9-913-578
JUNE 10, 2013

ROBERT J. DOLAN

SUNRU YONG

Altius Golf and the Fighter Brand

Introduction

Evelyn Gracie, CEO of Altius Golf, took a deep breath before introducing the company's new golf ball strategy to the board. Several years after the global recession of 2008–2010, the private-equity-owned company's revenues had not fully recovered, and there had been grumbling among some of the directors that the old strategy was no longer working. Gracie had been hired at the end of 2012 to turn things around. Over the last six months, she and Austin Kai, the chief marketing officer, had worked on a plan to shake up the golf ball market and strengthen Altius's leadership position. Now Gracie needed to communicate to her board a clear, compelling vision, backed by a well-articulated rationale:

> As everyone knows, the long-term industry trends have been worrisome. The number of new golfers has fallen, and the few who take up the sport tend to be less serious and more price-sensitive. We have seen this magnified in our own business as lower-priced competitors have stolen market share. We believe Altius's long-term success will come from fostering a new generation of loyal golfers, and this will come when we make our brand more fun, affordable, and accessible. If we can attract new and casual golfers into our brand, we will gradually migrate them to our flagship products. This thinking is at the heart of Altius Elevate.

Gracie proceeded to outline the Elevate program in broad strokes. Previously, Altius had built and maintained its leading share in the golf ball market by introducing generation after generation of advanced, super-premium offerings so consumers could emulate their favorite professional golfers. With Elevate, Altius would introduce a ball that was priced more than 40% below the company's flagship Victor TX line. The ball would be easier to drive for distance and far more forgiving—marketed toward recreational golfers and accessible to new participants, with little emphasis on the brand's association with the professional tour. In fact, one product in the Elevate line would not even

---

HBS Professor Robert J. Dolan and writer Sunru Yong prepared this case solely as a basis for class discussion and not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. Although based on real events and despite occasional references to actual companies, this case is fictitious and any resemblance to actual persons or entities is coincidental.

meet USGA specifications.[1] In addition, it would be sold primarily through the "off-course" channel, keeping it out of the most premium "on-course" retail outlets.

Reaction was mixed. Only two directors viewed the move favorably, agreeing that it was the right strategy to meet the broader growth challenges in the golf industry. The other five were highly skeptical, voicing concerns that the Elevate strategy would damage the brand, undermine the pricing architecture, and impair margins permanently. One expressed her fear that Elevate would "open Pandora's box."

U.S. Golf Ball Market

In 2012, the golf ball market in the U.S. was $483 million in retail sales from 17.6 million units (each unit consisted of a dozen balls). In dollar sales, this was 4.1% growth over the prior year, though industry revenues were still far below pre-recession levels. The last few years had been challenging for the industry. Consumers had reduced most discretionary purchases, and golf equipment was no exception. This exacerbated the longer-term problem of declining interest in golf, which had seen falling participation since peak interest in 2003. Naturally, the total rounds of golf played had fallen, hurting demand for new equipment. Indeed, overall golf equipment sales—including clubs, balls, bags, shoes, and other apparel—had declined by a total of 18% from 2007 to 2010, before showing signs of a modest recovery (see **Exhibit 1** for industry sales data for golf equipment).

Altius Golf was the market leader in golf balls, thanks to the popularity of its flagship Altius Victor TX line, and had been for most of the past decade. Prior to 2008, one out of every two golf balls sold in the U.S. was an Altius ball, and the company had accounted for nearly 60% of industry revenues. Other leading manufacturers included Primiera, Bantam, and Carlsbad. Unlike Altius, these competitors derived most of their revenues from golf clubs, and the golf ball category was a secondary business line. Altius's business, on the other hand, was built largely on golf balls, which were approximately 60% of revenues and 85% of profits. While it also marketed a line of clubs, Altius was unwavering in its commitment to leadership in the golf ball market. The company marketed its Victor TX line aggressively, positioning it as the most popular choice for professionals. Indeed, more professionals on the PGA, LPGA, and European tours played with Victor TX balls than with any other brand, and this gave Altius unmatched credibility and prestige.[2] Altius invested heavily to communicate this to customers, and its annual advertising budget for the U.S. market for 2012 was $35 million, compared to just $15 million for Primiera, its closest competitor. Even so, Altius's leadership position was not guaranteed. While its competition still lagged far behind, product innovations, marketing campaigns, and more competitive pricing had helped other manufacturers chip away at Altius's market share (see **Exhibit 2** for market share data by manufacturer and channel).

