

Strategic development history of apple



This report will explore the strategic development history of Apple Inc. (previously Apple Computer, Inc.), its current strategies and form the basis of Apple's future strategy in the form of strategic recommendations which Apple Inc. can persuade to get sustainable competitive advantage and higher growths in the future. The success of a strategy is determined by the company's initiative actions, how well it anticipates competitor's responses to them and how well company's anticipates and reacts to its competitor's actions. In strategic development we will analyse how Apple establish a framework for setting its direction and determined the criteria to take strategic decisions. After having analysed it, the report will depict its current strategic situation by doing macro and micro analysis and on the basis of it, the possible future recommendations will be suggested.

Introduction:

Apple Inc. is an American multinational corporation that designs and sells consumer electronics, personal computers and computer software. It is best known for its products like iPhone, ipod and Macintosh computers. The company was established in April 1, 1976 in Cupertino, California and incorporated in January 3, 1977. As of September 26, 2009, Apple had 34,300 full time employees and 2,500 temporary full time employees worldwide¹. It had worldwide sales of \$42.91 billion in its fiscal year ending September 26, 2009². It has more than 284 retail stores³ as of January, 2010 and online store where software and hardware products are sold. The financial Data of Apple Inc. for 2009 are as:

Financial Data of Apple Inc. for 2009⁴

Financial Fiscal as Ended on 26-09- 2009

Total Revenue

42, 905m

Gross Profit

17, 222m

Total Cash Flow

2, 997m

Net Income

8, 235m

Total Asset Value

47, 501m

1 [www. apple. com](http://www.apple.com)

2 “ Revised Request Quarterly Income Statement” Apple Inc. January 25, 2010.

3 Apple Tablet Media Event Today. ” Come See Our Latest Creation” MacRumors. January 27, 2010 accessed on [17 July 2010]

4 [http://www. google. com/finance? fstype= ii&q= nasdaq: aapl](http://www.google.com/finance?fstype=ii&q=nasdaq:aapl)

Strategic Development Overview:

Apple Inc. has managed to create substantial value in the highly competitive consumer electronic and computer industry by innovating and forging a path considerably different from those of the largest competitors in the industry,

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successfully differentiating its products from those of the competition by choosing to focus on quality, superior customer service and design elegance while outsourcing actual manufacturing to most trusted original equipment manufacturers. Even though despite of this fact Apple has created for itself, the stiff competition within the industry and other external factors present formidable challenges to the firm.

The Early Years 1976- 1980

Apple I was the first computer introduced by Steve Jobs, Steve Wozniak and Ronal Wayne. It was sold as the motherboard with Central processing unit (CPU), RAM and the basic textual video chips. By the end of 1970's Apple had a staff of computer programmers and designers and a production line. After Apple II they introduced Apple III in May, 1980. The main competitors for Apple were IBM and Microsoft competing for market share. In 1984 Apple launched Macintosh which was initially sold well but the follow up sales were not strong. The computer industry destiny changed when the Laser writer were introduced. The Mac was powerful in the market due to its advanced graphics capabilities which was already necessarily built in to create the intuitive Macintosh GUI. At that time it has been suggested the combination of these three products was caused for the creation of desktop publishing market. As the desktop publishing became widespread, the sale of Apple has reached new heights and the company has offered its first public offerings in September 7, 1984.

The reason for the Apple sustainable growth due to its leadership in the education sector, attributed to adaptation of LOGO programming language used in many schools with the Apple II.

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‘ 1986- 1993’ A Move in Strategy

After the failure of Bulky Macintosh, Apple changed its strategy and offered Macintosh Portable in 1989. In 1991 Apple introduced PowerBook which made the basis of the modern form of ergonomic layout of laptop computer. In the same year Apple came up with its new operating system ‘ System 7’ which added colour to interface and enhanced the networking capabilities. It was remained the architectural basis for Mac OS up to 2001. The success of PowerBook brought huge revenues for Apple and it seemed that nothing go wrong with Apple at that time.

