

# Apple, inc. and its international business essay - paper

[Business](#), [Marketing](#)



Apple, inc. and its international business essay I. Introduction 1. Brief Introduction of Apple, Inc. and its International Business Apple, Inc. was founded in 1977 by Steve Wozniak and Steve Jobs in the U. S. At that time, the main product of the company was personal computers. After a success in the personal computer field, Apple started to expand their product area. They sold Macintosh, computer software, Pippin, video game console, Newton, world first PDA, iPod, mp3 player and so on. Some of their products were successful whereas others eventually failed. Both successful cases and failed ones contributed to Apple's current success, the status as the most innovative firm in the world. Their innovative idea with high technology and trendy design attracted customers globally. In fact, the brand image of Apple is related to its core competency, "creativity" and "innovation." In addition, "convergence" among Apple products is one of the core competencies of Apple. In other words, each of their products is related to one another or more:-For instance, Mac computer to Mac Operating System, iPod to iTunes music store. In this sense, once a customer buys one Apple product and is satisfied with it, he/she becomes a fan of Apple. It leads to a purchase of another Apple product in a series. This strategy is connected with their recent structural change, towards expansion of products to cover the whole IT industry. Through this movement, Apple is planning to establish the Total Information System (TIS). Recently Apple launched innovative product iPad, a type of advanced tablet PC. Likewise, Apple keeps changing to Total Information System firm with their core competency. 2. Current Status of Apple Inc. Currently Apple Inc. takes different positions among their three main products: iPod, iPhone and Mac. At first, Apple took the dominant

position in the world mp3 market. In 2006, iPod, Apple mp3 player, took 75.6% market share in the U. S and 5-6% of world market.[1] Apple's tremendous market share still maintains with new innovative version of iPod. However, regarding iPhone, Apple's position is somewhat different. Since Press releases tons of articles about iPhone, it seems like the whole world is under iPhone fever now. Surprisingly, however, iPhone's current market share is not large. Nokia from Finland and RIM (Research in Motion) in Canada are market leaders, and Apple is catching them up as a third. It was concluded that, iPhone is in the star position[2] according to BCG Matrix. The market share increased from 2.8% to 13.3% during merely one year. It is expected that Apple's market share in the smartphone industry will continue to skyrocket. Next, Mac, Apple's computer department, maintains current market share. According to survey of Gartner, Mac's market share grew from 8.4% in 2008 to 2009 in 8.7%. Although there are strong competitors like Toshiba, Dell, Acer, HP and many others, Mac is still stable in the PC market. In addition, because of Operating System related to Mac, Apple's real profit from Mac is quite large. In April, Apple launched their new product, iPad in the U. S. market. They are going to launch this product to other countries from July to September. Despite many criticisms, sales of iPad already exceeds 500,000 in the U. S. market. Overall, the future of Apple looks promising. In the following section, Apple's current strategy will be analyzed to find out how efficiently Apple is competing with competitors. II.

Organization Structure of Apple Inc. 1. Centralized Characteristic According to Taehius, a senior product designer of Apple, Inc., Steve Jobs, the CEO of Apple, Inc., holds the most important and centralized role in managing the

entire company. Since Jobs put a lot of emphasis on product design, the design department, led by Jonathan Ive, is quite crucial in the company organization shown as a pyramid. (Exhibition a.) This tells us that Apple is a very centralized organization, where all the powers are focused at the top. Centralized organization has pros and cons. Since all the important decisions are up to the top executives, the entire organization can share clear company goals and objectives. Also, the core strategy which is to be regarded as a secret can be well kept from leakage. The drawback of centralized organization, however, is that it cannot function properly without the head holding influential power to make a decision. If the top executives cannot perform their role as the leaders of the company due to, for example, health issues or temporary vacancies in their positions, then the company cannot work properly. It is like a puppet without the master to control it. The more the top executives hold most of the power, the less the organization itself and the subordinates become less effective to run the business. Plus, it is obvious that power involves responsibilities as well. The mainstream of the company holds a lot of influential power; however, those in the center are under tons of responsibility at the same time. For example, if the top executives make a decision to introduce another mp3 player other than iPod but fail, then the top executives will have to take full responsibility. The subordinates, who did not have much autonomy but did what they were told to, might be not pushed so much because they did not have influences in the company's decision. Furthermore, such centralized organization's weakness is that the operation becomes less efficient as it goes further away from the headquarter. Considering the expansion of Apple into the international

market, centralized structure may not be the most appropriate option 2.

