Title
An Industry Review: The Keys for Success in the Golf Industry

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AN INDUSTRY REVIEW:

THE KEYS FOR SUCCESS IN THE GOLF INDUSTRY

By

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Abstract

The golf industry is facing an uncertain future. The key players in the industry are searching for ways to increase profits. Many companies in the golf industry are reporting break even numbers. I believe that there is still money to be made in golf. In my research, I have broken down the industry into six sections: equipment, golf tourism, real estate, apparel, media, and golf course design and management. My research measures the current performance of each sector of the industry. The extent of my research includes the value of real estate on and off golf courses, the success of golf equipment manufacturers, and the impact of location and demographics on golf course revenue. My research has helped me determine why some golf courses are more successful than others. I have also figured out that golf equipment manufacturers will have more success if they release products less often. Many of the players in the golf industry also have no form of price revenue management. To identify why some golf courses are more successful than others I studied regression analysis using factors like location and income. Based on my research, I am confident that golf companies can find success through effective price revenue management and new marketing strategies to attract new people to the game that I will outline among other things in my paper.

Acknowledgment

I want to thank Dr. Jasso for giving me the opportunity to complete my capstone project and everyone in the Honors College at UCR for their guidance over the last four years.

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Industry Definition and Outlook

The golf industry can be broken down into six sections: equipment manufacturing, golf tourism, apparel, real estate, media, and golf course design and management. In this paper, I will describe the performance of each aspect of the golf industry along with potential ways for the different sectors of the industry to improve. In recent years, the amount of serious golfers has remained stable at around twenty-four million (Matuszewski). However, with the introduction of driving ranges like TopGolf another twenty-one million people played golf in new nontraditional ways. The golf industry has still not fully recovered from its pre recession highs, but is now stabilizing and finding ways to make profits in new unconventional ways. Arcade like driving ranges like TopGolf and programs like the First Tee (kids golf program) have helped introduce more people to the game. The more people who play golf will help increase profits for the major players in the industry. Also, it is important to examine how golf affects tourism and real estate. Golf courses increase the value of real estate, while also luring tourists to different parts of the world.

Major Players

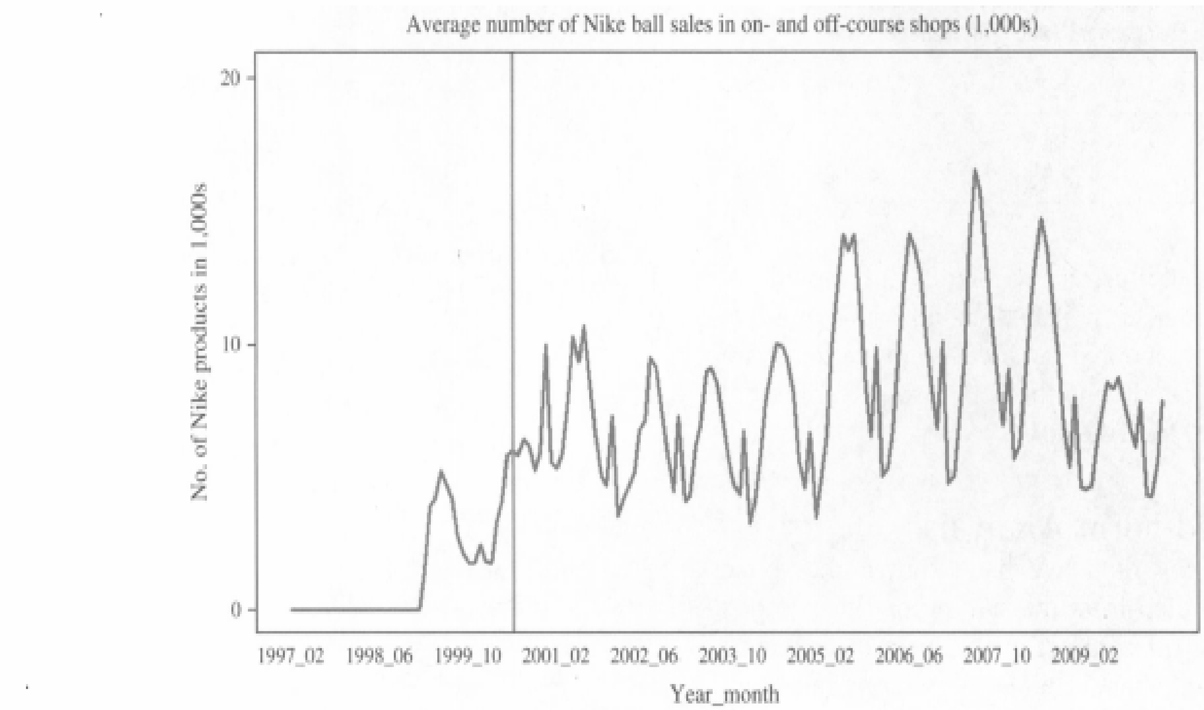
The major players in golf equipment manufacturing are Callaway, Taylormade, Ping, Mizuno, Titleist and Srixon. Recently Callaway has reported the highest profits and seen an over 30% increases in their stock price over the last few years. On the apparel side Nike, Adidas, Under Armor, and Travis Matthews compete for the market. On the real estate and resort side private companies develop golf courses and the properties around them. The Professional Golfers Association (PGA) is by far the leaders in media and broadcasting in the golf industry.

