Through outsourcing and strategic alliances

[Business](), [Work]()

At the beginning of 1992, the computer hardware industry had become completely vulnerable to commoditization. This resulted in a vicious price war which took market share away from premium priced brands like Apple.

As a result, the company had to formulate new strategies in order to build and maintain a competitive edge. In thisrespect, Apple stood in a unique position because its level of vertical and horizontal integration was matched only by IBM’s and IBM was competing in a different market.

One of the strategies that the management undertook was to open its system to other standards and expand market share that way. This strategy was implemented through outsourcing and strategic alliances.

Through outsourcing and strategic alliances, the company was able to not only minimize costs but also to differentiate its product line in order to widen its market appeal. However, as mentioned before, Apple stood in a unique position to exercise a considerable level of impact on the industry whether competing with a closed system or an open-ended one.

Porter’s five forces before opening the system

When Apple had first started selling its computers, the threat of new entrants had been minimal because the company was implementing a proprietarytechnology. However when IBM entered the industry with its open-ended systems, most manufacturers could manufacture clones at a fraction of the cost.

This increased the threat of new entrants. Because the threat of new entrants was high, the threat of substitute products was also high. In this context, Apple began to lose market share because even though it was generating considerable value through packaging hardware and software together, the fact that it manufactured all the components in-house meant that the company was forced to sell its products at a premium price.

This was a severe disadvantage for the company as competitors could offer the same level of features in their products at a fraction of the cost. Because of the high threat of new entrants and substitute products, the threat of competition was also very high.

The competitive strategies that major players in the industry were implementing at the time were based on both hardware and software. In this respect, Apple’s graphical user interface had gained considerable market share because of its ease of use. However Microsoft had also been developing the Windows operating system which had competing features and which had the additional advantage of greater market penetration.

Competitive strategies in the computer hardware industry in the mid 80s started to focus more on software as hardware was becoming increasingly commoditized. This meant that the only way for hardware manufacturers to develop a unique selling proposition was to package more software features into the hardware.

The hardware manufacturers could not incorporate the Apple operating system because it was not compatible with any hardware specifications other than those manufactured at Apple. This resulted in increased market penetration for Microsoft’s operating system. However because Apple was developing a proprietary technology, it could not take advantage of the fast growing size of the market. As a result, the company was forced to confine its marketing and selling operations to the existing clients.

However the availability of low priced competitor products meant that Apple was losing even its existing customers to the clone manufacturers. In this respect, the most profitable customer group was that consisting of corporate clients. However this segment of the market was price sensitive and therefore prioritized cost considerations ahead of other product features.

This was the reason why Apple had been experiencing decreasing returns at the beginning of the 90's. In spite of the nature of its organization structure which enabled it to offer complete solutions, Apple began to suffer a distinct disadvantage from its high prices.

The fact that there was a high threat of new entrants and substitute products resulted in a high threat of bargaining power from the customers. Clone manufacturers like Dell did not have to engage in extensive research and development activities in order to manufacture new products. Instead they manufactured products based on standards pioneered by IBM.

As a result, cost of production was considerably lower for these companies than they were for companies like IBM and Apple which had to conduct capital-intensive research and development activities periodically in order to bring out new product lines. With Dell for example, the competitive advantage lay in its unique distribution structure which cut costs further. This enabled clone manufacturers to offer a wide variety of product offerings, in the process facilitating a considerable level of bargaining power for the buyers.

The bargaining power of suppliers was medium because most hardware manufacturers tended to maintain a joint venture framework in developing their products.

For example, IBM had a partnership with Intel for sourcing the latter's microprocessors. This partnership meant that manufacturers and their suppliers did not have to negotiate prices every time they developed a new standard. Therefore the industry was favourably positioned in terms of the bargaining power of suppliers for those manufacturers who maintained open standards.