The permitted specifications for golf balls, as determined by the United States Golf Association (USGA) and the Royal and Ancient Golf Club of St. Andrews (R&A), were clear. Balls had to meet size and weight requirements and adhere to limits for velocity, distance, and dimple patterns. Within

---

[1] The United States Golf Association (USGA) is the governing body of golf in the U.S. It serves as an association for golf courses and facilities, administers the Rules of Golf, oversees the national handicap system to rate golfers, and maintains equipment standards. Non-conforming golf clubs and balls would not be permitted for use in any USGA-sanctioned tournament.

[2] The Professional Golfers Association (PGA) Tour is the organizer of the men's professional golf tours in North America, the PGA Tour and the Champions Tour for golfers over 50. The Ladies Professional Golfers Association (LPGA) Tour serves a similar function for professional women.

USGA and R&A parameters, however, manufacturers offered a very wide range of materials and constructions, all intended to provide a ball with playing characteristics that would meet a golfer's particular needs. Indeed, over the last twenty-five years, over 5,000 design patents had been issued for golf balls in the U.S. Some balls provided greater distance and a longer roll off the tee, while others prioritized better spin and control. Some offerings emphasized ball durability, others were designed to deliver better "feel" off the club. To achieve these different characteristics, ball manufacturers used a variety of proprietary designs and materials. The compression of the ball when struck helped determine distance and control, and this was changed with different constructions, such as two-piece or multiple layers, and different cores, which could range from simple rubber to liquid. Covers might be surlyn, elastomer, or urethane, which affected durability and the way the ball moved in the air. The appropriate ball for a golfer depended on skill level, swing speed, and playing style. Austin Kai, the Altius CMO, liked to argue that most golfers paid far too much attention to their clubs and not enough to choosing the right ball:

> A golfer can carry 14 different clubs. Each club will play differently depending on the ball. You can always swap out a specific golf club, but finding the right *ball* can have a far more profound effect on your game.

Of course, golf balls with such different designs and targeted to specific golfer segments were also priced very differently. Golf balls were typically sold in packs of a dozen, and prices ranged from about $1 per ball for value products to over $4 per ball for premium offerings. Altius's Victor TX was the most expensive on the market, and a dozen balls typically retailed for nearly $50. Its key competitors also marketed balls in the premium segment, although their top-selling balls were priced at lower price points (see **Exhibit 3** for pricing data for select manufacturers). Altius also had a mid-range ball, although the company's sales and marketing focus was exclusively on the Victor TX, which produced about 70% of its golf ball sales. In fact, with a new generation of Victor TXs introduced every two years, much of Altius's sales in the sub-$40 range came from the prior generation ball, discounted to the mid-range tier.

The retail channel for golf balls was composed of two broad categories: on-course and off-course. The *on-course* (also known as "green grass" or "pro shop") retailers were shops on the premises of golf courses and clubs. The golf equipment offered at on-course retailers tended to be higher-end and targeted more serious golfers. The service was more personal and was more likely to involve tailored advice from the staff golf professional. The *off-course* channel included golf specialty stores, such as Golf Galaxy and Edwin Watts, as well as department stores and sporting goods stores, such as Wal-Mart and The Sports Authority. Significant consolidation had taken place among off-course retailers, with market share increasingly concentrated among the "big-box" players. In general, these outlets had more retail space, offered lower prices, and carried a broader range of golf equipment that included products targeted toward casual players. In the U.S. golf ball market, on-course golf retailers accounted for approximately 40% of total units and 45% of dollar sales, due to slightly higher prices and a sales mix that was skewed toward more expensive balls; off-course retailers accounted for the balance.