SWOT Analysis

Strengths

Tiger Woods has had a huge impact on the golf industry. In 1997, when Tiger Woods won his first Masters, CBS's ratings for the golf tournament went up nearly 25%. After that win the rest of the other televised tournaments saw a rating increase of 45% from the previous year (Farrel 1). In the following years, Tiger Woods rise to stardom can be attributed to an increase in the amount of golfers in the U.S. as well as the increased prize pools on the PGA Tour. The reason why I bring this up now is that Tiger Woods has recently completed an amazing comeback a month ago. This year Tiger Woods won the Master, which is considered to be one of the biggest tournaments in golf. This was his first major win in 11 years. Suzanne Vranica and Khadeeja Safdar of the *Wall Street Journal* believe that this win will help Nike boom their golf business and adds $22 million dollars of value to the brand (Vranica & Safdar). In my opinion, due to Tiger Woods recent success the golf industry is in a good spot to return to the revenue it experienced during Tiger Woods's rise to fame in the early 2000s. Both golf courses and equipment manufacturers need to capitalize on the growing attention Tiger Woods brings to the game of golf.

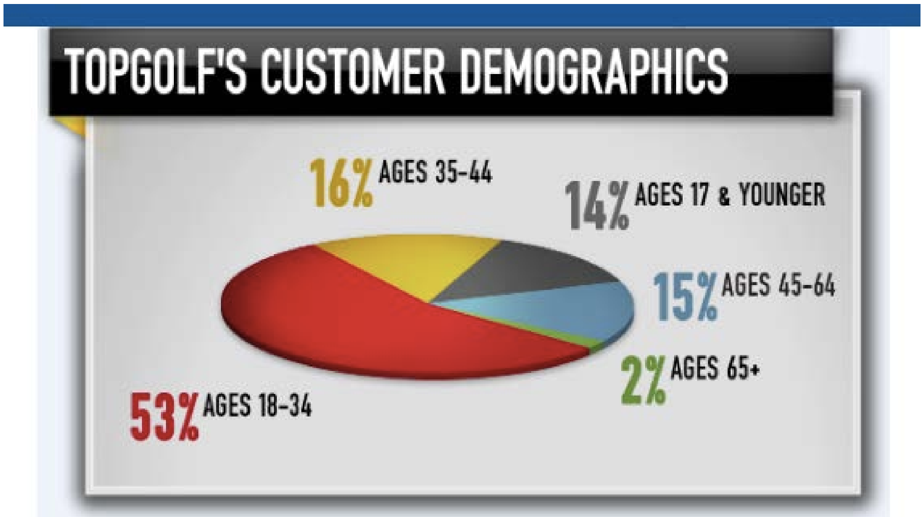
Figure 5 Total Sales of Nike Golf Balls (12-Packs) Before and After Tiger Woods' Endorsement



Note. The vertical line indicates Tiger Woods' switch to Nike (June 2000).

