

Case analysis: apple computers

Business, Company



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1) Historically, what were Apple's major competitive advantages?

Apple was the first customer-centered, user-friendly computer to be launched on the market. Since its launch in 1978, Apple has been synonymous with new design and innovation, and incorporating advanced technology into its gadgets.

Historically, these same unique characteristics have been the competitive advantages for Apple. In the 1980s, Apple was the only computer to offer a colorful, graphic and sound enhanced interface. This led in multimedia technology gave Apple an edge in the fields of desktop publishing and education, where it had 60% and 80% market share, respectively.

Apple engaged in extensive backward integration, manufacturing its own chips, disk drives, and monitors. The only component it sourced from outside were Motorola's microprocessors. This was a definite advantage in terms of building an individual brand identity and offered a complete desktop solution, something that its competitors could not offer at the time. This one-stop, integrated product allowed Apple to sell products at a premium price, with gross margins averaging around 50%. The one major drawback of this practice was that it limited inter-operability with other hardware and software systems.

Still, its ability to invent "cool" technology and making it easy and fun to use, was a major competitive advantage that made Apple highly successful in the 1980s.

2) Can Apple's problems in the computer business be attributed to the nature of the personal computer industry? Analyze the structure and evolution of the PC industry and justify your answer.

The PC industry as a whole is a major factor contributing to the ascent or decline of the industry players. Studying the industry life cycle helps provides a context for analyzing Apple's performance over the decades. When Apple I and II were launched, the PC industry was still at the introductory phase. There was rapidly changing design and substantial variety within core PC functions. This natural differentiation allowed contrasting products such as IBM and Apple to grow in the market. The introductory phase also justified local production, and high prices of products.

The growth phase resulted in increasing use and demand of PCs in the market. IBM's open source technology allowed different hardware and software to be used, thus creating a higher demand because of choice availability. The Windows operating system being used in IBM computers further increased its market share. Apple formed a joint venture with IBM to develop a new operating system, a project that did not materialize in the end. Apple therefore continued to use the PowerPC chips from Intel and the original Mac OS in their computers. IBM-compatible computers also started being manufactured by independent vendors, who began to offer the PC at a much lower price compared to Apple. In response, Apple launched the Mac Classic, a lower-priced computer to compete with IBM PCs. Apple also licensed out its technology to independent manufacturers to make Apple-

clones, in order to meet the rising market capacity and to make Mac computers ubiquitous, like IBM PCs.

However, these clones started to cannibalize Apple's market share, and in a short time, they reached 20% of Macintosh's unit sales. By the time Apple retracted the manufacturing and OS licenses for Macintosh, the PC market was already reaching the maturity stage. PCs were becoming commoditized, and there were fierce price wars caused by the entry of low-cost manufacturers. The only PC manufacturers that generated a good profit margin were those with superior cost-efficiency or high-end innovation and design. This was a primary reason why Dell achieved tremendous success. Manufacturing efficiencies could not be improved beyond a point, so Dell focused on streamlining its distribution chain. It started offering "customized PC" solutions, which would not allow more than a few days' worth of inventory to be stocked in its warehouses. This dramatically improved the costs arising due to overcapacity and obsolescence. Apple, on the other hand, had neither been focusing on innovation, nor on supply chain efficiency until much later.

The life cycle and nature of the PC industry therefore was a big factor in determining Apple's performance. The sharp decline in revenue and market share could have been avoided if Apple had staying ahead of the curve and continued to tap its resources in innovation and advanced technology.

3) To what extent did Apple's strategies contribute to its poor performance in the PC business? Evaluate the strategies under Sculley, Spindler, and Amelio to explain and justify your answer.

Apple underwent substantial strategy changes with each of the CEOs that succeeded Steve Jobs. Sculley started by aggressively marketing Apple's capabilities in the desktop publishing and education sectors. He intensively pursued the marketing efforts for Apple, highlighting its superior software and peripherals. Under Sculley's leadership, Apple sales reached \$5.6 billion, and it became the only significant alternative to IBM on the PC market.

However, Apple's high cost-structure became a major problem when the prices of IBM-compatible PCs dropped. To counter this, Apple launched the Mac Classic, a lower-priced computer to compete with IBM PCs. Apple also launched the PowerBook notebook computer, which received highly favorable reviews.

