9-501-019
REV: SEPTEMBER 26, 2005

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Callaway Golf Company

Ely Callaway, Callaway Golf Company's (CGC's) 80-year-old founder, chairman, and chief executive officer, sat in the conference room one sunny day in fall 1999 contemplating his company's remarkable story. He wondered how that story might continue in light of some recent internal and external challenges. In the span of a decade, Callaway had built CGC into the dominant player in the golf equipment business, despite charging premium prices. CGC sales had increased steadily from $5 million in 1988 to over $800 million by 1997 (see **Exhibit 1** for income statements). He accomplished this with the clarity of his vision: "If we make a truly more satisfying product for the average golfer, not the professionals, and make it pleasingly different from the competition, the company would be successful."

Established in 1982, the publicly traded company designed, developed, manufactured, and marketed high-quality, innovative golf clubs, in addition to golf bags, accessories, and balls (CGC golf balls were to be launched February 2000). (See **Exhibit 2** for CGC products, **Exhibit 3** for CGC products' contribution to net sales, and **Exhibit 4** for a general explanation of golf club types and functions.) These clubs were sold at premium prices to both average and skilled golfers and were known for their high performance and skill forgiveness. Best known of the company's products were the Big Bertha line of clubs and their subsequent updated versions, which originally revolutionized the golf industry in 1991. By 1998, 69% of all professional golfers worldwide played with a CGC driver.

In 1998, the magic began to fade when sales dropped 17% and CGC experienced a loss of $27 million. Admittedly, CGC had "gotten away with murder" with its retail partners because demand for its products was historically so strong. While the changes initiated in 1998–1999 had begun to bear fruit (sales in the first half of 1999 were $415 million, contributing $38 million to net income), Callaway wondered if CGC would have to revise the way it approached retailer relationships to make them more mutually beneficial. To address possible market confusion, should the communication strategy shift? And how should CGC balance the catch-22 of new-product development as both the company's lifeblood and its burden? In fall 1999, Callaway faced these questions; the answers would guide him in refocusing CGC's retail channels, new-product development, and marketing strategies.

Professor Rajiv Lal and Research Associate Edith D. Prescott prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

Company History

CGC was led by Ely Callaway (pronounced E-lee), a powerful motivator who defined the company's culture. People described the LaGrange, Georgia native as charming, feisty, optimistic, energetic, and inspirational. A distant cousin of golf legend Bobby Jones, Callaway was a golf club champion at 20 and a three-handicap golfer at 40. In recent years he found that he did not have much time to play golf. He said, "I spend my time trying to put myself in the place of the average hacker and see how they will react to our new woods and irons."[1]

The start of CGC The day after he sold his winery in 1982, Callaway received a cold call from the cash-strapped founders of a small golf manufacturing company named Hickory Stick USA, Inc. Callaway saw potential in the antique-looking, yet modern, clubs and decided to invest $435,000. He changed the name of the company to Callaway Hickory Stick, Inc. and focused on expanding the product mix. The designs were essentially knockoffs of existing companies' clubs (the only difference lay in the hickory shafts); thus, Callaway's first priority was to develop original products. Callaway put in $2 million of his own money over the first three years, thinking it would take the company eight to 10 years to break even.

Richard Helmstetter CGC's transformation from a niche producer to an innovation powerhouse came with the arrival of Richard Helmstetter, whom Callaway met on a California golf course in 1985. As a highly successful manufacturer of Japanese billiard cue sticks since the 1970s, Helmstetter, with his knowledge of woodworking, became the target of a concerted recruitment campaign by Callaway. After a full year of pursuit, which culminated in thrice-weekly calls to Helmstetter's office, the billiard cue stick expert finally agreed to move to California as CGC's vice president and chief of new products in 1986.

S2H2 In 1988, CGC introduced the first of three revolutionary new club designs. The new design was a unique clubhead model called S2H2 (short, straight, hollow, hosel). (The hosel was the small piece that had formerly connected the shaft to the clubhead.) The idea was to redistribute the weight of the hosel—that is, nearly eliminate it to free up precious weight to be used elsewhere in the club and instead push the shaft straight through the clubhead. (See **Exhibit 5** for a glossary of golf terms and **Exhibit 6** for a diagram of S2H2.)

Helmstetter said, "We had discovered, purely by accident, a better mousetrap." And every club the company made since then incorporated the S2H2 concept. Helmstetter went on, "We continue to refine the idea of transferring weight from a place where it is not very efficient to where it is very efficient."

This technology led to the introduction of S2H2 metal woods in 1989. (Although wood clubheads were originally made of wood, metal provided better performance, and the original product name was retained.) Both S2H2 irons and woods were available with steel or graphite shafts instead of the heavier hickory shafts. By the end of 1990, the S2H2 driver was number two on the Senior PGA Tour, and company sales had reached $22 million.

Helmstetter had a unique approach to research and development. Instead of spending his day trying to figure out how to build a better iron, he had teams working on an ongoing project called "RCH Tough Questions." RCH were Helmstetter's initials, and he had about 400 unanswered questions, such as "Where does backspin come from?" and "Why does a shot on the club toe hook left instead of right?" Helmstetter said, "If we can understand where backspin comes from, then

[1] Glenn Sheeley, "Callaway led golf's charge out of the woods," *The Atlanta Journal-Constitution*, June 27, 1999.

maybe one of us will have a bright idea." He believed strongly in intuition and even more strongly in informed intuition. What he tried to do was hire scientists, engineers, and golfers and throw them into the mix of trying to answer these questions. While trying to identify the perfect launch conditions to hit a ball the farthest possible distance if one's head speed was 80 miles per hour, the engineers found that the clubhead needed to be bigger, which led to the development of the Big Bertha.

Big Bertha Named after a World War I cannon, the second revolutionary new design by CGC was the introduction of the Big Bertha oversized metal woods in 1991. Big Bertha metal woods provided a larger "sweet spot" and, despite their unprecedented high price of $250, they were wildly popular with millions of golfers worldwide. The Big Bertha clubs were critical to CGC because they reshaped golf, forever changing the way clubs were manufactured and the way customers purchased them. One golf analyst said, "If you're a golfer, CGC has changed almost everything in your bag, whether you own Big Bertha or not. If you're a Tour player, you can't afford not to try Big Bertha because everybody else is doing it and you don't want to be left behind."[2]

Prior to the Big Bertha, the driver was golfers' least favorite club—many would even avoid using it at all because average players were not skilled enough to hit the club with accuracy. The Big Bertha changed this sentiment and even reversed it for many golfers. This was possible because the clubs combined S2H2 technology with an oversized head that was more forgiving on mishit shots. In response to the change in driver sentiment, one golf analyst said, "Thanks to the Big Bertha, we can hit it in the heel and the ball will go straight. We can hit it in the toe and it will go straight. The game is easier and more pleasurable for those of us who don't play golf for a living."

After the Big Bertha, one year went by before competitors had an oversized metal wood and six years before their performance really began to challenge CGC. By 1999, the competition had had eight years to catch up technologically, closing the performance gap with CGC.

In 1994, CGC introduced Big Bertha irons and Big Bertha metal woods with the Warbird soleplate, and CGC sales reached $449 million. Helmstetter had contributed so significantly to the success of CGC by this time that Callaway honored him by opening a state-of-the-art club test center in his name the same year.

