

The Golf Retail Industry in Australia – Executive Summary



JULY 2004

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Published July 2004

Introduction

With an estimated turnover of \$300 million annually, golfers in Australia are spending nearly a million dollars a day. Yet for an industry of this considerable size there is a surprising lack of detail known about the typical customer, or reported on in terms of performance when compared to other industries. This report aims to fill this information vacuum, taking to our knowledge, for the first ever time, a detailed look at the golf retail industry in Australia.

We have structured this report in much the same way as you may look around a typical retail outlet, inspecting all of the different “bins” that we see, providing feedback on what issues we find in these bins and adding more information where available. As the size of the industry has almost doubled in the last decade, the size and importance of these issue bins has been changed forever.

A quick glance in the first bin we see, the equipment bin, has all the big brand players very close to each other, keeping a keen eye on what the other is doing. The emergence of these giant golfing companies in the form of Callaway Golf, the Acushnet Company, TaylorMade-Adidas Golf and more recently Nike Golf, sees them accounting for a dozen major brands, as consolidation has been the name of the game in the last decade.

In the technology bin we find lots of titanium and more recently a few examples of composite materials, as titanium quickly supplanted steel and persimmon as the metal of choice. Major strides were made in the size of golf clubs as manufacturers worked out how to build bigger, stronger club heads whilst removing weight. One would think that we all now must play better golf - we do not, with handicaps remaining largely unchanged. The golf ball has also never gone further, some saying it now goes too far and too straight as core and cover technology produces straight flying, non-spinning rocks that only start spinning when they see greens! The big benefit of technology to amateur golf is that it has allowed golfers to stay in the game a lot longer.

Alongside the equipment and technology bins is the participation bin, which we now find half empty or half full, depending on your point of view. With the influence of Greg Norman reportedly over, the country, or our press at least, continue to look for our next superstar. A new shark is yet to be caught, though there may be one already on a hook that will soon land. The view of a new shark being the “saviour” of our industry is an interesting one. Club membership levels peaked in Norman’s last year as the world #1 and have been on the slide ever since. National participation levels however are at their highest ever levels, with growth in social golfer numbers continuing to be seen. There is more on this later in the report.

In the economy bin we find an Australian economy that is generally in a sound state and continues to perform better than most other world powers. A major change to the taxation system was seen in 2000, with the GST seemingly digested and now a part of everyday life. Interest rates are near their lowest point ever, as is unemployment, and taxes have been trending down in the last two federal budgets, suggesting we all should have more to spend in the retail environment, but apparently are not.





Taking a deep look into one of the bigger bins, the retail bin, uncovers the one item everyone could do without – Price Pressure. Retail sales generally are on an upward curve, though perhaps now artificially held there by increasingly frequent sale periods due to Price Pressure. An increasingly competitive retail environment generally has seen good margins sacrificed for stock turn and volume. Given this environment one wonders how far we could be from another golf retail liquidation like that seen recently in NSW? With the retail industry in general seemingly always “On Sale”, the consumer has never been more aware of their buying power. As the industry enters and deals with the 21st century, price pressure is just one of the key areas of focus for this report.

In the world/global bin we find a mass of countries that are more connected than ever. One country has the biggest clubhead though, that being the US. The old phrase “If the US sneezes we all catch a cold” has never rung more true for those in golf. This necessitates a quick tour of the US bin. Pressure in that market is enhanced for the big players as many are listed companies with shareholders who have positive expectations each year.

In the US recently, one negative warning on second quarter sales expectations saw the share price fall by 26% in one day, illustrating that industry’s sensitivity to bad news. With golf participation numbers in the US having seen little growth in recent times, you can see that the heat is currently on high. Being the home to the big brands is also a two edged sword for the US market. The golf participant benefits from new product released at increasing frequency, yet the retailer is charged with selling a product that we historically have not turned over that regularly.

We are now well and truly in the information age and there is no excuse to not know your customer. We certainly know ours, having surveyed 12,000 golfers around the country late last year about all things golf. We found out information on participation, travel, equipment, spending, retail outlets, magazines and real estate to name a few. Detailed information was sought on the factors that influence the buying decision and we reveal these factors, identifying the main traits of the golf consumer and importantly where they prefer to shop. From this we have deduced what share of the market the major retail outlets have. The ‘know your customer bin’ is vital reading if you are in the business.

No report would be complete without including some recent views from the market and as many of you know we recently surveyed the equipment and major retailers, seeking feedback on a number of hot topics. The answers from both sectors are analysed in detail being our customer survey bin. Interestingly, some of you have similar thoughts, some don’t.

We conclude our report with a challenge to the industry. Two paths exist to the smooth grass of the putting green. One being the fairway, where you know more about yourself, play within your limits and take controlled risks. The other, the more reckless approach that may see you occasionally get a good lie, is to play with abandon, taking risks, flaunting danger, not really knowing your limits or which is the best way to go. Should you want to know, we identify how you can play on the fairway, showing you and the industry what it needs to know, reducing the risk in the game by having Ernst & Young in your golf bag.

About the Authors



Jeff Blunden (right) and Alastair Boyd (left) form the nucleus of the Golf Advisory group within Ernst & Young. They have a long history of involvement in the industry, on both the advisory side and also as participants.

Jeff developed the golf advisory department within Ernst & Young, having identified that the industry lacked quality research data and was in need of well founded advice. Extensive national research projects have since been undertaken, and as the industry enters and faces the challenges of the 21st century, many clubs, developers, bankers, equipment manufacturers and industry administrators are now using Ernst & Young research to help make more informed decisions. Alastair's background is in consumer research, having spent five years with Sports Marketing Surveys in the UK and more recently in Australia. Alastair's work with SMS, focused on the golf industry and he was responsible for much of the European equipment and retail research undertaken.

Both Jeff and Alastair are keen golfers and importantly understand the industry from the consumer side. Jeff plays at a club in Sydney, off a handicap of 7. Alastair, a member of the R&A, plays at a club in Sydney off a handicap of 10.