- Total sales of Nike Golf Balls, after Tiger Woods joined the company in 2000 (vertical line). Study done by *Marketing Science* (Chung, Derdenger & Srinivasan 277)

Another current strength of the golf industry is that in the last few years' millennials have taken a strong interest in the sport. A yearly study by the National Golf Foundation found that in the United States 36% of the 24 million golfers are between the ages of 18 to 39 (Clark). This is a significant increase from previous years. Millennials are one of the best groups to market too. In the last couple of years Under Armor's golf segment has grown 25% (Clark). By reaching a younger audience golf companies may increase revenue. The company Topgolf can be accredited for making golf more appealing to younger people. Topgolf is a company that created an arcade like golf experience for there customers. The company combines what people like the most play, food, drinks, and music. This company has helped introduce many people to the game of golf. Callaway, a golf equipment manufacture is an original investor in Topgolf and has reaped the benefits of the company's success (Gurdus). With so many younger people now taking interest in the sport, golf company's need to focus some of their marketing away from traditional golfers and more to younger consumers.



Weaknesses

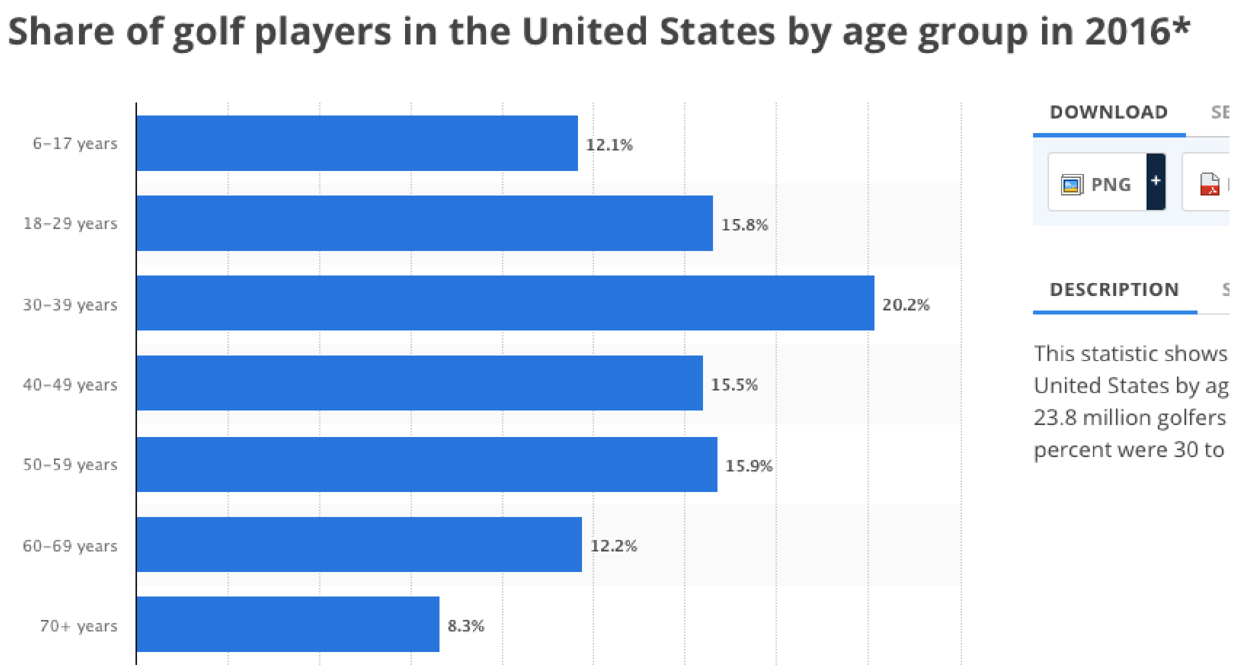
There are a lot of positives to look forward to in golf, but in recent years the industry has grown stale. The number of avid golfers has stayed around 24 million in the United States for some time now. Last year only Callaway and Acushnet (Operator of Titleist and Footjoy) reported positive net profits. Sales for many golf courses and companies have remained stale and constant for some time now. Companies need to look for new marketing strategies in order to increase profits.

