

Apple's success essay



**ASSIGN
BUSTER**

[pic][pic] May 11, 2011 Apple, Inc. Although there is hardly anyone left in the world that does not know anything about the company Apple, the following synopsis will demonstrate how this successful firm really does make a profit. Just go into any electronics store or a cell carrier, and you'll get to see almost all other companies that are trying to keep up with Apple. When the iPhone came out, it was the leader in multi-touch screen phones. Now, almost all the phones for sale are similar in their functionality. Same is noticed with the iPad.

A year ago there were hardly any tablets on the market. Now that Apple has paved the way for that niche, others are following once again. Recently on April 20, 2011, Apple announced its second quarter profit of almost \$6 billion with \$24. 67 billion in revenue. These are remarkable numbers considering the previous year at exactly the same time, Apple had posted a mere \$3 billion in profit and \$13. 5 billion in revenue, with international sales outnumbering domestic by 10%. With these recent numbers, Apple has taken in more revenue in one quarter than Google will do in a whole year.

This comparison with Google is significant, since these are two giants in the tech industry with some overlapping products. With Google's stock price at \$525 a share as of April 22, and Apple's at \$350 is an example of their presence in the marketplace. But how did Apple become so large and so successful? Was it luck, marketing, innovation? It was probably a combination of these things. They are definitely doing something right. Yet another perspective; Wall Street had projected \$19 billion in revenue from Microsoft and \$21. 6 billion from Google on an annual basis.

And apple comes along and out-performs both figures in just a quarter! A multinational corporation, Apple focuses on designing and manufacturing consumer electronics and related software. Located in Cupertino, California, Apple started in 1976. It develops and sells computers, mobile phones, portable media players, and computer hardware/software. The firm operates 200 retail stores in five countries and an online store where you can purchase hardware and software. The iTunes Store is an online warehouse of music, audio books, iPod games, television programs, movies, and music videos.

These can be downloaded onto a Mac or Windows, as well as the iPod touch and the iPhone. Apple is best known for their hardware; Macintosh computers, iPod media players, and the iPhone. Software that the company offers to consumers are the Mac OS X operating system, Final Cut studio, professional audio/video industry products, and creativity related products. In 1977, Apple Computer dropped its " computer" component in their name to be called just " Apple" now. With over 20, 000 employees worldwide as of 2007, it has become an innovator in its industry.

Apple's Breakdown of revenue by their four major products is the iPod 11%, the iPad 16% (current figures may have a higher value), the Mac at 33%, and finally the iPhone with the remaining and the biggest share of 40%. The recent financial report of 2011 has skyrocketed the iPhone to the over-50% revenue club. In addition to its tangible products, iTunes earned over a billion dollars, and other hardware and software accounted for about \$2 billion. Last year, a record was set for Mac sales; 3. 5 million Macs sold during the June quarter, up from 33% year-over-year.

The Mac not only out-paced the growth rate for PC's, around 20%, but saw insane growth in Europe, 46%, and even a higher growth rate in Asia with a whopping 71%. More than 60 million people visited 293 Apple Stores last quarter, spending \$2.68 billion. They purchased, among other Apple things, some 677,000 Macs, about one in every five Macs sold, and about half of the buyers had never previously owned a Mac. Apple's cash now exceeds \$50 billion, enough to bailout Greece, buy Warren Buffet, or even Nintendo.

The most recent report demonstrated Apple's profits being up 95% since the same quarter last year, raking in almost \$6 billion compared to last year's roughly \$3 billion. The iPad sales did fall short of estimates by analysts. From its one billion dollar profit in 2007 to its now six billion, Apple is doing its best work ever according to some analysts. Let's take a look at how Apple makes money. It was announced recently that Apple had sold more than 18 million iPhones in Q2 alone. For a better perspective, the company sold 14 million iPhones in Q4 of 2010.

In Q1 of 2011, the company pushed over 16 million iPhones. The 18 million represents a 113% growth over the same quarter the previous year. For one thing, the iPhone sales saw a 91% unit growth over the same quarter a year ago, with 14.1 million sold. The company said is also sold a little over four million iPads during the quarter, which could have been stronger if it weren't for some supply constraints. Even Macs, which are due for some upgrades, had a 27% unit gain from a year ago with almost four million sold. The only thing that actually had a drop in sales was the iPod.