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Footnote:

At Ernst & Young we believe timely information to be the best information. However, with our desire to release this report in conjunction with the PGA Show in Melbourne we unfortunately are precluded from including the most up to date 2003 golf participation numbers by only one week. We made requests of the Australian Sports Commission for a preliminary release of this information but unfortunately our requests were denied due to "government policy". In any case we would be very surprised not to see a continuation of the recent increase in participation as this document reports. These numbers will be reviewed in the next edition of *The Back of the Cup*, the quarterly Golf Advisory newsletter. Also, Q2 sales data from Acushnet & Callaway are due to be released next week in the US. Ideally, we would have also included this data in our report, as they will be a good indicator of the current state of the retail market in the US.

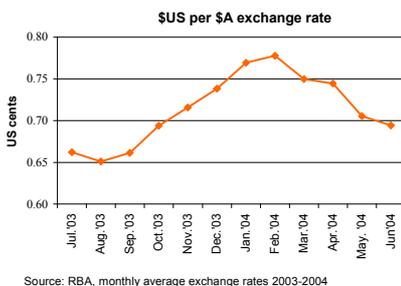
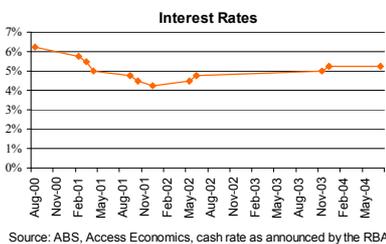
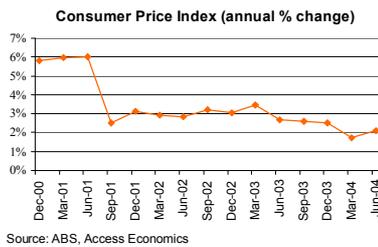
Market Overview

Economic Overview

A brief review of the current economic climate is provided as background to this report, in order for our later retail discussions to be put in context to the wider macro environment. We note the following key economic trends which most impact the retail industry and consumers spending of discretionary income.

Generally, the Australian economy is in a healthy position. Riding on the back of a strong 2003, the economy has maintained a more constant pace thus far in 2004, with most key indicators still heading in positive directions. Specifics worthy of note are:

- The strong labour market conditions of 2003 have continued into early 2004, with our unemployment rates at their lowest points since the late 1980s.
- The CPI has been steady in the 2%-3% target range for some time, despite the healthy consumer appetite witnessed in 2003. The CPI rose by 5.8% during 2000 but this was inflated by the “one-off” effect of the introduction of the goods and services tax (GST). After removing the impact of the GST, the CPI rose by 2.9 percent during that year.
- Interest rates have settled again after some tweaks were made by the RBA in late 2003 in an attempt to cool consumer spending patterns, particularly in the housing sector, and to offset a weakening global economic outlook.
- The Australian dollar has ridden a wave of popularity in late 2003 and early 2004 peaking at over US80 cents, a 20% uplift. Recently the \$A has fallen back to near US 72 cents as the \$US regained some strength.



Retail Environment

Australian Retail Trends

The major performance indicator for Australian retail is the Australian Bureau of Statistics (ABS) Retail Trade figures. These figures are based on a monthly survey of about 7,000 retail and selected service businesses covering 20,000 outlets nationally. These figures provide the best estimates of total retail demand in Australia and the trends evident across the total retail spectrum.

Our analysis of the retail trade figures shows that over the last ten years there has been an increase of 78% in total retail turnover, averaging annual growth of 6%. The sector most relevant to the golf industry, the recreational retail industry, has increased by 40% during the same period,

with an annual increase averaging 3.5%. The graph right illustrates the movement seen in retail trade over the past 10 years.

Since 2000, the overall trend has been slightly more positive with the total industry and the recreational retail industry growing at 7.3% and 4.7% respectively.

More recent results, which cover the period of the 2004 mid-year sales, suggest that the immediate retail outlook may not be as positive as initially hoped. Sales expectations generally were not met for the larger retail chains who as a result have extended the sales period weeks beyond their traditional deadlines. Clear skies, above average temperatures and falling house prices, are all being attributed to keeping shoppers out of the stores, forcing retailers to maintain the intense discounting that has become a feature of Australian retailing over the last couple of years.

Whilst these early indicators show that consumer demand may not be advancing at the same pace this year as it did in the second half of 2003, the personal income tax reductions which came into effect July 1, as well as increased family benefits, may be a saviour to the expected short term consumer spending patterns. Access Economics has estimated that \$2.3 billion or one third of the \$7 billion in tax breaks and family benefits will go directly into retail spending. The old rule of thumb of tax cuts being spent three times – once when they're announced, once when you get them, and once more just to make sure, would surely be welcomed by most retailers as we move into the second half of 2004.

As we consider the future retail trading environment, it is necessary to acknowledge the changing social environment that we are now living in. A report recently released by IdeaWorks, (www.IdeaWorks.com.au) an Australian retail marketing agency, concluded the following consumer traits and desires from the retail experience in the 21st century, many of which are equally relevant to the golf retail industry.

- As shoppers become increasingly time poor they become obsessed with finding value from the time they invest with retailers.
- 21st century consumers are generally seeking innovative retailers that surprise them with new ideas.
- Soft retail sales in the northern hemisphere are forcing retailers to focus harder on profitable sales growth.
- E-commerce has started to grow again after slowing in the late 1990s.
- Retail industry rationalisation will continue.
- The 'masstige' trend will gather pace with shoppers demanding high-quality products at ever lower prices.
- Women's dominance of shopping is gradually falling, as more men participate in retail.

This brief review of the current retail environment and short term forecast identifies the challenge that the retail market generally faces. Overlay the golf industry on this environment, an industry that appeals to, on average,



“... old rule of thumb of tax breaks being spent three times would surely be welcomed by most retailers ...”

only 9% of the retail market, and the challenges appear to be twice as great.

Having provided this brief review of the current economic and retail environment, we now take a detailed look at golf participation levels around the country.

Golf Participation

Sources of Information

A number of primary sources of information are used in the following analysis. They are:

- The Australian Sports Commission (ASC) and their annual participation reports.
- The Australian Golf Union (AGU) and Women's Golf Australia (WGA) for club membership numbers.
- The Australian Golf Industry Report – 2002.
- The Australian Golfer Survey – 2003 (AGS), conducted by Ernst & Young.

