Summary strategic management

Case 2: Apple Computer, Inc. The case is about the strategic management challenge of finding ways to sustain sales and profits growth at Apple, an innovative computer company that was successful with the iPod, an MP3 format music player, and a related innovation called iTunes, a system for downloading music at a very low price from the Internet. The strategic challenge is to determine what product Apple should develop next to increase sales, and what features would customers want in this next product.

Apple's success with iPod and iTunes was based on product differentiation that allowed it to charge premium prices for products and songs and beat their new and old competitors. Good product design and ease of use created an emotional connection with users, while technological innovation that encrypted songs and prevented these from being shared for free in violation of copyright laws created a mutually beneficial link with suppliers, the record companies that are losing revenues to piracy. Although Apple was not the first MP3 player in the market, it dominated the business because its products looked better and were easy to use. The decision to work with record companies was a strategic move that also resulted in cost leadership as it cut off distributors and retailers and their high mark-ups from the value chain (see Exhibit 3 of the case study).

After the success of Apple, other companies are competing by copying what Apple did: good design, diversity of products such as including them in mobile phones, and lower prices for the music players and song downloads. However, Apple has two advantages difficult to imitate and are therefore sources of competitive advantage. The first is its brand name, which is always associated with products that are well-designed, easy to use, and that easily develops an emotional attachment to a growing base of loyal customers. The second is its track record at innovation, which gives the company a first-mover advantage that allows it to charge high prices for new products, recover the investment fast from profits, and as competitors move into the market, to launch a price war that continues earning profits that could be invested in developing the next product. Given these resources, should Apple develop a product combining a mobile phone and an iPod? (Yes, it did.)

Case 1-3: Wal-Mart Stores, Inc.

The strategic management issue facing Wal-Mart is how it can grow in the face of slow domestic (U. S.) growth, fierce domestic (Costco) and international (Tesco, etc.) competition, lack of experience in international markets, and growing opposition to the company because of its reputation as a cruel giant that closes down small shops, squeezes suppliers (Rubbermaid) and pressures them to source goods from low-cost Third World countries, and brings down wages of Americans. These are the effects of Wal-Mart’s cost leadership strategy that allowed the company to offer customers everyday low-prices, attracted an increasing number of loyal customers to shop, and also attracted loyal suppliers to do business with it despite Wal-Mart being a very demanding client, allowing it to grow fast until it became the biggest company in the U. S.

Wal-Mart has many valuable resources that are very difficult to imitate. First, it was founded by a very charismatic Sam Walton, an overachiever known for his capacity for hard work, honesty, integrity, and thrift. His commitment to cutting costs was legendary, and his qualities are reflected in Wal-Mart’s culture and its managers. This is why suppliers want to do business with the company. Second, the company has been strategically innovative in its use of technology such as the Electronic Data Interchange (EDI) that linked the company with suppliers, the Internet and use of videoconferencing, and RFID. Third, Wal-Mart has used technology to master the science and art of logistics and operations management, which includes ordering, distribution, cost monitoring, and payment of suppliers, among many other aspects of its complex operations, in order to serve its cost leadership strategy. The result is a highly efficient operation that has allowed it to dominate and control the five industry forces since it was founded in 1979.

Despite its huge success as a U. S. retail discounting operation, it is " failing" in two areas. It is second to Costco in wholesale discount operations because instead of developing its own unique strategy, Wal-Mart resorted to a copycat strategy. And it finds difficulty competing with older retailers in foreign countries because of lack of experience, where it needs time and a good strategy.

Works Cited

Barney, Jay B. & William B. Hesterly. Strategic Management and Competitive Advantage: Concepts and Cases. Upper Saddle River, NJ: Pearson, 2005.

Case 1-2: Apple Computer, Inc.

Case 1-3: Wal-Mart Stores, Inc.