

A study of ipod's marketing methods

Technology, Information Technology



Marketing Management

How would you define the market for the Apple iPod? Which are the relevant existing and future competitors? The market for MP3 players was relatively young in 2004. The first iPod was launched by Apple in 2001, but there were several competitors in the market. Apple holds a market share in selling MP3 players by August 2004 of 66%, totaling 10 million MP3 players. Therefore Apple holds the lion's share of the market for MP3 players. With the highest quarterly revenue in a decade as well as large profits Apple is on the roll. The relevant existing competitors in 2004 are:- Dell,- Sony,- Virgin Electronics and- Samsung. Because of growing market expectations, many additional imitators will enter the market within the next time with over 100 iPod substitutes. In addition Microsoft is also aggressive promoting an alternative song format to Apples AAC. At first sight: The first impression of this case study shows that the iPod story seems to be a great success for the Apple Company.

Answer to Question 22. 1

How would you define Apple, s competitive advantage? Apples, competitive advantage could be summarized into an extraordinary marketing expertise, that make possible to offer an unique experience to a community of enthusiastic customers. We can divide the sources of Apple, s competitive advantage in two groups: Company-related , Highly known brand associated with a trendy and inventive image, High customer loyalty , Innovation and very high quality of products, Good distribution channels (Internet, own retail stores in different countries, distribution partner) iPod-related , Product features (outstanding quality and ease of use, low weight, cutting-edge

design, compatibility with Windows format), Iconic status, Accepted Pricing (Premium) by loyal customers, iTunes on-line music exchange website 3

Answer to Question 33. 1

How important is customer loyalty for Apple Customer loyalty is indispensable for any company, but it is a particularly sensitive issue for Apple. Apple, s early evangelistic marketing path created much more than a product, it formed a lifestyle approach to innovation and technology. This product lifestyle approach delivers not only user friendly and physically attractive products, but targets persons who identify themselves as individual thinkers or revolutionaries. This image created an exceptionally strong Apple brand and community, leading many journalists to dub Apple product users as , ſfanatics, . The fanatical involvement of even non-traditional Apple users in the context of customer loyalty can be well illustrated in the battle with Real Networks online store for an open market. Real Networks, a competitor to Apple, s online iTunes store, cracked the fair play code that prevents iPod users from downloading at competing online music stores. The reaction from iPod users was harsh - they pointed out that Apple solely had developed the iPod concept, and that Real Networks, reverse engineering of Apple, s code constituted a technology rights infringement . Windows and Apple Mac users found themselves together fighting for innovation and idealism. Many outsiders were amazed at the speed and extent at which Apple was able to bring even non-traditional users into the Apple community. Should Apple invest into each customer to increase customer loyalty? If this means whether Apple should invest at all, then our answer is a clear ,? yes,. But it should be clear from

our last answer that brand loyalty is already strong, so we do not believe that Apple needs to increase spending in this area..

Additionally, Apple has a history of good customer service. In the 2006 Customer Satisfaction Index, Apple placed top in customer satisfaction among PC manufacturers . The report also stated that Apple, s customer service agents at the call centers were key for the high rating. Such call center agents are often the only face of the company, and contribute significantly to customer loyalty. This has been a strong factor helping to transform the customer into a brand champion - promoting Apple, s cause by word-of-mouth.

Would you recommend a strict exit strategy for iTunes, if the profit per track of 10 cents will go down to zero even negative? Justify. We would not recommend a strict exit strategy for iTunes in this case. iTunes is an immensely popular store for purchasing online music for the iPod. The argument against having a strict exit strategy, is that the iTunes store, and the iPod brand, have an inherent brand equity/value. This value must be leveraged to capitalize on the name and connection to Apple products. Apple Computer, s business over the last 20 years has overall been a disappointment, but the success of the iPod and iTunes store have rocketed Apple to record stock price highs . The challenge for Apple is to figure out where the future is ,€ in niche computer design, in mass market design or in a combination of both . In our opinion, it would make sense for Apple to continue to offer iTunes, even at a loss, if it was part of a longer term strategy to say, launch new internet media services over such a site.

YouTube has had lots of success here, and there is an increasing demand for online content. Apple has the chance to make a significant entry to this market. Another option is that Apple continues its work with becoming a home media expert. Apple TV, which aims to centralize content at home, is being released in mid-March, 2007. Apple TV works like a home multimedia hub, publishing or streaming movies, TV, music and other media from either your home PC, or directly from iTunes in the internet. The implication for iTunes could be immense, with potential deals from TV broadcasters to small independent filmmakers. The idea, design, function and feel are right in line with the Apple iPod. As US based PC Magazine, s Tim Bajarin writes: , šApple TV could make moving computer content around the house another mainstream digital activity.