Introduction

At the heart of golf retail is golf participation. In order to fully understand the industry a review of participation levels across Australia is first necessary.

“... national average of 8.7% of the population participating in golf...”

With a national average of 8.7% of the population participating in golf, Australia competes favourably with some of the other key golfing markets around the world, the USA (9.3%) and the UK (7.0%). Australia enjoys some clear advantages over some of the larger global markets including excellent weather, allowing for a full 12 month season, as well as a greater proportion of cheap public access facilities. It has long been thought that golf in Australia is actually too cheap from an operator perspective however in terms of participation the ready availability of golf has made the game generally less elitist in this country, lowering one of the most significant barriers to entry that typically exists in markets such as the US, UK, or Germany.

Total Participation – Australia

Participation in golf is defined as those who have undertaken the game at least once within the last 12 months. The Australian Sports Commission (ASC) are the public body that track the level of sports participation in Australia. In their report of 2002, titled *“Participation in Exercise, Recreation and Sport,”* they stated that approximately 1.337 million people, or 8.7% of the population aged over 15 years, play golf. The Australian Bureau of Statistics (ABS) first comparably tracked this information in 1996-97 with results from that time estimating total

participation in golf to be approximately 1.116 million participants or 8.4% of the population.

The table right summarises the participation estimates based on the ABS and ASC data from 1997/98 to 2002.

As slightly different methodologies were used in the collection of the data (age bracket groupings) exact growth numbers are difficult to determine, however the estimates suggest that at a high level the total golfing population is at least constant over the 6-year period and in all likelihood has grown by at least 150,000 golfers.

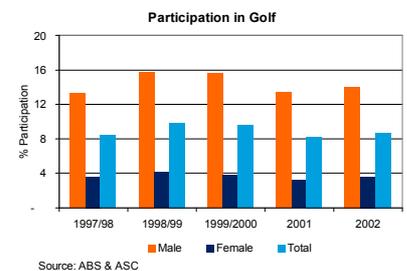
	Participants	% Change
1997/1998	1,116,200	
1998/1999	1,331,200	19%
1999/2000	1,324,800	-0.5%
2001*	1,240,200	-6.4%
2002	1,337,100	7.8%

Source: ABS & ASC

Note: * change in methodology in 2001

Participation by Gender

Historical participation information is also provided by the ASC on a gender basis. The historical participation reports show national male participation ranged from a high of 15.7% in 1998/99 to a low of 13.3% the year prior. Most recent participation estimates for males are toward the middle of this range averaging 14% across the country. National female participation however is at a much lower level and has hovered between 3 and 4% since 1997/98, with current participation estimates in the middle of this range. Male golfers have historically accounted for 78% to 80% of the total golf population, against 20% to 22% for female participants.

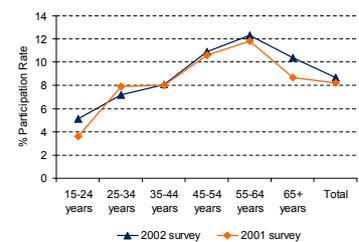


Source: ABS & ASC

The graph right summarises the historical participation estimates made by the ABS and ASC on a national male and female average.

Participation by Age

The ASC also reports participation numbers by age. Analysis of these numbers shows a greater proportion of the wider population participating in golf as you move up the age scale.

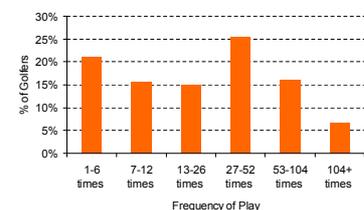


Source: ASC

The last two ASC surveys of 2001 and 2002 show a similar result, with that being 10% golf participation levels being reached by all ages above 45 years. The most participatory age group, being those between 55 and 64 years are estimated at 12% of the population. These numbers are illustrated in the graph right.

Participation by Frequency

An important statistic for the wider golfing industry is the frequency of golfer play. It is the frequent players who are the industry's key customers and the identification of their total number allows the size of these markets to be considered when estimating sales volumes for products closely linked with frequency of play such as balls, gloves, etc.



Source: ASC

The ASC estimate that approximately 36% of the golf population (492,000) participate less than 12 times per year, with a further 200,000 golfers (15%) participating on average once every two weeks. Frequent or 'avid' golfers are defined as those who participate at least 26 times per year, and the total number of these golfers in Australia is estimated at 665,000. These numbers are illustrated in the graph right.

“only 14% of male golfers record regular scores near 80.”

Participation by Handicap

As much of the retail golf industry concerns itself with the quality of golf play, and as technology seeks to improve our faults and correct our games, we are able to actually quantify the size of the market in handicap terms. The following table illustrates the estimated market size by handicap levels, based on male and female handicap information provided by GolfLink, cross tabulated with information from the Australian Golfer Survey conducted in 2003.

Handicap	Estimated Male Golfers		Estimated Female Golfers		Total Golfers	
	Golfers	%	Golfers	%	Golfers	%
0-4	36,800	3%	2,050	1%	38,850	3%
5-12	152,700	14%	22,200	8%	174,900	13%
13-19	291,500	28%	11,400	4%	302,900	23%
20-27	374,500	35%	57,300	21%	431,800	32%
28+	53,900	5%	128,300	46%	182,200	14%
No handicap	149,250	14%	57,200	21%	206,450	15%
Total	1,058,650	100%	278,450	100%	1,337,100	100%

Source: AGU, Golf Link, Ernst & Young

As seen in the table above, it is estimated that only 3% of total golfers have a handicap below 5 and only 14% of golfers regularly record scores near 80. The majority of golfers reside in the higher handicap brackets with near 55% of golfers recording handicaps between 13 and 27. A further 30% of golfers play with a handicap over 28 or with no handicap at all.

Recent State Participation Patterns

The table below summarises the changes in participation levels in each state seen from 2001 to 2002.

“Total participation in Victoria is flat, with no recorded increases in the last year . . .”