The drop in 11% for this product could have been due to the cannibalism of the iPhone, which is just an iPod with phone capability. Even Apple CEO Steve Jobs was taken aback by these new figures. He stated, " We are blown away to report over \$20 billion in revenue and over \$4 billion in after-tax earnings—both all-time records for Apple. iPhone sales of 14. 1 million were up 91 percent year-over-year, handily beating the 12. 1 million phones RIM sold in their most recent quarter. We still have a few surprises left for the remainder of this calendar year". Over the past few months, Apple sold almost 19 million iPhones.

This is about \$12. 3 billion in revenue, or simply 50% of the revenue. It is worth noting though, that these numbers also include related products and services like carrier agreements, services, and Apple-branded and third-party iPhone accessories. The App store is not included in these numbers though. Due to the increasing trend of the iPhones superiority in the sales revenue, the company has become more protective of its brainchild. In the fourth quarter of 2010, the iPhone accounted for only 33% of its revenue, which increased to 39% in the first quarter of 2011.

Now that the big picture has been displayed, the next step is to break down the actual costs and profits of some of the products that have made the company so successful. Much of Apple's strong quarter goes to its iOS devices, with both iPad and the iPhone racking up impressive sales during the past holiday season. Over seven million iPads were sold for the holiday period, which nearly matches the same number of devices sold during its 2010 fiscal year. Revenue from iPad sales reached \$4. 6 billion for the quarter, with about an average selling price of \$600.

IPhones sold over 16 million smart phones during the holiday season; an 86% jump from a year-ago. By the end of the first quarter, the iPhone was now being offered by 185 carriers in 90 countries. Growth was particularly strong in the Asia markets. The device is now being offered to Verizon's 93 million customers. Mac sales were strong as well, with a 23% growth rate from the previous year's quarter. It had sold over 4 million units. This figure is also significant because it too was a new record for Apple, over the previously held record of 3.8 million during any of its quarter sales.

Laptop computers are fueling Apple's Mac sales. Almost 3 million were sold during the fiscal first quarter. This trend now represents seven of every 10 Macs that Apple sells. Just a year ago, they only represented 63% of Apple's Mac sales. Once again, sales were particularly strong in the Asian markets, including Japan. IDC, a research firm had only predicted a mere 3% growth for the entire PC market. Also new was the launch of the new Mac App Store, which passed the one million download benchmark shortly after the launch. The iPod on the other hand has seen a decrease from the previous year's sales.

There was a 7% drop from last year. This was the seventh consecutive quarter where iPod sales fell from a year ago. On the brighter side, half of all iPods sold are the iPod touches. All this has helped Apple's iTunes Store to top \$1 billion in revenue for the quarter. Users of iTunes rent and buy more than 400,000 TV episodes and 150,000 movies each day. We will discuss the iPhone 3GS, which is the previous model of the iPhone family, which will have more information about its cost breakdown, and what Apple really makes on this product.

This information is derived from iSuppli, which is an electronics research firm based in California. This particular model iPhone, interestingly enough, only costs about five dollars more to make than its predecessor, the iPhone 3G. The total cost for the GS was about \$178. 96, and for the 3G it was \$174. 33. These costs do not include software development or shipping. First and foremost, it is important to mention that the service provider has to pay more than the consumer for the phone, because it will make up the difference with its service contracts.

This is a really common scenario in the industry, where the provider subsidizes the upfront cost of a mobile phone, then later to profit on the subscriptions. As far as the phone itself, the top five costliest components of the iPhone 3GS are the flash memory by Toshiba at \$24, the display module by Toshiba at \$19. 25, the touch screen assembly by Toshiba at \$16, the processor by Samsung at about \$14. 46, and the baseband by Infineon at \$13. The rest of the components are that go in the phone range anywhere from one dollar to nine dollars, with a variety of sources. In all, the material cost totaled to \$172. 6, plus the manufacturing cost of \$6. 50 for each phone. The total cost for the iPhone 3GS came to \$178. 96. Retailing at about \$599 at the time it was the top model, the rest was gross profit which went into reinvestment, development, and other expenses. The iPad's official price starts out at \$499. The cost of such a device is about \$260 to be manufactured, which dedicates about 40% of that cost to the display. The breakdown is as follows: the top costly items for the iPad are the display and touch screen at \$80, electromechanical and mechanical component at \$35. 0, the battery at \$17. 50, the MPU and memory at \$28. 90, and the processor

