

Research paper on internal and external environments

[Business](#), [Company](#)



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Apple is a US company whose business is the design, development and marketing of personal computers, portable digital music players, media devices, cellular phones and other personal electronic devices. Apple also develops and markets software, software services, networking services and solutions, peripheral equipment, and internet applications. The company is one of the most recognized consumer brands in the world and is poised to become the first trillion dollar company of the world. The Apple brand is so strong that it already commands a very strong brand premium. The base customers of Apple's products span the entire world, across all demographics. Apple's products are now household names such as the iMac, iPhone, iPad and iPod. Apple has a market capitalization of Us\$ 650 million, a profit margin of 26. 9%, a return on assets of 24% and a return on equity of 44%. Apple's revenues are around US\$150 billion annually, and is considered a " strong" buy by analysts worldwide.

Apple has numerous competitors in the market such as Dell, Alineware, Gateway, Microsoft, Google, Samsung, Nokia, Amazon, Sun, HP, SGI, Cisco, Netgear, and others. In terms of price and quality of design, Apple strategy is to position itself in the higher priced but more elegantly designed segment of the market it competes in. Whether the product offered are personal computers, mobile phones, or music players Apple positions itself for at the premium priced level. This makes the products less accessible to lower tiered socio-economic levels but has helped Apple keep a core customer base that continuous to patronize the company's offerings.

General Segments of the Business Environment

There are five segments of the general environment that are critical for businesses, including Apple's. These segments are: Macroeconomic, Socio-cultural, Political/Legal, Technological and Global. Apple's critical segments are:

Technological – the two critical issues in the technological environment is the convergence of devices and the relatively shortening of the product lifecycles of these devices. Apple is threatened by innovation coming from competitors and in the fast moving consumers electronic market, the threat does not go away. More and more, products are converging into one another (phones having high resolution cameras, music players and fitness devices, etc.) thus making Apple's broad line of products obsolete. Because of constant and fast innovation among the players in this industry, the product life cycle is getting shorter and shorter, with more and more innovations launched periodically to satisfy the ever increasing demand of the market for

what's next and what's hot. This is an excellent opportunity for a company such as Apple, who is known for its constant innovation, strong research and development, and industry leading innovations and offerings that constantly excite the consumer electronic market. Apple is leading in this field and its ability to integrate portable devices into a convergent, seamless, exciting new platform has helped the company retain its leadership position.

Economic and Global - the world economy is evolving, with the US economy the base of Apple's operations, is still in a state of recovery. This is a threat because consumers may remain unconvinced to spend more. Apple, with its higher-than-competitor prices or "premium" maybe too unattractive to consumers in a bear economy. However this is an opportunity for Apple to produce value-for-money products with higher-than-average quality to corner the now more discriminating market. Related to the US economy is the emergence of the Chinese economy. The Chinese market for consumer products such as Apple's is fueled by increasing relative wealth of the Chinese consumers. This means that economically speaking, there may be a shift in markets from the US to China. This is an opportunity for Apple to create marketing schemes that would capture the Chinese market. However, the slowdown of the global economy has caused wages to increase less over time (flatten). This resulted in people spending less on luxuries and more on basic necessities. Again, the opportunity this creates for Apple is the affirmation of its loyal fan base, those customers seeking high value for their money, which only Apple products can deliver.

Industry and Competition

Apple is a company that competes in the consumer electronics market. This market is not confined to a single country or demographic. Currently, the consumer electronics market is a global reaching industry, with many producers of electronic products marketing and selling high value products internationally. This market is also significantly attractive, despite the very high level of competition. Even if new entrants into the market are able to penetrate or at the very least introduce their products, the barriers to full entry are substantially difficult for any of them. Thus one of the most apt descriptions of this industry is its continued growth and high degree of competition. Currently, the consumer electronics market is a collection of a few large companies offering high end products and several smaller companies that are pursuing their niche markets. As a result of the increasing dependence we have on computers, cellular phones and other electronic devices, the market has enlarged to be in excess of US\$ 300 billion. Studies show that this industry grows by a rate of 5% annually, fueled by consumer awareness, new technological innovation, automation in production, and lowering manufacturing costs. The attractiveness of this industry can be categorized using Porter's Five Forces Model of Competition.

Threat of New Entrants - The consumer electronics market can be penetrated in a number of different ways. In the last 10 years, the number of entrants in the market has increased significantly, however there are several critical barriers to entry that plague new entrants. Apple is one of the several large, well-entrenched and known brands that are in this market and its

popularity is a key factor that has enabled the company to keep a leadership position. Developing a successful brand is one the most critical barriers to entry for new entrants into the consumer electronics market. Needless to say, Apple has cultivated brand loyalty thus, deterring competitors from eating into Apple's markets. Apple has done so through the successful use of its capital resources and its size advantage, utilizing economies of scale to fend off threats that are "leaner" in nature (i. e. those relying on third party suppliers to keep costs down). Another threat comes from Apple's own suppliers, those that have established the same competitive economies of scale as Apple, and are diversifying their businesses towards the consumer end of the electronics market. This type of entry is known as a forward-vertical integration. For example Acer Inc., a relatively new and unknown brand brought its products to the market through forward vertical integration, and is now an US\$ 8 billion company with worldwide operations.

Substitutes - The convergence of products is a real threat for Apple, which is why the appropriate response of the company is to lead in the move for further, more innovative convergence as well. Personal computers and mobile phones are converging in terms of use, with more and more people treating their phones as if they are computers. To create value from this trend, Apple has made the interaction of its products seamless. You can now use your mobile phone and integrate it with your Mac book so that what you do in one is reflected seamlessly and automatically to the other. This creates a singular feeling of use for both products, even though they are offered separately to the consumer. Products such as this are rare since not a lot of

Apple's competitors have the same type of advantage. However, Apple must keep excelling in the field of seamless product convergence to ensure that the threat of substitutes is averted.