	Male %		Female %		Total %	
	%	% change over 2001	%	% change over 2001	%	% change over 2001
VIC	14.6%	-0.1%	4.1%	0.0%	9.3%	0.0%
NSW	14.7%	+0.6%	3.6%	+0.8%	9.1%	+0.7%
SA	13.9%	+1.2%	3.0%	+0.7%	8.4%	+1.0%
WA	13.1%	+0.4%	3.5%	+0.6%	8.3%	+0.5%
ACT	14.9%	+3.0%	3.3%	+1.8%	9.0%	+2.4%
NT	9.6%	-2.0%	3.0%	+0.3%	6.4%	-1.0%
QLD	12.7%	+1.4%	3.4%	+0.2%	8.1%	+0.8%
TAS	11.2%	-0.2%	2.3%	-0.8%	6.6%	-0.4%
Total	14.0%	+0.6%	3.6%	+0.4%	8.7%	+0.5%

Source: ASC & Ernst & Young

Our analysis of recent national participation numbers has identified that growth has occurred in almost all states, with the ACT, SA & Qld seeing the greatest increases. This growth was equally evident in both genders.

Victoria is still home to the most participatory population overall, despite no growth recorded in either gender in the past year. This state has a significantly greater female participation level than all other states whilst the male comparison shows a more equal picture across the Eastern seaboard region.

Golf Club Market Overview

Introduction

Having provided as background an overview on total golf participation numbers, we now review its sub-segments, being the golf club market, and the less structured social golf market.

Club Golf in Australia

Analysis of total golf club membership numbers across Australia reveals a pattern of steady growth up to 1998. Many have said that the industry owes this growth to the profile of Greg Norman and it is therefore some coincidence that the year in which he was last ranked the #1 golfer in the world was when Australia recorded its highest levels of club participation, reaching 500,000 in 1998. Since this time there has been a steady decline in golf club membership, with no state spared from declines in member numbers. Nationally, memberships have declined by an average of 1% per year or 6% in absolute terms since the high of 1998. As at 2003, approximately 470,000 memberships were held nationally.

The following table outlines the change in membership numbers in each state since 1998.

	Club Members 1993	Club Members 1998	Club Members 2003	Change since 1998	% Change	% of change since 1998
Victoria	133,931	125,463	124,926	(537)	(0.4%)	1.8%
NSW	204,055	209,667	190,009	(19,659)	(9.4%)	64.8%
Qld	73,481	80,531	78,456	(2,075)	(2.6%)	6.8%
SA	40,436	39,127	33,831	(5,296)	(13.5%)	17.5%
WA	29,140	30,136	29,369	(767)	(2.5%)	2.5%
TAS	15,577	15,220	13,206	(2,014)	(13.2%)	6.6%
Total	496,620	500,144	469,797	(30,347)	(6.1%)	100%

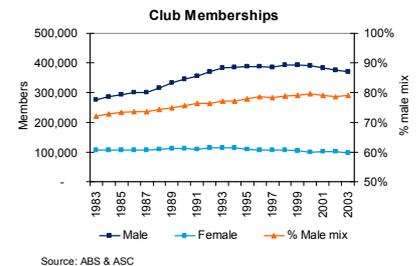
Source: AGU

As the above table identifies, Victoria is the state with the smallest level of change over the last five-year period. South Australia has seen the largest declines, closely followed by Tasmania. NSW accounts for the majority of the total decline however, with approximately 65% of the lost club memberships being from that state.

Gender Mix

The Australian Golf Union (AGU) has recorded both male and female club membership numbers since 1973. At this time the ratio was approximately two thirds male, one third female. The male ratio has steadily increased from this time, to reach 79% in 2003, being almost 4 out of every 5 golf club members.

This decline in female membership can be attributed to the changing social environment and the increasing requirement for women to enter or stay for longer periods in the workforce. A potentially encouraging sign however is a slowing in this pattern with the female component of total numbers reasonably consistent in the last few years.



Source: ABS & ASC

“National club member numbers have fallen by 6% since 1998...”

“...we estimate the total social golfer market to approximate 860,000 golfers...”

Social Golf Market

Having established the size of the total golf market and the golf club member market we are able to report on the size of the social golf (non member) market. As outlined in the previous section, the golf market in 2002 was reported as approximately 1.337 million golfers. With approximately 477,000 golfers registered as club members at the end of 2002, we estimate the total social golfer market to approximate 860,000 golfers or 65% of all golfers in Australia. This number has grown by a compound average rate of 9% per year since 1997/98 when social participation was measured at approximately 616,000 participants. This growth has been reasonably proportional across both genders with total male growth slightly ahead of total female growth.

The following table summarises the estimates made for social golf participation since 1997/98, also identifying the increasing share of the market that the social game is capturing.

	Total Participants	Less Club Members	Equals Estimated Social Participants	Social share of total market
1997/98	1,116,200	500,144	616,056	55%
1998/99	1,331,200	498,516	832,684	63%
1999/2000	1,324,800	489,685	835,115	63%
2001	1,240,200	483,752	756,448	61%
2002	1,337,100	477,084	860,016	64%
% Growth	20%	-5%	40%	

Source: AGU & ASC

Rounds Played

	Total Participants	Estimated Rounds Played	Average Rounds per Golfer
1998	1,116,200	26,788,800	24.0
1999	1,331,200	31,948,800	24.0
2000	1,324,800	32,263,900	24.4
2001	1,240,200	30,513,700	24.6
2002*	1,337,100	33,427,500	25.0

Source: AGU, ASC & Ernst & Young

Note: * Preliminary result only.

One of the key factors impacting the health of the Australian golf retail industry is the number of rounds played nationally each year. The frequency of participation determines much of the repetitive spending that the golfer typically makes during the year. Balls, gloves, shoes, headwear, apparel, and other accessories, are the products typically bought on a recurring basis, with hardware replaced or turned over less often. (We look at the frequency of hardware purchasing later in the report.) The rounds played trend therefore is an important indicator for a key part of the retail product and we detail this trend in the following paragraphs.

The estimate of total rounds played information has only been available since more detailed surveying of the industry has taken place in the last few years. As clubs realise the importance of tracking this information due to its link to ancillary club revenues, a more accurate picture has been able to be formed on the average number of rounds played per club golfer on a yearly basis. This information has been cross analysed with ASC survey data which captures total frequency estimates, with the result being the identification of total rounds played on both a club and social level.

