Analysing the golf equipment industry

Introduction

This case study aims at analysing the golf equipment industry in the United States. Michael Porter's Five Forces frameworks have been employed in the process of analyse. It discussed the key problems and crucial trends in golf equipment industry. Then it analysed the problems that plaguing the entire industry in depth with Porter's Five Forces model. Finally, the alternative solutions for the industry to solve those problems have been presented.

Problems identification

There are serious challenges exists in golf equipment industry. It results in rapid decrease in the number of retail value and golfers. Government regulation and limitation on technological innovation lead to consistent declines in industry profits. The new rules released by USGA and R&A have great negative effect on products differentiation. And it brought severe competition to golf market. Counterfeit products in china are regard as considerable threats to the industry.

Problems analysis

As per Porter's five forces model, there are five forces that can influence the competitive ability of a company.

1. Supplier Power

Many club makers' manufacturing activities has been outsourced to Asia. Components were produced in Asia countries and American club makers only need to assemble those components. Outsourcing can be risky because it is difficult to control quality and security of products. Since there are lots of substitutes, it is not so easy for suppliers to drive up prices. Grips have a low degree of differentiation of inputs. However, shafts have a high degree of differentiation of inputs. Customers have strong preference for a particular brand. Therefore, it limits the alternative options of customers. In this perspective, suppliers of shafts can not be easily substituted. There are fewer suppliers that can be chosen in the market and it definitely stifles competition. The bargaining powers of suppliers who provide shafts are stronger due to the uniqueness of products. Government regulation makes innovation difficult to be achieved. Thus, reliance on particular shaft producer is stronger than ever before.

Buyer Power

As it was described in this case, there were 22. 7million golfers in 2007 and it is a larger buyer volume. Thereinto, male golfer accounts for 71%, female golfer accounts for 22% and junior golfer only accounts for approximately 7 %. Minority golf participation rate is very low in the United States. Core golfers which were pivotal to industry sales account for one-third of total golfers. They concern the quality of products instead of prices and they seldom switch from one product or service to someone else. Therefore, those customers have lower bargaining power. On the contrary, the beginners or non-core golfers are sensitive to price change because they do not want spend too much on this leisure activity. These people take a large part in golf industry. Online golf retailers such as Golfsmith. com and TGW. com can sell discounting products at a very low price. It is attractive to beginners who want to avoid tax and lower expenditures.

3. Competitive Rivalry

There are five giants in golf equipment industry, namely Callaway Golf, TaylorMade, Ping, Titleist and Cobra Golf. TaylorMade's is the biggest competitor to Callaway on driver selling. Callaway is the second-largest seller of driver while TaylorMade in the third place. Titleist's golf balls are best-selling brand and accounts for 40% market share in 2007. Callaway achieved economise of scale by Top-Flite acquisition and became the second largest seller of golf balls. Titleist's putters are popular with majority people. Ping golf is in the leading position of custom fitting. Nike Company is famous for its golf shoes. These companies take a considerably large market share and can tightly control the retail prices. There is less competition on Technological innovation since government limitation. Therefore, competitive rivalry is depends on price and quality. Callaway have an internet sales program and many products can be purchased online. Online purchasing is attractive to price-sensitive customers.

Threat of Substitution

Substitution means alternative products for customers to switch to. The counterfeit products which regard as the substitution are great threats in the golf equipment industry. As it states in the case, approximate 90 percent of world's counterfeit products made in China. There are many Chinese companies providing counterfeit products and it is unpractical to try to shut down all those companies. The Chinese government can not devote their effort to prevent counterfeiting for many reasons. Therefore, it makes the situation more badly. The counterfeit products have competitive strength in this market because it offers extraordinarily low prices. Moreover, many counterfeit products have first class quality and can make accurate copies. It is difficult for customers to distinguish between them. There are a number of substitute products can be available in market which generates buyers' substitute propensity.

5. Threat of New Entry

Services and products that have unique features can generate customer loyalty. It is called product differentiation. Core golfers account for one-third of total golfers. They are loyal customers for particular products and services. Customer loyalty can cost new entrants a lot of time and money to promote their brands. However, situation is not so optimistic. Restriction on manufacturing activity has limited technological innovation by competitive rivalry. Therefore, products differentiation has been blurred. Sales profit rely more on discounting and endorsement. In this perspective, it is easy for new entrants to promote their brands. However, it should be notice that the golf equipment industry is not profitable enough to attract new competitors. It suffered sales declines in recent years.

Alternative solutions

Alliance and cooperation with suppliers

Shafts supplier has high bargaining power. Many manufactures co-developed shafts with companies which specialized in shaft design and manufacturing. There are many famous brands of shafts such as Aldila, UST, Graphite Design and Fujikura. It can help companies arrive at a win-win situation to reduce costs and attract customers with strong preferences.

Outsourcing

Outsourcing is a good method to deal with counterfeiting problems. The counterfeit products have a large market share by extraordinarily low prices. Outsourcing non-core manufacturing activities to low wage countries such as china can reduce costs and benefits companies in price competition.

Conclusion

The golf equipment industry has experienced great changes in years. Price competition and counterfeiting are the major problems for golf equipment industry. Cooperation and outsourcing non-core activities are alternative solutions to solve this problem. However, outsourcing can be risky to the quality of products. Compared with outsourcing, alliance is safer and more effective to boost sales.