Another troubling topic involving the golf industry is the closing of golf courses around the world. In 2018 205 golf courses closed (Biron). With the demand for land as high as it is today, it makes sense that new golf courses are not being built. However, the closing of many golf courses is troubling for those involved in the industry. Since real estate is so closely intertwined with golf, it is troubling to real estate developers to see golf courses closing. The value of real estate around closed golf courses immediately drops. Also, so many in the golf industry depend on real estate sales for their profit (Hudson 17). Sometimes the closing of a golf course is inevitable, but the lack of new golfers being introduced to the game hurts many courses' revenue, which may ultimately lead to a courses closure.

Opportunities

I believe that there is a huge opportunity for golf courses and companies to take advantage of the resurgence of Tiger Woods's career. In total 37.2 million people watched Tiger Woods win the 2019 Masters. That made it the most watched Sunday morning golf broadcast ever (Speros). Golf companies should take advantage of this sudden interest in golf. Equipment manufacturers should start marketing campaigns and widen their influence in order to increase profits, while golf is in the center of the media.

Technology should be better utilized in the golf industry today. Many golf courses and companies lack effective revenue management tools. Revenue management is the application of analytics to predict consumer behavior and optimize product availability to maximize revenue. The golf industry has too simple of a method to price their products and services. Effective price revenue management strategies may help golf course and companies maximize profits. I will highlight this in more detail in later sections.



- Breakdown of the percentages and age group of golfers (Statista)

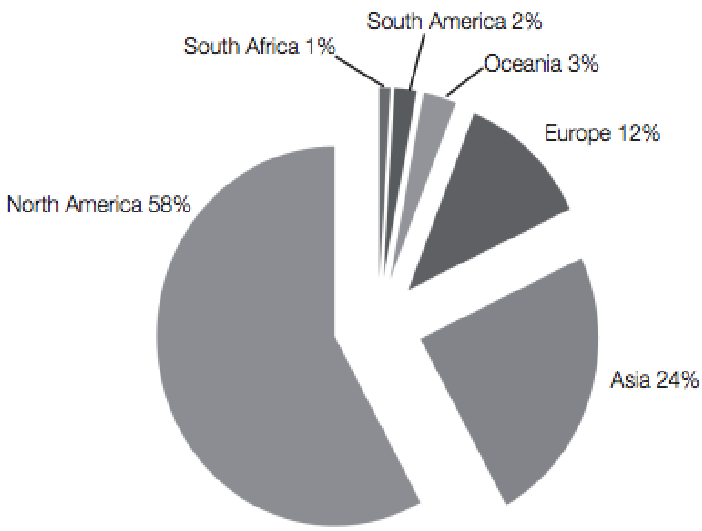
Threats

The biggest threat to golf is that it is still considered an elitist sport. Part of the reason for the games decline is that many view the sport as expensive or costly. The demographics of golf do not help either. For the game to thrive and survive, industry leaders need to make the game more affordable, trendy, and appealing to groups who historically have not played golf before. Golf needs to eliminate its elitist reputation.

Golf Tourism

A major part of the golf industry is golf tourism. Golf tourism can be described as players who travel to destinations with the intent of playing golf while being there. This sector of the golf industry really took off in the 1990s when many golf courses were being built all over the world. Today not nearly as many golf courses are built, but the influx of golf courses in the 1990s left a lasting impact on golf tourism. One example of this was the building of golf courses at ski and mountain resorts. One resort in British Columbia spent $16 million building a golf course that is only open in the summer (Hudson 7). Mountain resorts built golf courses in hopes of attracting tourists in the summer months and creating a four-season resort. Dominant U.S. golf course developers like Clubcorp and American golf began purchasing resort courses in countries like New Zealand, Fiji, and Australia in hopes of capitalizing on golf tourism. Courses in East Asia began to sprout up in the 1990s in hopes of attracting tourists to the country. 503,348 of the 20,972,822 tourists that visited Malaysia in 2007 played golf while on their trip. That is around $242 million generated in revenue alone in 2007. Golfers are attracted to Asia due to many of the courses cheap green fees and scenic ocean courses (Hudson 10). In the United States the golf tourism market is valued at $18 billion. Of the $76 billion in economic impact golf generates in the U.S. 24% of it is in golf tourism (Hudson 13).