MacAddict a famous magazine named the period between 1989 and 1991 as the ‘ first golden age’ of the Macintosh. The Apple’s strategy to attach the market with other products like digital cameras, portable CD audio players, speakers and video consoles did not work well for Apple. The main focus of Microsoft was to gain market share with Windows, focusing on delivering software with cheap commodity where as Apple was even though was rich in engineering matter but was bit expensive.

‘ 1994 -1997’ Reinvention

Apple put its step in the PDA market by introducing Apple Newton which was one the first in the industry. Apple has started working on other platforms by the early 1990’s such as A/U. It was needed at that time to replace the platform for Macintosh or reworked to design a powerful hardware to run the Macintosh.

In 1994, Apple allied with Motorola and IBM. The aim was to create a new computing platform ‘ Power PC Reference Platform which would use IBM and

Motorola hardware coupled with Apple's software. The AIM alliance worked for Apple and Apple's software left the PC far behind. Apple introduced Power Macintosh the first time of many Apple computers to use IBM's PowerPC processor.

Apple adopted a new built -to- order strategy in November 10, 1997 by introducing Apple store which was tied to its overall strategy.

‘ 1998- 2005’ A New Start

Apple introduced iMac a new all in one computer reminiscent in August 15, 1998[5]. The iMac was equipped with new technology and groundbreaking design. Near about 800, 000 units sold in first five months and returned Apple to profitability for the first time since 1993.

In this period Apple purchased several companies to create a portfolio of professional and consumer- oriented digital production software. In 1998, Apple announced the purchase of Macromedia's Final cut software giving a new signal of entering into the digital video editing market. The following year Apple had released two video editing products, one is iMovie and the other one is Final Cut Pro for the professionals. Around 800, 000 users had been registered with this software by the start of 2007. Apple has opened its first official store in May 19, 2001 in Virginia and California. In the same year Apple has introduced its first iPod portable digital audio player. This product has given a new success to Apple as more than 100 million units were sold within six years. Apple has a strategy of bounding the customer to its products and doing a business a different way. Apple has given a new theme to music industry business by introducing Apple's iTunes Store whereby you

can download music for US\$0.99 song integration with iPod. Apple has become the market leader in the online music services due to it with over 5 billion download by June 19th, 2008.

2005 -2010 New Era

Apple has taken another move in its strategy of dominating the market by announcing on June 6, 2005 in the Worldwide Developers Conference that Apple would start producing Intel-based computers in 2006[6]. MacBook Pro and iMac became the first Apple computers to utilize Intel's Core Duo CPU. By 7th of August 2007 Apple had transitioned the entire Mac product line to Intel chips. The day Apple announced its iPhone and Apple TV its share price hit \$97.80, an all time high at that point and in May that price went up to \$100 mark[7].

A next step to its success was selling the third party applications for its iPhone and iPod touch. Within a month, 60 millions application sold on this platform and brought in \$1 million dollar on average. Three months later it was announced that Apple has become the third largest mobile handset supplier in the world due to the popularity of the iPhone[8].

Apple added a one more milestone in its success by targeting the market with its new iPad on January 27, 2010. It runs the same touch based operating system as iPhone and many of the application of iPhone are compatible with the iPad. On the launch day more than 300,000 units sold and this figure reached to 500,000 by the end of the first week[9].

Situational Analysis:

Apple is one of the most successful companies of the time that bucked the traditional notions of what a corporate culture should look like in terms of organizational hierarchy. After doing the macro (PESTEL), industrial analysis we would be in a position to clearly analyse its current position and suggest further recommendations.

Environmental Analysis:

PESTEL Analysis

For doing environmental analysis of Apple we will use the PESTEL analysis along with keeping of global forces as well.

