

Executive Summary

Response to Apple Inc.'s Direction in The Next Decade

To: Tim Cook CEO of Apple Inc.

Date: March 31, 2023

Problem Statement

Apple Inc. must determine the appropriate response to address the strategic challenge of sustaining growth and innovation in a highly competitive and saturated market. Their response for the next decade must address the balance between advancing hardware or services as well as, what kind of leadership will be essential in propelling Apple to new heights.

Analysis

Apple faces the challenge of remaining competitive as the market for smartphones, pcs, and tablets becomes more saturated. With other competitors offering more innovative products Apple's market share within the smartphone industry is steadily declining. This raises questions regarding Apple's ability to sufficiently retain consumers brand loyalty. Advancements in technology specifically related to 5G connection, Artificial Intelligence, and Augmented Reality present opportunities for additional product categories. However, they also could lead to decreased attention given to existing core product categories. Furthermore, Apple's extensive focus towards a service-first mindset has let to stagnant sales in recent years. Given this challenge, Apple faces a dilemma in deciding whether to change its strategic perspective towards one more oriented towards promoting hardware advancements.

Alternatives

1. Shift back to a Hardware-First Mindset – Apple could begin by hiring a CEO similar in mindset to Steve Jobs
2. Stay as a Service-First Mindset – Continue advancing major profit segments within services including Apple Music, Apple Pay and Apple TV+
3. Strengthen Regional Market Penetration and Diversify Product Offering – Look to gain larger market shares in specifically Asia, S. America, Africa, and Europe

Recommendation:

I recommend the shift back to hardware-first mindset. 1. Hire a new CEO once the current one retires, one with a mindset like Steve Jobs. 2. Allocate resources to Research and development. Apple should look to include investing in new technology, design enhancements and innovative features. 3. Advancing new technology which allow for penetration of new product categories. 4. Whilst emphasizing a focus on Hardware, Apple should also continue to invest in tis services ecosystem. Apple can offer an intuitive user experience and add value for customers by improving the interaction between hardware and services.

Diagnostics

The key strategic issue faced by Apple Inc. in 2020 is the need to sustain growth and innovation in a highly competitive and saturated market. This issue has a significant impact on the course and direction of the company, as it determines Apple's ability to maintain its position as a leading innovator and capitalize on emerging market trends. The first of the three key drivers contributing to this strategic issue is the market saturation and increasing competition. Apple operates in a global market where demand for technology products is high. However, the market for smartphones and tablets, which are Apple's traditional product lines, has become saturated. The presence of numerous competitors offering lower-priced alternatives poses a threat to Apple's market share and profitability. Secondly, Advancements in technology, such as artificial intelligence, augmented reality, and 5G connectivity, present both opportunities and challenges for Apple. These technologies offer the potential to drive innovation and create new product categories. However, they also require effective utilization to stay ahead in the market and meet changing consumer preferences. Lastly, Apple's extensive focus on expanding its services, such as Apple TV+, Apple Arcade, and Apple Music, has led to stagnant product sales in 2019. While these services have gained traction and contributed to Apple's revenue diversification, they are heavily reliant on consumers purchasing Apple devices to access and fully utilize them. This overemphasis on services has resulted in a potential neglect of product innovation and differentiation, leading to a lack of significant updates and advancements in Apple's core product lines.

Alternatives

1. Shift Back to a Hardware-First Mindset

One alternative for Apple to address the key strategic issue, is to change the direction of the company back to a hardware-first mindset. This would involve hiring a CEO who embodies a similar visionary and innovation-driven mindset as Steve Jobs, emphasizing the significance of Apple's core hardware products. Job's mindset of figuring out what the consumers want before they do is what led to Apple being so successful today. Appendix A supports the need for this shift, as it shows a decline or stagnation in net sales for iPhones, iPads, and Macs in recent years, while wearables experienced a significant increase. Moreover, the lack of innovation in Apple's existing product lines, combined with the absence of significant technological advancements beyond wearables, has resulted in consumers seeking alternatives to Apple's offerings. This stagnation in product development has diminished Apple's ability to capture and retain customer interest, as competitors have been introducing new and innovative features in their own devices. Appendix B and Appendix C is evidence of this, as it shows the significantly low market shares Apple owns in relation to competitors within the PC and smartphone category. By focusing on hardware as the primary driver of growth and innovation, Apple can leverage its historical success and reputation for delivering ground-breaking technological advancements. The major benefit of this strategy is the maintenance of Apple's competitive advantage. Apple's historical success was built on its ability to introduce disruptive and highly desirable hardware products. By returning to a hardware-first mindset, Apple can regain its competitive advantage by focusing on innovation and differentiation. This approach enables Apple to stay ahead of competitors and attract customers who value cutting-edge technology and premium hardware. However, there is a

potential drawback due to the shifting market dynamics. The technology market is constantly evolving, and consumer preferences and behaviors are changing rapidly. Focusing primarily on hardware may not align with emerging market trends and shifts towards service-oriented models. Ignoring or downplaying the importance of services could hinder Apple's ability to cater to evolving customer needs and preferences.