Golf tourism directly correlates with real estate development. Time-shares and second homes are often built around resort courses in popular destinations. One of the most popular golf resorts in the United States; Bandon Dunes generated $30.54 million in net profit off of golf rounds in 2018 (Bandon Dunes Hoover). Attaching a golf course to a resort helps a resort capitalize on the $26.1 billion golfers spend on travel, hotel and food on their golf trips (Hudson15). Location and affordability play a huge role in the effectiveness of golf tourism. Golf courses in Asia lure western tourists through affordability. Golf resorts in the United States attract those looking for a luxury golf vacation. However, due to the stale state of the golf industry today, popular resorts like Bandon Dunes could further increase profits through effective price revenue management as I will layout in the coming sections.



- Golfers by region of the world (North America is the largest market in the world, with Asia experiencing a boom in golf revenue).

Real Estate and Golf

Golf courses are closely correlated with higher real estate value. Many people want to live in a community with a golf course attached to it. Many golf courses profits initially depend on real estate sales (Hudson 17). Golf community living helped spark the building of golf courses in the early 2000s (Yoder). People are attracted to the golf course communities. In a study by Quang Do and Gary Grudnitski, they found that location alone adds a 7.6% premium to a house's value when it is built near a golf course (Do & Grudnitski 268). However, there are problems with living on a golf course. The National Golf Foundation found that many developers help put money into golf courses until most of the homes are sold. Once the homes are sold, they leave and the course begins to struggle (Yoder). It would be a homeowners nightmare to own a property on a golf course that shuts down. Houses on closed golf courses immediately decrease in value and have a difficult time appreciating. Real estate and golf will forever be entwined, but there are pros and cons to building houses around a golf course.

Equipment Manufacturers

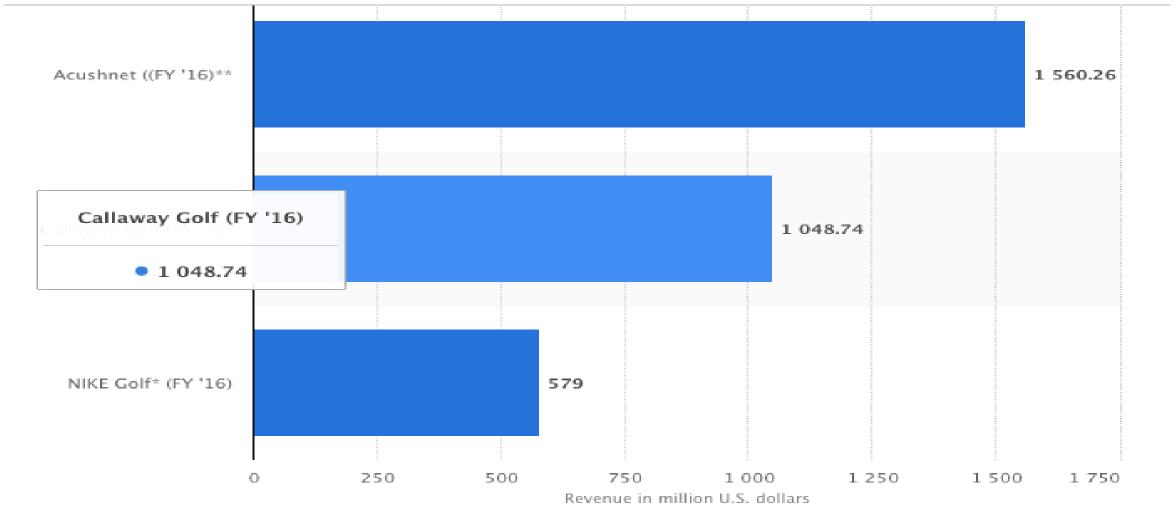
Equipment manufactures are the heart and sole of the golf industry. The three largest equipment manufactures are Callaway, Acushnet (Titleist), and Taylormade. Callaway has experienced a recent boom in sales over the last few years. Every year since 2014 Callaway has experienced a growth in sales. In 2018 the company did $1.2 billion in sales (Mergent). They have attributed this success to their line of Epic drivers and three woods. Drivers and three woods are the most expensive clubs in a players bag, and are often changed the most. Many golf equipment companies introduce a new line of drivers and woods every year. I don't believe that with the current state of the industry golf companies should be releasing clubs as often as they do. Taylormade one the largest equipment manufacturers experienced three straight years of decreasing sales from 2014-2016 (Convey). Many attribute this to the fact that they introduce a new line of clubs every year. Golf clubs are a luxury item and golfers are not buying clubs at the rate they have in years past. Adidas, the former parent company of Taylormade ended up selling the company due to its subpar performance.