with supporting DRAM at about \$28.90. Total materials cost comes out to \$219.35 plus \$10.00 for the base model 16GB without 3G. With a retail of \$499, gross profit comes to \$269.65. The higher end models cost anywhere from \$257.65 all the way to \$346.15, with retail prices corresponding to \$629 to \$829. The end result in all these profit margins is a very impressive financial report from Apple released a few weeks ago. In the Americas sector, Apple brought in \$9.1 billion out of the total \$26.7 for the quarter, which amounts to about 34%. This demonstrated a 51% increase from the previous year. In Europe, revenue was calculated at \$7.2 billion; 27% of the total revenue for the quarter and a 44% increase from the previous year. Japan alone recognized total revenue of \$1.4 billion; 5% of total revenue overall and an 83% increase from a year ago. The Asia Pacific market saw a \$4.9 billion in revenue; 18% of total revenue and a 175% increase from the previous year. Retail revenue reached \$3.8 billion overall.

From these figures, \$1.7 billion of sales were from desktops, as opposed to \$3.7 billion from laptops; only a 2% increase in desktop sales from last year, but a 34% increase in laptops in the same period. iPods had sales of \$3.4 billion; 13% of total sales, but only a 1% increase from a year ago. Other music related products and services did \$1.4 billion in revenue; a 23% increase. The iPhone and related products and services realized a \$10.5 billion in sales; an 88% increase from the previous year. The iPad and related products and services sold \$4.6 billion.

Peripherals and other hardware had \$593 million in sales revenue; a 26% increase. And finally, software service and other sales came to \$786 million; 25% increase. Total revenue had jumped 71% from the previous year in the

same quarter. Aside from being a giant in the industry, Apple has been successful at beating competitors in the market almost all the time. The things that make this work are the fact that it has \$60 billion in cash, its products are grade A, and it's a worldwide power in its industry. With these resources, the company gets deals it wants with component makers.

One good example is how executives frequently visit suppliers in Japan with cash in hand to ensure adequate supply. But it's not just a successful supply chain management that has the company rolling in billions; it is simply a successful company in general with all its under-workings. In times of shortage, suppliers will sell to their best and biggest customers first; like Apple. This has led to the company becoming one of the biggest component purchasers in the world. Its strength is in selling a vast volume of a few products, with great marketing genius.

Five products dominate its line: iPad, iPhone, iPod, Mac, and Apple TV. These products have many similar components, which have made Apple a pretty efficient model company. Apple finished the quarter with almost \$60 billion in cash and short-term investments, an increase of \$8.7 billion since the end of the fiscal fourth quarter. For the second quarter, ending in March, \$22 billion revenue and \$4.90 earnings per share are expected from many analysts; in contrast to 2010's \$13.5 billion in sales and \$4.43 earnings per share.

The most recent quarter net sales reached a whopping \$26.6 billion with cost of sales being \$14.5 billion. Gross margin at \$10.2 billion, operating expenses totaled \$2.3 billion, leaving a net income of \$5.9 billion. Sales

have nearly doubled since last year, as well as net income. Aside from the cost of sales (products sold), operating expenses are the company's largest cost segment. This includes Research & Development expenses and selling, administrative and general expenses, which consumed about 11.2% of Apple's revenue.

Operating expenses directly and materially impact the organization's earnings and pace of growth. In 2010, Apple extended its revenue by 52% and earnings per share by a staggering 67%; contributing to the growth of EPS. This was greater than the growth in revenue. Consequently, Apple is not only increasing revenue, the growth in cost to run the entire operation is barely increasing. Hence, Apple is becoming extremely efficient at making money as it makes more revenue per dollar spent to run the operation. All companies, in every size could only dream of this achievement.

