net income has been steadily increasing, aside from quarter 3 fiscal 2015, instead of flat lining. In addition, Callaway’s market shares have grown in comparison to their competitors due to the release of new products that offer superior value and performance compared to the products of their competitors. In order to improve their marketing and grow their brand recognition Callaway acquired the rights to sponsor The Callaway Junior Tour by the West Virginia Golf Association, which provides young golfers the opportunity to play an affordable tournament.

6. Business Level Strategy Assessment

After searching for a CEO for 8 months Callaway ultimately decided on Chip Brewer who has stoutly publicized Callaway’s need to refocus on the main Callaway and Odyssey brands. In order to do so, Callaway has sold both Top-Flite and Hogan brands which were acquired in 2003. Both the Top-Flite brand and Hogan brand were sold to Dick’s Sporting Goods and Perry Ellis International respectively for $26.9 million. (2012 10K, 43). Since selling these brands and refocusing on the Callaway and Odyssey brands Callaway earned its first profit in five years in fiscal 2014.

Callaway has been fortunate enough to become a heavy investor in TopGolf and also have their CEO, Chip Brewer, on the TopGolf board having previously served as the director of TopGolf International. TopGolf was founded in 2000 and in just 15 short years has become one of the largest entertainment facilities operating both domestically and internationally. TopGolf is important for Callaway as TopGolf offers an opportunity for non-traditional and less active golfers to play the game. Callaway owns just less than 20% of shares in TopGolf and has numerous intangible benefits. The intangible benefits include preferred signage rights, rights as the preferred supplier of golf products used or offered for use at TopGolf facilities at fair market
price, and preferred retail position in the TopGolf retail stores, and access to consumer information obtained by TopGolf.

Ken May, CEO of TopGolf, anticipates that the number of TopGolf facilities will grow tenfold in the United States from the 10 current to 100 in the not-so-distant future. As TopGolf expands the amount of Callaway products needed for the facilities to function will grow as well as the amount of Callaway products in TopGolf stores. An immediate benefit for Callaway from its partnership with TopGolf is that Callaway will be tasked with supplying a large amount of golf clubs to be used by TopGolf patrons. The deal between Callaway and TopGolf indicates that Callaway will supply TopGolf with clubs at no less than market price so TopGolf’s expansion also means an increase in revenues for Callaway. An indirect benefit that Callaway will see from the growth of TopGolf is increased exposure. As TopGolf expands and attracts consumers from across the United States and abroad more people will be exposed to Callaway products. The opportunity for a TopGolf consumer to become a regular golfer exists and it is more likely than not that this individual has used Callaway products. Callaway has primary placement benefits in TopGolf stores so it is easy for consumers that have been using Callaway products through TopGolf to buy Callaway products at TopGolf.

Callaway’s customer information database will grow as TopGolf collects more information of its visitors. Callaway’s annual report acknowledges that Callaway has access to consumer information obtained by TopGolf (Callaway Golf Form 10-K, 2015). Callaway can use this information for research purposes and also for direct contact to potentially sell their own products to consumers. Callaway, by means of this agreement, expands their marketing data intelligence which is the cornerstone to successful customer relationship management (Chablo,
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Callaway has the opportunity to use this information to forge new relationships and better manage current ones to create and retain customers which will increase revenues.

As of December 31, 2014 Callaway invested $50,677,000 into TopGolf and expressed its intention to purchase $1,699,000 in preferred shares which was approved in January 2015 (Callaway Golf Form 10-K, 2015). This heavy investment equates to Callaway owning slightly under 20% of TopGolf. Many investors and analysts believe that the TopGolf investment could account for much of Callaway’s current and future success. Scott Hamann, Keybanc Capital Markets analyst, theorizes that the TopGolf investment alone could be worth roughly 40% of Callaway’s market value (Santoli 2014). This estimation speaks to both the importance and strength of the relationship between Callaway and TopGolf.

Callaway has taken numerous steps to accomplish its overarching goal of reducing their costs of sale. In order to accomplish this Callaway evaluated their value chain and identified poor performing and costly assets. Callaway sold their domestic golf ball manufacturing facility located in Massachusetts for proceeds of $3,496,000 and ultimately incurred a loss of $31,000. Continuing on the domestic facilities, Callaway sold three buildings located in California and instead leased them all of which led to a deferred gain $6,498,000 (Callaway Golf Form 10-K, 2015).