Titanium By 1995, titanium was on the scene and was the third of CGC's primary technological breakthroughs to date. Helmstetter and his team had figured out that clubs were more forgiving as golfers hit the balls at increasing moments of inertia. Because the total weight of the clubhead was somewhat fixed, the moment of inertia was increased by moving material away from the clubhead center. Thinner shells of a heavy material, such as steel, or a material of equivalent strength but lower density could have accomplished this, but Helmstetter knew he could not get there with stainless steel. Switching to titanium required retooling the facility, but his thought about research and development was:

> If you can make something sufficiently good, what it costs doesn't matter. You can't be bound by typical business school practices of "let's discover how big the market is and then how much can we spend to develop the product so that it can have a specific minimum margin." R&D is really a misnomer because between the "R" and the "D" is the lightning bolt. There are scientists, technicians, and designers who individually do not come up with new products. It is when they are taken together that someone will have a spark. This talent is very

[2] Mike Purkey, "Great Big Empire," *Golf Magazine*, May 1998.

> expensive, and developing an R&D budget is extremely difficult. You sort of pick a number—maybe 5% of sales. If you're spending less than that, you're not making enough mistakes.

In 1995, Big Berthas were replaced with Great Big Bertha titanium drivers. These clubs had an extended shaft and a larger clubhead but were lighter. The Great Big Bertha was introduced at $500, and although some deemed it marketing suicide, a primary competitor, Taylor Made, introduced a club in the same price range. Thus began the "clubs as a status symbol" phenomenon.

Don Dye became CEO in 1996, and the following year, CGC introduced another series of new products—the Biggest Big Bertha Titanium Driver and the Great Big Bertha Tungsten Titanium Irons. The Biggest Big Bertha was a better driver than the Great Big Bertha because it was more forgiving, hit the ball farther, and felt better, but it did not live up to expectations in the market. It was overpriced at $600 (versus $500 for the Great Big Bertha), and CGC continued selling both. Incrementally, consumers did not perceive the product to be 20% better.

In 1997, CGC year-end sales were $843 million. The company also purchased Odyssey Golf for $130 million. Odyssey had the number-one-selling line of putters, and CGC admired Odyssey's commitment to technology. Big Bertha X-12 Irons were introduced in 1998 and subsequently became the best-selling irons in history. CGC also introduced the Big Bertha Steelhead Metal Woods and Little Bertha golf clubs for kids. Also in 1998, Ely Callaway reassumed CEO leadership after the departure of Don Dye.

Product development CGC sold more units of more equipment at the highest prices than any other company in the golf business. To achieve that, CGC had to consistently be on the leading edge of technology and to continually exceed customers' expectations. Producing products equal to those of competitors was not good enough; thus, research and development was a critical focus for the company. (CGC had also continually added capacity over the past 10 years, having sold 500,000 units in 1988 and 6 million units in 1998.)

CGC's biggest challenge, therefore, was to have products differentiated not only from competitors' products but also from its own. If a product stayed in the pipeline too long, even if it was the best product, its sales would begin declining. (See **Exhibits 7** and **8** for prices and sales of CGC and Taylor Made woods, respectively.) This decline occurred because the people who really wanted the product would buy it within the first two years of its introduction. Sales, and prices, typically declined after two years, forcing CGC to continually make its own products obsolete. Besides declining sales, another reason to continually introduce technologically superior products was to prevent existing CGC golf club users from switching to another brand. CGC had developed a great brand and consumers knew that CGC always delivered a high-quality product, but Chris Holiday, senior vice president of U.S. sales, said:

> The bottom line is that the real loyalty when it comes to golf clubs is to the club that works the best—to the club that golfers think will help them play better. As soon as a manufacturer comes out with a golf club that's better than ours, the brand name won't save us—it will only give us some time to react. We have to continue to make the best golf clubs in the world, otherwise golfers who played our clubs for 15 years will drop us in a minute if they think there's a golf club that they can play better with.

Being on the cutting edge had a price, however, as the company's R&D spending had gone from $6 million in 1994 to $37 million in 1998. CGC expected this upward trend to continue, since R&D had always been the lifeblood of the organization.

CGC had, in essence, created a whole new category with oversized metal woods. (See **Exhibit 9** for CGC new-product introductions by year.) What this created, however, was the feeling among golf manufacturers that "if CGC can succeed, then we can succeed," which brought more manufacturers into the golf arena. One retailer described the development environment in 1999:

> Everyone is trying to beat each other to the punch by coming out with new products at any time. It used to be that there were two major golf merchandise shows per year: one in September in California (later changed to Las Vegas), and the other in January in Florida. Manufacturers used to save all of their new introductions for those shows, but that is no longer true. Products now come out at a fast and furious pace, and life cycles are too short. I think it's too much.

Sometimes, depending on golfer acceptance, products did not even last an entire season. The same retailer continued, "I think manufacturers should slow down the pace of new-product introductions. The products need more time to be given a chance and to get out to the public before the clubs are discontinued." These shorter product life cycles also contributed to the growth in closeout programs. In the last two years, several manufacturers spent millions of dollars getting rid of excess inventory through traditional channels of distribution.

Consumer Behavior

Golf was a difficult game whose participants' emotions ranged from frustration to addiction, with passion and fun mixed in. Even when played in teams, golfers were very competitive with themselves. Golfers often blamed their equipment for their poor play and thus often wanted to update their clubs. Although one's mental state and skill level had much to do with on-course achievement, in golf, unlike almost any other sport, the equipment also had a significant effect on a user's performance. Even though highly skilled golfers would play well no matter what type of club they used, average golfers were able to see noticeable improvements in their game when they used premium equipment. Beginning golfers also benefited because the more forgiving clubs allowed them to make ball contact sooner, frustrating them less so they would not quit the sport prematurely. Golfers were, therefore, always looking for an edge that would help lower their score and enable them to enjoy the game more.

In making a purchase, most golfers accepted word-of-mouth recommendations. This form of advertising worked because of the way golf was played, in groups of four people who spent several hours together on the golf course. One salesperson compared it to the old Flex Shampoo TV commercial tag line—"and they told two friends, and so on, and so on." The foursome also provided a convenient way to demo a new club. When one player had hit a particularly good shot with a new club, others in the group were able to try it for themselves.

Average golfers (defined as playing 10 rounds minimum per year) were CGC's target market, generally had handicaps above 18, and bought new equipment every two to three years. This buying cycle was only an average, for some golfers kept clubs for eight years or more. One avid golfer (defined as playing 30 rounds minimum per year), who had owned Ping irons since 1987 and CGC woods since 1997, said:

> I've had the same irons for 13 years. I play 60 rounds of golf a year and have successfully achieved consistent distance and control with them. They work for me, I see no reason to change. Woods are a different story—I have gone through several sets. The problem is that everything is so confused now. It is not clear to me which clubs are the best. I would love to update my woods, but at $300 per club, I'm not willing to make the $1,000 investment.

The remaining golfing population consisted of beginner (played first round in a given year) and occasional (played one to seven rounds per year) golfers. For a beginning golfer, buying new clubs was a daunting task. Retail shops offered a wealth of options that forced beginners to rely on the advice of salespeople. Beginners, however, viewed the golf retail experience as fun because it was a whole new consumer world for them. At the same time, beginners were price sensitive, reluctant to invest large sums until they knew that they enjoyed the game and stood a reasonable chance of improving. They often purchased "starter sets," lower-priced options at $100 to $250 for a bag, five irons, two woods, and a putter. The lighter clubs were easier to swing, giving the user a better chance of lofting the ball—which was of critical importance to beginners. Beginners also tended to purchase secondhand premium clubs or previous year's models that had been discounted.