The other threats to Apple, such as those coming from suppliers, the bargaining power of customers and the rivalry among competitors is less in significance than the first two but are still of significance. However, the only real threat in the consumer electronics market is those that come from conflicts regarding intellectual property. The risk of litigation is high, due to the presence of patents, copyrights, and other intellectual property mechanisms that protect producers from competition. When something is successful, it will always bear the risk of being imitated, therefore legal risks are inevitable.

Threat from Suppliers - the threat from suppliers is minimal, because of Apple's ability to utilize its supplier base effectively. However, this reliance may become a threat if Apple does not manage quality standards and costs. If Apple relies on just one supplier, then there is a possibility of costs being too high but if there are too many, there is a threat of poor quality. So far, Apple's suppliers have earned a reputation of loyalty to the brand as well. For example the recent launch of the iPhone 5 showed the world that Apple's suppliers adhere to the company's demand for loyalty and strict confidentiality, that none of them leaked out information about the product before the actual product launch last September 2012.

Bargaining Power of Consumers - the threat from consumers is also minimal, since Apple is known for its brand loyalty and customer focus that has provided Apple a cushion in terms of market share. Consumers have varying needs and the convergence of consumer electronic devices is addressing that. Apple is at the forefront of that convergence so the threat coming from the consumers are minimized.

Competitor Rivalry - the largest threat comes from increasing competitive rivalry. This industry is characterized by growth and break-neck innovative pace that demands high capital investments and robust research and development from both entrenched companies as well as from new entrants. However, Apple is protected from competitor rivalry because of its commanding position in the market.

Apple's Strengths and Weaknesses

Apple's strength in the market started with its success in the music segment of the consumer electronics market. Apple started with the iPod and iTunes, two products that still dominate their respective markets to date. Apple strategically maneuverer both products such that they open up to new services and with each other seamlessly. For instance you can buy music on iTunes, download it into your iPod, which may influence you to utilize other products (iPod docks, for example) or services (downloading Disney on iTunes). Apple's once small-ish core of Mac users have grown significantly, with the growth of its PC hardware and software business. Apple's MacBook is now a widely popular PC of choice, while the IOS has established itself as a

strong alternative to Microsoft Windows or other operating systems in the market. Apple's strengths and general weaknesses are shown below:

Table 1 Apple Inc's Strength and Weaknesses

Strengths

Weaknesses

Most recognized consumer electronics brand in the world

Dominant player in the global mobile phone market

Impressive financial performance, potentially the first US\$ trillion company in the world

Robust R&D

Holds a fifth of the global market share for smart phones

Offers unique and proprietary design for operating systems, hardware and services

High customer service commitment

High legal risks due to intellectual property susceptibility

Higher priced than most competitors

Reliance on a few key suppliers

Limited synergies and strategic alliances

Resources, Capabilities and Competencies

Apple Inc.'s success is by way of introducing industry leading products and services has paved the way for the company's continued profitability and growth. Added to that, the company has been very active in reducing direct product costs, with the cost of goods sold increasing at a slower pace than

revenue growth. Apple Inc. utilized a very equity aggressive financial positioning to fund operations. Currently, experts see that Apple uses little to no debt and thus has very uses little or no debt in its capital structure and may have less financial exposure than the industry.

Apple's resources, capabilities and competencies is best explained through their financial performance. Apple's strong growth and profitability has enabled the company to invest in long-term assets thus the increase in asset-base of the company from 2008 to 2011. These investments are in research and development which is done by the corporation, logically to maintain its commanding market position. With the increase in asset base came the increase in PPE as well as working capital requirements to utilize these assets. The company, because of expanding operations had to purchase materials for use in producing goods which it has managed well from 2010 to 2011 but suffered from the enlargement of unrealized assets by way of receivable accounts as well.

In terms of value chain, the company moved away from doing its own manufacturing after failing to seize market shares through its do-it-their-way mantra. Apple now outsources most of its product components thus saving the company valuable resources that are now dedicated to research, prototyping and testing. Outsourcing however makes their costs high, which is counterbalanced by the quality of the products that command higher market prices.

The next valuable chain in Apple's operation is supplier control. Because they rely heavily on outsourcing, the quality of the outsourced materials needs to pass Apple's strictest standards. The company also made great strides in making their suppliers understand their business and the requirement of the industry they compete in, thus making the suppliers develop a "customer centric" approach to their operations.

Apple made strategic partnerships as well. One such partnership is with Intel, for the supply of computer chips. The collaboration with Intel produced the Intel Core Duo which the Apple Mac uses as its main processor. Apple also integrated with NeXTstep to develop a multi-tasking operating system that would rival Microsoft's Windows operating platform. This resulted in the Leopard and Tiger operating system of Apple, which are both critically acclaimed. In terms of software, Apple worked with Microsoft for the popular Office utilities (Word, Excel, Powerpoint) which are also available on Mac computers.

Product delivery is another key component of Apple's success. From the suppliers to the installation of the software for their products, Apple's product delivery process is super streamlined. This makes the product delivery timely and cost effective.

Apple is also a leader in diversification, with its earnings being spent on research for its own products and for product offerings of companies that it feels will have strategic fit and importance in the near future.

Lastly, the most critical component that has spelled success for Apple is the company culture. Apple's company culture is non-traditional, is very flat but highly innovative. Team work is a common concept in Apple and each team has accountability for the activities they carry out.

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