We have assessed the historical participation information available and using a methodology consistent with the rounds estimates included in the Australian Golf Industry Report – 2002, we are able to estimate, in

retrospect, the total rounds played across the country. The rounds estimates are summarised in the table on the prior page.

The table on the prior page identifies, on average, an increasing level of play on a per golfer basis. This trend is supported by findings from the Australian Golfer Survey in 2003 which found that as the golfer ages, more golf is typically played. As Australia's population continues to age, and more golfers move into the age brackets that see greater levels of play, this trend is therefore expected to continue, boding well for retailers and manufacturers who can successfully target this market.

Recent Trends

Further detail is available on rounds played in 2001, as data from the AGU Club survey of that year could be assessed in conjunction with ASC data. (Rounds played data for 2003 will not be available until all data collected by the AGU in their 2004 Club Survey is analysed. This will be released in late 2004.)

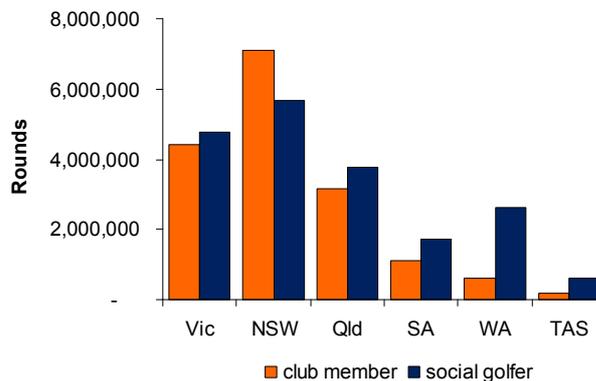
Despite the 2001 being slightly outdated it provides a reliable insight into the patterns typically seen on a state basis for both club and social golfers.

Some of the key findings include:

- The national rounds mix is 55% club, 45% social.
- NSW, with the highest number of golfers, accounts for 36% of all rounds played.
- 80% of total national rounds are played in the eastern seaboard states.
- Club golfers average approximately 35 rounds per year, with social golfers averaging 18 rounds.
- Queensland club golfers average 39.6 rounds per year, the highest of all states, followed by NSW at 36.9 and Victoria at 35.2.

The graph below illustrates these findings.

Annual Rounds Played by State



Source: AGU, ASC and Ernst & Young

Source: AGU, ASC and Ernst & Young

Golf Retail in Australia

Introduction

Before beginning our review of the Australian golf retail market, it is appropriate to first provide a brief account of the US golf retail industry, the key driver for golf retail around the globe.

US Market

The US golf industry is the most dominant golf market in the world. Home to the major manufacturers, the world's largest golf merchandise show, as well as the ever growing PGA Tour, it continues to act as the benchmark for all other markets. Reviewing the key indicators affecting the US golf retail market such as market size and spending patterns allows us to put the Australian retail market into perspective.

“...retail sales of golf equipment in 2003 were approximately US\$3.3 billion...”

According to figures released by the National Sporting Goods Association (NSGA), retail sales of golf equipment in 2003 were approximately US\$3.3 billion, a 7% decline to that recorded in 2002. The following table summarises this data, identifying the sales per major retail segment.

US Golf Retail Sales Data

	2002 (\$US millions)	2002 %	2003 (\$US millions)	2003 %	\$ % decline over 2002
Golf Balls	889.0	25%	830.8	25%	(7%)
Clubs (Sets)	1,605.0	46%	1,500.0	46%	(7%)
Individual Clubs	472.0	13%	436.0	13%	(8%)
Golf Shoes	242.7	7%	222.2	7%	(8%)
Golf Bags	324.0	9%	292.8	9%	(10%)
Totals	3,532.7	100%	3,281.8	100%	(7%)

Source: National Sporting Goods Association (NSGA)

As can be seen from the table above, declines were generally seen in 2003 across all of the equipment categories, with each holding their share of total sales.

This recent downward trend may have been possibly arrested with reported Q1 2004 retail sales for three of the leading four companies (Acushnet, Callaway Golf and TaylorMade-Adidas Golf) reflecting a 7% increase over the same period last year.

“First quarter sales typically only represent 15% of annual sales...”

First quarter sales however typically represent only 15% of annual sales and as this increase is very much based on retailer sentiment (as opposed to actual consumer consumption), these numbers are being viewed cautiously. (This cautiousness has been somewhat justified by the recent announcement by Callaway Golf as to second quarter earnings targets being significantly missed, with a revised annual sales target of some 3% below that originally forecast at quarter one.)

Australian Comparison

In order to put the US market into perspective, a comparable measure for the Australian industry to the US is the average retail spend per golfer. The best point of comparison is using the spending patterns of the 'avid' golfer, who can be described as golf retail's best customer. For this purpose we have defined 'avid' as those who play 25+ rounds per year consistent with categories used in the US. With an estimated 5.8 million golfers in the US falling into this category and annual golf equipment sales of 3.3 billion dollars, the average spend on a per 'avid' golfer basis is US \$570 or A\$792. In comparison, there are an estimated 665,000 'avid' golfers in Australia and with retail golf equipment sales estimated at A\$300 million, the average spend on a per 'avid' golfer basis is approximately A\$450 per year.

Based on this comparison, the average US golfer is spending approximately 25% more per year than the average Australian golfer.

Australian Market

Introduction

The Australian golf industry has, until recently, suffered from a lack of detailed market information. This information has been common place both in the US golf market as well as in other manufacturing industries here in Australia for some time.

As stated at the beginning of this report, we are attempting to reduce this information gap somewhat with this initial report however a more constant and consistent effort will be required from all market participants for this gap to be further decreased in the future.

“The Australian golf industry has, until recently, suffered from a lack of detailed market information.”

Historical Size of Market

In order to look at the growth in the overall size of the Australian golf retail market we are able to draw on comparable results from a 1992 survey commissioned by the PGA of Australia and administered by Ernst & Young. This survey collected sales data from a number of key companies in the golf industry at that time with the steering Committee having representation from Dunlop Slazenger, Proline, Srixon, MacGregor and Spalding.