Manufacturer gross margins on golf balls were attractive. Indeed, the high margins had led some club manufacturers to enter the golf ball category in the 1990s. Altius estimated that Primiera and Bantam had gross margins of approximately 55% to 60%. Because of its higher prices and the economies of scale it enjoyed as the market leader, Altius's gross margins were significantly higher at 70%. Despite the company's recent challenges, Evelyn Gracie was fond of reminding the investors that the golf balls were the most attractive part of the industry:

> Golfers can delay the purchase of clubs, shoes, and apparel. They *have* to buy golf balls and, lucky for us, many of them are good at losing their balls. In a recession, golfers are forced to

spend on just two things: greens fees and golf balls. Plus, we don't need to worry about all the permutations of clubs like different lofts, shafts, left-handed and right-handed versions, men and women's versions, and so on. Once a golfer has chosen Altius, a ball is a ball—and there are great benefits to scale.

In contrast to the manufacturers, the margins for retailers were far more modest, averaging 15% to 20%. To meet customer expectations and encourage repeat visits, retailers had to stock golf balls, but compared to other product categories they were a drag on profitability. Altius offered margins at the low end of the range, while Primiera, its closest competitor, gave retailers gross margins of 20%.

Industry Trends

The most worrying trend for the golf industry—including equipment manufacturers, retailers, and courses—was declining interest in the sport in the U.S. This was reflected in both total golfers, and in degree of engagement, as measured by frequency of play. Participation in golf had peaked in 2003, with nearly 31 million golfers across the country. In the decade since, this had fallen by one-sixth to below 26 million golfers. According to the USGA, 23% of women and 36% of children had quit the sport over the last five years. Many so-called "lapsed" golfers had been very casual players, but even serious players showed signs of declining enthusiasm. Committed "core" golfers—those who played eight or more rounds per year and accounted for the majority of equipment spending—had fallen as a proportion of all golfers.

Industry players struggled to cope with the negative trend. Investment in golf course real estate and development fell over 40% after the 2008 recession, and every year the number of closures outpaced new course openings. As total golfers and their spending fell, retail outlets also closed at an alarming rate, with nearly 25% of stores closing in the years immediately following the recession. The downturn accelerated longer-term trends in golf retailing: "big box" stores replacing the hundreds of independent stores that had shut their doors for good, and sales shifting from on-course pro shops to off-course retailers. The net effect for equipment manufacturers was greater pricing pressure, as unit volumes fell and buying power was consolidated among fewer, more powerful retail buyers.

The USGA was acutely aware of these negative trends. Its efforts to halt the slide focused on making golf more accessible. Consumer studies showed that high costs, lack of time, and the difficulty of the sport were the leading reasons for not playing golf. This was true for both "lapsed" golfers—those who had quit—as well as those who had never played before. One USGA initiative was the "Tee It Forward" movement, which tried to make the game easier and more fun. The program encouraged recreational golfers to play shorter rounds and to use shorter-yardage tee boxes, which the USGA hoped would make the sport less daunting to a would-be golfer. Similarly, the USGA introduced Golf 2.0 in 2012, aiming to increase total golfers from 26 million to 40 million by 2020. It encouraged unorthodox ideas, such as 12-hole tournaments (instead of the standard 18 holes) or use of larger holes at golf centers with more children and recreational players. The Golf 2.0 program also partnered with the Boys' and Girls' Club of America with the aim of introducing the sport to new, young participants.

Equipment manufacturers continued to introduce designs that could make the sport easier and more accessible. For example, shoe manufacturers introduced more comfortable, "natural motion" shoes that were less structured and more flexible than traditional offerings. Spikeless golf shoes, which were a more affordable alternative, also enjoyed a resurgence in popularity. Club manufacturers continued to refine clubs to boost ease of play. Examples included club faces with a larger "sweet spot" for striking a ball properly, flexible shafts to increase club head speed, and weighted putters to ensure a smoother stroke. Manufacturers also offered an increasing array of equipment specifically for women.

