

To: Tim Cook, CEO Apple Inc.  
From: XYZ, SVP Strategy  
Subject: Competitive Position Analysis  
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## **Introduction**

Apple Inc. is an American multinational company headquartered in Cupertino, California that engages in the design, manufacture, and sale of smartphones, personal computers, tablets, wearables and accessories, and other variety of related services. Apple's customers seek performance products that are aesthetically pleasing and provide assurance that the product will be of quality. Apple Inc. was established in 1976 as a computer software and hardware company. Since then, it has transitioned into the creation of other technological devices and has established a chain of retail stores in order to provide their customers with a better buying experience. It competes in a highly competitive industry and must always stay ahead of competitors in innovation as well as keep up with them in regards to pricing. Apple differentiates itself by providing both the hardware and software in all of their devices. It also tries to keep its designs simple, easy to use, interconnected and aesthetically pleasing. In 2018, Apple Inc. became the first US based company to hit a market cap of USD 1 trillion (Bloomberg, 2018).

Vision- We believe that we are on the face of the earth to make great products and that's not changing. We are constantly focusing on innovating. We believe in the simple not the complex. We believe that we need to own and control the primary technologies behind the products that we make, and participate only in markets where we can make a significant contribution. We believe in saying no to thousands of projects, so that we can really focus on the few that are truly important and meaningful to us. We believe in deep collaboration and cross-pollination of our groups, which allow us to innovate in a way that others cannot. And frankly, we don't settle for anything less than excellence in every group in the company, and we have the self-honesty to admit when we're wrong and the courage to change.

Mission- "to bringing the best user experience to its customers through its innovative hardware, software, and services."

## **Industry Analysis**

The industry and its dynamics have been studied using Environmental Analysis (**Exhibit 1**) and Porter's Five Forces Analysis (**Exhibit 2**). For the environmental analysis, the effect of demographic and socio-cultural trends, technological developments, political,

legal and global trade issues and macroeconomics have been considered. The effect of these factors is largely favorable, especially the younger population's desire to be more productive and the advent of new emerging technologies such as electric vehicles and augmented reality. Increasing concerns regarding the environment and privacy are less likely to have a detrimental impact as our products are known to be one of the most secure ones and those whose manufacturing has had a less harmful impact on the environment when compared to those offered by others. Further working to allay these concerns will only increase the value perception of our products in the market. On the other hand, the increased tariffs on our products imported in to the US from China and declining sales in China due to the US-China Trade War are eating into profits (13% decline) and hence it is imperative to reduce manufacturing dependency on China. The large-scale disruptions in manufacturing caused due to the Coronavirus Outbreak only adds weight to this. The easing of FDI norms by the Indian Government, the increase in ease of doing business in the country and the cheaper cost of labor not only provide an opportunity to increase manufacturing in India and reduce dependency on China but also to directly do business with a very large populace and cut manufacturing costs. However, the outbreak is expected to severely impact profits for 2020 as shipments of smartphones are expected to decline 10.6 percent year over year in the first half of 2020 and 2.3 percent for the full year (market researcher IDC). Likewise, in the first quarter, personal computing devices are expected to decline 8.2 percent. That decline will increase to 12.7 percent in the second quarter as existing supplies are depleted and the impact of coronavirus on the supply chain is felt more acutely. IDC is currently predicting that the impact will be less severe in the second half of the year, though the market will still be in a decline. This will add to the woes of already declining sales. But the mid-tier iPhone SE which was recently launched is doing quite well in certain markets and combined with the rise in online streaming entertainment services including Apple TV+ is expected to cushion the impact to a certain extent. According to CCS, the upside to all of this chaos is that 2021 is now expected to be a pretty great year for the mobile phone industry. Shipments are expected to rise an impressive 12% year-on-year and 2022, on the other hand, could represent an all-time high for the mobile phone market. Something similar is expected for personal computing devices. Hence, Apple should focus on a strong post COVID-19 strategy and moving manufacturing out of China.

In 2019, Apple had a respectable third and fourth highest market share of 10.5% and 7% in the smartphone and personal computing devices market respectively. It has a high rate of customer satisfaction, brand loyalty and recognition. However, a Five Forces Analysis shows that Apple must be slightly wary of potential new entrants and established young brands such as OnePlus, Xiaomi, etc. who introduce devices with similar but inferior capabilities (flagship killers) and engage in aggressive pricing. After having established some credibility in the market, they try to move to the upper tiers of the market segment and steal market share. Here, Apple should try to leverage its brand name and aggressive marketing to counter this threat. The intensity of rivalry in the market is high due to the existence of a lot of recognised firms and low industry growth. Even though Apple's products are quite different from those of its competitors and individual bargaining power of buyers is low, there certainly is a threat of mass defections, especially in price sensitive markets such as Asia. Hence to increase or maintain profitability, Apple must diversify its product lines and launch more products

which can be afforded by the middle-income groups and not just premium products meant for the elite. An integrated plan for moving away from the niche competitive position to a sort of cost leadership inclined more towards differentiation is required. This will not only help in gaining market share and competing more fiercely with competitors but also to further overcome the moderate threat of substitutes offered by other brands. Apple deals with a large number of suppliers but is heavily reliant on a select few for specific high-end components. Hence, a contingency plan for the supply chain should be ready at hand, just in case things turn sour.