But instead of pursuing these promising concepts, Sculley chose to form an alliance with its rival IBM, for creating a new operating system, and also committed to switching from the Motorola chip to IBM's PowerPC chip. He also introduced the first PDA on the market, believing that Apple's expertise in user-friendly, creative software would be very beneficial as PCs converged with consumer electronics. In the strictest sense, Sculley's ideas were actually good, and represent much of what Apple has done in the past five years. However, Sculley's ideas were ahead of his time, and he focused on rolling out new products and changing core components of the Mac, when he should have been focusing towards cost-cutting and developing a lean supply-chain system.

Spindler succeeded Sculley as Apple's CEO. He concentrated on completely different objectives from his predecessor, modifying Apple's strategy and

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focusing on increasing market share. Under his leadership, the IBM-Apple project was shelved, for which \$500 million had already been spent. Apple also licensed out its technology to independent manufacturers to make Apple-clones, in order to meet the rising market capacity and to make Mac computers ubiquitous, like IBM PCs. However, these clones started to cannibalize Apple's market share, and in a short time, they reached 20% of Macintosh's unit sales. Spindler tried to make up for Apple's losses by focusing more on international operations, and made international growth a priority. But this was not enough to make up for Apple's failing performance in the US market, and it reported a loss of \$69 million in the first quarter of 1996.

Spindler was replaced by Amelio, who tried to revive Apple's operations and concentrated effort towards streamlining the Apple product line and its distribution system. According to Amelio, Apple was to focus on the high-margin premium segment, which would allow it to justify charging a much higher price against IBM PCs. But once again, this required a dramatic shift in strategy and re-direction of the company's efforts. He then decided to cancel the development of a new OS for Mac, which had cost more than \$500 million in R&D. His next step was to acquire NeXT Software, also founded by Steve Jobs, and had Steve Jobs return to Apple as a part-time adviser. But NeXT had a very small market share, and its OS, NeXTStep, could not run Mac software.

Amelio re-organized Apple three times, and cut heavily into payrolls. In spite of these actions, Apple lost \$1.6 billion under Amelio's leadership, and was replaced by Steve Jobs.

From the evaluation of Sculley, Spindler, and Amelio's leadership, it is evident that their strategies led to further deterioration of Apple's business. The main reason was because all three employed vastly different, even opposite policies, which led to no progress for Apple.

4) Evaluate the actions taken by Steve Jobs. Do you think he has finally solved Apple's problems in the PC business?

Steve Jobs took quick remedial measures to ensure Apple's viability on the market. Firstly, he brought saleable features into Apple computers, by obtaining a \$150 million investment from Microsoft. He put a stop to the cannibalization of Apple sales by its clones, by retracting the license and even buying out Power Computing, which manufactured these clones. Next, he launched the iMac, a PC with distinctive design and inter-operability with non-Mac products. He slashed new project plans by 70%, , reducing the directionless expenditure of company resources.

Jobs also outsourced iMac manufacturing to Taiwan, and revamped Apple's distribution system. A new Apple website was launched, and gained very good response for its online store, which accounted for 40% of the company's sales by 2001. He cut inventory to a minimum, stocking not more than two days' worth of inventory in the warehouses.

One of the most important tasks for Jobs was to re-invent Apple's image, which had taken a beating over the past decade. A new concept and campaign for Apple was launched, promoting it as "hip, trendy, and different". Another revolutionary step was shifting from PowerPC chips to Intel chips. This new microprocessor allowed iMac to run about 5 times

faster, and use 20% less energy, without increasing its cost. Apple also produced an Intel-compatible version of its operating system OS X.

Apple also made a major foray into retail, enabling it to reach a large number of customers who had little exposure to Apple products. The retail stores were designed in a way to draw the buyer's attention towards Apple's different products, their ease of use with a variety of gadgets, and their unique, creative design. By 2005, Apple's retail stores had secured a year-over-year sales increase of 78%.

Steve Jobs' plans and measures brought Apple tremendous success. However, that does not mean the end of all problems for Apple in the PC market. The primary reason for this is the rapidly changing nature of the PC industry. The PC market in the US has reached the stage of maturity, and for the most part, is commoditized. The profit margins are slim, and new demand is declining. Recognizing this fact, IBM, the world leader in PC manufacturing, sold its PC business to Lenovo in 2000. Keeping these facts in view, Apple's introduction of the iMac with Intel, along with introducing a Mac with Windows OS, may be a risky venture.

5) Explain why Apple has done so much better in the iPod business than it has in the personal computer business.