Acushnet (Titleist & Footjoy) is the most consistent performer in the golf industry. Acushnet has had revenue of over $1.5 billion dollars every year since 2014. The company has also not reported a negative net income in the last five years (Mergent). The success of this company can be linked to the fact that Titleist comes out with new equipment every two to three years. Titleist is very patient when introducing new products. I believe that this is the reason why their revenue and income streams are so consistent. Not everyone has the disposable income to buy new golf clubs.

More and more golfers are holding onto their equipment for longer periods of time. Designing new golf clubs costs a company a lot in research and development. Equipment manufactures may cut costs and hold onto more of their revenue if they release new clubs more sparingly. Many golf companies are discovering that apparel is a big money maker in the industry. Titleist has known this for years through their apparel company Footjoy. If done right entering into the golf apparel industry may increase profits for equipment manufacturers.

Golf Apparel

A growing segment in the golf industry is apparel. In 2016 Nike shut down their golf equipment division to commit to golf apparel only. Nike is the industry leader in apparel and reported revenue of $579 million in 2017 (Statista). Golf apparel attracts consumers outside of golf. Nike polo and golf shorts have become a popular purchase for non-golfing costumers. Adidas did the same thing as Nike in 2017 when they sold Taylormade (their golf equipment division), but kept their golf apparel line. Golf apparel is too valuable of a segment to give up. One of the most consistent performers in the golf apparel industry is Acushnet’s apparel division Footjoy. Acushnet has understood the importance of pairing their equipment line (Titleist) with a successful apparel line (Footjoy). In an industry that suffers from stale production, companies have to enter new markets to increase profits. Callaway, which is currently the fastest growing golf company, demonstrated this with their purchase of the popular clothing line Travis Matthews. Travis Matthews is both a golf and lifestyle brand. Callaway acquired the clothing company as a way to expand their portfolio. I believe that because of the way the golf industry is trending, golf companies will fall behind their competitors if they are not involved in apparel in some form.



- Revenue of 3 leading golf apparel/ equipment companies (Nike is apparel only) (Statista)

Golf Course Management and Design

Golf courses are not built as frequently today as in the past, but golf course revenue is still the most important part of the industry. Green fees make up 37% of the golf industry revenue in the United Stated (Hudson 13). However, with both the numbers of golfers and number of rounds being played staying constant many golf courses have been struggling in recent years. More courses closed in 2018 than opened. It comes down to figuring out why some golf courses are more successful than others. Location, price, exclusivity, etc. can play a role in the success of a golf course. However, I believe a lot of it comes down to the segment of consumers a course is attracting. In the golf industry there are three types of courses, municipal courses (city owned), country clubs, and privately owned public courses. Most of the time the municipal courses do not have a hard time attracting customers due to their easy availability and low price point. Also, country clubs are usually somewhat profitable because they attract more serious golfers who are obligated to paying a membership fee every month to use the club. The only type of courses left is the privately owned public courses. Many of the courses in this segment are successful, but almost all of the courses that shut down are in this category. Unless the course hosts a PGA tour event or has some history, many of the courses in this category lack identity. They usually charge higher green fees among other things. In 2019 of the 14,613 courses in the United States, 2,515 are municipal, 8,390 are privately owned public courses, and 3,708 are country clubs (National Golf Foundation). This means that most of the courses in the United States are in the most competitive environment in the golf industry. Like with any business, it is important to attract a solid customer base. Most golf courses lack the identity to attract a certain type of customer on a consistent basis. I do believe that if a course finds its identity and institutes stricter price revenue policies it can survive in even the most competitive atmospheres. Municipal courses and country clubs can also benefit from stricter price revenue management practice I will talk about in the next section.