### **Competitor Analysis**

**Exhibit 3** lists Apple's top most competitors by market share for different product types. These are namely Samsung and Huawei in the smartphone segment, Lenovo and HP in the PC segment, Google and Microsoft in the Operating Systems category and Netflix and Spotify for entertainment and music respectively. The common threat which these firms pose to Apple is their large market penetration owing to a wide array of offerings at different prices and greater accessibility in general. However, Apple suffers from only a handful of the weaknesses affecting these firms, such as increased competition, dependency on China and limited marketing. It is its capabilities (**Exhibit 4**) which differentiate it from its competitors and supersede its weaknesses, thus painting a positive picture of the firm's image. It enjoys high customer satisfaction, is heavily engaged in innovation and provides valuable support to customers with their products and services. Apple's offerings just blow away the customers' minds due to their aesthetics, performance, simplicity, security, ease of use and much more. Due to these factors, the firm is widely recognized and is highly profitable, enabling it to fund its value creating activities and sustain its competitive advantage.

### **Conclusion on Competitive Position**

Apple's capabilities are strongly aligned with its mission and values and are durable and inimitable to a significant extent. These capabilities will also help it capitalize on the opportunities that come its way and overcome its threats and weaknesses. Apple, thus, certainly does have a strong and enviable competitive position but it surely isn't fully immune to the ever-changing dynamics of the industry, high rivalry and the larger threats looming over it, especially those of the global economic slowdown and declining sales. It is thus imperative for Apple to constantly keep innovating, not become complacent, engage in aggressive marketing, diversify its product lines to gain greater market share for moving from a niche position to a differentiation cum cost leadership position and move its manufacturing out of China. Apple is already engaged in doing so and as long as it pursues this strategy, it will be able to boost profitability, maintain its inter-reinforcing capabilities and prestige and continue to compete in this highly competitive industry for years to come.

## Exhibit 1: Environmental Analysis

<b>Demographic and Socio-Cultural Influences</b>	<ul style="list-style-type: none"><li>• Majority of the world population is young; these people want classy and efficient devices to increase their productivity (opportunity)</li><li>• Increasing dependence on digital systems (opportunity)</li><li>• Increasing demand for digital services and entertainment (opportunity)</li></ul>
<b>Technological Developments</b>	<ul style="list-style-type: none"><li>• The emerging era of Electric Vehicles (opportunity)</li><li>• Augmented Reality- it helps us see the world around us in a different way (opportunity)</li><li>• Growing demand for Cloud Computing (opportunity)</li><li>• Integration of technology in businesses (opportunity)</li><li>• Growing technological capabilities of firms (threat)</li></ul>
<b>Political, Legal and Global Trade Issues</b>	<ul style="list-style-type: none"><li>• US-China Trade War leading to increased tariffs on Apple products imported into the US from China and declining sales in China (threat)</li><li>• Coronavirus Outbreak leading to slow down in manufacturing, anti-China sentiment and fall in demand (threat)</li><li>• Stricter Privacy Regulations, something which Apple has pioneered and is way ahead of its competition in this regard (opportunity)</li><li>• Waste Disposal and Environmental Regulations- Apple tries to make its products as ecofriendly as possible, hence it is ahead of its competition here too. The more Apple works in this area, respect and demand for its products will rise (opportunity)</li><li>• Lawsuits consuming revenue (threat)</li></ul>
<b>Macroeconomic Impacts</b>	<ul style="list-style-type: none"><li>• Global Economic Slowdown due to coronavirus (threat)</li><li>• Easing of FDI norms by India paves the way for Apple to set-up manufacturing bases in the country and reduce its dependence on China. It will also make it easier for the company to directly do business with a very large populace instead of engaging through third party distributors (opportunity)</li><li>• Developing economies may not be hit as hard as developed countries during the global economic slowdown, hence Apple should target these markets (opportunity)</li></ul>

