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# Apple's Business Model Getting Hit From All Sides Now

U.S. is just the latest government to challenge closed ecosystem that has helped make Apple the world's most profitable smartphone maker

By [Dan Gallagher](#) [Follow](#)

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Apple CEO Tim Cook showing a new iPhone 15 Pro during an Apple event last year in Cupertino, Calif. PHOTO: JUSTIN SULLIVAN/GETTY IMAGES

Apple [AAPL 3.11% ▲](#) didn't need any more trouble, but trouble has had a way of finding the iconic tech giant lately.

The Justice Department sued Apple on Thursday, accusing the company of monopolistic behavior over the way it runs its iPhone business. "We allege that Apple has employed a strategy that relies on exclusionary, anticompetitive conduct that hurts both consumers and developers," Attorney General Merrick Garland said in announcing the case.

The U.S. lawsuit comes as European authorities are cracking down on key aspects of Apple's App Store business, and as Apple is losing share in the Chinese market due to growing competition and reports of government disfavor there. Apple is also facing near-term challenges such as another weak iPhone cycle. The company's hardware revenue is projected to slip 1% in the current fiscal year ending in September after falling 6% in the prior year.

The buildup has weighed on Apple's stock. Its shares fell 4% on Thursday following the announcement of the Justice Department's lawsuit and is now down nearly 12% since the start of the year. That makes it a notable standout among the other trillion-dollar big techs; Microsoft [MSFT 1.13% ▲](#), Nvidia [NVDA 3.13% ▲](#), Amazon [AMZN 1.51% ▲](#) and the parent companies of Google and Facebook [META 0.04% ▲](#) have averaged a whopping gain of 36% for the year to date. Apple's 12-month gain of less than 8% even sharply lags behind the Dow and S&P 500 over that time. "When it rains, it pours," wrote JP Morgan analyst Samik Chatterjee in a report Friday.

The latest lawsuit is hardly a surefire win for the federal government, which has had some notable strikeouts in its continuing attempt to curb big tech's dominance. Apple also emerged largely victorious against antitrust accusations in a lawsuit by Epic Games—a federal judge in that case ruled that Apple didn't qualify as a legal monopoly. Analysts on Friday largely agreed that Apple will likely prevail again in the latest lawsuit.

But they also concede it will take a while. "Precedents suggest that resolution of the complaint will take three to five years, including appeals," wrote Toni Sacconaghi of Bernstein on Friday. And the growing global opposition to the way Apple has developed and maintained the "closed ecosystem" around its mobile devices still raises the odds of forced changes to that business.

It is a big one: Apple's App Store alone generated \$25.8 billion in revenue in 2023—almost twice as much as Google's Play store made in the same time, according to consensus estimates by Visible Alpha. The App Store is a major component of the Services segment that accounts for a growing portion of Apple's revenue and smooths out the more volatile cycles of the hardware business.

It is also a key factor in Apple's strong bottom line: Services produced a gross margin of 71% in Apple's latest fiscal year compared with 37% for the hardware segment. Analysts expect service gross margins to improve by a percentage point this year, which will be an important offset to declining hardware revenue, according to FactSet estimates. "Services have been a gold mine for Apple," wrote Gene Munster of Deepwater Asset Management on Thursday.

The latest case doesn't seek to break up the App Store per se. But it does seek changes, such as "preventing Apple from using its control of app distribution to undermine cross-platform technologies such as super apps and cloud streaming apps" that could meaningfully alter how the business operates. Allowing so-called "super apps" such as China's WeChat would be a major shift on its own, as those typically act as the entire interface between a smartphone and a user. In a December report, Bernstein's Sacconaghi noted that super apps "could erode Apple's ecosystem and commoditize the smartphone."

Apple will therefore continue fighting hard to protect its business practices. The company is helped by the fact that many of its users value the security and simplicity that come with its walled-garden approach. But Apple's investors also value clarity, and a new battle with its own government adds to an environment where that is sorely lacking.

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