**Divisional Structures A. Functional** The organization structure of Apple, Inc. can be categorized as a functional one considering each department independently stands with its own task. As shown in the chart below, Apple, Inc. has iPod, iPhone, retail, HW/SW engineering, marketing, and application divisions. (Exhibition b.) According to Robert Duncan, " What is the right organization structure? " (winter 1979) p. 429, the functional organization has some strengths- (i) it allows economies of scale within functional departments, (ii) it enables in-depth knowledge and skill development, (iii) it enables organization to accomplish functional goals, (iv) it is best organization structure when the company possess only one or few products. However, the weakness of the functional structure would be (i) slow response time to environment change; (ii) many cause decisions to pile on top, hierarchy overload, (iii) poor horizontal coordination among departments, (iv) less innovation, (v) and restricted view of organizational goals.

**B. Geographical** In addition, Apple, Inc.'s structure has some characteristics of geographic structure. Because Apple is expanding to various countries, it has many local subsidiaries under the U. S. headquarters located in California. (Exhibition c.) It established regional divisions under product divisions to enhance overseas operations' performance, since customized response became possible. Considering the significance of international market to Apple, such structure is very suitable. However, the overall structure is overly tilted towards centralization, where all the powers and resources are focused in the executives located in the home country. Such structure maybe the most efficient, if the company focuses on domestic market.

However, considering Apple's status quo in the international market, the current structure is questionable, and it may need to be reorganized, possibly more towards the geographical structure.

### III. International Channels of Apple Inc.

In 2001, Apple started to do direct sales using Apple store. In the past, Apple depended on current channel partner in its product selling. However, many retailer shops started not to sell Apple's product, thus Apple opened Apple store by itself. Although Apple inevitably opened their own stores to procure places to sell their product, it was really successful. According to CNN, Apple store is the most successful retailer in U. S. Currently, Apple has 174 Apple stores throughout the world, and each square foot of this shop earns \$4, 032 in one year. The key success factors of Apple store are as follows. First, the store design. Like their innovative design of products, Apple's store design is also innovative. They even build prototype store before they actually start the construction. They use high quality glass, and stainless and wood materials were used in designing the store interior. Second factor is customer-satisfying service. Apple's A/S service, Genius Bar, is a good example. Genius Bar is based on reservation system, so the customers don't have to wait in a long line to get the A/S they need. The staffs are well-trained and very kind as well. The service charge is free in most cases, and almost every service is performed within few days. Customer satisfaction derived from this excellent service leads to repurchases of existing customers. Third factor is e-tailing. Apple operates its own online store. One of the problems of offline stores might be the music store. Although the current music industry is not profitable, iTunes online music store generates huge amount of profit. This year, iTunes sold 10 billion

songs. Currently iTunes comprises 70% of overall digital music store industry in the world. It is mostly related to the sale of iPod and iPhone. Furthermore, as it was mentioned in the introduction, Total Information System (TIS) is working as the catalyst in boosting its high profit from iTunes online store. However, Apple's current channels are not sufficient to promote itself globally, and to meet the growing overseas demand. For example, Apple had to postpone its shipment of iPads to customers who have pre-ordered, because Apple simply could not handle all the demand.[3] There is a clear problem with the current international channeling, and some modifications are necessary.

#### IV. International Marketing Strategy of Apple Inc.

Apple's business can be largely divided into two parts: computer and mobile segments. Two sectors have different characteristics, and Apple has different positions in two industries. Thus, Apple uses slightly different strategy between the two industries. Firstly, it is necessary to have a look at how Apple is doing marketing in the computer industry.