## Exhibit 2: Porter's Five Forces Analysis

	Related Factors	Overall Nature
<b>Threat of Entry</b>	<ul style="list-style-type: none"> <li>• High Sunk Costs (+)</li> <li>• High Capital Investment needed (+)</li> <li>• Difficult to establish brand recognition (+)</li> <li>• Difficult to achieve economies of scale (+)</li> <li>• Aggressive Pricing Strategy of new entrants (-)</li> <li>• Established companies of other industries might try to enter the market (-)</li> <li>• Apple's existing competitors might try to enter the other segments of the market (eg. Smartphone manufacturers might want to enter the laptop market) (-)</li> <li>• Success of new entrants such as OnePlus, Xiaomi, etc. might motivate potential entrants (-)</li> </ul>	Moderate
<b>Threat of Substitutes</b>	<ul style="list-style-type: none"> <li>• Substitutes for Apple products are landlines, bar phones, digital cameras, etc. which have much lesser usability (+)</li> <li>• Smartphones, Tablets, PCs and Laptops are substitutes for each other. Apple makes all of these products and they are significantly different from those offered by its competitors. Hence it can maintain profitability by offering substitutes which cater to different demands (+)</li> <li>• Low Cost smartphones, tablets, services and computers from competitors (-)</li> </ul>	Moderate
<b>Bargaining Power of Buyers</b>	<ul style="list-style-type: none"> <li>• Variable Switching Costs overall, low for smartphones and tablets but high for smartwatches and moderate for computers</li> <li>• Large number of buyers spread across the globe (+)</li> <li>• Pricing information isn't easily available (+)</li> <li>• Apple engages in price discrimination and also offers bundled products (+)</li> <li>• Products significantly differ from those of competitors (+)</li> <li>• Buyers cannot backward integrate (+)</li> <li>• Low individual bargaining power but a possibility of mass defections does exist (-)</li> </ul>	Low
<b>Bargaining Power of Suppliers</b>	<ul style="list-style-type: none"> <li>• Screen suppliers: Samsung (most dominant), LG, Japan Display (-)</li> <li>• 'A series' processor maker: TSMC (-)</li> <li>• Computer processor supplier: Intel (-)</li> <li>• FaceID supplier: AMS (-)</li> <li>• High number of suppliers for bulk materials such as metals, body parts, electronic components, etc. (+)</li> <li>• Other potential suppliers exist (eg. Qualcomm, AMD, etc.) (+)</li> <li>• Low Switching Costs (+)</li> <li>• Backward integration possible to some extent (+)</li> </ul>	Moderate
<b>Intensity of Rivalry</b>	<ul style="list-style-type: none"> <li>• High number of competitors (-)</li> <li>• Industry growth is not very high (-)</li> <li>• Variable Switching Costs overall, low for smartphones and tablets but high for smartwatches and moderate for computers</li> <li>• High Exit Costs (-)</li> <li>• Products significantly differ from those of competitors (+)</li> </ul>	High

### Exhibit 3: Competitor Analysis

Product Category	Smartphones		Personal Computers	
Firms	<u>Samsung</u>	<u>Huawei</u>	<u>Lenovo</u>	<u>HP</u>
Market Share	19.2%	15.6%	24.1%	22.2%
Threat to Apple	<ul style="list-style-type: none"> <li>Samsung has been able to replicate features of the iPhone</li> <li>Releases many more smartphones than Apple and this enables it to target all income groups</li> </ul>	<ul style="list-style-type: none"> <li>Huawei has replicated features of both iPhones and Samsung flagship phones</li> <li>Targets all income groups, just like Samsung</li> <li>High quality smartphones at affordable prices</li> </ul>	<ul style="list-style-type: none"> <li>Large product range</li> <li>Strong and reliable brand image</li> <li>Stronghold Asian markets</li> <li>It has acquired IBM's PC division and Motorola Mobility and integrated the latter with system X to fuel growth</li> </ul>	<ul style="list-style-type: none"> <li>Large product range</li> <li>Strong and reliable brand image</li> <li>Heavy investment in R&amp;D</li> <li>Differentiated Products</li> </ul>
Weaknesses/Threats	<ul style="list-style-type: none"> <li>Depends on Google's OS rather than its own</li> <li>Heavily dependent on the American market for smartphone sales</li> <li>Increased competition from Chinese brands such as Huawei, OnePlus, Xiaomi, etc.</li> </ul>	<ul style="list-style-type: none"> <li>US-China Trade War</li> <li>No more Google services on Huawei handsets</li> <li>Rising labor costs in China</li> <li>Tough competition from Apple, Samsung and other Chinese brands as well</li> <li>Lack of capital for marketing leading to lower brand recognition</li> </ul>	<ul style="list-style-type: none"> <li>US-China Trade War</li> <li>Rising labor costs in China</li> <li>Less aggressive marketing compared to its competitors</li> </ul>	<ul style="list-style-type: none"> <li>HP's current structure and culture have resulted in the failure of various mergers aimed at vertical integration</li> <li>Worker morale is low due to company culture and politics that have grown in recent years</li> <li>HP has a lower budget for its quality control department than competitors</li> </ul>

