

Analysis of the apple case: the digital hub strategy



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Apple Case is an interesting case study of competition, market positioning, strategic planning and technology. This paper serves as an analysis of its “digital hub” strategy and other aspects and also represents some recommendations for the company’s future actions.

Everything Apple has done since 2001 revolves around what is called “Digital Hub” strategy. Back to the late 1990’s it was thought the PC seemed to reach its potential and was dying. The PC market seemed to be less attractive for these reasons: “revenue growth failed to keep pace up with volume growth”, the high level of competitiveness, low barrier to entry, low bargaining power of customer, high threat of substitutes, and high bargaining power to supplier for some important components. Instead, Steve Jobs believed the PC was just evolving and due to its purview it could transform to become a hub for all new digital devices. Then the Mac has been used as such a hub to control, integrate, and add value to such consumer electronics as portable music players, mobile phones, camcorders, etc. Using the strategy, Apple also headed for the compliments sector of PC in addition to PC line. iPod (2001), iPhone (2007), and iPad (2010) in turn came out as demonstrations for this “blue ocean” strategy of Apple.

- iPod
- iPhone
- iPad

Apple performed the “digital hub” model successfully by thinking differently. Some strategies can be named as contributions to that vision: lowering production costs (by outsourcing all its production to Asia), locking up scare components, distribution chain economies (it distributes its product through <https://assignbuster.com/analysis-of-the-apple-case-the-digital-hub-strategy/>

Apples stores, major cellular phone carriers, iTunes stores, Apple App Store, thereby eliminating middle-man costs), attracting software developers (developers have a sweet deal with Apple, they can pick the price and keep seventy percent of the revenue).

How it gains customers

Apple has created loyal customer base to pursue its high-end segment approach. I think it's because it adopted well these strategies:

First, it's attractiveness or brand personality. Its designs, products and services focus on emotions and user experiences. Apple makes it accessible and attractive from packaging to aesthetic design to user-interface experience. Bright colors, a smiling icon and slick-looking hardware help remind customers of its appealing offerings.

Second, it's complete solutions and variety of connected products. Apple's products complement and complete each other in its "digital hub" strategy. For example, buying an iPod, customers can download music via iTunes. Also, they may not buy an iMac, but they could buy an iPod or an iPhone as a try. It's Apple's control over from hardware to software that strengthens the customer loyalty. Apple's consumers don't need to look to other competitors for a product they want. iTunes store and App store also help retain Apple's customers.

Third, it's new innovations. Apple sells customers what they didn't know they need it. "It's really hard to design products by focus groups. A lot of times, people don't know what they want until you show it to them." Also, human

preferences are always changing. Introducing new products helps keep satisfying their loyal customers and attract new ones.

A revised “ digital hub” strategy

Apple’s “ digital hub” strategy with its innovative products has won millions of consumers over last ten years. iPhones, iPads, iMacs are such successful steps. However, they are owed much to such basic products as iTunes, which combines and connects one Apple product to the next. This helps make the owner of one Apple product easier to own another one. Using an Apple computer as a hub to link all its electronic consumer products is the way the “ Digital Hub” strategy works.

However, there have emerged new realities that this successful strategy needs to be revised or reinvented. First, iPads and iPhones are so powerful and so self-sufficient that they don’t need as much hub support as in the past. Second, people usually questions if it is really worth “ spending as much as \$829 to carry around a third device”. Third, there are some moves other competitors are using to encounter and excel Apple’s this strategy. For example, Google with its partners, Samsung and Acer, have just introduced Chromebook. Google said it’s a new kind of computer. “ These are not typical notebooks. With a Chromebook you won’t wait minutes for your computer to boot and browser to start. You’ll be reading your email in seconds. Thanks to automatic updates the software on your Chromebook will get faster over time. Your apps, games, photos, music, movies and documents will be accessible wherever you are and you won’t need to worry about losing your computer or forgetting to back up files. Chromebooks will last a day of use

on a single charge, so you don't need to carry a power cord everywhere. And with optional 3G, just like your phone, you'll have the web when you need it. Chromebooks have many layers of security built in so there is no anti-virus software to buy and maintain. Even more importantly, you won't spend hours fighting your computer to set it up and keep it up to date.