##### 1. Marketing in Computer Industry

Apple used to be a market leader in PC industry in 1980s. This was possible because Apple developed the PC market for individuals, which did not exist before. At this time, Apple tried to monopolize the market by providing its hardware in a bundle with its OS. Thus, Apple was targeting at the every population that was willing to use computer. However, with the fall of Apple due to the rise of IBM and Microsoft, Apple changed its target segment, to high end users that were fan of Apple. Apple still could possess a niche market since these customers chose to buy Apple, with better design, stability, and performance, in exchange for compatibility with most of other computers that ran on Microsoft, and the expensive price. Apple has

maintained this strategy since then. Same strategy applies for the laptop industry, quite similar to the PC industry. Laptop industry is quite similar to PC industry, except that laptop industry has more high end users. Thus, although Apple is using a similar strategy and positioning, Apple is performing better in this market. Overall, Apple has targeted the high end users, who are willing to pay high price for good products, and positioned their products as high end products within PC and laptop industry. Such limitation is largely due to the dominance of Microsoft's Windows OS, while Apple is persisting on its own Mackintosh OS. Apple could not target the popular majority, so the target users had to be those who did not mind inconvenience from incompatibility or different interface from Windows.

## 2. Marketing in Mobile Industry

In mobile product industry, Apple uses different strategy. Although Apple is maintaining the same brand and product image, and positioning itself in a similar manner, it is targeting on broader users. As a result, Apple possesses large market share in this sector. This sector consists of three products: an iPod, an MP3 player, iPhone, a smart phone, and an iPad, a table PC. Apple was the first to develop these products, or start trends of these products, and to expand the market of these products. These products share certain key technologies and services, creating synergy effects. However, considering some differences, it is necessary to look at these products individually. iPod was not the first mp3 player. Nevertheless, it was an evolutionary product because the unique thing about iPod was that Apple not only sold the hardware, but also the contents that would go into iPod, through iTunes. This service was a differentiating factor from conventional products. Initially, Apple targeted its products on



technology sensitive, young age group with money.[4] iPod was certainly not charged at a cheap price. However, since Apple basically was the one that created and monopolized the market, Apple could maintain its price.

However, it targeted other, more price sensitive groups by launching a separate cheap line of products, called iPod shuffles.[5] Another important technology that was added afterwards was the touch pad technology. Apple released an iPod Touch, which was again a huge success.[6] Other MP3 players had touch pads, but not as good as that of an iPod. Apple also created an App store, where the users could download useful applications for free. This also contributed to the iPhone's success, creating a synergy effect.

Apple's next product was the iPhone that started the smart phone boom.

Apple simply turned iPod touch into a phone, but the app store made iPhone stand out. Although several competitors are entering, iPhone remains as the most promising smart phone. Certainly Apple only has third's largest market share but is showing the fastest growth, where the market share increased from 10.9% to 16.1% in a year. In contrast, RIM, which has the second largest market share, faced a drop in market share from 20.9percent to 19.4percent.[7] Recently, Apple launched the iPad, which is a 'table PC'.

Basically it enlarged the iPod Touch, and strengthened the performance. This is a completely new product, and Apple seems to have positioned the product in the net book market, and it is expected that there will be a competition between these two products. The key success factor in these products is the innovative technology, and the provision of contents. Apple relied on its products for the success, and did not show much promotion efforts. Instead, it influenced the public by providing the products with the

best quality. It also benefited from its innovative and trendy brand image, and this especially appealed to the young generation. Consequently, these users promoted Apple to their peers, more efficient than media advertisements. Thus, Apple succeeded in promotion without investing much money on promotion. Once Apple succeeded in creating the market, Apple continued to benefit from its first mover image. Especially, this appealed the late adopters of MP3 players and smart phones tended to purchase the product of Apple. The result is that Apple is a firm market leader in MP3 market, and one of the most promising products in Smartphone market, threatening the market leader, Nokia.

### 3. Overall Marketing Strategy

Regardless of the domestic market or the international market, Apple uses the similar marketing strategies that were mentioned above. What exists in common between those two sectors is that Apple maintains the similar brand image, and tries to utilize it for marketing. Apple puts the effort in creating, preserving, and promoting this image, but does not advertise its products or use any other means that leads to serious investments. Rather, Apple challenges by creating innovative products that would create their own market. Another key aspect of Apple is that it is very customer oriented. They pursue simple but functional products, which are easy to use. They are not satisfied with just meeting the want, but consider what the customer's actual need is. In case of their products, contents are very important, so they established iTunes for downloading music, and App Store for providing necessary software for their products. Thus, Apple is very good at identifying the customer's needs and creating the appropriate product. Fortunately, electronic applicants have similar need abroad, making international

business easier without much localized adaptation. The last key factor that should be considered is that Apple values synergy effect. Not only its products share same OS, and software contents, but also promote each other. Basically, the previous product helps to create loyal customers of Apple, who will buy other Apple products. Thus, increase in a sale of one product leads to the increase of another, creating a positive synergy effect of Apple. Overall, Apple competes by its brand, product, and the usage of synergy effects that occurs between its products and with other products. It can be noticed that among 4P, Apple places great emphasis on product, and competes by specializing in this area. Thus, to improve Apple's marketing strategy, it is required to consider other areas, for example, the lack of promotion, depending on whether it has a chance of increasing sales.