The survey found that in 1992 the total size of the wholesale market for balls, clubs (woods, irons, wedges, putters), gloves, bags and shoes was estimated at A\$ 64.2 million, accounting for an estimated 80% of the market. On this basis, the total estimated size of the market in 1992 was approximately A\$77 million.

“...The total estimated size of the market in 1992 was approximately A\$77 million.”

Current Size of Market

To give the above historical data some context, we have sourced current estimates of the wholesale golf market from the Australian Sporting Goods Association (ASGA). Since 2001 ASGA has collected wholesale

sales distribution data from its members who are golf equipment manufacturers, wholesalers and distributors. Information is provided by their members on a quarterly basis and disseminated back to them shortly thereafter. The table below summarises the 2003 ASGA data comparing it to 1992 data collected by Ernst & Young.

Australian Golf Wholesale Sales Data

	1992 (\$A millions)	% mix	2003 (\$A millions)	% mix	\$ % increase over 1992
Golf Balls	25.3	33%	36.2	24%	43%
Clubs	28.6	37%	96.6	64%	238%
Gloves	3.4	4%	5.3	3%	56%
Bags	7.4	10%	13.5	9%	82%
Shoes	12.4	16%	N/a	N/a	N/a
Totals	77.1	100%	151.6	100%	97%

Source: Ernst & Young, Australian Sporting Goods Association (ASGA)

The largest increases in spending levels are seen in the club category (238%), which together with commanding the highest proportion of a golfer's investment in equipment has witnessed the most significant advances in technology during this period.

In order to put this growth in the market into perspective we have analysed the information on a per golfer basis. In 1992 the only participation data available was total club membership numbers so this is used as the common denominator in this calculation. This assessment, which is summarised in the table below, reveals a dramatic increase in the average spend on a per member basis despite membership levels dropping slightly over the 11 year period.

Average Spend per Member	1992	2003	% Change
Club members (male/female)	484,082	475,409	-2%
Spending - \$A millions (Balls, Clubs, Gloves, Bags)	64.7	151.6	134%
Average spend per member \$A	\$134	\$319	138%

Source: Ernst & Young

Excluding the impacts of inflation, the real price growth increase over this period is estimated at 106% and on the assumption that the golfer is not shopping more frequently, the analysis indicates that the prices of golf equipment have doubled over this 11-year period.

Market Mix

The golf retail market can be split into essentially two key areas, being on course green grass outlets and off course outlets. The actual share of sales that each achieves in Australia is currently unknown as sales data is not collected.

In lieu of this sales data not being available, we are able to alternatively estimate the share of the market that each area has, using information from the 1992 survey, the Australian Golfer Survey of 2003, and the recent fax survey undertaken by Ernst & Young (detailed later in this report.) Whilst

“... The real growth increase over this period is estimated at 106% indicating that the prices of golf equipment have doubled over this 11-year period.”

not being the ideal method, this is the only information available that allows these estimates to be made.

	1992 Ernst & Young Wholesale data	2003 Australian Golfer Survey	2004 Industry Fax Survey Estimates
On course	51%	39%	46%
Off course	49%	61%	54%
Total	100%	100%	100%

Source: Ernst & Young

The trend evidenced by this data shows that the market sales share over the 11-year period has slowly shifted away from the traditional on-course outlet, as the off course specialist golf retailers gain a larger share of the market. Large retailers have generally been able to capture a greater market share by offering more complete product ranges, greater variety of stock and with greater volumes being turned over, have been able to offer more competitive pricing. The development of on course buying groups such as PGA National, Professional Edge and On Course National are proof of this movement away from on course now being responded to in a competitive manner.

With 36% of golfers typically using the Internet for price checks, not only does the on-course retailer have to offer very competitive pricing but they will also be required to differentiate their on course retail alternative by other means, such as including product knowledge and testing as well as offering a non-threatening, more familiar and regularly visited environment.

The factors influencing the purchasing decision are clearly a must know for all golf retailers, be they on course or off course. These factors are further discussed in the next section.

“...36% of golfers typically use the internet for price checks...”

Who is the Retail Customer?

Introduction

In 2003 Ernst & Young Golf Advisory conducted the largest golf consumer survey ever undertaken, surveying approximately 12,000 golfers on a number of golf related topics. The Australian Golfer Survey (AGS) topics included golf participation (club members and casual golfers), golf tourism, golf related media and other issues related to golfing lifestyles and investment opportunities. The survey also contained a detailed section on golf equipment and retail purchasing habits, with the retail related questions noted below:

“The Australian Golfer Survey is the largest golf consumer survey ever undertaken . . .”

1. What brand of clubs do you currently play with?
2. How much do you spend per year on golf equipment, including accessories?
3. Which outlets do you predominantly buy from? Why do you predominantly use that outlet?
4. What brand of ball do you use most often? Why do you use that brand of ball?
5. Where do you normally buy golf balls?
6. Do you wear a glove? If so, what is it made of?
7. What factors influence your purchasing habits?
8. How often do you upgrade/change clubs?
9. Do you believe custom fitting your golf clubs would improve your game?
10. Would you be seeking a custom fit the next time you purchased clubs? If so, in what club category?
11. What brands of golf equipment can you recall seeing advertised recently? In which media can you recall seeing this advertising?

The information received is the most detailed information available on the Australian golf consumer and this information forms the base of our analysis.

This section of the report takes a detailed look at the typical golf consumer, determining the typical golfer profile by gender, age and income levels. After this we have a closer look at their profile in terms of handicap, average equipment spend, frequency of purchase, as well as purchase motivations and reasons for buying from a particular outlet.

An introduction to the key retail players in the market is also provided with comprehensive analysis given to each of the leading retailers and their individual customers. Summary tables give each retailer an indication of market share in the off course sector both in their main geographic markets as well as an overall ranking by state.

Survey Sample

The following points are highlighted from our review of the survey sample.