The original inventors of a portable music device offering connectivity and MP3 capabilities were actually Dell and Rio. Apple was the first, however, to factor in three areas that were of most importance to consumers - battery life, form factor (design) and connectivity to a PC. Apple also carefully balanced these factors so that none of these came at the expense of

another. The iPod isn't the smallest device, it doesn't have the largest capacity or best battery life, but it crosses the usability threshold on all three areas and doesn't compromise on any of them. By focusing on the three core attributes and actually improving on design, Apple created a product that had mass appeal, and was consequently extremely successful. Added to this was the accessibility provided by Apple's retail stores, and good customer service.

Apple's iPod can be cited as one of the best examples of product differentiation in a commoditized market.

The iPod sales were also boosted by Apple's online music store, iTunes. The iTunes store, however, was nothing more than a loss-leader for Apple, generating almost no margin. The sole purpose they served was to generate increased sales for the iPod. The iPod, initially configured only for Mac, was later available to be compatible with Windows-based PCs. In addition to Apple's retail and online stores, iPod was also sold at general electronics stores, making it widely accessible. And finally, the iPod was introduced just at the right time, when consumers wanted more and more digital integration and mobile devices. Due to these reasons, Apple's iPod business achieved much more success than its PC business.

6) Do you think Apple can continue its remarkable performance in the iPod business? What are iPod's competitive advantages over rivals? Are they sustainable in the future? Please justify your answer.

As of 2006, the iPod sales show no signs of declining, and the trend is expected to continue for some time in the near future. Apple is also

planning on launching a number of products that would have interactive capabilities with the iPod.

But there are doubts regarding the continued success of the iPod. One of the reasons is that unless Apple continues launching newer, more innovative and successful products in conjunction with the iPod, it might become a commodity. The competitive advantage of the iPod is its interface and Apple's patented design and technology. Also, Apple has strong ties with music and other media companies for accessing music, pictures, etc. However, Apple's standard pricing of 99 cents per song is being disapproved of by some of the music companies. Outsourcing the hardware manufacturing makes it possible for other companies to move in and launch newer designs with better capabilities.

One particular source of concern is cellular phones and other portable devices such as Blackberry. Mobile handsets are offering increasingly advanced technology, seamless interface, creative design, and a wide variety of capabilities in addition to enabling calls. It will increasingly become difficult for Apple to maintain the novelty and demand for iPods, and command a premium price. For the time being, iPod is a cash cow for Apple, and will continue to be lucrative for some time. Beyond that, Apple will need to have gained strength in another area or launched a new product to appeal to buyers.

7) Given Apple's experiences in the PC business and in the digital music business, what strategy-related recommendations do you have for Steve Jobs? What should he be doing, going forward?

At its current position, Apple has to make a few choices that will determine its path in the long run. Given their success with iPod, one of the options is to center their business around the concept of the digital home, and become more of a service and software digital home application company. This strategy would shape Apple into something like consumer electronics company, making hardware and software, rather than being a computer company. The Macintosh will still be the core business, around which they will be able to build other businesses for the future. A problem with this strategy would be the questionability of sustaining the huge premiums they earn with iPod today. Eventually, competitors like Dell will come in with much lower-priced products. Another challenge is that Apple is still selling a proprietary solution, since music on the iPod cannot play on non-Apple devices. This was the same problem they faced when the Mac computer was not compatible with non-Mac hardware and software.

A second option would be to continue manufacturing and selling iMac and iNotebok with Intel technology, and integrate other features such as the iPod and iTunes. It could also license its OS for use with other multimedia and digital information providers such as cellular phones. However, it is a fact that Apple has always been more of a hardware company rather than a software company. Moving into operating system software and design licensing would require a major shift in the core business that Apple is in, and the switching costs of such a move may be prohibitive.

The third strategy, and perhaps the most viable, is to reinforce Apple's historical competitive advantage in application and industrial design. Apple has three major advantages in this area: they have a very strong brand; they

have excelled at industrial design, and they have been good at delivering applications in the digital home space. Apple could eventually ease out of OS software development, and instead leverage their brand, industrial design skills, and application base. This strategy follows up on Apple's recent move of delivering a Mac that operates on Windows. Designing a consumer PC on Windows, with Mac's unique design and interface and including the versatility of the iPod and iPhone, would tie the advantages that Apple has into a single saleable product, which could sell at a premium. This move would also be the least disruptive, since Apple has established online and brick-and-mortar retail stores, and a strong manufacturing and supply chain system.