However, to understand the issue better, it is necessary to look at Apple's marketing in detail, by looking specific pros and cons of Apple's tactics that were used to satisfy Apple's current marketing strategy.

#### 4. The Winning Marketing Tactics of Apple, Inc.

The five factors listed below have contributed a large part of Apple's current success in expanding its market share in most countries.

A. "i" The products of Apple, Inc. is known by the alphabet "i" put in front of the product names. Especially, iPod has played a major role in establishing the connection between Apple, Inc and "i." As the "i" has become the brand image of Apple itself, people who see or hear "i" can immediately think of the Apple products or the Apple logo, the mouthful bitten apple. Putting "i" in front of the name of the new product seems to be trifling, however, the symbolic image the alphabet "i" gives is tremendous. In conclusion, it is a strong marketing tool using the brand power of Apple.

B.

Online Marketing Through iTunes The iTunes Store has crossed many milestones from its launching. Interestingly, the store sold about 275, 000 tracks in the first 18 hours and more than 1, 000, 000 in its first five days. When released for Windows in October 2003, iTunes was downloaded more than 1, 000, 000 times in the first 3 days, selling more than 1, 000, 000 songs in that period. Nowadays, iTunes sold 10 billion songs, over 200 million TV episodes, and 3 billion applications worldwide.[8]

C. Customer-friendly Apple Stores In Apple stores, almost all of Apple's products are not only just put on display, but customers can try them freely. The nice store environment, combined with white-toned, neat and fresh interior, the visitors are attracted by Apple, Inc more. There might be some visitors who just drop by the Apple store but do not have much intention to purchase Apple products. However, these non-intentional visitors can be attracted playing with cool electronic products with exquisite designs. It is needless to say the Apple maniacs are obviously amazed, too. This is true in almost every country. Therefore, it's reasonable to say that Apple stores are playing a big role in Apple's marketing.

D. Hybrid Marketing Apple is actively attempting in hybrid marketing with various collaborators. For example, Chanel, Gucci, and Prada have launched several iPod purses and handbags for women. BMW, Hyundai Motors and other automobile companies provide built-in iPod/iPhone dock inside the center fascia. Also, Apple is a leading company in product placement. (Exhibition d.) iMacs, Macbooks, iPods and iPhones have been appeared in 104 top movies and TV shows.[9]

E. Synergy of iTunes and iPod Apple is now enjoying its 73. 8% market share globally.[10] In the U. S., it already went up over 70% in 2007.[11] This much of a success is attributed

to the success iTunes. Steve Jobs, the CEO of Apple Inc., expected that Apple would soon confront its limitation if Apple focuses on hardware products only. Thus, he developed iTunes, which is music software corresponding to iPod, the hardware, to enjoy the synergy effect. One of the examples is that iTunes provided songs are only playable with Apple's mobile devices.[12] 5. Apple's Hardest Battlefield - Korea According to Korean IT newspaper DigitalTimes, the market share of iPod in Korea is about 10%, and ranked as the fourth largest market share in Korea.[13] This is noticeable considering market shares of iPod in most countries are rather high: over 70% in U. S., over 60% in Australia and Canada, over or around 50% in U. K., Swiss, Singapore, Denmark, and Japan.[14] Given this fact, it seems that Apple is having a hard time in expanding its market share in Korea. A. Failure of Standardization: Music Categorization Apple's marketing policy is basically standardized, which gives substantial efficiency. However, it has been a serious obstacle for Apple to expand its market share in Korean market. To understand this, the concept of "tag information" should be introduced. Tag information is various information stored inside multimedia files, including title, artist, genre, and others. Apple's mobile devices categorize every file according to this tag information. This is not much of a problem for other countries' customers who are using iTunes to purchase music and video because the files purchased from iTunes will automatically have the standardized tag information. Korean customers, however, are used to download mp3 files from the internet, often illegally. These files do not have standardized tag information, or in worst case they even lack any tag information. Due to this internet culture, Korean customers are not used to

categorize their mp3 files according to tag information. Instead, they manage their mp3 files by using file name. Thus, Korean mp3 manufacturers always have been supporting file browser menu in their mp3 players. Nevertheless, the ban on customers' access to Apple products' file system gave discomfort while listening to music for Korean customers, which became a major reason for the low demand.