2. Stay as a Service-First Mindset (Exhibit 2, Exhibit 1b)

Another alternative for Apple would be to continue prioritizing a service-first mindset and invest in the advancement of its core services, including examples such as Apple Music, Apple Pay, and Apple TV+. This alternative is supported Appendix A which shows the significant growth of the services category which has increased from \$19,909 million in 2015 to \$46,291million in 2019. By further developing these services, Apple can capitalize on this revenue stream and strengthen its position as a leader in the digital services market. Moreover, the performance of Apple's stock in relation to the S&P 500 index demonstrates the market's positive reception to its service-first approach as evidence by Appendix D. Apple's focus on a service-first mindset has been reflected in its strategic decisions and the subsequent increase in its share price. Despite criticism regarding reduced sales of core products such as iPhones, iPads, and Macs, Apple's emphasis on services has proven to be beneficial for the company. Apple's expansion into services has allowed it to tap into new revenue streams and diversify its offerings beyond hardware which is the greatest advantage of this alternative. Services such as Apple Music, Apple Pay, and Apple TV+ have gained significant traction and attracted a large user base. This diversification reduces Apple's reliance on hardware sales alone and creates additional sources of revenue. However, it is important to recognize that these services are often popular because of the strong customer loyalty individuals have towards Apple's core hardware products, such as iPhones, iPads, and Macs. These devices act as gateways to access and fully utilize Apple's services. Additionally, the success of Apple's services is closely tied to the seamless integration and user experience between hardware and software. Moreover, the competition in the services market is intensifying, with several tech giants offering their own platforms and subscriptions. Apple faces challenges in differentiating its services and maintaining a competitive edge, especially if the new hardware products fail to generate the same level of excitement and innovation as in the past.

3. Strengthen Regional Market Penetration and Diversify Product Offering

The last alternative for Apple would be to strength their regional market penetration and diversify their product offering. Apple's premium pricing, driven by the strong brand loyalty and customer affinity for their products, has limited their market share in regions outside of North America. As evidence by Appendix E, Apple is unable to compete with Samsung in Europe, Asia, S. America, and Africa. Samsung owns more than 70% of the market share in all these regions pointing to an opportunity for advancement for Apple in the coming decade. The lower market share of Apple in regions dominated by Android can be attributed to affordability concerns. By offering a broader range of devices at various price points, Apple can address this barrier and make its products more accessible to a wider audience. Furthermore, Different regions have unique preferences when it comes to technology devices. Expanding the product portfolio allows Apple to cater to these diverse preferences by offering devices with different

features, sizes, and functionalities. Consequently, lowering prices or introducing more affordable variants may affect Apple's profit margins, as premium pricing has traditionally been a significant contributor to their profitability. Additionally, although offering new products could increase sales due to penetration of new product categories. It can also lead to loss in sales of current core products as the recent upgrades are already being valued less and less by consumers.

Recommendation

Based on the diagnostics of Apple's strategic issue and the supporting evidence, I recommend that Apple should change its direction and embrace a hardware-first mindset. The evidence presented in Appendix F clearly demonstrates that Apple experienced its greatest success during the period prior to 2015 when the company was at the forefront of innovation. The ability to continuously introduce ground-breaking hardware products played a pivotal role in Apple's remarkable achievements between 2009 and 2015. In contrast, the shift towards a service-first mindset in the years following 2015 resulted in only marginal growth for Apple. This compelling evidence underscores the need for Apple to embrace a hardware-first mindset once again, recognizing its significance in driving the company's overall success. Moreover, Apple's services are intertwined with the sale of their core products, making the success of one highly dependent on the other. While a service focus may initially generate substantial profits, it is important to recognize that the landscape of services is constantly evolving. New services emerge, and existing ones can be easily overtaken. In contrast, adopting a hardware-first approach has proven to be a recipe for long-term success, as demonstrated by Apple's remarkable achievements during the supervision of Steve Jobs. By prioritizing hardware development, Apple can establish a solid foundation for sustained growth and maintain a competitive edge in the ever-changing technology market.

Implementation

1. Apple should prioritize hardware innovation by hiring a CEO who possesses a visionary and consumer-centric mindset, like Steve Jobs. This approach will allow Apple to regain its historical success in delivering ground-breaking technological advancements and meeting consumer needs before they arise. 2. Apple should allocate resources towards research and development to drive innovation in its hardware offerings. This includes investing in cutting-edge technologies, design enhancements, and breakthrough features that captivate and engage consumers. By doing so, Apple can regain its reputation as a pioneer in the technology industry and differentiate itself from competitors. 3. Apple should focus on advancing technology such as their self-driving cars, 5G connectivity with smartphones, and augmented reality. This will allow them to penetrate new product categories whilst also improving their existing core products. 4. While focusing on hardware, Apple should also continue to invest in and integrate its services ecosystem. By enhancing the integration between hardware and services, Apple can provide a seamless user experience and create added value for customers.