Product Category	OS (Android for smartphones, Windows for PCs)		Entertainment, Music	
Firms	<u>Google</u>	<u>Microsoft</u>	<u>Netflix</u>	<u>Spotify</u>
Market Share	70.68%	76.52%	19%	36%
Threat to Apple	<ul style="list-style-type: none"> <li>Android is open source, hence available on many more handsets at various prices</li> <li>File transfer is easier</li> <li>More customizable than iOS</li> </ul>	<ul style="list-style-type: none"> <li>Global Outreach</li> <li>Available on a very large number of devices</li> <li>Compatible with touch and pen input unlike macOS</li> <li>Devices running on Windows are much better for gaming</li> </ul>	<ul style="list-style-type: none"> <li>Has much more content than Apple TV+</li> <li>Has an app for all major operating systems and devices, unlike Apple TV+</li> </ul>	<ul style="list-style-type: none"> <li>Free Online Streaming (although with ads), unlike Apple Music which is paid only</li> <li>Social Media Integration</li> <li>Available on more devices such as Xbox, PlayStation, etc.</li> </ul>
Weaknesses/Threats	<ul style="list-style-type: none"> <li>Less secure than iOS and prone to malware attacks</li> <li>Most handsets get the latest software updates several months after the update is released for the highest end handsets</li> </ul>	<ul style="list-style-type: none"> <li>Less secure than macOS and prone to malware attacks</li> <li>Less Stable</li> <li>Limited Innovation and Updates</li> </ul>	<ul style="list-style-type: none"> <li>Subscription is very expensive compared to all major competitors</li> <li>Piracy</li> </ul>	<ul style="list-style-type: none"> <li>Low profits, heavily reliant on advertising for income</li> <li>Difficulties maintaining positive cooperation with artists and labels</li> <li>Do not have rights to some artists/labels</li> <li>Artists could drop away due to low wages</li> </ul>

**Exhibit 4: Capabilities Analysis**

<b>Capabilities</b>	Procurement	Innovation	Retail and Support	Customer Satisfaction
<b>People (Skills)</b>	High Quality Suppliers	Highly Skilled Engineers, Researchers and Developers	Highly Skilled Technicians and Courteous, Knowledgeable Employees	All the employees who are involved in making one's 'Apple Experience' a memorable one
<b>Processes</b>	<ul style="list-style-type: none"> <li>Procure High Quality Raw Materials from various suppliers</li> </ul>	<ul style="list-style-type: none"> <li>High Capital Investment</li> <li>Investing the requisite amount of time to nurture a technology</li> </ul>	<ul style="list-style-type: none"> <li>Today at Apple sessions at Apple Stores for hands-on demos of products and lessons on coding, photography, etc.</li> <li>Quick repairs and 90 days complimentary support for products</li> <li>Significant Capital Investment</li> </ul>	<ul style="list-style-type: none"> <li>Tight Hardware-Software Integration</li> <li>Aesthetic Design and Durability of Products</li> <li>Exceptional Performance</li> <li>Secure Devices and Services</li> </ul>
<b>Systems/Tech</b>	<ul style="list-style-type: none"> <li>Good relationship with suppliers</li> <li>Reliable Transport Network</li> </ul>	<ul style="list-style-type: none"> <li>State of the art technology and infrastructure</li> <li>Encouraging employees to try new ideas and rewarding them</li> <li>Keeping environmental friendliness in mind</li> <li>Patents</li> </ul>	<ul style="list-style-type: none"> <li>Apple Stores are located in the hearts of the world's major cities</li> <li>Customer Hospitality</li> <li>Quick logistics and effective inventory management for fast repairs</li> </ul>	<ul style="list-style-type: none"> <li>Collaboration between different teams and groups</li> <li>Striving for nothing but the best</li> <li>Strict Quality Checks</li> <li>Before and After Sales Support</li> </ul>
<b>Alignment and Sustainability</b>	<ul style="list-style-type: none"> <li>Strong Alignment with Values and Mission</li> <li>Imitable</li> <li>Durable</li> </ul>	<ul style="list-style-type: none"> <li>Strong Alignment with Values and Mission</li> <li>Inimitable</li> <li>Durable</li> </ul>	<ul style="list-style-type: none"> <li>Strong Alignment with Values and Mission</li> <li>Inimitable</li> <li>Durable</li> </ul>	<ul style="list-style-type: none"> <li>Strong Alignment with Values and Mission</li> <li>Imitable to a certain extent</li> <li>Durable</li> </ul>

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