In golf balls, two manufacturers, Primiera and Meridian, demonstrated the potential to make the sport more accessible, especially to new and recreational golfers. In 2008, Primiera began holding custom ball-fitting sessions around the country. The campaign was called the "Play Your Way Challenge," and it featured a ball-fitting expert and a launch monitor that allowed golfers to compare their speed and trajectory performance using different balls. Primiera's program emphasized that simply using the same ball as professional golfers might not make sense. The message to potential customers was simple: playing *your* way could mean choosing a ball that matched *your* skills and tendencies, not those of someone winning PGA tournaments. It was a direct counter to Altius's positioning, which focused exclusively on how many professional tournaments had been won with its balls. Indeed, as part of the campaign, Primiera introduced several models in its Wing and Arc lines that were explicitly designed for less skilled players likely to mis-hit the ball or to have slower swing speeds. The campaign generated tremendous excitement among both retailers, enabling the company to penetrate new accounts and leading to more prominent placement in the store. With attractive pricing, these balls quickly became best-sellers, gaining market share at the expense of Altius and others.

Meridian went one step further in making golf easier and more fun: marketing *non-conforming* balls with characteristics outside the USGA's parameters. With an asymmetric dimple pattern, Meridian's balls dramatically reduced slices and hooks—struck balls that unintentionally veered sharply right or left, the bane of many golfers. Using a Meridian ball, a recreational golfer could avoid the embarrassment and frustration of seeing one drive after another end up in the trees or the wrong fairway. Non-conforming balls were nothing new in the industry, but historically they had been relegated to the back pages of golf magazines; they were available only by mail order, celebrated their non-conformity with rugged names like Rogue™, Outlaw™, or Rocketeer™, and were dismissed by most golfers as gimmicks. Meridian's offerings performed better than other non-conforming balls at minimizing slices and hooks, while still allowing sufficient control for play on and around the greens. Marketed with subdued packaging and without an off-putting name, the company also reduced the stigma of using a non-conforming ball—no small matter in a game that prized integrity and tradition. Casual observation would not reveal the Meridian ball to be non-conforming, allowing golfers to use them without making it obvious. Although virtually no on-course retailer carried Meridian balls, the company had penetrated the major off-course retailers and won side-by-side placement with conforming balls. In just three years, Meridian had gained 2 points of market share in the off-course channel. While purists cried foul, some industry observers believed this marked the start of a paradigm shift, with manufacturers upending tradition. Supporters argued that this dovetailed perfectly with the USGA's own Golf 2.0 and "Tee It Forward" campaigns.

The Elevate Strategy

While it remained the clear market leader, Altius had seen its position weaken over the past five years, with share of total sales in the U.S. down by 3.5 points. Its position in the on-course market had been steady, where it had nearly 100% penetration of the outlets and no other competitor had a presence in more than 80% of pro shops. In the off-course channel, however, Altius's market share had clearly eroded, falling by more than five points. Demand for its premium-priced Victor TX, in particular, had been weak. Even as the overall equipment market had recovered in 2012, sales of the Victor TX in the major off-course retailers had remained anemic. On the other hand, Altius's mid-ranged offerings—the $39 Victor and the discounted prior generation TX—had shown the same signs of recovery as the overall market.