For more experienced players, reasons for buying new clubs ranged from the desire for the latest and greatest, to one's brother-in-law saying "you have to have it," to golfers who held clubs for so long that they were at a technological disadvantage. Once they decided to purchase new clubs, most golfers went by brand name—it was all about who had what. One average golfer said, "If someone looks in my bag, I want it to say that I'm affluent, that I'm a 'player.' I want to look good."

When deciding where to purchase new clubs, most golfers chose off-course retailers for their wide selection and convenient locations. (Over 90% of off-course retailers had hitting bays or swing simulators where consumers could try out equipment.) Conversely, avid golfers, who tended to be members of country clubs, would opt to purchase new clubs at their on-course pro shop. These golfers preferred to demo the clubs firsthand on the course or driving range and also felt a loyalty to their pro and his pro shop. An on-course consumer could shop and demo clubs at the pro shop and then comparison shop, but one golfer said, "but then you're screwing the pro."

Although woods and irons were expensive purchases, putters were relatively inexpensive at around $100 each. Because putting was viewed as the most critical aspect to the game and because most golfers were weak putters, they tended to update their putters fairly frequently and with less product research. In fact, many golfers owned five or more different putters, and when one putter "stopped working," they would change to another.

Sales and Marketing

Helmstetter stated that his group had to come up with products that consumers did not know they wanted, even if it cost triple the price. He believed that if customers knew what they wanted, then it was too late. Helmstetter said: "After you create the product and get it to work, then you convince the consumers that they have always wanted and needed it. We start with the central idea that the product is better, and we can prove to them that it's better. Then we get the professional endorsements, get enough consumers to test it, and figure out what the advertising should look like."

Sales CGC derived sales from both the United States and abroad. (See **Exhibit 10** for sales history of CGC.) Within the United States, the company sold to on-course and off-course golf retailers who sold professional-quality equipment, and no one customer accounted for more than 5% of revenues in 1998. About 65% of CGC business was done in off-course retail shops. The number of on-course retail stores had increased from 5,000 to 7,000 over the past five years, whereas off-course retail stores increased from 1,500 to 2,000 over the same period. Although an additional 1,000 off-course shops were added during this time, they had failed and closed their doors. Of the estimated 2,000 off-course shops, CGC serviced 1,500 of them in 1999, versus 1,000 five years prior. In general, about one-third of off-course shops sold two-thirds of products, and two-thirds of on-course shops sold one-third of products.

Although on-course retailers were considered vital to CGC, the company relied more heavily on off-course shops because they were generally better financed than on-course shops. In addition, pros in on-course shops did not have the time to sell products properly because they were running the course, giving lessons, selling shirts, and renting golf clubs. Despite tremendous variation in size between the two types of retailers, CGC maintained a "one price" policy with all customers. Thus, it provided no volume discounts, whether a customer did $10,000 or $40 million of business a year.

Through its subsidiary, Callaway Golf Sales Company, CGC sold products wholesale to customers via regional field representatives (outside sales), in-house telephone salespeople (inside sales), and customer service representatives. Salespeople divided their customers into three groups, "A," "B," and "C," which they visited weekly, once a month, and four times per year, respectively, depending on their importance as an account. During visits, outside salespeople tended to spend one to two hours at a customer's store.

Outside salespeople had many responsibilities in the field, including running "demo days," maintaining physical inventory, straightening up CGC's displays, taking customer orders, providing product seminars, and getting to know the store salespeople. "Demo days" were conducted on weekends at on-course retail shops 30 to 40 times a year by each outside salesperson (totaling more than 2,500 per year). These events allowed golfers to try CGC clubs against their own at the clubs' driving ranges.

Another outside sales task was to determine holes in the individual store's inventory and suggest a fill-in order using knowledge of sales trends. (New products were on "allocation" so that stores would pre-order up to their allocated amount and not get more product once the inventory was depleted.) Retailers did not have sophisticated inventory management; thus, CGC relied on its outside sales group to do physical counts. Outside salespeople also spent time educating salespeople about CGC products because salespeople would gravitate to the products about which they knew the most, and the more they knew, the more convincingly they could sell.

Outside of the United States, foreign subsidiaries and international golf club distributors made up most of CGC sales. The company distributed products in more than 50 countries, and sales to these countries received an export-pricing discount to alleviate the expense of distribution, advertising, and selling costs. (See **Table A** for country breakdown by 1998 sales.)

Table A 1998 CGC Sales Breakdown by Country

Country	Sales (in thousands)	% of Sales
United States	$437,628	63%
Japan	$ 61,460	9%
United Kingdom	$ 64,077	9%
Other foreign countries	$134,456	19%
Total	$697,621	100%

Source: Callaway Golf Company's 1998 Annual Report.

Marketing CGC's marketing program was critical for two reasons. First, the key to making money in the golf business began with the product, and it had to be a product that differentiated itself enough so that the company could charge a premium. Second, as CGC achieved product differentiation via continuously updated technology, it became increasingly important for the end consumer, as well as retail salespeople, to understand the product well enough to make educated buying decisions or sales pitches.

CGC used television, golf magazines, trade publications, and word of mouth as its primary forms of advertising. The company also endorsed professional golfers on all five major tours (PGA, LPGA, Senior PGA, European PGA, and Nike) as a vehicle to promote its products. Notably, many professional golfers throughout the world used CGC products even though they were not under contractual obligations, and CGC rewarded this voluntary usage with shared cash "pools."

CGC planned to spend $25 million on worldwide pro tour endorsements in 1999, but this program was likely to be scaled back in the future. (In 1999, tour player Colin Montgomerie had contracted with CGC for $1 million, the highest amount the company had ever paid a professional golfer.) The goal was to assemble a portfolio of quality pros who signed for a reasonable price and who believed in the products. (Pro contracts generally had three- to four-year terms.)

In choosing pro players, one CGC executive said, "We don't want to pay a zillion dollars for a super-prestigious pro—it's not worth it, given we're the market leader already; but we also don't want a bunch of players who will never get on television either. We want pros who are going to be on leader boards and who will win some tournaments." Some CGC pros in 1999 were Rocco Mediate, Colin Montgomerie, Annika Sorenstam, Jim Colbert, Bruce Fleisher, and Carlos Franco.

CGC used endorsements more as a validation, rather than as a cornerstone, of its product marketing campaign. Comparatively, acceptance and use by the pros was the absolute core of the Titleist marketing strategy, whose management pursued pros aggressively. A Callaway spokesman commented, "We develop clubs for average golfers, but it just so happens that pros use them too. That validates our products' quality and technology."

Media When it launched Big Berthas in 1991, CGC ran three consumer print ads and three ads in trade magazines. Ely Callaway said, "Not a minute of television—all word of mouth based on the performance of the product."[3] Television was later used, and CGC's advertising had changed over time from using cartoons, to celebrities, to company spokespeople describing the technological advantages of CGC's clubs. CGC wanted to demonstrate that it was serious about R&D, but it did so in a lighthearted way.