Demographic

Economic

P/Legal

Environment

Threats

Opportunities

Economic

1. Signs of economic turnaround are present but many consumers are unconvinced and spending less.

Apple always sell products on premium prices so it may

be out of consumer prices range

1. Economic recovery will cause spending. Apple innovative and high quality products attract the customers

Demographic

1. Flattening of wages- Levelling Influence

1. Rising prices and stagnant leave workers and families with less money to spend on perceived luxury goods.

1. Apple known for high quality, dependability and long lasting products will attract customers seeking value for their money

Political/Legal

1. Potential FCC Internet Regulation

2. Healthcare Reform

1. FCC internet regulations may stifle innovation on the internet, reducing new methods for Apple to capitalize the power of internet.

1. Apple's useful portable device could be leveraged in 'modern' healthcare settings, funded in part by government money, increasing demand

Technological

1. Device Convergence

2. Shortening Product Lifecycle

1. Apple broad line of devices may become obsolete with the advent of multi-use portable devices.

2. Increased pressure to innovative may result in missed opportunities and inventories losses.

1. As a leader in portable devices Apple can innovate and lead the way in platform.

2. High R&D commitments may propel. Apple led the industry by out-innovating competitors.

Socio cultural

1. Increase desire for on-the-go devices

2. Greater concern for the environment.

1. Apple's portable computers may lose relevance among new on-the-go devices.

2. Device manufacturing will be equated with pollution and climate change.

1. Apple can lead innovation in on-the-go devices utilizing R&D portable knowhow.

2. Apple's lead in environmentally- sound practices will be a marketing advantage.

Global

1. Developing Chinese economy

2. Potential worldwide climate regulation.

1. The developing Chinese economy will require higher wages for factory workers.

2. Emissions regulation will impose huge burdens on Apple's production costs.

1. Massive population with increased buying power for Apple's products.

2. Apple has already made steps to improve environment- friendliness can be used to the firm's advantage.

Technological

Global

S/Cultural

Industrial Analysis:

For industrial analysis we make use of Porter's five forces framework to assess the different forces that affect the overall industry in which firms operate.

Porter's Five Forces:

Threat of New Entrant

To analyse the threat of new entrant we have to consider the different barriers that make this threat nominal to sever. The barriers are

Economies of Scale

Apple had already experience of manufacturing mass- market consumer electronic devices, so Apple was not adversely affected by this barrier.

Product Differentiation

This trait goes in favour of Apple because Apple is the leader in the innovative products and Apple has certain amount of protection through the strength of its brand identity. But this product differentiation can be emulated to a certain degree.

Capital Requirements

Apple enjoys a slight advantage here but it may be quickly lost. If we talk about other companies they might have experience in manufacturing cell phones but not necessarily software. To compete with Apple they have to invest a lot on this sector. Second Apple is a leader in innovation as it uses to spend a huge capital on R&D which is huge barrier for the new company to spend a significant amount of capital on R&D.

Access to Distribution Channels

Apple remained successful in gaining access to a distribution channel and they also tied themselves exclusively to a single cell phone network. So the new entrant will have to take some time to reach to this level.

So having analyzing these barriers we can say that the threat for new entrant for Apple is low to medium.

Bargaining Power of Suppliers:

The main supplier of Apple Inc. is Intel for microprocessor chips and Apple has strategic alliance with Intel and Microsoft as Microsoft enable Apple users to use the Microsoft Windows operating system on its machine. So, Apple has to be very careful in managing its relation with these suppliers especially with Intel. So the bargaining power of suppliers is medium.

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Bargaining Power of Buyers:

The bargaining power of buyers is low as its only Apple which always come with new innovative products. Even though it's true that there are many competitors of Apple in the market for different products but even then people wait for Apple's new invention. So, clearly the bargaining power of buyers is low in case of Apple.

Threat of Substitute:

The threat of substitute is high as Apple products are the premium products and there are lot of companies that are making products like mobile phones (iPhone) which are very similar in functionality and in shape. Second companies like DELL, ASCER and Microsoft has started penetrating in the mobile market shrinking the market share of Apple. So keeping in view of today's scenario the threat of substitute is higher for Apple Inc.