Callaway’s most impactful international decision to reduce costs across their value chain was ending the Golf Ball Manufacturing and Supply Agreement with Qingdao Suntech Sporting Goods Limited Company, commonly referred to as Suntech, in 2013 (Callaway Golf Form 10-K, 2015). Callaway entered the agreement with Suntech in hopes of improving the production of golf balls. The most recent profitability numbers of Callaway’s golf ball segment indicates ending the agreement with Suntech was a smart decision as Callaway incurred a loss of
$3,400,000 in 2013 while the deal was still in place but reported a profit of $15,200,000 in 2014 after the agreement had been terminated (Callaway Golf Form 10-K, 2015).

Callaway’s strong third quarter of fiscal 2015 was fueled by the release of new golf clubs. The Mac Daddy 3 wedges were highly anticipated by consumers which led to a high volume of sales at higher average selling prices. Their popularity drove fiscal 2015 quarter 3 net sales up 17% to $42.4 million when compared to the same quarter of 2014. Callaway’s irons would have earned significantly more had it not been for poor foreign currency rates and a decline in sales of Apex irons which exited the typical product life span of 18 months (Adidas, 2014). Net sales of Callaway’s putters increased 28% for the third quarter fiscal 2015 when compared to the same quarter 2014. The success of the Odyssey Works line of putters was the main driver for the massive increase in net sales. Callaway launched the Great Big Bertha driver in the third quarter but recorded a 6% decrease in net sales of woods during the same quarter. Once again, the foreign currency exchange rates is the reason for this poor performance as Callaway would have posted a 1% increase in net sales on a constant currency basis (Callaway 10K, 30).

As previously acknowledged certain lines of Callaway’s business is dictated by geographical climate. Callaway is well aware of this and strategically plans to market heavier during these times as well as anticipates more sales in the third quarter than in the first and second quarter. Despite the first nine months of fiscal 2015 showing an 8% decline in net revenue generated from sales Callaway’s third quarter net sales revenue was up 4% when compared to the first three quarters of 2014. The reason for the nine month decline and small third quarter growth is due to unfavorable foreign currency rates. Adjusting to a constant currency basis would have resulted in a 12% increase in net sales during fiscal 2015.
Every quarterly report Callaway has released during fiscal 2015 has boasted a continuous improvement of brand momentum. The most recent quarterly report reinforced this notion by stating that operational performance and market share have also improved (Callaway 10-Q, 27). The operational performance increase can be seen as a product of refocusing on the Callaway and Odyssey brands and streamlining along the value chain by selling assets. Callaway’s increased market share comes from the release of the Great Big Bertha driver, the Mac Daddy 3 wedges, and the Odyssey Works line of putters.

January 1, 2013 was an exciting day for Callaway Golf as The Callaway Junior Tour was officially announced. The West Virginia Golf Association was inspired to select Callaway by the late Larry Martin’s and the overall mission of the tour; “to promote and provide an affordable tournament experience for junior golfers” (West Virginia PGA, 2014). As part of the branding name change Callaway agreed to make it a priority to support West Virginia’s efforts in growing competitive golf. Callaway can strategically use this tour’s purpose of giving youth golfer’s memories that will last a lifetime to align their brand with this positive experience and also expose the youth participants to Callaway products.

7. Strategic Recommendations to be completed by the end of:

Year 1:

The first recommendation for Callaway is to capitalize on the reinstatement of golf to the Olympic Games this upcoming summer in Rio de Janiero Brazil. This year will be the first year that golf has been in the Olympics since 1904 which certainly leads many to believe golf will receive an enormous amount of attention during the Olympic Games. Callaway should recognize the global reach of the Olympic Games as a way to market to people all over the world.
at the same time as well as a way to market to consumers who do not typically follow golf. By reinvesting profits and allocating money from the marketing budget towards advertising during the Olympic Games Callaway would expand their brand recognition as well as potentially see an increase in sales.

*A second recommendation for Callaway Golf is to continue its Low Cost Reduction Initiatives.* Callaway is at a disadvantage because it does not operate under a parent company such as TaylorMade so it cannot as easily drive down the cost of making their high quality products. In continuing their Low Cost Reduction Initiatives Callway should consider extracting its leasing and ownership from facilities located in volatile markets such as Japan that is affecting the Callaway's cost of sales and current financial condition. Japan’s GDP shrank at an annualized pace of 0.8% in the July-September period of 2015 and has shrunk multiple times within the year. (Obe & mit_obe, 2015) The Company could reallocate those resource to strengthening their sales and marketing in more stable markets.