CGC ads were aired primarily during golf tournaments and also on CNN and ESPN. The company never used prime-time air because of the high cost. In 1998, CGC's advertising budget was $33 million, up from $20 million in 1997 and $18 million in 1996. See **Table B** for total spending on advertising-, promotional-, and endorsement-related expenses.

Table B CGC's Total Advertising-, Promotional-, and Endorsement-Related Expenses

Year	Dollar Amount
1998	$79 million (Advertising = $33 million)
1997	$62 million (Advertising = $20 million)
1996	$45 million (Advertising = $18 million)

Source: Callaway Golf Company's 1998 10-K Report.

[3] Ibid.

Pricing

Setting wholesale prices of innovative products like the Big Bertha metal woods was not easy. Ely Callaway explained the process as follows:

> We relate the new product to existing products on the market, we relate it to the impact we are going to have on the consumer, how rare is the product, how much money did it take to create it, and how long did it take. We throw all these things in together, and our internal staff consisting of the merchandising, product, and R&D personnel get together and decide on the price. There is no set formula.
>
> Since it is difficult to predict a consumer's willingness to pay for such innovative products, it is a matter of "judgment" and "speculative courage." The Big Bertha metal woods introduced in 1991 sold for $400, which was probably twice as much as anybody had ever paid for a driver. But when we have a product like the Big Bertha and we know internally what benefits it is going to bring to the golfer, there is no way the golfer can help you judge it until you offer it and until they hit it. So the experience itself has to be anticipated.

Callaway adjusted the wholesale prices of woods and irons rather infrequently. The wholesale price was typically maintained over the life cycle of the product and reduced only at the end of two or three seasons when a new product was likely to be an improvement over the existing product. (See **Exhibit 11** for recent wholesale prices of the Callaway product line.)

Industry/Competitive Analysis

In 1986, there were 20 million active golfers on 13,353 courses in the United States, and by 1998, there were 26 million golfers on 16,365 courses (70% were open to the public). These numbers were expected to increase by 2 million players and 300 to 400 new courses annually. (Of the 448 courses opened in 1998, 54% were nine-hole courses.)[4] The largest increase was among golfers who played between eight and 24 rounds per year, increasing 56%, from 5.4 million to 8.4 million. At the same time, avid golfers declined from 5.6 million to 5.4 million participants, and occasional golfers remained steady at 10 million.[5]

Some golf industry analysts, however, disputed the new-participant growth numbers. Between 1988 and 1998, golf attracted between 1.5 million and 3.0 million beginning golfers per year, but most quit because of what the National Golf Foundation called "the inability of the industry to deliver an experience that stimulates more golfers to stay with the game or that motivates the average golfer to play more often."[6] Reasons for this included the time involved in playing (18 holes of golf could take four hours to complete), the unavailability of courses (it was difficult to get desired tee times), and the increasing cost to play (the average cost per round had risen 5% per year since 1996).

Between 1986 and 1998, golf expenditure in the United States on fees, equipment, and merchandise increased from $7.8 billion to $15 billion. In 1998, golfers spent $2.2 billion on clubs, $5 billion on merchandise, and the remainder on playing fees—nearly 50%. The average U.S. golfer

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[4] National Golf Foundation Web site, http://www.ngf.org.

[5] "Callaway Golf Company," AG Edwards analyst report, September 28, 1999, p. 2.

[6] Ibid.

spent $1,152 on all golf-related purchases, with avid golfers spending twice as much and other golfers spending less.[7]

Although worldwide interest in golf was growing, the worldwide premium-equipment market was declining. Demand in the United States had decreased in 1998, and worldwide sales had been negatively affected by the Asian economic turmoil. Another reason for the decline was the saturation of product in the marketplace. By 1998, 18 types of "oversized head" clubs from 13 manufacturers shared the market that CGC had created in 1991. As new, technologically superior clubs were introduced on a regular basis, golfers began to have difficulty justifying the advantage of the clubs in the store versus the clubs in their bags. Another issue was that many golfers had "traded up" earlier than their normal buying cycle dictated, making it difficult to warrant a new purchase.

Competition

The highly competitive golf equipment industry was marked by many well-established and well-financed companies with popular brand names, as well as new companies with trendy products. In the late 1980s and early 1990s, manufacturers were not well financed and were unwilling to gamble on new, radically designed clubs—with the exception of Ping, which was very innovative and, in fact, dominated the world's iron market until 1995. By 1999, however, manufacturers were more willing to introduce unique designs. In the iron and metal woods categories, CGC's most significant competitors were Taylor Made, Titleist, Cobra, and Ping. In the putter category, CGC competed with Titleist and Ping. (See **Exhibit 12** for retail sales of woods per quarter.) Additional challenges came from some Japanese companies with leading-edge products threatening to enter the U.S. market. One industry insider said: "The biggest problem in golf is coming up with Act II. There are many companies that introduce a club and can get reasonable market share, but then as that product cycle expires and it's time for a new club, the company cannot come up with something better or something that matches the promise of the initial club."

Taylor Made Golf Taylor Made had been acquired by the German multinational Adidas-Salomon in 1997 and thus had deep resources to aid its efforts. Taylor Made's commitment to R&D was strong and produced the revolutionary bubble shaft in 1994, which used perimeter weighting to make it possible to swing the club with more power and less effort. Taylor Made marketed itself to the average golfer, and its 1998 sales were $321 million. More than 51% of its sales were derived from the woods category, followed by irons (38%), accessories (10%), and putters (1%).[8] The company sold to both on- and off-course golf shops but had discontinued selling to all eTailers, such as Fog Dog, as of 1999. Management felt it was too difficult to maintain its standards of price and image via that distribution channel. The company was also known to have made consistent efforts to support its retailers through a variety of programs, such as rebates on sales targets and cooperative marketing programs. As of 1999, Taylor Made management did not know in which direction they were taking the company; thus, new products were released every year to try and maintain some market share. One retail manager said: "Last year Firesole was the best thing since sliced bread, but this year it's Supersteel. How can I stay consistent with my customers and try and promote with them that it's the best club and that they're going to stay with it for a long time if there is a new product coming out every year?"

Titleist Golf/Cobra Golf Titleist and Cobra were owned by Fortune Brands. Unlike CGC, which wanted to market itself as the premium average players' product, Titleist marketed itself as the

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[7] Ibid.

[8] Adapted from Golf Datatech reports.

professional or very good players' product. This was the company's strategy because management felt that all golfers aspired to classify themselves in that category. Titleist spent twice as much money as CGC did on endorsements and also had the number one shoe (Foot Joy) and golf ball in 1999. This type of marketing paid off. As one avid golfer who was on the market for new woods said, "I know that Tiger hits with Titleist, so I'll probably give those a try in the pro shop."

Cobra was founded in 1973 and later became a public company before it was acquired by Fortune Brands in 1996. As opposed to Titleist, which focused on the highly skilled golfers, Cobra was dedicated to the average golfers, especially ladies and seniors. Like many companies, Cobra was first a "wood company" with its initial product, the Baffler wood. The company later built up its iron business, and its winning product was the King Cobra oversized irons in 1993. Combined sales and employees totaled $963 million and 4,650, respectively, in 1998.[9]

Ping Golf Ping was one of the few privately owned golf companies, went head-to-head with CGC in irons, and, like CGC, had started out as a putter company. Management was keenly focused on research and development, and Ping was most famous for heel-toe and perimeter weighting, as well as custom-fitting innovations.

