

# Apples business strategy with the iphone



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Apple's strategy had been laid out through a series of business decisions which have enabled it to emerge as one of the major players not only in the telecommunications sector, but computer and music sectors as well. Apple's business strategy cuts across all the three Strategic Business Units i. e. Computer unit, Telecommunications unit and Music & Video unit.

The company's annual report of 2009 states corporate strategies that Apple seeks to adopt. (The United States Securities and Exchange Commission, 2009)

Apple is committed to bringing the best personal computing, mobile communication and portable digital music and video experience to consumers, students, educators, businesses, and government agencies through its innovative hardware, software, peripherals, services, and Internet offerings. (The United States Securities and Exchange Commission, 2009)

Continued investment in research and development. The company believes that this is critical to the development and enhancement of innovative products and technologies. (The United States Securities and Exchange Commission, 2009)

Capitalise on the convergence of the personal computer, mobile communications and digital consumer electronics by creating and refining innovations, such as iPhone, iPod and the iTunes Store. (The United States Securities and Exchange Commission, 2009)

Expanding the distribution network to effectively reach more of its targeted customers and provide them with high-quality sales and post sales support experience. (The United States Securities and Exchange Commission, 2009)

It is important to note that although the above strategies apply across the main strategic business units, each unit has modified/adapted these strategies to suit their area of expertise.

### **Telecommunication SBU business strategy**

After scrutiny of Apple's corporate strategies we deduced that the telecommunication's business strategies are:

Continued investment in research and development for telecommunications division so as to stay ahead of the competition.

Commitment to bringing the best mobile communication experience to consumers by increasing its distribution network to reach more customers.

Build up on the union of mobile communications and digital consumer electronics by generating and refining innovations;

### **Value Chain Analysis of Apple Inc**

Wheelen and Hunger (2008) describe a value chain as a linked set of value creating activity that begin with basic raw materials coming from suppliers move on to a series of value added activities involved in producing and marketing a product/ service and end with distributors getting the final goods into the hands of the ultimate consumer.

The Value Chain (Reklies, 2001)

Inbound logistics deals with the suppliers of components required to manufacture products. The telecommunications SBU deals with one main supplier, Intel who provides them with processors for all their products. These processors are one of the main components of the iPhone. Every other component required for the phone is manufactured in-house.

Operations deal with all the activities required to transform inputs into output. These processes include machining, assembly, packaging, maintaining and testing. This is where the innovation, research and development business strategy comes into play.

Outbound logistics deals with the activities required to collect, store and distribute the output. The main branches here are the Sales and Marketing departments of an organisation. In this section of the value chain analysis, the second business strategy which deals with expansion of the distribution network in an effort to bring the best customer experience is put into action.

Service includes all the activities required to keep the product/service working effectively for the buyer after it is sold and delivered. (Rowe et al, 1994)

The most significant primary value chain activities which associate with the telecommunication SBU strategies are;

Innovation, Research & Development (operations)

Sales & Marketing (outbound logistics)

## **Innovation, Research & Development (R&D)**

Innovation falls under the inbound logistics and operations section of the value chain. According to Watts (2010) Apple Inc. is an organisation that is well known for its innovative abilities. Its telecommunications SBU with the help of engineers from other divisions were able to revolutionise the mobile phone industry with their launch of the now famous iPhone – the world's first fully touch screen smart phone.

The innovative ability has led to further development of the iPhone into 4 differentiated products namely;

Year

Products

2007

iPhone (is now discontinued)

2008 4thquarter

iPhone 3G

2009

iPhone 3GS

Mid 2010

iPhone 4

Innovation progress of telecommunication SBU of Apple Inc (Apple, 2010)

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When introducing the iPhone 4, Apple's CEO Mr. Steve Jobs had this to say about their latest creation;

“ When creating iPhone 4, Apple designers and engineers didn't start with a clean sheet of paper. They started with three years of experience designing and building the phones that redefined what a phone can do. iPhone 4 is the result of everything they've learned so far. And it's all contained in a beautiful enclosure a mere 9.3 millimetres thin, making iPhone 4 the world's thinnest smart phone.” (Jobs, 2010)

This statement best defines Apple's innovation abilities.

The R&D department is associated with the operations section of the value chain analysis. It is safe to say that the research and development arm of Apple Inc. is one of the most important aspects of the industry and as a result a huge amount of capital is injected into this division. The United States Exchange & Commission (2009) shows that Apple Inc capitalised \$75 million of costs with dealing with iPhone software development. The figure below shows operating expenses for 2009 and the amount of money used by the R&D department.

