

Free case study on external analysis

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



Introduction

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.

A lot of competitors are playing catch-up with Apple, with Samsung recently launching a salvo of similar products, targeting Apple's very market – and succeeding. Another threat is the emergence of the Android operating system which is also eating into the Apple IOS system, and may have a long term effect on Apple's market share and dominance in the consumer electronics industry.

General Environment

The general environment wherein Apple is operating is described below and arranged in decreasing level of importance.

1. 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.

2. 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.

3. Demographic – slowing economy causing flattening of wages. 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 Environment

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.

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 maneuvered 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.

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.

The attractiveness of this industry can be categorized using Porter's Five Forces Model of Competition.

1. 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.

2. 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. These are discussed below.

1. 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.

2. 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.

3. 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.

Overall, the consumer electronics industry is moderately attractive. The industry is characterized by growth and high competition which is driven by break-neck innovation. The industry is dominated by a few large companies such as Apple that have cultivated brand loyalty through the judicious use of its resources and focus on quality. Competitors lag behind in terms of brand loyalty and innovation but are catching up to Apple through leaner production processes and price differentiation. Buyers and suppliers have less influence on Apple's dominance, while the threat of new entrants is mitigated by brand loyalty and Apple's proactive position on product convergence as well.

Competitive Environment

Apple has numerous competitors.

In the PC market, it competes with Dell, Alienware, Gateway and other PC Manufacturers. In terms of operating system, it competes with Microsoft.

In terms of music content and music related products (iTunes, iPod), it competes with other internet based music sites such as Amazon

In the mobile electronics branch specifically mobile phones, it competes with Samsung, Nokia, Blackberry, among others

In the Server markets it competes with HP, Sun, SGI, IBM and other similar service providers

In terms of networking it competes with Cisco, Netgear among others

In terms of price and quality of design, Apple positions 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.

Apple's competitors however, hover around the more functional and less pricey segment of the market, which Apple does not fully service. In terms of quality of products versus price, Apple positions itself on the highly priced and high quality segment of the market. Again, Apple's competitors position themselves on the lower priced and lower quality build, to offer products at

more competitive price levels. This segment of the market is not serviced by Apple.

With this positioning, Apple has kept its strong leadership position in the consumer electronics industry. Apple is the most dominant player in the United States and has maximized on opportunities that the US market has offered the company. Its ability to integrate and innovate has given Apple the ability to remain competitive despite focusing on the higher priced segment of the consumer electronics market, a segment that not a lot of players position themselves in. This philosophy is very divergent from what the competitive landscape offered to customers, that is, products that are non-differentiable and cost-competitive but has worked in Apple's favor.

Conclusion

Apple is a company that will continue to grow and succeed. Currently, the company is pushing its commitment for stronger intellectual property rights, which translates to a commitment to licensing and the formation of stronger relationships between hardware and software. Apple must continue becoming an organization that learns. It could form strategic alliances with other entities having strategic competencies. Apple can work with companies that enhance their already competitive position, through a sharing of knowledge or the opening up of new platforms that would expand the company's market dominance.

References

Businesswire. 2012. Research and Markets: Consumer Electronics Market Forecast for 2012. Retrieved from <http://www.businesswire>.

<https://assignbuster.com/free-case-study-on-external-analysis/>

[com/news/home/20090904005206/en/Research-Markets-Consumer-Electronics-Market-Forecast-2012](http://www.researchmarkets.com/news/home/20090904005206/en/Research-Markets-Consumer-Electronics-Market-Forecast-2012) Retrieved on September 16, 2012

Investor Guide. com 2012. Apple Inc. Retrieved from [http://www.investorguide.com/stock-analysis.php? ticker= AAPL](http://www.investorguide.com/stock-analysis.php?ticker=AAPL) Retrieved on September 16, 2012

Masi, B. 2009. Strategic Analysis of Apple, Inc. University of Hartford. Retrieved from <http://www.scribd.com/doc/24134877/Strategic-Analysis-of-Apple-Inc-Brian-Masi> Retrieved on September 16, 2012

SWOT Analysis: Where is Apple going now? SWOT Analysis of Apple Inc. 2012. Retrieved from <http://www.divisiontwo.com/articleshttp://www.cnet.com> Retrieved on September 16, 2012

Wikianswers: Apple's Competitors. 2012. Retrieved from http://wiki.answers.com/Q/Who_are_apple_inc_competitors#ixzz26c2MCU4K Retrieved on September 16, 2012