Ping distributed almost exclusively to on-course retailers where management felt consumers could be properly fitted. Another reason the company built its business at on-course shops was that there was no way that off-course shops could simulate ball flight, which management viewed as a critical process to proper fitting. Realizing that fewer and fewer golfers were members of golf clubs, Ping began to sell to off-course retailers to make its products accessible to more people. Ping did not participate in any endorsement program with professional golfers.[10]

Regulatory pressure In November 1998, the United States Golf Association (USGA) set forth another challenge for CGC when it announced the adoption of test protocol to measure the so-called springlike effect in driver clubheads. Callaway said:

> We are working to overcome the attitude of the USGA, which makes rules governing equipment. They threw a big scare into the industry after their announcement. They said that people were hitting the ball too far off the tee, and they wanted to take the Big Berthas away from them. We held a PR campaign where we asked golfers, "You don't want them to do this, do you?" There was a temporary victory in that the USGA approved the Big Berthas and all clubs in the market like them. We have some new club designs that we're going to want to make, but we know that some of them will be turned down. This is a significant challenge for both CGC and the industry.

This USGA protocol, which applied only in the United States, concerned both recreational and professional golfers. In reality, only 20 golfers in the world might, at some point, hit the ball too far—and the club was only one factor; players were getting stronger, and courses were better developed. CGC products conformed to the regulations as of 1999; however, this would guide future product development for CGC and for the entire golf industry.

Retail Channels

Retail stores existed at both on- and off-course sites. On-course shops, usually small and with limited selection, were located at golf courses, including a variety of both private and public facilities.

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[9] 1998 Fortune Brands annual report.

[10] Adapted from Ping Golf Web site (www.pinggolf.com) and speaking with retailers and club users.

Conversely, off-course shops were located outside of "green grass" locations; they were larger, offered a greater selection, and were generally categorized by size of store. Some off-course shops competed on the basis of service and expertise levels, while others were attractive because of the convenience of their locations, but all were priced competitively. As one retailer said, "You're either in the ballpark, or you're not in the game."

All sizes of off-course stores actively used advertising as part of their marketing strategies. Price advertising was prominent in newspaper advertising but less so in television. In the industry, most manufacturers allowed their customers to advertise price, and many had minimum-advertised price policies. Only in 1999 did CGC allow its wholesale customers to advertise price. Prior to that, customers could advertise price only by using flyers or catalogues in direct-mail campaigns.

Retail staff Retail stores offered varying levels of sales assistance. Depending on a customer's skill level, salespeople spent between 15 minutes to an hour and a half with each customer. On the one hand, beginning golfers needed a high level of service and personal care, and the retail goal was to get them into a good-fitting set of clubs at a price they could afford. Average or avid golfers, on the other hand, generally entered a store already knowing exactly what they wanted. These higher-skilled golfers tended to spend their time in the hitting bays and based their purchase decisions, with little help from salespeople, on which clubs within their price range felt the best. Salespeople did, however, make suggestions if they felt that a golfer's swing and skill level were not a good match for the clubs they were trying. Salespeople could also influence a sale by giving a golfer a $450 set of clubs to try in addition to the $700 set of clubs that the golfer was currently trying out in the hitting bay. One salesperson said, "The more expensive clubs might be a hair easier to hit on certain shots, but most people can't tell the difference."

In-depth knowledge of the sport was critical in enabling the staff to speak intelligently with the customers. In general, golf salespeople were well educated and polite, displayed a passion for golf, and did not adopt a "hard sell." Despite this, CGC management sometimes felt that product knowledge was not always reaching the point of sale. This stemmed from the high turnover, low salaries, and noncareer status of salespeople.

To aid point-of-sale product knowledge, CGC supplied the retailers with equipment brochures, informational CD ROMs, televisions with informational videocassettes, pocket-sized product guides, and product training by its outside salespeople. Not all of these aids were equally effective. Some retailers also resisted the product training because store managers often did not want to pay salespeople to spend time talking to manufacturers' representatives. One retailer's comment was, "We don't need it, the products sell anyway." Another retailer had an alternative view. He said, "We're all in this together, I welcome the product training here. The better educated my staff is, the better they can sell the products and increase my bottom line—as well as the manufacturer's."

Some retail salespeople who welcomed training complained that when a CGC field representative visited them in the store that he stayed only briefly, checked inventory, and did not instill in them any wisdom about CGC products. As a result, salespeople said they often felt undereducated about CGC technology and, therefore, could not justify the high prices to their customers. Sometimes they would steer customers to the retailer's private-label products or to other manufacturers' products that they felt were "more for the money," that they "believed in" and understood well. (Traditionally, name-brand products yielded 15% to 25% margins, and private-label products yielded 40% to 50% margins.)

In addition to product training and educational aids, CGC provided other means of support for its retailers, including product advertising, endorsements, demo days, warranty programs, 800 numbers, terms of payment, and closeouts. Closeouts generally occurred when existing equipment was discontinued to make room for new products or when CGC had too much inventory itself and wanted to get rid of it. At the time of a new-product introduction, for example, if a retailer had eight of the previous clubs left in inventory, CGC would supply the store with one more new club for free, which brought down the average cost of the remaining inventory. Once a new product was introduced, the retailer had the discretion to mark down the remaining inventory to a price at which it would sell. In 1999, CGC held its own closeout and sold $40 million of excess inventory of Great Big Bertha, Biggest Big Bertha, and Great Big Bertha irons to the market at a lower price.

As a result of these support mechanisms, retail surveys consistently placed CGC in the top three for everything from advertising, to quality of products, to excellence in customer service. CGC was always dead last, however, in margins. Reasons for this included CGC's "no volume discount" policy and credit terms of 2% 30 net 60 (2% discount if paid within 30 days, otherwise pay in full within 60 days), which was considered a tight payment schedule within the industry—some manufacturers offered up to 120 days. One CGC insider said, "If you get to 60 and don't pay, the credit department comes down on you like a ton of bricks." It was the company's view that a bank, and not CGC, should finance their customers' businesses. CGC management felt its only responsibility was to provide its customers with the products that would best create the most demand and sell-through, enabling the customers to pay their bills within 30 to 60 days.

Inventory The CGC brand was so powerful that retailers had to carry CGC clubs in order to validate their stores as legitimate golf equipment shops. Stores also often used CGC equipment to develop their price image because shoppers would choose key CGC products to price-compare from shop to shop.

There was no magic to how much inventory retailers carried. In general, they carried two to three months of inventory at a time, which varied in size during the busiest middle two quarters. Many on-course shops sold only "soft goods," such as shirts, caps, and balls, and sold clubs by mail order only. Off-course stores, conversely, focused on offering the biggest-name brands with the largest market share.

It was impossible for retailers to carry all variations of every club because there were an overwhelming number of stock-keeping units (a large retailer could have up to 10,000 SKUs in inventory). This was because there were right-handed clubs, left-handed clubs, ladies' clubs, and clubs with various lofts and shafts. (There were 24 different styles of clubheads and 10 different available shafts for the Great Big Bertha Hawkeye club alone.) Limited physical space and cost prevented retailers from carrying everything; thus, retailers tried to build inventories to fit the maximum number of people.