Apple annual operating expenses (The United States Securities and Exchange Commission, 2009)

From the above table, we see that there is evidence of continued investment in research and development for telecommunications division so as to stay ahead of the competition as well as building up on the union of mobile

communications and digital consumer electronics by generating and refining innovations.

## **Sales and Marketing**

Apple Inc. has a very successful sales and marketing division. Since the introduction of the iPhone, there has been a steady increase in the sale of this product, with more than 9 million units being sold in 2010 alone.

iPhone Sales Chart (Apple inc, 2010)

This figure is more impressive when compared to the other SBU's in Apple Inc. and this cements the success of the telecommunications SBU and is evidence of the strategy of commitment to bringing the best mobile communication experience to consumers by increasing its distribution network to reach more customers.

The report below also shows the iPods dominance in terms of returns to the organisation.

Apple annual sales report (The United States Securities and Exchange Commission, 2009)

The Human Resource Management aspect of the secondary activities of the value chain analysis is mostly responsible for the success of the sales and marketing department. In light of this, Apple Inc. has invested heavily in training of its sales staff so as to enable them to live up to Apple's mission to "reinvent retail" and setting a high bar for other companies in the retail world.

According to Frankel (2007), the training process of Apple sales staff has been carefully designed. The company has a three-step sales process i. e. Position, Permission, Probe. A sales employee explains to customers that they have some questions to understand their needs, get permission to fire away, and then keep digging to ascertain which products would be best for the customer.

## **Business Strategy Development**

There are two main processes of strategy development according to Johnson et al (2008). These are

Intended strategy development

Emergent strategy development

## **Intended Strategy Development**

Intended strategy development mainly deals with the implementation of a strategy as if was planned by senior manager. This type of strategy may be strongly influenced by strategic leader who may have formulated the strategies analytically by use of logic and evaluation.

Also, the leaders may have come up with a vision/strategic intent which act as a motivation for the staff and results in increased cohesion and efficiency in amalgamation of strategies developed by others. In more unusual circumstances, strategy leadership is through a command structure whereby all the strategies are dictated by an individual.

Furthermore, intended strategy development takes into account strategy planning system which may take the form of systemised, step-by-step,

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chronological procedures to develop or coordinate an organisation's strategy as noted by Johnson et al (2008). In this case, initial guidelines containing assumptions about the external environment are setup. Business divisions then come up with strategic plans based on the assumption. Corporate level plans are then develop from the aggregation of the business plan through coordination and consultation between corporate level and divisional level units. Finally, financial and strategic target are setup to act as a basis of performance evaluation.

According to Rowe et al (1994), the final process of intended strategy development is through externally imposed strategy whereby powerful external stakeholders for example, the government may dictate a particular strategic direction/approach.

## **Emergent strategy development**

Emergent strategy mainly develops from everyday activities and processes in organisations and may not be directly linked to the development of strategy. Johnson et al (2008) state that emergent strategy typically change by building on and amending previous strategies which more often than not tend to affect future directions.

According to Wheelen and Hunger (2008), logical incrementalism is one of the major constituents of emergent strategy development process. Logical incrementalism is the deliberate development of strategy by experimentation and learning from partial commitments. One of its major benefits is that continual testing and gradual implementation of strategy provides improved quality of information for decision making. It relies on

social processes within organisation to sense the development and try out new ideas.

Another constituent process of emergent strategy development resource allocation process explains strategies as a result of resource allocation among divisions in an effort to address issues/problems as they emerge. It emphasises much more on the processes within the business divisions that drive an emergent strategy. In addition, emergent strategy development can be affected by the political view which asserts that strategies develop as the outcome of processes of bargaining and negotiations among stakeholders. Johnson et al (2008) state that this political activity has a negative influence on strategy development since it gets in the way of analysis and rational thinking.

### **Apple's strategy development process – Intended strategy development**

The telecommunication division utilises the intended strategy development process. Evidence of this can be found in Apple's history. Firstly, CEO, Mr. Steve Jobs had laid out a strategic plan which involved diversification of the company into the telecommunications division, the computer division and the music & video division. An article sourced from the company's website states that during the Macworld Expo on January 9, 2007 Jobs announced that from that point on Apple Computers Inc. would be known as Apple Inc. This was due to the fact that the company was diversifying and shifting to mobile electronic devices rather than concentrating on personal computers. It was at this event that he outlined plans for the introduction of the iPhone which is the SBU's main product.