At the core of each Chromebook is the Chrome web browser. The web has millions of applications and billions of users. Trying a new application or sharing it with friends is as easy as clicking a link. A world of information can be searched instantly and developers can embed and mash-up applications to create new products and services. The web is on just about every computing device made, from phones to TVs, and has the broadest reach of any platform. With HTML5 and other open standards, web applications will soon be able to do anything traditional applications can do, and more." This movement is really a revolutionary challenge to the " Digital Hub" Strategy, especially the centric role of iMac. It would change radically the way consumers use their laptops. Seemingly Apple's competitors is paraphrasing a Silicon Valley motto " The Network is the Hub" by making use of communication, mobility and standards.

In my opinion, Apple should re-define and determine a new " hub" that replaces the role of iMac. I guess that Apple bought iCloud and renamed it CloudMe may be such a move. The cloud will replace the PC as a hub. Owners of either iMac, iPhone, iPod, or iPad can access it using their one Apple ID.

Apple & closed vs. open technology

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It is because of its control of both hardware and software as a unique strength that Apple mostly chose to use closed technology for its products. The company has long refused to license its hardware and software to other companies. The Mac is a closed architecture design while the PC on the other hand is open architecture. However, Apple also takes a flexible approach whenever it is possible. It makes use of open architecture whenever it is threatened and makes the technology become its advantage to gain the market and then comes back to its closed architecture approach.

In the past, when Apple did not license their Mac OS in the early 1980s, Microsoft began developing their own operating system, Windows. In contrast to Apple's own proprietary designs and software, the open system of the IBM PC which used DOS OS & Intel CPU allowed others producers to clone, helping it become the new standard for the industry. Thus the latter gradually gained more market standing and drove Apple nearly go out of business. In the years later, the Mac became overpriced in comparison with the Wintel. Although the closed system gave Apple major advantages such as a monopoly on hardware or ability to make major changes to its designs, this let Apple charge far more for its gear than it could have in a competitive market. It also resulted in smaller market share and correspondingly smaller incentives for suppliers to compete and improve their products. As a result, it held back the growth and the acceptance of the Mac. Until Apple PCs & laptops shifted to run on the Intel CPU, these longstanding disadvantages did not be offset. Supporting an integrated system helped the company gain more competitiveness. Cross-licensing with Microsoft to build Office for the Mac is also another wise move.

Apple could let Android run on iPhone

Apple controls the music industry and the apps industry.

In the short run, Apple could make incremental improvements and cost reductions over its hardware. And with marketing strategy it would tout each improvement as a breakthrough as it did with iPod, iPhone or iPad versions. Also, it could trade down its iPad as it did with iMac Mini in order to approach low-end segment.

However, in the long run it has to encounter at least three strategic issues. First, it needs to find out new platform to continue thriving as a corporation of innovation. Second, it should find out how to invest its greatly growing amount of cash efficiently. As of 2009, it is 23, 464 millions of dollars. Third, it has to envision how it would be without Steve Jobs.

As for the first issue, I guess it could play with video or game as it did with music (iPod), phone (iPhone), and book (iPad). Finding a new platform is sooner or later a must for its growth. Because “second movers” competitors quickly imitate Apple’s products or even introduce better or cheaper ones, the competition will become harsher. Although Apple TV was a disappointment, Apple could invest more in AppleTV to stop treating it as a “hobby”. If Apple develops a new platform for video game console, it will be a big prospect. According to grabstats. com, sixty-five percent of American households play computer or video games and 190 million households will use a next-generation video game console in 2012.

About the issue of cash layout, Apple could use its cash mountain for some acquisitions. For example, it could buy some video streaming businesses, such as Hulu or Veoh. Thus it could enhance function of iPhone or iPad. Or it can acquire Netflix to support its to-be-renewed AppleTV. Moreover, it can use a great deal of cash to lock up significant supplies of part as it did to secure flash memory supplies.

Apple's success is synonymous with and credited for Steve Jobs. Whenever there was bad news about his health, the company's stock price went down. In the past, Apple experienced crisis when Jobs was forced to leave the company that he founded. Or, in case he passes away or divests his leadership, who would keep the company to be vibrant? With his autocratic management style, Steve Jobs is not only the visionary leader and technology innovator but also a trend maker. The loss could take a serious toll on the business. However, the company could survive by building a strong structure and processes that are replicable and scalable in order to function independent of leadership. Or, it could safeguard its business by good succession planning to grow a new CEO.

Other suggestions:

- putting more investment into growing services such as mobile advertising and social networking.
- building alliances on video stream content and digital publishing. First, Apple can offset limitations of its products. Second, it can then develop its own software as it did with Microsoft to develop Safari.

- developing a mapping application to compete with Google Maps
- developing MacApps store
- a synergy between their products, services and marketing strategy