Altius's recent consumer research had been revealing. The brand remained prestigious and nearly all golfers, including those who used other balls, viewed both the brand and the product line positively. However, the brand perception of competitors, including Bantam, Carlsbad, and Premiera, had improved; Altius's lead in brand strength had declined modestly. There were other worrying signs. The company segmented current Altius consumers into three categories: loyalists, enthusiasts, and brand agnostics. The survey suggested that more consumers than before were now open to trying competing golf balls; specifically, there were significantly more "agnostics" than before (see **Exhibit 4** for select survey data). The research also had the following findings:

- 35% of golfers who did *not* buy Altius cited high prices as a deterrent to buying
- 45% of lapsed golfers and 53% of non-golfers cited high costs as the top reason for not playing golf at all, ahead of lack of time and believing the sport to be too difficult
- 20% of Altius customers, 26% of *all* current golfers, and 48% of lapsed or non-golfers, would be willing to try a non-conforming ball

The insights from this study had played a significant role in shaping the Elevate strategy. Austin Kai had spearheaded the initiative, believing that it was the best way to secure the company's longer-term leadership position. The refreshed brand and price architecture would comprise three tiers:

- Victor TX: The flagship premium line would still be offered in two versions, one that maximized distance and one that emphasized "feel" around the greens. It had a suggested retail price of $48 per dozen.
- Victor: The mid-range line would come in two versions, maximizing either distance or control, and had a suggested retail price of $39 per dozen.
- Elevate: The new value line would come in four versions: for fast, medium, and slow swing speeds, as well as a non-conforming offering. These would have a suggested price of $27 per dozen. Furthermore, the retailer gross margin for this line would be 20%, compared to the usual 15% that Altius offered.

Other golf ball manufacturers viewed the $20 to $30 range as the "sweet spot" for reaching the broader recreational market and offered more models in this segment than in any other. In better times for the industry, Altius could afford to ignore this segment; but Kai and Evelyn Gracie were convinced this was not a viable long-term strategy.

In addition to being Altius's first entry at this price point, Elevate would be promoted primarily in off-course retailers and would be placed side by side on the shelf with the Victor and Victor TX lines. The company knew that on-course shops would be less willing to give up limited shelf space to a value offering and would likely object to a non-conforming ball. On the other hand, early discussions with the major off-course retailers revealed a strong interest in seeing a lower-priced product from Altius and openness to a non-conforming ball, particularly with the legitimacy that the Altius brand would still confer. Promotion efforts for Elevate would be very limited compared to the efforts and budget allocated for the Victor TX, but select advertisements would emphasize fun and accessibility ("elevate your game"), rather than the company's association with tour professionals. The manufacturing cost for Elevate would be approximately $7.75 per dozen. The balls themselves would cost less than Victor and Victor TX, of course, but Altius wanted to keep the same type of packaging for Elevate as for the more premium lines.

Kai explained that the Elevate line reflected Altius's recognition of industry trends:

> We are shoring up our position in the face of clear market realities and consumer needs. Golfers who admire our brand from afar now have a more affordable, accessible option in Elevate. Likewise, new golfers have an easy entry point to an intimidating game, including a non-conforming ball that may be much better-suited to their skills. These golfers may not aspire to be the next Tiger Woods, and we provide a ball that does not ask them to pretend otherwise.

Evelyn Gracie believed that ignoring the successful incursions of Altius' competition was a losing proposition. Protecting the company's market leadership required a new strategy:

> If we do nothing, we are stuck in a maturing market where our core customer is aging, and the trends toward off-course outlets and lower-priced products will not reverse. The success of Primiera and Meridian shows that the world is changing, and we need to rethink our marketing strategy. We will continue to innovate in ball technology, but this alone will not move the needle on market share. We need to change the game altogether. Elevate is fun, affordable, and keeps recreational golfers coming back to the game. In the long run, I believe we will expand our market, with casual players sticking with Elevate and a new generation of golfers "graduating" to become Victor TX customers.