**B. Standardized A/S( After Service) Policy:** Refurbishing Korean customers have very strict decision making process when they're buying a new IT gadget. They always compare similar products in terms of specs, design, A/S policy, and others. Korean mp3 player manufacturers generally provide almost perfect AS policy. Once there was a market leader in PMP industry, " iStation", which has nothing to do with Apple's " i." This company made good products but they had a very bad AS policy. The complaint from users filled the forum site, and the company went almost bankrupted, only saved by improving AS policy. Compared to Korean mp3 manufacturers, Apple has a rather poor AS policy. Their AS policy is called " Refurbishing" which means that the company will not just change the broken part of the product, but they'll take the original product and substitute it with a refurbished product. This policy doubly bothers Korean customers. Firstly, Korean customers tend to get attached to their own device, so refurbished products are not largely welcomed by them. [15] Secondly, the procedure of refurbishing takes so much time and has so strict a procedure that Korean customers often get frustrated.

**C. Other Reasons** The price of iPod is supposed to be relatively cheaper than the competitors' products. However, Korean mp3 player market has a constant demand whilst the supply is pretty sufficient. The competition is also harsh,

so there are many products with high quality and low price. Thus, in Korea, iPod is not cheap, but it's rather an expensive product considering the quality of the product. Same logic is applied to iPhone, iMac, MacBook. It's not that they just can't enjoy the low-price privilege in Korea. Rather, Apple's pricing discourages the Korean customers. Besides the failures of standardization, there's a failure of localization which they rarely do. Apple's store of application for iPod and iPhone, AppStore, provides a rather localized service. If you're a user in a certain country, this nationality information is automatically stored in the AppStore account, fundamentally blocking your access to the applications that are made in other countries. While there are several exceptions regarding this matter, the number of universally accessible applications is quite small. Mp3 player seekers seem not to be worried about this problem, but it's being a disappointment for smartphone seekers, who consider much about the variety of applications available, making them reluctant to buy iPhone.

#### 6. Problems with Apple's International Marketing

As it has been mentioned, there is not much difference between Apple's domestic and international marketing. However, such decision has led to some losses. For example, Apple does not promote actively because it is already a well-established brand in America, but not necessarily abroad. A research suggests that Apple could triple its revenue in Europe over the last four years if it promoted itself to Europeans, who were less familiar with Apple than Americans.[16] Also, Apple could have made easier break through, like in case of Korea if it had chosen to analyze the local market and negotiate. Failure to do so led to the prevention of iPhone for about a year into Korea, due to the lobbying of major telecom and electronic companies in

Korea like SKT and Samsung. If Apple has shown a greater flexibility, the situation would have been better. V. Formulation of International Strategy 1. Overall From the analysis above, what can be observed in general is that Apple's problem is a customization, which refers to localization according to the region. Apple's organization is very centralized, with the most emphasis on functional departments. However, it is not the organization structure considering the current proportion of international market to Apples. Same applies to the channel. Such problems were also observed from the marketing, and Korea was one of the most dramatic case that showed the flaw with Apple's current strategy. Thus, based on this analysis, a new strategy has to be formulated that will enhance Apple's international business capability. For the formulation of international strategy, firstly a SWOT analysis is needed. Apple's strength lies in its strong brand image, robust financial performance, and R&D capability, while it has weaknesses like product recalls and patent infringements. As it has been revealed by the analysis of Apple's marketing, Apple is also having some problems with localization to meet internal markets' needs. While Apple's situation, like the rapidly growing smartphone market, and the success of its tablet PC, iPad, it is also facing an unfavorable condition like intense competition in smartphone market. In addition, the global economy has been bad last year, and the economy still seems to be volatile. Other threats include the declining PC sales and dependence on specific suppliers. Considering that the PC segment has been a cash cow for Apple, the decline of sales will have a negative effect upon the financial condition of Apple. To sum up the most important implications of the SWOT analysis, although Apple has been doing



