

# Apple's success in a monopolistically competitive market essay samples

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## **Introduction**

Monopolistic competition refers to the market structure in which firms have many competitors in the market, but each of them sells products slightly different from each other. Monopoly and oligopoly are the two most common market structures found in different industries. Monopolistic competition, on the other hand, is a rare market structure found relatively in less number of market situations (Economics Online 2014). Restaurants in a big city are the classic examples of monopolistic competition in which each restaurant offers a menu that is slightly different from each other, yet they are competing for grabbing the same customers.

Apple is an organization operating in a high-tech product industry in which none of the players enjoys significant market share. Each of them has products slightly unique in features. Still, in this monopolistic market, Apple has been able to extract most of the profits, whereas its competitors failed to make money selling the same kind of products. This essay will discuss the characteristics of a monopolistically competitive market, and how Apple has been able to gain phenomenal success following a set of unique strategies.

## **Characteristics of a Monopolistically Competitive Market**

A monopolistically competitive market possesses the following characteristics:

- Each firm sells products slightly different from the competitors. For example, in the smartphone segment, Apple's iPhone has an operating system, features, and a price tag different from its competitors like Samsung Galaxy and Sony Xperia.

- In a monopolistic competition, each firm can take independent business decision regarding the price and output of their products. Although, the price is somewhat influenced by the competition, but largely, it is made on the basis of internal cost and strategy (Economics Online 2014). For example, in the smartphone market, there are smartphones available at \$99 (Google Nexus). Also, smartphones with similar features are available at \$699 (iPhone 6).

- In a monopolistically competitive market, knowledge of the products is widespread with most of the firms having enough information as regards the product features of their competitors, but that knowledge is not comprehensive (perfect) (Economics Online 2014). Information related to some of the features may remain unknown to the competitors. For instance, the competitors of Apple may know about the components and features of an Apple iPhone, but they may have limited information as regards the production process or the design of the same.

- There is no major barrier to entry or exit in a monopolistic market. In a monopolistic competition, as knowledge about the products is readily available with none of the existing companies being too big enough to create an entry barrier, any new player can enter the market easily (Economics Online 2014). In the case of smartphone market, it is easy to acquire knowledge regarding the basic manufacturing process, design of the hardware, and the availability of the software. Therefore, any new entrant can easily grasp this information, and penetrate the market. New players like Micromax, Huawei, and Karbonn have shown that there is very little entry barrier in the smartphone market by capturing a significant market share

within a few years of making an entry.

- Monopolistically competitive firms can maximize profits with their product differentiation. The monopolistically competitive firms by the virtue of the uniqueness of their products can create a niche in the market, thereby controlling the market in terms of setting the price of their products (Economics Online 2014). Till the time the competitors come up with similar products with the same kind of offerings, a company can make super profits. For example, when Apple came up with the iPod in 2000, it was a unique product in that industry. Apple sold that product at a price much higher than its competitors and was still able to sell millions of iPods around the globe as the product was one of a kind (Johnson et al 7).

### **Apple's Innovation Strategy and Monopolistic Competition**

As discussed in the above section that supernormal profits are possible in a monopolistically competitive only for a short while. In the long run, however, as more and more competitors enter with similar kind of products and features, the profit declines. Therefore, in a monopolistically competitive market, in order to go on making supernormal profits, a firm needs to come up with product features and upgrades in a regular manner so that when the competitors copy the old features of its products and introduce similar kinds of products in the market, the firm can release the upgraded version of its old product (Economics Online 2014). Thus, it can maintain the product uniqueness in the market and can charge the price premium.

Another way of continuing to make supernormal profit in a monopolistic market is to diversify into other product categories with new and innovative

products, the market of which is immature and yet unexplored by the competitors (Economics Online 2014).

In order to remain successful in this monopolistically competitive market, Apple has made use of both the above strategies, making supernormal profits year after year. In the heart of Apple's success lies its innovation strategies. Apple launched the iPhone in 2007. At that time, the concept of smartphone was unheard of in the mobile business market. People were accustomed to using mobile phones for making and receiving calls, texting and accessing the internet on a very basic level. Although some companies like Sony and LG had touchscreen phones available in the market, Apple's iPhone was far ahead of them in all its features and offerings. Therefore, being the first entrant in the mobile smartphone market, Apple was able to make supernormal profits. Soon competition followed in the subsequent years, but by the time competitors copied the features of Apple's iPhone and released their products, Apple outdid the competition by launching an upgraded version of the iPhone, the features of which were unique and one of a kind (Johnson et al 12). Apple continued innovating its product features, and therefore, it was able to hang on to the supernormal profit year on year, whereas the competition was always trying to catch up.

Apple also used 'innovate and diversify' technique to remain highly profitable in the monopolistically competitive market. Apple introduced the iPod in 2000. As the product was unique and innovative, Apple was able to make astronomical profit by selling the iPods for many years. However, in 2005, it realized that the sales of iPods were not going up as the competition was able to copy successfully most of the features of the iPod and made

them available at a cheaper price in the market. Upon this realization, Apple soon launched the iPhone in 2007. iPhone gave back the lost profit to the company, and within a few years, when the smartphone became more competitive, Apple came up with its iPad range of products. Currently, iPhone and iPad are the two major products, attributing to the maximum profit of the company (Gehani; par. 7). However, both the products are showing signs of slowdown. Apple being an innovative company has a number of innovative products in the pipeline.

## **Conclusion**

The monopolistically competitive market is a unique type of market structure in which none of the businesses has the power to dictate the market terms. However, each of the companies operating in this market situation has products slightly different from the competitors. In a monopolistically competitive market, the initial entrants can enjoy supernormal profits as they can charge the price premiums from the consumers for the offering of unique and innovative products. Operating in a such monopolistically competitive market, Apple was able to make a huge profit year on year by launching an array of innovative and one-of-a-kind products such as iPhone, iPad and the iPod. Apple continues to innovate and dominate the market in terms of making a profit. However, the competition is catching up the product offerings of Apple quickly. Therefore, in order to make itself unbeatable in the market for several years, Apple needs to beef up its innovation and diversification strategy by launching products that cannot be easily copied and reproduced by the competitors.

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