- The AGS has a slightly higher proportion of male respondents (85%) than the known national mix of 80%.
- Participation by state is similar for the two sets of data with NSW/ACT and Victoria accounting for approximately two thirds of golfers in Australia.
- There is a high degree of consistency evident when the data is compared by age to the national mix. The only real discrepancy here is in the highest age bracket (65+), as unsurprisingly the AGS, being an Internet based study, under represents this age bracket.
- In terms of participation by play frequency it is clear that the AGS samples a greater proportion of more frequent golfers than the ASC estimates with 38% of AGS respondents participating at least once a week compared to 23% of the national playing base.
- The AGS captured a higher proportion of lower handicap golfers, with 70% of respondents having a handicap of 19 or less compared to the market wide average of 52%.

The Average Golfer Retail Profile

A snapshot of the average Australian golf retail consumer, based on our survey pool, shows the following characteristics:

- He is predominantly male (86%) and there is a greater than 50% chance that he is above 40 years in age.
- He most likely has a handicap between 13-19, with she most likely having a handicap of 28+.
- He/She most likely earns between \$40,000-\$59,999 annually, with 24% earning over \$100,000.
- In terms of annual spend two thirds of customers are spending less than \$500 each year on golf equipment.
- 90% of those buying in Sporting Goods Chains typically only spend an average of \$500 annually.
- The golfers who spend the most on average per year are those with lower handicaps.
- 30% of golfers with 0-4 handicaps spend over \$1000 annually.
- The age bracket that typically sees the most expenditure is the less than 24 bracket with almost 25% of these golfers spending more than \$750 per year.
- Golfers aged less than 24 years turn over the driver more often than older golfers, with over 50% doing so at least every three years.
- Almost 1 in 5 low markers (0-4) replace their driver every year, compared to only 1 in 20 for irons.
- Almost 60% of the market typically only buys a new driver, irons and putter every 4 years or more.

“Golfers aged less than 24 years turn over the driver more often than older golfers, with over 50% doing so at least every three years.”

“Both the male and female buy from their predominant retail outlet due to convenience/location and price.”

- Putters are the most frequently purchased club with 7% of the market buying annually, followed by drivers at 6%.
- 30% of golfers are replacing irons and fairway woods at least every 3 years.
- The male plays golf for the competition/challenge whilst the female plays golf for social interaction.
- Both the male and female buy from their predominant retail outlet due to convenience/location and price.

The information provided is only a brief summary of the average golfer profile. Considerably more information has been collected but not included in this report.

Retail Outlet Market Share

“A key measure in the retail industry is market share, being the percentage of the total industry sales that each outlet captures. Knowledge of share of market in terms of sales, or in certain products can be used as a key-negotiating tool as retailers seek preferential terms with industry manufacturers and distributors. This information for the golf retail industry however is currently unknown.”

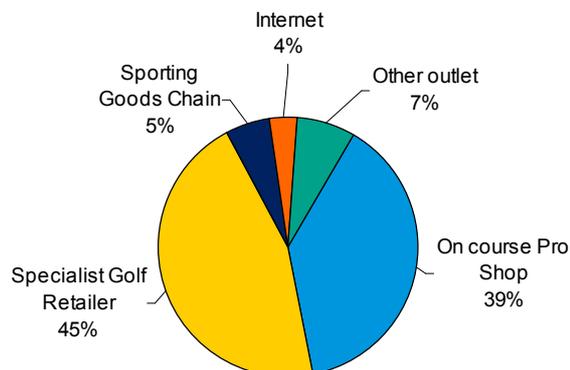
A key measure in the retail industry is market share, being the percentage of the total industry sales that each outlet captures. Knowledge of share of market in terms of sales, or in certain products can be used as a key-negotiating tool as retailers seek preferential terms with industry manufacturers and distributors. This information for the golf retail industry however is currently unknown.

In lieu of this data not being collected at store level we have used data collected from the AGS in 2003 to detail the performance of each of the main retail outlets, with the market share of each assessed based on where the consumer told us they typically bought from in the previous 12 months.

Market Share

The pie chart below provides a breakdown of the estimated market share by the key types of retail outlets. It illustrates the significance of the specialist golf retailer as the largest contributor to overall sales with over 45% of the market. On course is the second largest category with 39% of the market. Of interest is the share of market already captured by the Internet. We suspect this to grow even further in the coming years.

Market Share by Type of Outlet



Source: Ernst & Young

Factors Influencing Purchase Habits

Having detailed the market share of each of the major retailers, we now provide a review of the key factors that the golf consumer identified as impacting their purchase habits. This information provides an insight into what manufacturers/wholesalers and retailers need to be aware of in the consumer buying decision process.

The AGS asked survey respondents to rank a list of factors influencing their purchasing habits in terms of their level of importance.

The ranking of these factors in terms of the percentage stating either 'important' or 'very important' in the AGS are noted in the table right.

Price

Unsurprisingly rated as the most important factor with over three-quarters of golfers saying that price is either important or very important. Other key findings included:

- Females are slightly more likely to be influenced by price than males.
- In terms of age there is no real variation with this criteria being of significant importance amongst all age groups.
- Lower handicap golfers are generally less concerned with price as a factor as they are influenced by other performance related benefits, such as feel, distance, weight etc.
- As expected price is considered less important for those with higher income levels.

Special Offer

As with price, Australian golfers give a high priority to special offers when considering a new purchase. Other key findings included:

- Both genders rated special offers equally important.
- Special offers are of greater importance to the less skilled golfers who are typically less frequent golfers and/or newer to the game.
- In terms of income levels the importance of special offers seemed only to drop amongst the highest income levels, ie. those earning \$150,000 or more each year.

Trial at Demo Day

Having the ability to trial a product prior to purchase was rated as important or very important by over 50% of Australian golfers. Other findings included:

- The lower handicappers saw more importance in the ability to 'test drive' products against each other as it is this sector of the market that has the highest turnover of golf equipment.

	%
Price	78
Special Offer	62
Trial at Demo Day	53
Friend's Recommendation	48
Salesperson's Recommendation	45
Point of sale material	24
Used by a Professional	23
An advertisement I saw	16

- The more aged golfer (55 years+) places less importance on a trial at a demo day than the younger golfer.
- There is no significant trend in importance across gender or income levels.