Competitive Rivalry:

The competition among the giants is very fierce and everyone is fighting for large market share through intensive price cuts and changes. The competitors of Apple are ' Microsoft', ' HTC', ' Dell', ' NOKIA' and others. The competition is becoming tough and tough as most of the companies which were specialist in PC related stuff have started coming in the mobile and PC tablet market. Due to this the competition has become tougher and for more market growth and share, everyone is ready to take any sore of moves like price cuts, technology change, etc.

The last step to evaluate the company position in conjunction to its industry we do the SWOT analysis which will depict what sort of strength/weaknesses it has what kind of opportunities and threats it has from its surroundings.

Potential Entrant Threat

Medium

Threat of entry

COMPETITIVE RIVALRY

HIGH

SUBSTITUTES

High

SUPPLIERS

Low

BUYERS

Medium

Bargaining Power Bargaining power

Threat of substitutes

Porter's Five Forces Framework for Apple Inc.

SWOT Analysis:

Strengths

Ease of use

High Corporate Reputation

Leader in Innovation and market leader

Loyal customer base

Strong Top Management

Creative Style

Weaknesses

High prices

Limited Distribution Channels

Compatibility issues (e. g. with IBM)

Poor Quality Control/Assurance

Opportunities

New social devices

iTunes Distribution

International markets

Internet

Growing industry

Demand for innovation

Threats

Economic Situation

Intensive Competition

Potential Litigations

Potential increase in supply's costs.

Price competition

Value Chain Analysis:

Value Chain Activity

Corresponding Firm Practice, Policy/Procedure

General Administration

A greener Apple – reduction in energy use in production and transportation to match trend in green business.

Strong cash position – allows the firm to internally finance expansion and development without cost of capital.

Human Resource Management

Selective hiring process – find and attract talent

Generous employee benefits program – retain industry-leading talent.

Technological Development

Research & Development – expenditure increased about 66% from 2007 to 2009

Patent filing – protection of important inventions and innovations in the US and worldwide

Procurement

Positive relationships with suppliers – EICC member, working to improve working conditions, created and enforces a “ Supplier Code of Conduct.”

Inbound Logistics

Automated receiving systems – reduce facility footprint and space requirements.

Delegate raw materials acquisition – offer supervision to OEM partners who carry out acquisition.

Operations

Utilizes OEM’s economies of scale – offshore production to save money on costs of build.

Internal design – design and conceptualize products internally

Outbound Logistics

Economical/Stylish Packaging – eye-catching packaging takes up less space and weight, reducing shipping costs and costs of disposal.

Apple Stores/Authorized Retailers – working to maintain standards over presentation of products for sale.

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Direct shipment – ship products from China to consumer to minimize inventory build-ups in costly locations.

Marketing and Sales

“ Get a Mac” Ads – Various direct/indirect favourable comparisons

Strategic Choices:

Taking its environment, industry and value chain analysis we may give some options available to Apple Inc. for its future growth in terms of more market share and profitability. These are given as:

Reducing the costs of its products and maintaining the same quality standards.

Opening of more retail shops for easy access and more physical presence.

Providing facility for customization of its different products like Apple Mac Book and others.

Consumer electronics diversification.

Option 1: Reducing the costs of Products

Apple has that kind of brand which attracts everyone but the only problem is the premium prices for its products. Apple can hit the market segment which can afford reasonable prices which we can say not much low and not too much high. By slightly reducing the prices and maintaining the same quality Apple can further dominate the market and achieve more market share. By doing it the major benefit that Apple will achieve is further brand awareness and customer loyalty.

Evaluation of option 1: (SAF test)

A useful way of looking at evaluation criteria is to view them as falling into three categories:

Suitability, Feasibility, and Acceptability Johnson, G., and Scholes, K.(1997)

As far as the suitability of this option is concerned, then lowering the prices will be suitable for Apple Inc. because most of competitors of Apple they start making the same products design wise and technology wise with lower prices. The company get two benefits with this strategic option. First it will get more customers who like Apple products but can't buy due to higher prices (means more market share) and the other benefit is killing the competition. So, in my point of view this option fulfils all the three parameters of SAF test.