It's fairly difficult to drum-up sales as a large company while maintaining manageable costs. To further this discussion on how powerful Apple's efficiency has become, here are the cold hard facts. In 2008, when revenue grew by 52.5%, the company's expenses only grew by 30%. This means that what was expended to run Apple generated about 60% more in revenue. In 2010, the firm's operations grew twice the size from 2007; it still maintained its old business model. This amazing operating strategy will only contribute to the company's projected growth in net income in the coming years.

Not only is net income and all the other numbers looking rosy for Apple, the company has been successful in increasing its gross margin, which is the money Apple makes on each product minus the cost of making those

products. A question that perfectly describes this term is simply; how much did it cost to make an iPhone, or any other product for that matter? In comparing the gross profits of previous years; gross profit in the first quarter of 2006 was 27. 2%, where as in 2010 it jumped to 41. 67%. This translates to Apple doubling its profit for every product it sold in 2010.

Looking in the future, Apple's plan is to sell 45 million iPads in 2011; about \$30 billion. This is almost as much as the company earned in 2008. Though the Mac has traditionally been Apple's biggest money-maker with about 45% in 2008, then 38% in 2009, the iPhone has steadily gained significance. But all this is no match for the new and coming iPad predictions. The iPad is Apple's new brainchild, and has already been credited for being the fastest selling electronic device ever. Even with the most conservative numbers, the iPad is expected to surpass the Mac in revenue soon to come. Hence in 2011, the company's main focus will be the iPad.

With plenty of attention to the device, improvements and constant refinements in the App Store as well will be better for consumers. Some analysts predict that Apple will outpace IBM by 2013, with over \$200 billion in revenue. It might even hit the \$100 billion mark this year. The five year projection in revenue has put the iPhone at 47% of revenue by 2014, following conventional computers with 26%, iPad at 10%, other at 8%, iTunes at 7%, and iPod at 4%. Another revenue stream Apple is attempting to capture is through subscriptions sold on its online app store, with an up to 30% cut.

While some US papers already offer subscriptions to iPad users, the major papers across the country are still getting ready to come out with their own publication apps. Industry experts claim the subscription deals to be available on mobile devices could be a blessing for the already hampered newspapers. Although some publishers are crying foul with some of the terms Apple is offering, they will eventually find some common ground for the benefit of both parties. Apple is currently working on a way to sync iPods with iTunes wirelessly; just another step in Apple's working toward making wires a thing of the past.

Instead of importing music, movies and apps a connector, it would automatically sync every time a user was connected to his Wi-Fi network. Some problems exist about the reliability of wireless syncing, which can drain battery life. This has led to more tests with carbon fiber cases rather than the aluminum that's used in most iPods. There is no secret that Apple is working on wireless capabilities that might one day eliminate the need for any wires. The company has hired experts in the field of composite engineering in carbon fiber.

Airplay is another project that allows users to stream music to different stereo systems and the AirPort Express; functioning as hubs for streaming iTunes to different devices. Airplay is very impressive. Especially if someone sets it up properly. Another future plan the company has is for a cheaper iPhone called iPhone Nano. Apple wants to make sure that its iPhone is not only for the rich. There are plans to offer prepaid services as well. China, which is a country with over 400 million mobile phone users apparently has a big prepaid market, and Apple wants to capitalize on that market.

In conclusion, the iPhone and iPod are bringing in big money for the company. With over \$60 billion in cash, the company can tinker with many new ideas. There are rumors about a multi-camera system for 3D picture taking on a future iPhone. With its success in innovation and technology, along with efficiencies, the company is poised to bring new devices to the market no matter what competition brings. The leadership of Apple in global innovation is the main reason the company has seen success, which is followed by big profits.

The majority of analysts have great hopes for the company, and with those positive reviews, Apple is on its way to being a \$100 billion dollar company. Looking back a few years ago when Apple had introduced the iPhone, many companies followed the lead with the many touch screen mobile devices. Recently, the iPad has shown leadership in the tablet market. Before the iPad, it was rare to find a tablet at electronics stores. After the launch of the iPad, there seems to be a surge in tablets from every company out there. This is a perfect example of Apple's leadership in the industry.