Friend's Recommendation

A friend's recommendation was given a relatively high consideration as just under half of golfers stated that this factor was either important or very important. Other key findings were as follows:

- Females are more influenced by friends in their purchasing process, with 52% stating that recommendations from their friend's is either important or very important, compared to 47% of males.
- The younger age groups particularly aged 18-30 appear to hold opinions of their friends in high regard when buying golf equipment.
- In relation to handicap, the lesser skilled golfers give a higher rating to their friends' recommendations prior to purchase. This advice may well be coming from friends who are low handicap golfers.

“The younger age groups particularly aged 18-30 appear to hold opinions of their friends in high regard when buying golf equipment.”

Salesperson's Recommendation

Whilst few golfers (less than 5%) considered a salesperson's recommendations as 'very important', there was a high proportion who ranked it as 'important' (41%). Other underlying trends were as follows:

- Unsurprisingly, when analysed by where golfers usually purchase from, those who bought from sporting goods chains were less likely to rate the salesperson's recommendation as important as those who purchased from specialist golf retailers.
- Female golfers were much more likely to rate the salesperson's recommendation as important or very important compared to males.
- The higher income earners (\$90,000+) gave a greater importance to the salesperson's recommendations.
- The higher handicap golfers saw more importance in the salesperson's recommendations than the lower handicap golfers.

“Female golfers were much more likely to rate the salesperson's recommendation as important or very important compared to males.”

Point of Sale Material

Point of sale material is generally not rated as of significant importance amongst golfers. Specifically:

- It is amongst the higher handicappers where greater consideration is given to this aspect, with over a quarter of those with a handicap of 28+ rating it as important or very important as opposed to only 14% of 0-4 handicap golfers.
- Also, females were slightly more likely than males to consider point of sale material as important or very important.

Use by a Professional

As with the response to the importance of advertising as a factor influencing golfer purchase habits, more than half of the respondents have ranked the need for a product to be ‘used by a professional’ as either not important or not at all important.

It is clear however that the level of importance of professional use increases amongst males and the younger age groups, as well as those closest to professional golfers in terms of level of skill.

It is interesting to note the relative lack of importance in factors influencing the purchase process compared with some of the other criteria in this section of the report. This is not to suggest that the importance of advertising and tour exposure should be re-assessed, as there would likely be a significant amount of ‘subconscious’ impact of these influences on golfers that wasn’t identified in the Australian golfer survey.

“... the level of importance of professional use increases amongst males and the younger age groups ...”

Advertising

With the question being related to ‘an advertisement I saw’ well over 50% of golfers rated this as either not important or not at all important. There is no significant trend or variation in importance across age, gender or handicap.

Conclusions and Issues

In describing the current state of the Australian economy, whilst ‘beautiful one day, perfect the next’ may be an exaggeration, the key performance indicators reveal a reasonably positive picture. The wider retail industry continues to see improvement as well, though is adapting to a changing environment of continued price pressure.

The golf retail market is not immune from this pressure, with price being the key driver behind many purchase decisions. The industry may have created its own problem in this regard, with price points on equipment varying wildly from store to store, season to season and from product release to sell out. “All we slice is the price” has never been more true than in today’s environment.

The industry retailers and many of the industry manufacturers and distributors in the country actually act in a comparable information vacuum when it comes to detailed knowledge of where their industry is at, and how they are performing compared to other operators. ASGA has done a great job in bringing almost all of the major brand wholesalers and distributors together and their segment of the industry is now more informed than ever, reporting annually to its members. Industry retailers however have no access to market information. In this current environment it is they who arguably have the harder job of selling out, not in, like the wholesalers/distributors. With no regular accurate market sales data being collected, performance is left to general market speculation and sales rep talk.

Have you ever questioned how the current ad in the golf press and on the Golf Show, regarding Callaway’s driver sales at retail can be known? In the US a panel of 600 outlets reports monthly sales data, which is centrally collected, analysed and reported back to subscribers, typically manufacturers, wholesalers and retailers. It is this information that companies such as Callaway can use to their marketing advantage. Would the US finding also be true in Australia? We suspect it is, but you should actually know.

In the following table we detail the level of information currently known at the retail level in the US, comparing it to the Australian market.

Information	US	Australia
Total National Participants	✓	Available but not necessarily publicly reported
Total Annual Rounds Played	✓	Increasingly available but not publicly reported
Retail Market size – units on a national, state & regional basis	✓	Retail -? Wholesale – National only
Retail Market size – dollars on a national, state & regional basis	✓	Retail -? Wholesale – National only
Outlet market share (On course/Off course, sporting goods stores) on a national, state & regional basis	✓	Survey estimate, State only
Brand/model share by equipment category (Balls, Clubs, Shoes, Bags, Gloves, Apparel) on a national, state & regional basis	✓	?
Share of Inventory – units on a national, state & regional basis	✓	?

Why is this Data so Important?

This information enables all industry participants to be fully aware of where the market is at, allowing them to make totally informed decisions regarding their business. This is equally applicable for both retailers, manufacturers, and distributors. Retailers are able to use this data to track sales of their outlet against local, regional and overall market trends. Specific performance of equipment categories can also be measured, enabling proactive decisions to be made in cases where a brand or product category dramatically increases its share in a given market. The hybrid club category is a recent example of this.

For the manufacturer/distributor, this information enables them to actually quantify what ends up in the golfer's bag and also importantly measures what is and isn't being sold through. The success of regional sales initiatives could also be confirmed as sales via unit numbers could be tracked. In addition, inventory levels also typically provide a quick check of business efficiencies, as holding stock only costs money.

The big question is can this comparable information void be addressed in a reasonable timeframe and at a reasonable cost here in Australia? We think it can.

Given the current golf retail climate and the ever reducing margins being anecdotally reported, it is our view that more shared information within the industry will allow for more informed decisions to be made. Without this information, the golf retail environment in Australia will always be vulnerable to reactive decisions of the consumer, never benefiting from proactive decisions that could actually be made by the retailer and equipment manufacturers/distributors.

We hope this report provides the platform for these decisions to be made and the information collected, allowing retailers and manufacturers alike to play from the middle of the fairway as we continue into the 21st century. Ernst & Young hopes to be a valuable club in your bag.