Intended strategy development process leans heavily on the ability of the organisation's leader and according to Burrows (2007), Jobs himself is a crucial part of the SBU's activities. He is well known for his hands-on involvement in the design and production process of the iPhone. This shows the effect of strategic vision and leadership as a design that he has and how he (Jobs) uses this as a motivator and helps create a shared belief within which people in the SBU can work together more effectively and efficiently as well. In addition to this he is a co-founder of Apple Inc. and that gives him leverage when setting up strategic plans/decisions due to his central position in the company and strategic business unit.

Moreover, the product release phases and updates on the iPhone show elements of strategic planning systems in effect in the telecommunication SBU. Developed strategies which include building up on the union of mobile communications and digital consumer electronics by generating and refining innovations as well as continued investment in research and development for telecommunications division so as to stay ahead of the competition can be linked to the strategic planning cycle of intended strategy development.

## **Recommendation**

The telecommunication division of Apple Inc. should include the other strategic processes so as to reduce the dependency on intended strategy development and company CEO Steve Jobs who integral part of SBU and the company as a whole as he is the one who came out with the strategy after he was reappointed as the CEO in 1996. We feel that Steve Job departure may negatively affect the organisation due to his involvement in every aspect of product development.

Adopting the emergent strategy development in addition to current intended strategy development process will reduce the SBU dependent on single person to develop the organisation's strategy goals.

### **Strategy evaluation – suitability**

According to Johnson (2008), suitability is mainly concerned with the overall rationale of a strategy. It also assesses how the strategic options leverage the organisation's core competences and if the said strategies have addressed the expectations of the shareholders.

The telecommunications division of Apple Inc. has been able to develop strategies which leverage on the organisations opportunities while at the same time try and minimise the threats faced from the external environment. The SBU's strategy of continued investment in R&D is particularly important as it touches on threats, opportunities and core competences of the SBU.

When looking at opportunities, R&D enables the telecommunication SBU to discover new designs technology or even building materials which give the organisation an edge over the completion. This strategy also leverages on the strategic business unit's core competencies of research and development (R&D) as well as innovation. Furthermore, the strategy enables the SBU to come up with products which were successful in the market and as a result the organisation's share price showed market gains. According to Team (2010), the new iPhone 4 will improve a few key features to the iPhone 3GS that could assist drive further apple telecommunication division sales,

slow declines in iPhone pricing and lead to a long-term boost in Apple's stock market.

Innovation and R&D are also central to the second SBU strategy which is building up on the union of mobile communication and digital consumer electronic by generating and refining innovation. These two core competences are important to the SBU as they are the units' "defence" against threats from the external environment through competitors, change in laws, consumers taste and technology. Any change brought about by the threats are detected and observed by the research and development group and the innovation section designs products effectively counter the effects of the external threats.

The final SBU strategy plays a support role to the two main strategies as it is mainly oriented towards customer care/ satisfaction. This strategy is aimed at enabling the SBU to reach a wide target market as possible through the expansion of its distribution network, retail and maintenance outlets.

## **Recommendation**

The strategies that apple's telecommunication division has developed and adopted are suitable. However, the main recommendation we have for the telecommunication division is that it should further diversify its products and introduce mobile phones aimed at the lower end of the market.

This strategy will prove extremely beneficial when consolidating market share in emerging and developing markets especially Africa which according to Schwartz (2010) is expected to reach 50% in 2010. Majority of the population do not have the means to acquire premium priced phones such

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as the iPhone and a phone designed specifically for this market will have guaranteed returns.

Furthermore, the SBU should eliminate the threat of supplier (5 Forces Model) by sourcing for another supplier for its core microprocessor for the iPhone instead of relying on Intel Corporation for its micro chips.

## **Conclusion**

The success of an organisation is dependent on the development and implementation of appropriate business strategies which take into consideration and leverage the organisation's threats, opportunities and core competences.

The telecommunication SBU has developed three strategies which sufficiently cover the afore mentioned criteria. One of the main strategies of the SBU is continued investment in research and development. This strategy has been central to the success of the unit as well as the organisation. With an effective R&D division, the SBU has been able to fight off threats which have emerged from competitors and changing laws and regulations while building up on opportunities like establishing dominance in the touch screen smart phone market.

Building up on the union of mobile communication and digital consumer electronics by generating and defining innovation is a strategy which acts as a support to the main R&D strategy. This is mainly because innovation and R&D go hand in hand. The final strategy is dedicated to customer support and increased distribution network has proven beneficial not only to the SBU but the whole Apple organisation. It has enabled the organisation reach a

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wider target market and in the process the telecommunication SBU has risen to be the third largest mobile phone manufacturer in terms of volume sales mainly due to the success of the iphone.