*Equally important to traditional advertising it is imperative that Callaway brands their athletes as much as possible.* The professional golfers that will be participating in the Olympics will be decided by the International Golf Federation rankings; the top 60 ranked golfers will be the participants. Of the athletes that are currently qualified to participate in the Olympics three are endorsed by Calloway. Henrik Stenson, Danny Lee, and Nicolas Colsaerts are ranked 6th, 24th, and 53rd, respectively. If Calloway is fortunate enough to have all three athletes participate in the Olympics they have the potential to have their best products showcased in front of millions by some of the top athletes in the game of golf. If the athletes make it to the Olympics Callaway should provide the golfers with the newest and most branded Callaway items possible, from clubs to apparel to golf bags and balls, to attempt to make their brand stand out. Callaway would
then be able to capitalize on the increased exposure and interest in the brand to begin identifying more quality professional athletes to endorse in order to ultimately complete the goal detailed further below of signing more athletes by the end of year 2-3.

Another recommendation for Callaway is to increase their presence in mobile applications such as GolfLogix. GolfLogix is the leading mobile application in the golf industry and is an integral part of how the game will be played in the future. GolfLogix acts as a GPS, ball/swing analyst, assists with strategic play, and provides tips from golf legends and professionals. This is all accessed in the palm of the golfers’ hand through a mobile application or personalized device. Callaway can utilize the money saved in their low cost initiatives as well as the $5 million per year gained from the absence of their long term debt and money pits that have since been eliminated to invest in sponsorship opportunities with applications like GolfLogix (Callaway 10-Q). The USGA has limited golf companies on what technology they can use to advance their equipment in order for it to be used in tournaments, so capitalizing on this new technological advancement in the sport would provide Callaway with a distinct advantage over its competitors. This technology will attract the veteran golf players who truly want to improve their game and stay up to date with the sport norms as well as the younger generation who is tech savvy and knows how to take advantage of technological changes or advancements. Callaway can get their logo and their athletes on this application to put them in a spotlight over their competitors as well as generate traffic to their online stores through a link provided in the application along with their athletes’ advice. The boost in traffic to their website increases the chance of sales and placing their athletes on the application for advice or even just their image ensures that all users/golfers will associate the Callaway brand with those respective athletes and will be more likely to purchase Callaway products.
Year 2-3:

After an increased presence initiated in year one Callaway golf must begin a strategic marketing plan to attain high caliber athletes, specifically younger athletes, that could be used in digital advertising campaigns. Simply endorsing 3 top athletes at the Olympics will not generate a brand association between the company and the athlete. Callaway should activate its endorsements, with athletes like Henrik Stenson by creating pop-up ads in golf-apps, display print ads at the Olympics with the endorsers using the products, and finally designed limited edition golf bags that prominently display the Callaway logo with unique colors and designs for better recognition. The in-app advertisements will create a call to action for consumers who see a favorite player using the clubs and wanting to do the same. The print ads and limited edition bags will create better brand association between top performing athletes and Callaway clubs.

The rapid growth of TopGolf and the extent to which both Callaway and TopGolf can benefit each other are clear indicators that Callaway should look to increase both its ownership of TopGolf as well as the exclusivity of the agreement with TopGolf. Callaway should set aside cash to invest, especially portions of the increased $5 million as denoted above gained from the absence of long term debt, as well as take loans to heavily invest in TopGolf. Currently Callaway has spent approximately $51 million to own slightly under 20% which is helping drive Callaway’s stock price back up above the $10 threshold. Within the two to three year range Callaway should invest between $17 million and $22 million to increase their ownership close to 25%. By increasing their ownership of TopGolf Callaway will see the benefits of TopGolf’s expansion and will strengthen their strategic alliance.

Either per the agreement of increased ownership or as a separate initiative altogether Callaway should seek more exclusivity in the agreement with TopGolf. Currently Callaway
supplies some clubs and receives priority placement in TopGolf stores which is very beneficial for Callaway which is why Callaway should attempt to capitalize even further. Callaway should strive for exclusivity of supplying clubs and being the only brand offered in stores at certain TopGolf locations. The CEO of TopGolf foresees the opening of 100 facilities domestically which offers a realistic chance for Callaway to secure a few locations to gain exclusivity. The exclusivity could potentially even lead to branding a TopGolf facility with the Callaway brand as the organizations will eventually be tied so tightly together.