Option 2: Opening of more retail Shops

By providing more points of direct contact with the buyers will enable Apple to provide better service to customers and bring the Apple more customer and experience to more people. Apple's retail stores have been largely successful, that success can be furthered in new locations within USA, UK and other countries. Apple should practice great caution to avoid over-saturation to retain the halo surrounding the stores and maintain their status as a destination.

Evaluation of option 2 (SAF Test)

By introducing Apple stores provided Apple with an important physical presence to act as both point of sales locations and an advertisement.

Opening of more retail outlets will provide Apple more control on the image

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of brand and provide excellent customer services. Apple comes in the top retailers in- stores sales, generating \$4, 032 per retail square foot per year, beating other retailers like Tiffany & Co. At \$2, 666 and Best Buy at only \$930.[10] Matching success and impact like the Apple store model is hard for others to achieve. Apple possesses all resources like capital and top management to consider this option which can prove one step further in its growing success.

Option3: Customization of products

Dell has taken a lead from all its competitors in providing customized products to its customer through its website. Dell has set a model for its competitors. Apple can contribute to this area by offering customised products like Mac Book and other through its website. In this way you are buying your customer and giving them what they want. The customer will be more satisfied and happy with the services. Customization will provide efficient value chain management and reduces the inventory level.

Evaluation of Option3 (SAF Test)

Today is the day of internet and most of leading companies are trading through their websites. Now a days the customers are well IT equipped and more aware. They buy what they want not what the gives. By offering customized products you are giving the customer what they want and bidding them. Apple has great intellectual assets, so it is easier to come up with business model which will facilitate Apple to provide customized products to its customers. Secondly it will require minimal capital but its results will be outstanding. There is only one time cost and life time rewards attached to

this option. So considering all these aspects, this option is quite good for Apple's future growth and sustainable competitive advantage.

Option 4: Consumer Electronic Diversification

Apple already has a well – positioned diversified strategy, but it can broaden its scope while creating value in related and unrelated markets including eBooks and medical equipment. We just examine its current diversification beginning with full sized desktop computers to now a days notebook computer, mobile phones, digital music players, iPad. Despite of this broad range of diversification, opportunities are still there for Apple to avail in further diversification.

Evaluation of Option 4 (SAF Test)

If we take United States or UK the medical equipment and related devices are growth area of economy. As new healthcare legislation is enacted the importance of modernizing our system will come to forefront. Apple's innovative and high quality portable devices would provide excellent platforms for care providers to get benefit of streamlining care. In order get more value from this area and to reduce the capital investment Apple should work with medical equipment manufacturers and core providers to establish Apple's devices. Apple can open its portable and mobile platforms for development of unique and efficient medical tools using a combination of new digital medical technologies and current technology of connectivity. Good examples of future products can be digital thermometers and blood pressure monitors that connect through USB to Apple device to automatically log measurements and do real time analysis based on historical values to identify trends.

Apple can take advantage of being first mover in this kind of products. After presenting the different aspects we may conclude that this option is valuable for Apple Inc.

Recommendations:

Based on the above analysis, it is recommended that Apple Inc. formulates a strategy of offering customized products to its consumers to gain more customer satisfaction and customer loyalty. Consumer specific customization and hardware packaging- increase product diversification and eliminate threat of competitive alternatives. It will help Apple to strip certain features and hence reduce costs. The sales will be increased and Apple will a far larger customer base. Secondly it should gain access to additional distribution channels and sales outlets in the international markets (International Presence). It has substantial presence internationally but still has to be introduced in many Asian countries including China, Arab countries and most of Africa. Apple should drive down the costs per unit to enable price reductions and attract more customers. In this way it will not capture more market share but also beat the competition increasing in the market. It should exploit its R&D to innovate, should create products with similar usability but at lower costs. Especially in the deep recession period people might respond better to lower prices. It has no doubt that Apple is very good in introducing excellent design and innovative products but we have seen a consistent problem with Apple's quality control and assurance department. So, Apple should stress on improving in this area to preserve its brand image as well as to win the customer confidence on its products.