well, it is facing fierce competitions, and is being criticized for its service and defects in its products. Thus, Apple's corporate strategic goal focus on maintaining its success in mobile product sectors, which refers to iPod, iPad, and iPhone, while maintaining the market position in the computer sector. This should be accomplished by shifting from its home replication strategy towards a more responsive one. Thus, instead of pursuing an export-based strategy with centralized marketing, it should pursue towards decentralized marketing, like using a country specific strategy in cases like Korea. Yet, Apple should be careful not to lose its core competences due to the reform. More specifically, at a business level, Apple's computer and laptop sector should pursue a focus strategy and maintain its market share. On the other hand, Apple's iPod, iPhone, and iPad should pursue a differentiation strategy, utilizing its strong brand. Apple will not be able to win its competitors by pursuing a cost leadership. At a functional level, Apple's marketing sector has to shift from standardized marketing and provision of standardized service, like only offering an American version of AppStore, towards more localized manner that meets diversified needs abroad.

2. Suggestions A. Organizational Aspect Following tactical actions must be taken to achieve these strategic goals. First, to pursue an increased localization to meet foreign markets' needs, Apple should consider reforming its organizational structure. The current functional structure is not apt for Apple considering the significant proportion of international business. It should consider a geographical structure in order to pursue localization for increased responsiveness. Overall, the structure should be more decentralized. Thanks to Steve Jobs' cleverness and right decisions Apple has managed to turn

around and become one of the most well-known companies in the world. However, it is still risky to depend solely on him. If Apple, Inc. considers the future management without the current CEO, it should prepare plan B to continue the current success. In this sense, Apple could be more decentralized and embraces various opinions from many other insiders. A possible suggestion is to gather top executives, middle-management officers and employees. Holding conference among all the employees or using online suggestion box delivering messages right away to senior managers. The box should not be end up with delivering ideas from under to top, rather it should be mutual communication. For the active message exchanging in both ways, from under to top and vice versa, the rule of feedback system would work. It means that the top executives who receive some ideas from the subordinates should reply and give feedbacks. In this manner, the decision making and influential power can be distributed to all the employees. B. Marketing Aspect Second, Apple has to localize its marketing. Apple should consider promoting itself in international market. Compared to Americans, foreigners are less familiar with Apple's products, and trying to just rely on its existing reputation may not be the best option. Also, Apple's products are only meaningful when the users can gain access to the contents Apple provides, and Apple has to provide customized services according to the different market aspects. This would especially apply to markets like Korea. Also, Apple should be more considerate with its after service, since Apple is being criticized for falling below expectation abroad. Lastly, Apple has to continue strengthening its brand image, which is its core competence. To maintain the trendy and innovative image, not only Apple should continue

heavy investments in R&D, but also increased promotions, especially in overseas markets, would help. Apple has to utilize this at the maximum to win in competitive markets. We can describe Apple's strategy in terms of product differentiation and strategic alliances. Product Differentiation Apple prides itself on its innovation. When reviewing the history of Apple, it is evident that this attitude permeated the company during its peaks of success. For instance, Apple pioneered the PDA market by introducing the Newton in 1993. Later, Apple introduced the easy-to-use iMac in 1998, and updates following 1998. It released a highly stable operating system in 1999, and updates following 1999. Apple had one of its critical points in history in 1999 when it introduced the iBook. This completed their "product matrix", a simplified product mix strategy formulated by Jobs. This move allowed Apple to have a desktop and a portable computer in both the professional and the consumer segments. The matrix is as follows:

Professional Segment	Consumer Segment
Desktop G3 iMac	Portable PowerBook iBook

In 2001, Apple hit another important historical point by launching iTunes. This marked the beginning of Apple's new strategy of making the Mac the hub for the "digital lifestyle". Apple then opened its own stores, in spite of protests by independent Apple retailers voicing cannibalization concerns. Then Apple introduced the iPod, central to the "digital lifestyle" strategy. Philip W. Schiller, VP of Worldwide Product Marketing for Apple, stated, "iPod is going to change the way people listen to music." He was right. Apple continued their innovative streak with advancements in flat-panel LCDs for desktops in 2002 and improved notebooks in 2003. In 2003, Apple released the iLife package, containing improved versions of iDVD, iMovie, iPhoto, and iTunes.