**Year 4-5:**

As a culmination of the previous efforts regarding having a presence in the Olympic Games with the reinstatement of golf, establishing a presence in mobile applications, acquiring younger and more talented professional golfers and marketing their association with the brand better, and utilizing the expansion of TopGolf Callaway has a realistic opportunity to change the public perception of golf. The Olympic Games will showcase young talented professional golfers that a younger audience can resonate and identify with. Signing younger and higher quality talent provides younger consumers the opportunity to identify with Callaway branded professional athletes. A presence in mobile applications provides increased access to a younger generation that actively uses mobile applications for all aspects of life.

The alignment with TopGolf is the largest factor that can alter the public perception of golf as a whole. TopGolf is redefining the entire golf experience by transforming an expensive time commitment to a relatively cheap, fun, new, and exciting experience. Callaway has the potential to align themselves so closely with TopGolf that they are part of the change. By supplying TopGolf with products for the new target consumers to use and eventually having their
products sold in TopGolf Stores Callaway will be at the forefront of the changing atmosphere of the golf industry.

By fueling the changing public perception of the golf industry Callaway will be able to reap benefits associated with the changing atmosphere. Callaway is helping create a new target consumer that they will have immediate and potentially exclusive access to. All of the previously mentioned strategies will help Callaway achieve changing the public perception of golf which will lead to the creation of a new market that Callaway can tap into to increase sales and drive revenues up.

8. Executive Summary

The Company designs, manufactures and sells high quality golf clubs, golf balls, golf bags and other golf-related accessories. The Company designs its products to be technologically advanced and in this regard invests a considerable amount in research and development each year. The Company’s golf products are designed for golfers of all skill levels, both amateur and professional. Callaway has been performing well financially compared to their recent history but profits have been limited due to unfavorable foreign currency rates.

The general environment can be characterized by two overarching themes of seasonality affecting business as well as the importance of millennials and the younger generation. Seasonality affects Callaway’s business as golf cannot be played year round in some markets Callaway operates and sells in. Millennials tend to desire technology and professional athletes they can identify with which is why Callaway should aim to secure a presence in mobile applications as well as identifying and signing high quality young athletes to represent the Callaway brand.
Callaway operates in a fierce competitive environment. Suppliers have high power over Callaway as there is a limited number of suppliers and even fewer high quality suppliers. Buyers have a considerable amount of power as Callaway’s top five distributors account for between 23% and 30% of Callaway’s sales and their loss of business would drastically affect Callaway. Fortunately for Callaway the golf product industry does not encourage new entrants. The low threat of new entrants allows Callaway to focus more on doing business better than competitors in a highly competitive industry. Callaway competes with other companies and brands in all ranges of business and product categories.

Internally, Callaway has functional and efficient inbound and outbound logistics which create value for consumers by forecasting demand and increasing storage capabilities. Callaway continues to add value by having a strong service program as indicated by their Trade In! Trade Up! initiative. Callaway tends to struggle marketing their respected brand as it is not highly recognized among non golfers. In addition, the professional athletes that Callaway have signed are not widely recognized for using Callaway products which Callaway must address according to our recommendations.

Callaway’s tangible resources are comprised mainly of patents, trademarks, and facilities of manufacturing. Intangible resources include their products inimitability and human capital. Callaway’s main organizational capabilities are the ability to combine both their tangible and intangible resources to provide the best possible product to consumers and maintain a competitive advantage.

Callaway has performed well financially in fiscal 2014 and 2015 compared to all reports dating back to 2009. Callaway is capable of paying short term debts as indicated by their high current ratio. Callaway’s gross profit margin has been increasing but is still low when compared
to competitors such as Adidas. This indicates that even though Callaway can celebrate turning their first profit in five years they must continue to work toward catching their competitors.

Callaway has saved itself from entering the decline phase of its life cycle and reestablished its presence in the maturity stage. Callaway has released new lines of products which have revitalized revenue generation as well as sold assets to refocus on the Callaway and Odyssey brands. Callaway has a strong relationship with TopGolf, which it can use in the future to secure more profits and exposure as well as grow their customer relations information database.

This report recommends Callaway have a strong presence in the upcoming Olympic Games through traditional advertising and branded athletes, continue their lost cost initiatives, and establish a presence in mobile applications by the end of fiscal 2016. By the end of the next two to three years Callaway should strategically market their branded athletes by activating sponsorships as well as acquire younger more talented athletes. Callaway should also purchase more ownership in TopGolf as well as expand the exclusivity of the current agreement between the two companies. By the end of year 5 Callaway should have accomplished changing the public perception of golf and capitalize on the new perception as well as the new market segment that has the potential to be created.
9. References


Golf Central Blog. (2012, April 4). Callaway sells Top-Flite to Dick’s Sporting Goods