Exhibit 1 U.S. Sales, Total Golf Equipment and Golf Balls Millions of retail dollars, current

Year	Total equipment, incl balls (millions, USD)	% change vs. prior year	Golf balls (millions, USD)	% change vs. prior year
2007	2,911		552	
2008	2,752	-5.5%	536	-2.9%
2009	2,433	-11.6%	495	-7.6%
2010	2,384	-2.0%	479	-3.2%
2011	2,414	1.3%	464	-3.1%
2012	2,628	8.9%	483	4.1%

Source: Mintel

Exhibit 2 Golf Ball Market Share by Manufacturer and Channel (select data)

U.S. retail unit sales	2008	2010	2012
Altius	48.1%	46.9%	45.2%
Primiera	14.2%	16.3%	18.4%
Bantam	11.6%	11.1%	11.2%
Carlsbad	9.3%	8.1%	8.3%
Carnoustie	5.7%	6.0%	4.6%
Davis	4.2%	4.1%	4.2%
Sarazen	2.6%	2.5%	2.4%
Other	4.3%	5.0%	5.8%
U.S. retail dollar sales	**2008**	**2010**	**2012**
Altius	58.7%	56.8%	55.2%
Primiera	11.1%	13.2%	15.0%
Bantam	11.9%	11.3%	11.4%
Carlsbad	8.5%	7.7%	7.9%
Carnoustie	4.3%	4.5%	4.1%
Davis	3.3%	3.4%	3.1%
Sarazen	1.0%	1.1%	1.0%
Other	1.2%	2.0%	2.3%
Altius share, dollar sales	**2008**	**2010**	**2012**
On-Course	68.0%	67.6%	67.5%
Off-Course	50.8%	47.9%	45.5%
Dollar sales by channel	**2008**	**2010**	**2012**
On-Course	45.9%	45.2%	44.2%
Off-Course	54.1%	54.8%	55.8%

Exhibit 3 Retail Price of Golf Balls, Select Manufacturers

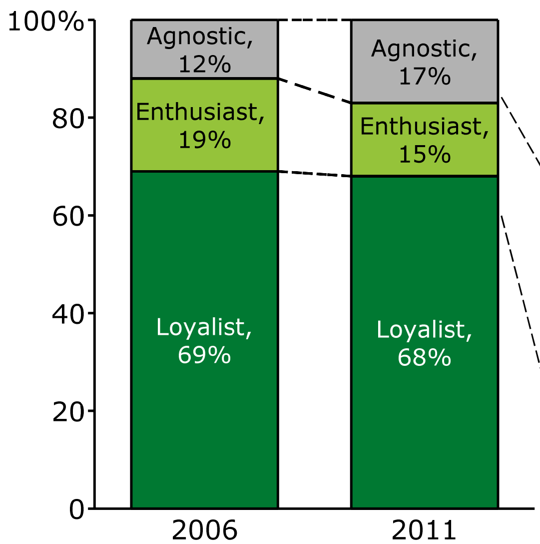
Average retail price per dozen balls	Altius	Primiera	Bantam	Carlsbad
Premium	***Victor TX***[a] $48	*Flight* $44	*BCE* $45	*Seraph* $45
Mid-Range	*Victor*[b] $39	*Aerial* $35	***Merion***[a] $36	*Celeste* $36
Value	—	***Arc***[a] $27	*Riviera* $27	***Pegasus***[a] $25
Economy	—	*Wing* $18	*Canterbury* $21	*Pegasus X* $19
Retailer gross margin % (est.)	15%	20%	20%	20%
Manufacturer gross margin % (est.)	70%	55–60%	55–60%	55–60%

[a] Top-selling ball for each manufacturer shown in **bold**

[b] Prior generation Victor TX balls were also sold at the same price

Exhibit 4 Select Data, Altius Consumer Survey

Altius consumer, segmentation by attitude towards Altius (%)



TYPICAL GOLFER PROFILE	LIKELIHOOD TO TRY NEW BRAND
• Casual and/or infrequent golfer • More likely to be a beginner • Price-sensitive and likely to purchase on promotion	Medium-high to very high
• Moderate frequency golfer • Includes both beginners and experienced players, but likely to be "serious" (e.g. taking lessons, practicing at driving range) • Interested in "best" equipment technology, but moderate price sensitivity	Medium to high
• Avid, serious golfer • Primarily experienced players, many with low handicaps • Not price-sensitive	Low