Answer to Question 44. 1

Development of a perceptual mapAs depicted in Table 1 four areas of interest are in need of action: price, battery capacity, portability and special file formats. All data in the table were ranked in order of their importance (see column 2 and Table 2 in Appendix). Two major trends were identified amongst the remaining criteria: 1.)The iPod ranks above the competitors and fulfils all needs of the consumer, as reflected in the ideal product (see last two columns of Table 1). Particularly the aspects of ,? user friendliness, and ,? combinability with other products, no immediate action is required. 2.)

The iPod fulfils the needs of the consumer, however it, s performance is on par or worse compared with one or more competitors. It has to be shown if the use of a second criterion to discriminate the competitors from iPod is necessary. We identified ,? volume file capacity,, ,? exclusive design,, ,?

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calendar, contacts, world clock, as segments which do not require immediate improvement concerning the marketing strategy. Perceptual map(s) For the reasons mentioned above and with the help of perceptual maps the following marketing strategy was developed: Most important: Price. Apple should consider serving two groups of costumers: a small, about 20%, , šluxury group, who expect an improved product variant while the price (€š→190) will remain the same. The ,? economy class group,, about 80% of consumers, should be served with an iPod variant with improved ,? portability, available for around €š→100. The perception of portability should increase from 2 to 1, 6 in this group. While the rating values are below our recommendation, we would believe that a potential costumer, who would, according to the market research evaluation, state a lower price, might pay more in the shops after all. If in future years the market competition will intensify further, an adjusted pricing strategy will be developed for Apple. The iPod would remain a status symbol as required by its advocates., Significant improvement of the portability is required in the short term (see Figure 1 on page 7 in Appendix). ,? Portability, was identified as highly important (1, 5) in the market research questionnaire and ranks therefore as the third most important characteristic for an portable MP3 player for the consumer. The two segments A and B show values of 1, 3 and 1, 6 for portability, respectively. The Apple iPods ,? portability, was perceived as 2, 0 as was the closest competitor from Zen Creative. Support Plus was the top performer with a ranking of 1, 0. ,

An improvement of the ,? usage time, for products to be placed in segment A is also required (see Figure 2 on page 7 in Appendix). The iPod is leading in this ,? importance, field however this headway may not last for much longer.

Particularly, consumer segment A requires a higher rating for ,? usage time,,
Extending of ,? special file formats, (see Figure 3 on page 7 in Appendix).
The iPod player should offer more file formats particularly from other
competing player types on the market. In this section all players rank more
or less at the same level. Segment A would require a small but possibly
important improvement as this could position the iPod further ahead of the
competitors.

Would you like additional data? Yes, we would like to have additional data for
a more detailed segmentation of the potential users. The data we would like
to see consider the personalities of the customers. In particular we would like
to focus on their shopping behaviour but also their psychographic,
demographic and geographic characteristics (price sensibility, brand-
awareness, age, climate, IQ ,!). Why do we need this additional information?
With a more detailed segmentation Apple could adjust even better to the
needs of its costumer. For example without knowing the age of the two
segments Apple runs the risk of developing the wrong design (colours,
material, size of the buttons, sounds). Another example is that in
combination with the additional criteria mentioned below without knowing
the lifestyle of the respondent, Apple would create an over-engineered iPod
with little use to the consumer. However, the segment A-consumers are
interested in an iPod for their outdoor activities. In addition there are many
features the marketing survey did not evaluate: ,

Bluetooth capability, might become more important to user who wish to
exchange files, Remote control, High definition display (pictures, videos and

larger fonts for elderly people), Cover pictures (in conjunction with the music title currently playing), Web based radio (possibly including direct recording function), Accessories (head set, ..), Shock resistant players (jogging, and other outdoor activities), Water / weather proof (beach, swimming, jogging in rainy conditions) For pricing determination we suggest to follow the pricing analysis according to , van Westendorp,. After an proper illustration of the product the respondents have to determine if the four following prices are reasonable : A price: , that is adequate but still reasonably cheap., that is relatively high but still justifiable., that is too high., that is so low that doubts of the quality arise.(Compare Figure 4 on page 8 in Appendix). Besides this, further market research might be able to determine the willingness of the consumer pay a premium price⁷. Direct questioners have some disadvantages compared to other market research tools, as auctions, lotteries or the conjoint analysis, they are not incentive-compatible and generate no information about product characteristics. However, direct price determination through questionnaires is straight forward and has shown to be a robust source of information. Apart from this, differences compared to other methods are sufficiently small .