Callaway Golf Company Case Analysis

Callaway Golf Company (“Callaway”) has led the worldwide golf-equipment industry through pursuing concentration and differentiation strategies that result in innovative products. It produces innovative golf clubs and putters, balls, and apparel and accessories, although sales of its drivers and woods have been declining. The industry is constrained by limitations on golf-club performance in USGA-sanctioned tournaments, suffers intensifying competition, and has fewer golfers worldwide playing the sport.

Callaway’s financial results are mixed. Its revenues declined 5.4% since 2000, its total-asset turnover and ROA both declined 12% and 30% respectively since 2000, and ACP jumped 35.6% in 2002. However, NIAT increased 19.0% in 2002 (after a 27.9% drop in 2001) and, since 1999, its current and quick ratios have remained well over 1.0. Its D/E ratio is below 25%, and its Z-Score over 5.4, well in the safe region.

Callaway’s core competences are its innovative capability and the Helmstetter Test Center. It also has a strong brand and incredible customer service, and is in good financial condition. However, its market share in drivers and woods has declined, adversely affecting revenues, and it lags in getting pros to endorse its products. The USGA regulations have benefited other competitors, and the economy in its global markets has softened.

Should it launch a subsidiary to produce affordable clubs, create an interactive website to increase sales and create a virtual golf experience, create cartoons and video games
through a strategic alliance with Nintendo, develop new golf products—co-designed by top pros—with higher quality, launch a hipper line of clothing, sponsor nine-hole courses in low-income areas, expand into China and South America, or increase endorsements by pros?

Callaway has four strategic alternatives. First, it could create an interactive website to sell its products, create a virtual golf experience, and create cartoons and video games through a strategic alliance with Nintendo. Secondly, it could make its products more affordable through market research, forming a subsidiary to create an affordable line of clubs, sponsoring youth events, creating a nine-hole course in low-income areas, and developing hipper golf apparel. Thirdly, it could involve top pros in designing an innovative line of clubs of higher quality and power, and endorse the new line. Finally, it could focus on international expansion, especially in China and South America. All bundles include continuing its current strategies, advertising, increasing market share, and financing through cash and debt.

Callaway should create an interactive website to attract more customers and sell more product that will yield the highest revenue growth and shareholder value, and require the least investment. Product affordability would produce the least revenue and profit growth and require the most culture change. Co-innovation with golf pros would be the riskiest, while expanding internationally would require the most investment.
In 2003, Callaway should increase revenues 15% and NIAT 5%, increase market share, increase R&D, create an interactive website, create a virtual golf experience and cartoons and video games through a strategic alliance with Nintendo, and continue its current strategies. If the decline in number of golfers continues, causing revenues to lag projections by 15%, then Callaway should raise prices on new products.

By 2005, Callaway should increase revenues 20%/yr and NIAT 8%/yr, increase market share, continue to improve its website’s effectiveness and reach, develop more virtual golf experiences, keep its clothing line edgy, and continue its current strategies. If shipping costs rise, causing NIAT to lag projections by 15%, then Callaway should pass those costs on to its online buyers.