

# Hbr apple case

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



## MGMT 5303 CORPORATE &amp; BUSINESS STRATEGY

## ----- CASE STUDY 1— APPLE

----- dUE: monday, JANUARY 23, 2012 “ Apple

Inc. 2010” By Group 5: Gautam Pangaonkar David Mead Mark Deveny

Lindsey Liotta Apple’s Performance Glance at the history: Apple in 2001 had

to go through hardships and it was a critical year for the company. The

revenue fell from \$8 billion in 2000 to \$5. 7 billion in 2001. The operating

income had turned from a profit of \$522 million to a loss of \$344 million.

Sales in the U. S and Europe had fallen by 30%. In Japan, sales and margins

drastically reduced by 50%. Meanwhile Apple’s competitors such as HP, Dell,

Intel, Microsoft etc., were blooming. Shown below is the graphical

representation of the Years vs Total Revenue for the above mentioned

companies (in millions of dollars). Figure I: A look on the competitor’s side

Apple’s Net Sales by Product Category, 2002-2009 (in millions of dollars)

Figure II: Product wise distribution - Apple Present: Apple has managed to

increase its revenues from \$5 billion to \$65 billion by 2010 and revenues are

predicted to reach \$100 billion in the coming years. Increase in Gross

Margins = 23% to 40%. Operating Profits = Increased to \$18 billion through

a loss of \$344 million in 2010. Net Assets = \$48 billion. Return on Sales and

capital are 28% and 39% respectively. Range of Products | Quantity | % of

Sales | iPods | 300 million | 70% | iPhone | 100 million | | iPad | 25 million |

95% | iTunes | 12 billion songs, 450 million TV episodes, 35 million books | |

Steve Jobs and the Apple turnaround: IBM had made a comeback in the PC

industry and emerged as the new standard. Apple introduced Macintosh in

1984, but because of the slow processor speed and lack of compatible

software, its income fell 62% between 1981 and 1984. Jobs was forced to leave. When the new immediate CEOs, John Sculley, Spindler and Amelio, could not get Apple back on its feet, Steve Jobs was asked to return as CEO. He quickly moved in, adapted himself to the situation and Apple posted a \$309 million profit in its 1998 fiscal year. Main Explanations for Performance

After Steve Jobs became CEO in 1997, he led Apple's transition into a "mobile device company". Apple products, characterized by their ease of use, industrial design, and technical elegance, inspired a unique customer loyalty to the brand. Demand was spurred on by Apple's marketing machine, which created extraordinary hype for the company's new product introductions. With cutting edge innovation, particularly in non-PC products, profits soared in the late 2000s. While competitors cut R&D spending and relied on suppliers to provide standardized PC components, Apple increased R&D and built upon its strength of innovation in the development of the Mac. Using a vertically integrated supply chain, Apple cut costs through improved inventory management. Apple subsequently established symbiotic relationships with key suppliers, Intel and Microsoft. The Mac was envisioned as the "hub" for consumers' digital lifestyle and marketed via premium price differentiation to home consumers, the largest segment of PC buyers. The introduction of the iPod coincided with Apple's repositioning as a digital convergence company. A key feature that differentiated the iPod from other music players was the synchronization ability with iTunes desktop software and the iTunes store. The iTunes store provided Apple with significant first mover advantage that boosted iPod sales. Apple further progressed as a mobile device company through the introduction of the revolutionary iPhone

in 2007. An unprecedented revenue sharing agreement with AT&T spoke to the power of the Apple brand, and the iPhone was enormously successful. Despite strong competition in the smartphone industry, iPhone sales surged from zero to 30% of Apple's total revenue within two years. The company's profits soared from \$2 billion in 2006, to \$6.1 billion in 2008, to \$8.2 billion by 2009. The iPhone's associated App Store added about \$1 billion in to Apple's sales in 2009. By 2010, 60% of Apple's sales were related to the iPhone and iPod. Profitability of the iPad tablet, launched in 2010, was less certain. However, the iPad signaled a potentially significant shift in Apple's strategy to regain control over the production of key components. What is likely to change in the future Cultural and technological trends will affect Apple's products in the future just as they have in the past. The iPod is an example of this. iPod sales have been negatively impacted by the explosion of iPhone and iPad sales because they both are capable of playing music and accessing the Internet. The newer devices, therefore, not only duplicate iPod capabilities but also offer many other capabilities that the iPod does not offer. The popularity of iPhones likely will continue even in the face of potential competition from forthcoming entries into the smart phone market. In the computer industry, ease of use, product quality, and brand loyalty will likely drive sales of Apple computers. Although Apple is now a relatively small player in the PC industry, it will likely continue to thrive and gain market share. To some extent, this will be a spillover of the popularity of the other Apple products. Competitors' efforts to impact the sale of popular Apple products have, to this point, been minimally successful. The Amazon Kindle Fire, which was popular during the fourth quarter of 2011, may have

made some inroads into iPad sales; however, it is unlikely that most Kindle Fire purchasers would have bought an iPad because of the steep cost differential between the two devices. Other similar devices have failed to garner large sales figures. The only other relatively successful competitor is the Samsung Galaxy Tab, which, in spite of its technological superiority in some areas, has not been able to heavily affect iPad sales. Similarly, the iPhone has dominated the smart phone industry. Nokia, the world's largest cell phone manufacturer, is poised to introduce the Lumia 900, which has been called "the iPhone killer." Nevertheless, it remains to be seen whether the Lumia 900 will have successful sales to U. S. consumers. Samsung Galaxy S2 has created equal and fierce competition for iPhone. The iPod, whose sales have taken a hit from other Apple products, has had a number of competitors in the market place, like the Microsoft Zune. The sustainability of Apple's position in each industry is unclear at this point. Continued innovation, a huge necessity in a technology industry, was a large part of Steve Jobs' approach to Apple. With his death, it remains to be seen whether such intense, spectacular innovation was mainly attributable to Steve Jobs, or whether a culture of innovation is now so ingrained in Apple that it can continue at high levels and move into other industries, such as television, without Jobs' creative presence. How Apple should respond In order for Apple to move successfully forward, they must not forget where they have been; the problems ensued and the lessons learned. Apple's greatest struggle to date was in the early PC industry where they nearly went bankrupt and had to rely on Steve Jobs to come in and save the company. Those were the years when Apple gave itself an identity and a

clear place and strategy within the market. It is possible that Apple could repeat its PC market mistakes in other industries if it strays from its advantageous differentiation strategy and tries again to compete on cost alone or gives into licensing when a major advantage and distinction of Apple is its horizontal and vertical integration. Apple's current advantages in each industry rely very heavily on its ability to be a first mover when it comes to new technology and new products. They have to maintain that position through investments in research and development. While it is not advantageous to compete as a low cost provider, they must also be looking for ways to streamline productions and maintain and build good business relations with partners and suppliers in order to bring costs down as consumers expect prices in technology markets to decrease. Another key to their recent success has come from their powerful marketing strategies that keep consumers both informed and on the hook in anticipation of the next product, which Apple brilliantly sells as a must have device. It is also important for Apple to not keep consumers waiting too long in between new product releases and updates so that they remain relevant in the minds of consumers. Preparing for the next product, whatever it may be, will be a significant test for Apple. The entire world is waiting to see what will happen to this company after the death of Steve Jobs. The unveiling of the next product needs to be both well timed and well marketed. Going forward, Apple should not limit itself to the industries it is already in, it should also look for ways to bring new revolutionized products into other segments of the technology marketplace and use the societal trends as its guide to developing the next must have Apple product.