Price Revenue Management in Golf

Revenue management can be described as the application of systems and strategies to understand consumer behavior and pricing in order to maximize revenue. When analyzing price revenue management in golf you need to understand customer demand, pricing, and tee time allocation. For customer demand, a course needs to understand when the peak time is in different seasons of the year. Many courses apply overbooking methods to protect themselves against no shows (Kimes 121). However, courses need to make sure that they only overbook to a point where their customer service does not diminish. It is also important to understand the golf industry depends on walk ons to fill tee times. To solve this problem courses can overbook in the mornings and leave the afternoons free, which is when most walk ons show up to play. Price management is not only about offering discounts. It also involves raising prices when demand is high. During high demand period's courses should raise their prices to accommodate for that demand. Discounts should be done during low demand points or for loyalty programs. Many courses just blindly raise prices or offer discounts during peak times of the year. In a report the National Golf Foundation did for a Los Angeles City Course they found that in nearby Ventura Country two city courses raised their prices during the low season and experienced a 22.5% drop in rounds played for the year (NGF Consulting). Price management can help an already successful course make even more money. Knollwood golf club, a successful public course in Los Angeles County, books 87,000 rounds a year, which is among the highest in the state. The course, however, keeps their prices constant throughout the whole year. By applying price revenue management techniques to discover when the course experienced their highest demand, they could raise their prices slightly accordingly and realize millions more in profit (NGF Consulting). With the way the golf industry is trending courses need to utilize new effective ways to increase profits.

Media

The final sector of the golf industry is media. The PGA tour is the largest media outlet in golf. During Tiger Woods absence the last few years the PGA tour has experienced a decrease in TV ratings. Since Tiger Woods has returned to golf over the last year NBC recorded its highest viewership for the PGA tour in twelve years with an average of 3.6 million viewers tuning in for their golf coverage in 2018 (Impey). Golf is currently very successful in the media. The important thing for the PGA tour to figure out now is how to fill the void for when Tiger eventually retires from professional golf. The tour needs to figure out how to generate attention when their most influential player is not around. In recent years the PGA tour has been doing a good job attracting people to golf tournaments. Every year the Waste Management Phoenix Open attracts over 600,000 fans over the course of the week. The tour has also seen increased attendance and TV ratings for tournaments like the Honda Classic in Florida and the Genesis Open in Los Angeles.

By getting more people to watch golf, hopefully more people will begin to play the game and impact the industry as a whole in a positive way.

Tournament	Ratings (% change from last year)	Wood's position
The Masters (April 8)	7.9 (+16%)	31st
The Players Championship (May 13)	3.7 (+56%)	11th
The US Open (June 17)	3.2 (+3%)	Missed cut
The Open Championship (July 22)	5.0 (+38%)	6th
The PGA Championship	6.1 (69%)	2nd

- TV rating for golf's major tournaments when Tiger competed in 2018 (Weitzman)

Final Thoughts and Conclusion

The golf industry is facing an uncertain, but exciting future. More people are experiencing the game through media outlets than ever before. Also, Tiger Woods, golf's most influential player is back and is all over the media. Each sector of the golf industry has its own problems to deal with. Golf tourism will remain intact and experience the same success as previous years. People will still travel and play golf on vacation. It is a prestige thing for a resort to have a golf course. Real estate development will always play a huge role in the golf industry. In the equipment sector manufacturers need to figure out ways to cut costs while keeping revenue consistent. They can do this by coming out with products at a slower rate, as golfers are not buying new equipment as frequently. In my opinion, golf apparel is a booming industry that companies need to take advantage of. The most important thing the golf industry needs to improve on is the success of golf courses. More golf courses have to employ price revenue management to get the most out of their golf courses. Courses need to develop an identity and understand that something needs to change or more courses will close in the coming years. In general, golf needs to move away from is traditional elitist image and attract more players to the game. If more players are playing then more golf courses can thrive in the market. Golf companies should target younger audiences through specific marketing campaigns that capitalize on people's growing interest in the game through outlets like social media and Topgolf. The golf industry needs to come together and realize that it will take a joint effort to introduce more people to the game and further grow the business.

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