In reference to Apple's recent advancements, Jobs said, " We are going to do for digital creation what Microsoft did for the office suite productivity. " That is indeed a bold statement. Time will tell whether that happens. Apple continued its digital lifestyle strategy by launching iTunes Music Store online in 2003, obtaining cooperation from " The Big 5" Music companies-BMG, EMI, Sony Entertainment, Universal, Warner. This allowed iTunes Music Store online to offer over 200, 000 songs at introduction. In 2003, Apple released the world's fastest PC (Mac G5), which had dual 2. 0GHz PowerPC G5 processors. Product differentiation is a viable strategy, especially if the company exploits the conceptual distinctions for product differentiation. Those that are relevant to Apple are product features, product mix, links with other firms, and reputation. Apple established a reputation as an innovator by offering an array of easy-to-use products that cover a broad range of segments. However, its links with other firms have been limited, as we will discuss in the next section on strategic alliances. There is economic value in product differentiation, especially in the case of monopolistic competition. The primary economic value of product differentiation comes from reducing environmental threats. The cost of product differentiation acts as a barrier to entry, thus reducing the threat of new entrants. Not only does a company have to bear the cost of standard business, it also must bear the costs associated with overcoming the differentiation inherent in the incumbent. Since companies pursue niche markets, there is a reduced threat of rivalry among industry competitors. A company's differentiated product will appear more attractive relative to substitutes, thus reducing the threat of substitutes. If suppliers increase their prices, a company with a differentiated

product can pass that cost to its customers, thus reducing the threat of suppliers. Since a company with a differentiated product competes as a quasi-monopoly in its market segment, there is a reduced threat of buyers. With all of Porter's Five Forces lower, a company may see economic value from a product differentiation strategy. A company attempts to make its strategy a sustained competitive advantage. For this to occur, a product differentiation strategy that is economically valuable must also be rare, difficult to imitate, and the company must have the organization to exploit this. If there are fewer firms differentiating than the number required for perfect competition dynamics, the strategy is rare. If there is no direct, easy duplication and there are no easy substitutes, the strategy is difficult to imitate. There are four primary organizing dilemmas when considering product differentiation as a strategy. They are as depicted below. To resolve these dilemmas, there must be an appropriate organization structure. A U-Form organization resolves the inter-functional collaboration dilemma if there are product development and product management teams. Combining the old with the new resolves the connection to the past dilemma. Having a policy of experimentation and a tolerance for failure resolves the commitment to market vision dilemma. Managerial freedom within broad decision-making guidelines will resolve the institutional control dilemma. Five leadership roles will facilitate the innovation process: Institutional Leader, Critic, Entrepreneur, Sponsor, and Mentor. The institutional leader creates the organizational infrastructure necessary for innovation. This role also resolves disputes, particularly among the other leaders. The critic challenges investments, goals, and progress. The entrepreneur manages the innovative

unit(s). The sponsor procures, advocates, and champions. The mentor coaches, counsels, and advises. Apple had issues within its organization. In 1997, when Apple was seeking a CEO acceptable to Jobs, Jean-Louis Gassée (then-CEO of Be, ex-Products President at Apple) commented, " Right now the job is so difficult, it would require a bisexual, blond Japanese who is 25 years old and has 15 years' experience! " Charles Haggerty, then-CEO of Western Digital, said, " Apple is a company that still has opportunity written all over it. But you'd need to recruit God to get it done. " Michael Murphy, then-editor of California Technology Stock Letter, stated, " Apple desperately needs a great day-to-day manager, visionary, leader and politician. The only person who's qualified to run this company was crucified 2, 000 years ago. " Since Jobs took over as CEO in 1997, Apple seems to have resolved the innovation dilemmas, evidenced by their numerous innovations. To continue a product differentiation strategy, Apple must continue its appropriate management of innovation dilemmas and maintain the five leadership roles that facilitate the innovation process. Strategic Alliances Apple has a history of shunning strategic alliances. On June 25, 1985, Bill Gates sent a memo to John Sculley (then-CEO of Apple) and Jean-Louis Gassée (then-Products President). Gates recommended that Apple license Macintosh technology to 3-5 significant manufacturers, listing companies and contacts such as AT&T, DEC, Texas Instruments, Hewlett-Packard, Xerox, and Motorola. (Linzmayr, 245-8) After not receiving a response, Gates wrote another memo on July 29, naming three other companies and stating, " I want to help in any way I can with the licensing. Please give me a call. " In 1987, Sculley refused to sign licensing contracts with Apollo Computer. He felt that up-and-coming rival