Retail challenges The golf retail business had become more difficult over the past 20 years. In the 1970s, virtually all golf clubs were sold through on-course golf shops, and in the entire United States, there were only 50 off-course shops—most of which were family-owned, "ma and pa"-type retailers. As off-course shops exploded in number, there were too many retailers sharing the pie. This was a problem because, relative to other industries, the golf business was not very large. One senior executive said, "It's not like the pharmaceutical business where everybody needs some."

In the 1970s and 1980s, name-brand merchandise was not as important to golfers as it was in 1999, so retailers had more of an opportunity to sell their private-label, higher-margin products. In the retailers' opinion, margins had steadily decreased over the years, but CGC believed that the cause was actually a higher percentage of the retailers' business being made up of name-brand (i.e., lower-margin) products.

Another retail challenge for CGC was its future role on the Internet. As of 1999, CGC had online retailers selling its products on the Internet (it did not sell direct), but this channel accounted for less than 1% of CGC's business. Management did not believe that it would replace the retail channel in any significant way because golfers wanted to touch, feel, hit, and swing golf clubs, and they did not like the delayed satisfaction in having product shipped.

In fall 1999, CGC management was doing some serious thinking about ways to draw itself closer to its biggest customers, but one executive said, "It won't include tiered pricing, I can tell you that." When asked if manufacturers realized that they needed the retailers more than ever, one retail manager replied, "If they don't they'll be out of business, because we support the products."

What To Do Next?

Looking out the conference room window, Ely Callaway admired a Porsche in the company parking lot with a license plate that read "THX ELY." A small symbol of CGC's success, the license plate embodied the culture that permeated the company. CGC had enjoyed many years of positive growth, followed by a down year in 1998. To alleviate some problems and to help rebuild, Callaway had already made several changes. After Don Dye's departure, the workforce was reduced, underperforming accounts were closed, and noncore businesses were discontinued. Callaway wondered: What products should be developed? How should CGC approach its retail partner relationships? And, should CGC's marketing campaign be refocused?

Despite these questions, Callaway remained confident in his organization. When asked if CGC could stay ahead of the competition, he said, citing Newton's first law of motion, "No problem. Bodies in motion tend to remain in motion." He continued, "It's a hell of a story, and it's not over yet."

Exhibit 1 CGC Income Statements

	1998	% Sales	1997	% Sales	1996	% Sales	1995	% Sales
Net Sales	$ 697,621	100%	$ 842,927	100%	$ 678,512	100%	$ 553,287	100%
Cost of Goods Sold	401,607	58%	400,127	47%	317,353	47%	270,125	49%
Gross Profit	296,014	42%	442,800	53%	361,159	53%	283,162	51%
Selling Expenses[a]	147,022	21%	120,589	14%	80,701	12%	120,201	22%
General & Administrative Expenses	98,048	14%	70,724	8%	74,476	11%	N/A	
R&D	36,848	5%	30,298	4%	16,154	2%	8,577	2%
Restructuring Costs	54,235	8%	N/A		N/A		N/A	
Litigation Settlement	N/A		12,000	1%	N/A		N/A	
(Loss) Income from Operations	(40,139)	-6%	209,189	25%	189,828	28%	154,384	28%
Interest and Other Income, Net	3,911		4,586		5,804		4,017	1%
Interest Expense	(2,671)		(10)		(37)			
(Loss) Income Before Income Taxes	(38,899)	-6%	213,765	25%	195,595	29%	158,401	29%
Income Tax (Benefit) Provision	(12,335)		81,061		73,258		60,665	
Net (Loss) Income	(26,564)	-4%	132,704	16%	122,337	18%	97,736	18%

Source: CGC 1998 Annual Report, p. 20, and CGC 1997 Annual Report, p. 28.

[a]In 1995, includes general and administrative expenses.

Exhibit 2 CGC Products

The company's primary golf club offerings included the ***metal woods***, ***irons***, and ***putter*** categories, which covered six major product lines.

Metal Woods In 1997, the Biggest Big Bertha Titanium Drivers (BBBT) became available. This product line had the largest titanium clubheads of any CGC club ever produced, provided the maximum forgiveness, and had long, ultralight graphite shafts. Although these clubs were long and large, they were lighter than those in the Great Big Bertha series. The BBBT drivers were offered in lofts ranging from 6 to 12 degrees.

In 1998, CGC introduced the Big Bertha Steelhead Stainless Steel Drivers and Fairway Woods (BBSS). The BBSS line was designed to replace the Big Bertha Stainless Steel Drivers and Fairway Woods with the War Bird soleplate. BBSS had a large, forgiving clubface with a weight chip that had a low center of gravity. The BBSS drivers were available in lofts ranging from 6 to 12 degrees, and the associated woods were offered in a 2-wood (The Deuce), Strong 3-wood, 3-wood, Strong 4-wood, 4-wood, 5-wood, 7-wood (Heaven Wood), 9-wood (Divine Nine), and 11-wood (Ely Would).

In 1999, CGC introduced the Great Big Bertha Hawk Eye Titanium Drivers and Fairway Woods (GBBHE), which were designed to replace the Great Big Bertha Titanium Drivers and Fairway Woods (GBBTD). The GBBHEs had a new oversized clubhead that included a thin, titanium crownplate, a strong, lightweight titanium body, and a tungsten gravity screw. The tungsten gravity screw was inserted into the sole of the clubhead, producing a low center of gravity. The GBBHE drivers were available in lofts ranging from 6 to 12 degrees, and the GBBHE woods were available in a 2-wood (The Deuce), Strong 3-wood, 3-wood, Strong 4-wood, 4-wood, 5-wood, 7-wood (Heaven Wood), and 9-wood (Divine Nine).

Irons In 1997, the company offered the Great Big Bertha Tungsten Titanium Irons (GBBTT). These clubs had the same primary design characteristics as the Big Bertha Irons, but had a larger clubhead and a tungsten inset. The tungsten piece enabled the weight to be concentrated low and deep in the clubhead, thereby giving an increased sweet-spot surface. These clubs were available in irons 1-9, pitching, approach, sand, and lob wedges with either graphite or steel shafts.

In 1998, CGC introduced the Big Bertha X-12 Irons (BBX), which had a low center of gravity to get the ball airborne more easily with the desired trajectory and spin. The clubs also had a unique, multi-layer design in the cavity that allowed for forgiveness with off-center hits. This line was available in irons 1-9, pitching, approach, sand, and lob wedges with either graphite or steel shafts.

Putters CGC had two lines of putters, the Odyssey brand and the CGC series. CGC acquired Odyssey in 1998 for $129 million, and it became the best-selling putter on the market. Odyssey putters were known for their better feel and forgiveness, as compared to other manufacturers' putters. Included in the Odyssey line were the TriForce series, introduced in 1999, which had "better ball roll" than other clubs due to the center of gravity being pushed back away from the clubface, Rossie Mallet Putters, and Dual Force blade-style putters.

The second line of putters was the Callaway series, which included the Carlsbad, Tuttle, Tuttle II, and Bobby Jones putters.

Source: Callaway Golf's 10-K Report, December 31, 1998.

Exhibit 3 CGC Products' Contribution to Net Sales

Product Type	1998		1997		1996	
Metal woods	$389,900	56%	$544,258	64%	$479,127	71%
Irons	$229,112	33%	$233,977	28%	$168,576	25%
Putter, accessories, and other[a]	$ 78,609	11%	$64,692	8%	$30,809	4%
Total:	$697,621	100%	$842,927	100%	$678,512	100%

Source: Callaway Golf's 10-K Report, December 31, 1998.

[a]1998 and 1997 net sales include $49.2 million and $20.5 million, respectively, of Odyssey putters and wedges.

Exhibit 4 The Golf Clubs

The Driver	**No. 1 wood**. The longest-hitting wood club, most often used on the tee in an attempt to achieve the greatest distances. The strongest and most accomplished players may occasionally choose to use a driver off the fairway on holes requiring the longest second shots.
The Fairway Woods	**Fairway Woods—Nos. 3, 4, 5**. Exactly as the designation suggests, these are played off the fairway. Some golfers choose to use the No. 3 wood, which has a smaller, more lofted head than the driver, off the tee for greater accuracy. This is also common and accepted practice among tour pros.
The Utility Woods	**Utility Woods—Nos. 7, 9, and 11**. This category is fairly new and growing rapidly. The No. 5 wood is occasionally included. For many golfers, especially seniors, women, and beginners, the high-lofted fairway, or trouble, woods are replacing hard-to-hit long irons. Trouble woods, because of the built-in loft, are adept at extricating a ball from the difficult lies in the rough. They are also used to hit the ball high and land softly on shots requiring carry over hazards and demanding parachute-style landings.
The Irons	**Long irons—Nos. 1, 2, 3, 4 irons**. For shots requiring at least 180 yards. Effective use of these clubs is normally associated with better players. **Middle irons—Nos. 5, 6, 7 (sometimes 8) irons**. With these clubs, the target is the green from a range of between 130 and 170 yards. At that distance, golfers will almost always go for the green. **Short irons—No. 9, Pitching Wedge, Sand Wedge, Lob Wedge (sometimes 8 iron)— a.k.a. Scoring Clubs**. When you get these clubs in your hands, you're thinking only about getting it on the green and, hopefully, relatively close to enable you to post a good score on the hole. The short shaft length makes them easier to use and a favorite among most golfers. These clubs also can fall into a second category known as specialty clubs. They have the versatility to be used for all manner of shots around greens—chips, pitches, lobs, sand shots—including awkward situations anywhere on the golf course.
The Putter	**The putter** is used on the greens or from areas very near the green where the path to the cup is relatively smooth and straightforward, unfettered by unusual terrain or longer grasses.

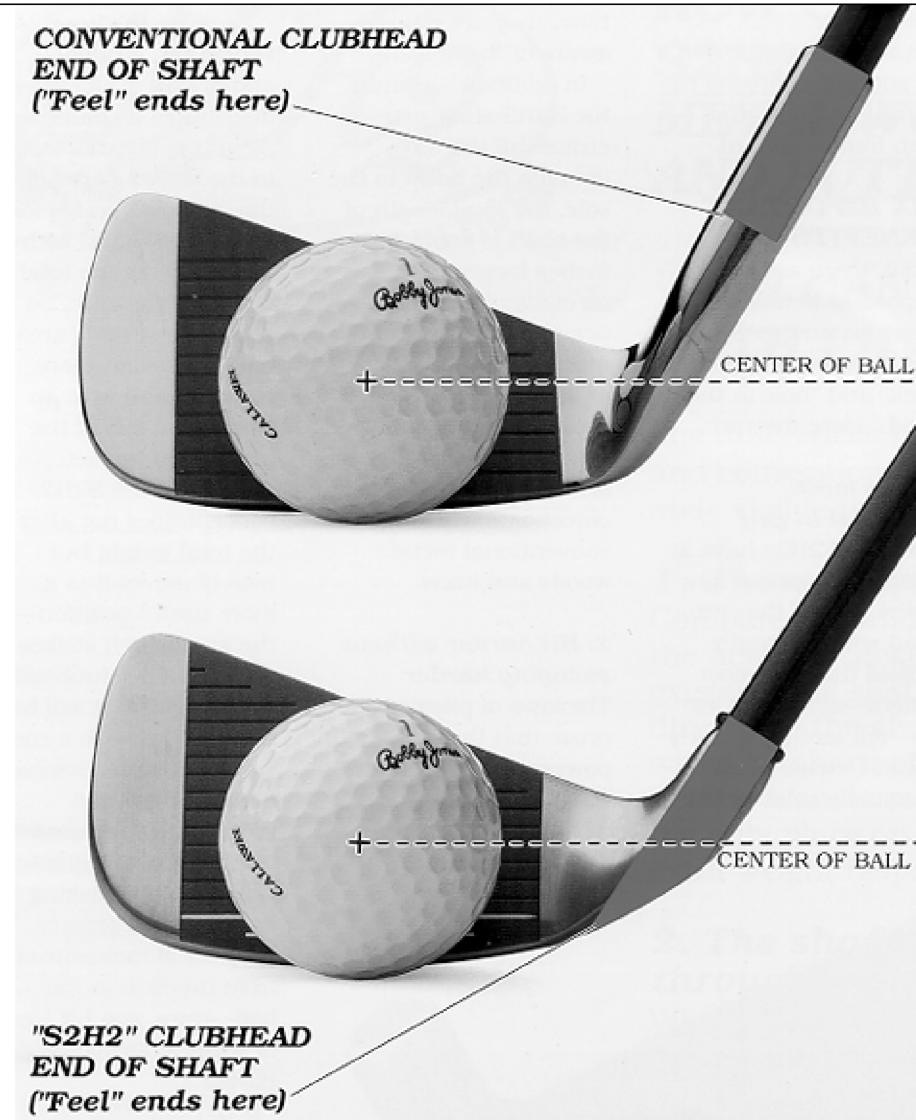
Source: Callaway Golf Company information.

Exhibit 5 Glossary of Terms

Golf Term	Definition
Clubface	The front, flat side of the clubhead. Makes contact with the ball.
Clubhead	Located at the bottom of the shaft. Makes contact with the ball.
Flex	The degree to which the shaft is flexible. Each club has about four flexes. (Similar to one pair of pants coming in six different sizes.)
Lie	Describes the grass on the golf course. A golf course is composed of many different kinds of grasses.
Loft	The degree to which a ball is airborne after making contact with the club.
Rough	Overgrown grass—makes for more difficult hitting.
Shaft	Tall, skinny piece between the handle and the clubhead.
Short Game	Describes the short distance between a ball's course location and the hole.
Soleplate	Part of the golf club that glides along the turf.
Tee	The small piece of wood that is stuck into the ground to rest one's golf ball on. The tee is only used for the first shot of the game.

Source: Callaway Golf Company information.

Exhibit 6 The S2H2 Concept



Source: Company publication.