Sun Microsystems would overtake Apollo Computer, which did happen. Then, Sculley and Michael Spindler (COO) partnered Apple with IBM and Motorola on the PowerPC chip. Sculley and Spindler were hoping IBM would buy Apple and put them in charge of the PC business. That never came to fruition, because Apple (with Spindler as the CEO) seemed contradictory and was extraordinarily difficult in business dealings. Apple turned the corner in 1993. Spindler begrudgingly licensed the Mac to Power Computing in 1993 and to Radius (who made Mac monitors) in 1995. However, Spindler nixed Gateway in 1995 due to cannibalization fears. Gil Amelio, an avid supporter of licensing, took over as CEO in 1996. Under Amelio, Apple licensed to Motorola and IBM. In 1996, Apple announced the \$427 million purchase of NeXT Software, marking the return of Steve Jobs. Amelio suddenly resigned in 1997, and the stage was set for Jobs to resume power. Jobs despised licensing, calling cloners "leeches". He pulled the plug, essentially killing its largest licensee (Power Computing). Apple subsequently acquired Power Computing's customer database, Mac OS license, and key employees for \$100 million of Apple stock and \$10 million to cover debt and closing costs. The business was worth \$400 million. A massive reversal occurred in 1997 and 1998. In 1997, Jobs overhauled the board of directors and then entered Apple into patent cross-licensing and technology agreements with Microsoft. In 1998, Jobs stated that Apple's strategy is to "focus all of our software development resources on extending the Macintosh operating system. To realize our ambitious plans we must focus all of our efforts in one direction." This statement was in the wake of Apple divesting significant software holdings (Claris/FileMaker and Newton). There is economic value in strategic

alliances. In the case of Apple, there was the opportunity to manage risk and share costs facilitate tacit collusion , and manage uncertainty. It would have been applicable to the industries in which Apple operated. Tacit collusion is a valid source of economic value in network industries, which the computer industry is. Managing uncertainty, managing risk, and sharing costs are sources of economic value in any industry. Although Apple eventually realized the economic value of strategic alliances, it should have occurred earlier. The following are some comments about Apple's no-licensing policy.

" If Apple had licensed the Mac OS when it first came out, Window wouldn't exist today. " — Jon van Bronkhorst, " The computer was never the problem. The company's strategy was. Apple saw itself as a hardware company; in order to protect our hardware profits, we didn't license our operating system. We had the most beautiful operating system, but to get it you had to buy our hardware at twice the price. That was a mistake. What we should have done was calculate an appropriate price to license the operating system. We were also naïve to think that the best technology would prevail. It often doesn't. " — Steve Wozniak, Apple cofounder " If we had licensed earlier, we would be the Microsoft of today. " — Ian W. Diery, Apple Executive VP, I am aware that I am known as the Great Satan on licensing...I was never for or against licensing. I just did not see how it would make sense. But my approach was stupid. We were just fat cats living off a business that had no competition. " - Jean-Louis Gassée, Be CEO and ex-CEO of Apple, admitting he made a strategic mistake. A strategic alliance can be a sustained competitive advantage if it is rare, difficult to imitate, and the company has an organization to exploit it. If the number of competing firms implementing a



similar strategic alliance is relatively few, the strategy is rare. If there are socially complex relations among partners and there is no direct duplication, the strategy is difficult to imitate. When organizing for strategic alliances, a firm must consider whether the alliance is non-equity or equity. A non-equity alliance should have explicit contracts and legal sanctions. An equity alliance should have contracts describing the equity investment. There are some substitutes for an equity alliance, such as internal development and acquisitions. However, the difficulties with these drive the formation of strategic alliances. It is vital to remember, “ Commitment, coordination, and trust are all important determinants of alliance success.