Exhibit 7 CGC Woods' Sales (in units per 1,000 woods and selling price)

		1997				1998				1999			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Biggest Big Bertha													
	Units	10.15	45.35	53.27	30.96	20.84	39.12	34.10	20.52	12.32	17.26	14.20	9.13
	Price	$ 462.89	$ 479.98	$ 467.19	$ 451.89	$ 443.53	$ 407.45	$ 374.08	$ 364.31	$ 345.76	$ 318.21	$ 278.80	$ 252.27
Great Big Bertha													
	Units	68.74	137.69	116.66	82.58	53.26	109.29	98.20	51.92	26.48	51.65	66.40	27.94
	Price	$ 365.25	$ 370.81	$ 368.98	$ 367.54	$ 363.97	$ 337.49	$ 309.02	$ 298.93	$ 286.49	$ 246.93	$ 227.22	$ 220.52
Great Big Bertha Hawkeye													
	Units	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	21.07	73.38	74.03	57.98
	Price	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$ 392.95	$ 380.58	$ 375.14	$ 372.41
Big Bertha Steelhead (Graphite Shaft)													
	Units	N/A	N/A	N/A	N/A	N/A	N/A	11.78	47.01	47.91	88.03	82.21	62.30
	Price	N/A	N/A	N/A	N/A	N/A	N/A	$ 240.20	$ 231.03	$ 224.24	$ 213.40	$ 212.12	$ 212.85
Big Bertha Steelhead (Steel Shaft)													
	Units	N/A	N/A	N/A	N/A	N/A	N/A	4.30	11.22	12.91	24.69	23.85	17.31
	Price	N/A	N/A	N/A	N/A	N/A	N/A	$ 157.03	$ 156.38	$ 153.79	$ 150.89	$ 148.45	$ 148.68

Source: Golf Datatech representative, March 2000.

Exhibit 8 Taylor Made Woods' Sales (in units per 1,000 woods) and Selling Price

	1997				1998				1999			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Titanium Bubble 2 Graphite												
Units	N/A	16.32	26.05	29.07	33.49	76.92	72.97	41.59	29.92	31.82	22.18	10.78
Price	N/A	$ 473.58	$ 460.53	$ 356.89	$ 302.62	$ 292.88	$ 289.99	$ 286.91	$ 250.28	$ 236.49	$ 216.33	$ 213.45
Titanium Bubble Graphite												
Units	49.51	109.22	94.05	56.14	31.93	51.80	38.04	16.27	5.69	5.89	3.57	1.02
Price	$ 291.65	$ 285.57	$ 276.91	$ 270.44	$ 229.75	$ 206.94	$ 204.77	$ 199.60	$ 192.35	$ 205.80	$ 195.18	$ 186.46
Burner Bubble Graphite												
Units	35.15	65.38	57.03	45.28	35.45	53.64	51.61	33.23	23.76	36.00	33.37	27.59
Price	$ 196.30	$ 194.56	$ 189.31	$ 167.67	$ 176.61	$ 190.87	$ 190.69	$ 183.32	$ 179.08	$ 171.74	$ 160.59	$ 146.28
Burner Bubble Steel												
Units	9.00	16.65	14.89	8.64	6.86	11.61	14.29	9.80	7.65	11.95	6.94	5.85
Price	$ 135.55	$ 161.55	$ 144.33	$ 126.19	$ 119.80	$ 133.22	$ 138.45	$ 137.48	$ 137.49	$ 131.73	$ 119.35	$ 120.20

Source: Adapted from Golf Datatech reports, March 2000.

Exhibit 9 CGC—New-Product Introductions by Year

Woods		**Irons**	
1991	Big Bertha Metal Woods	**1991**	N/A
1992	N/A	**1992**	N/A
1993	N/A	**1993**	N/A
1994	Big Bertha Warbird Metal Woods	**1994**	Big Bertha Irons
1995	Great Big Bertha Driver	**1995**	New Big Bertha Irons
1996	Great Big Bertha Fairway Woods	**1996**	Big Bertha Gold Irons
1997	Biggest Big Bertha Titanium Drivers		Big Bertha Tour Series Wedges
1998	Big Bertha Steelhead Stainless Steel Drivers and Fairway Woods	**1997**	Great Big Bertha Tungsten Titanium Irons
		1998	Big Bertha X-12 Irons

Source: CGC Public Relations Department.

Exhibit 10 Sales History of CGC (in thousands)

	1991	1992	1993	1994	1995	1996	1997	1998
Worldwide Sales in Dollars	$ 54,753	$ 132,058	$ 254,645	$ 448,729	$ 553,287	$ 678,512	$ 842,927	$ 697,621
US Sales in Dollars	44,896	102,323	188,099	331,493	367,359	466,517	527,407	437,628
US Sales of Woods in Dollars	31,730	80,851	155,355	236,446	247,372	324,466	352,708	241,842
US Sales of Woods in Units	258	503	1,050	1,514	1,433	1,581	1,501	1,220
US Sales of Irons in Dollars	10,524	16,918	20,455	69,976	91,938	118,366	153,052	141,810
US Sales of Irons in Units	204	304	354	841	1,036	1,576	1,703	1,826
Net Income	$ 6,416	$ 19,280	$ 42,862	$ 78,022	$ 97,736	$ 122,337	$ 132,704	$ (26,564)

Source: CGC 1995 and 1998 annual reports.

Exhibit 11 Approximate Average Wholesale Prices of Callaway Products

	1997	1998	1999
Woods:			
Warbird	$150	$140	$85
Big Bertha Steelhead[a]		158	150
Great Big Bertha	290	245	140
Biggest Big Bertha	340	295	190
Great Big Bertha Hawkeye			290

Source: Company information.

[a]Steel and graphite combined.

Exhibit 12 Woods Retail Sales in Dollars and Units

	1997				1998				1999		
WOODS	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Industry Sales (in millions)	$ 107.80	$ 226.43	$ 205.14	$ 138.45	$ 96.25	$ 197.39	$ 188.11	$ 118.95	$ 93.56	$ 190.12	$ 180.20
Dollar Share:											
Callaway	45.7%	47.6%	48.5%	46.9%	42.6%	36.8%	32.9%	36.3%	38.7%	38.6%	39.7%
Cobra	9.9%	9.6%	9.2%	8.1%	7.2%	7.7%	7.4%	6.8%	5.5%	4.5%	4.1%
Taylor Made	21.4%	24.2%	25.0%	24.8%	25.6%	22.9%	21.8%	19.1%	17.2%	18.4%	18.7%
Titleist	1.2%	0.7%	0.5%	1.6%	2.7%	3.9%	3.7%	3.8%	4.1%	7.0%	8.1%

	1997				1998				1999		
WOODS	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Industry (in thousands)	485.78	965.78	872.04	605.04	434.94	909.07	877.96	592.42	468.67	941.16	893.56
Unit Share:											
Callaway	37.4%	37.9%	38.6%	36.3%	31.7%	27.8%	26.7%	29.4%	30.1%	30.3%	31.8%
Cobra	10.0%	10.3%	9.8%	8.8%	7.3%	7.6%	7.4%	6.8%	6.1%	5.2%	4.4%
Taylor Made	20.3%	22.2%	22.4%	23.3%	25.0%	21.6%	20.4%	17.2%	16.0%	16.6%	17.2%
Titleist	1.7%	1.0%	0.8%	1.3%	1.8%	2.4%	2.3%	2.2%	2.4%	4.8%	5.4%

Inventory Share:	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Callaway	29.9%	32.7%	31.6%	29.8%	25.9%	24.2%	20.7%	23.3%	26.8%	27.1%	25.7%
Cobra	12.2%	13.2%	11.2%	9.1%	9.3%	11.1%	9.3%	9.4%	7.6%	7.1%	6.6%
Taylor Made	18.8%	21.7%	22.1%	24.2%	23.7%	20.6%	20.1%	18.5%	17.1%	17.4%	16.9%
Titleist	1.9%	1.7%	1.3%	1.6%	2.1%	2.3%	1.8%	2.2%	2.3%	4.1%	3.8%

Source: Adapted from Golf Datatech reports, March 2000.