Appendix A

Exhibit 1b Apple's Net Sales by Product Category, 2012–2019 (in millions of dollars)

	2012	2013	2014	2015	2016	2017	2018	2019
iPhone	78,692	91,219	101,991	155,041	136,700	139,337	164,888	142,381
iPad	30,945	31,980	30,283	23,227	20,628	18,802	18,380	21,280
Mac	23,221	21,483	24,079	25,471	22,831	25,569	25,198	25,740
iPod	5,615	4,411	-	-	-	-	-	-
Services	12,890	16,051	18,063	19,909	24,348	32,700	39,748	46,291
Wearables, Home, and Accessories	5,145	5,706	8,379	10,067	11,132	12,826	17,381	24,482
Total net sales	156,508	170,910	182,795	233,715	215,639	229,234	265,595	260,174

Appendix B

Exhibit 3b PC Manufacturers: Worldwide Market Shares, 2008–2019

	2008	2010	2012	2014	2015	2016	2017	2018	2019
Hewlett-Packard	18.9%	18.5%	16.6%	18.4%	19.4%	20.9%	22.7%	23.1%	23.6%
Dell	14.7%	12.5%	11.1%	13.5%	14.2%	15.7%	16.1%	17.0%	17.5%
Lenovo ^a	7.6%	9.8%	15.0%	19.2%	20.8%	21.3%	21.1%	23.1%	24.3%
Acer	10.9%	12.4%	9.6%	7.8%	-	6.8%	6.8%	6.9%	6.4%
Toshiba	4.8%	5.5%	-	-	-	-	-	-	-
ASUS	-	-	6.8%	-	7.0%	7.4%	6.6%	-	-
Apple	3.4%	3.9%	5.0%	6.4%	7.4%	7.1%	7.6%	6.9%	6.6%
Total shipments (in millions)	287.6	346.8	352.4	308.6	275.8	260.2	259.5	259.6	266.7

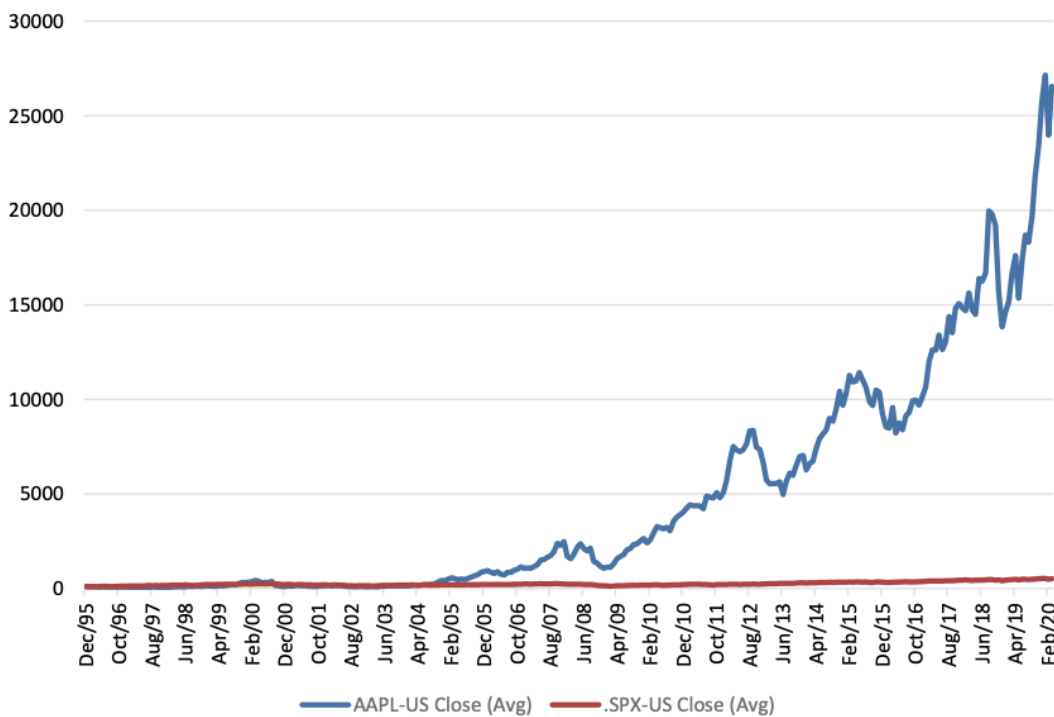
Appendix C

Exhibit 7 Top 5 Worldwide Smartphone Market Shares -by Vendor, 2013–2019

	2013	2014	2015	2016	2017	2018	2019
Samsung	31.0%	24.5%	22.3%	21.1%	21.6%	20.8%	21.6%
Apple	15.1%	14.8%	16.1%	14.6%	14.7%	14.9%	13.9%
Huawei	4.8%	5.7%	7.4%	9.5%	10.4%	14.7%	17.6%
OPPO	-	-	3.0%	6.8%	7.6%	8.1%	8.3%
Xiaomi	-	-	-	3.6%	6.3%	8.5%	9.2%
Total shipments (millions)	1,019.4	1,301.1	1,437.2	1,473.4	1,472.4	1402.6	1371.0

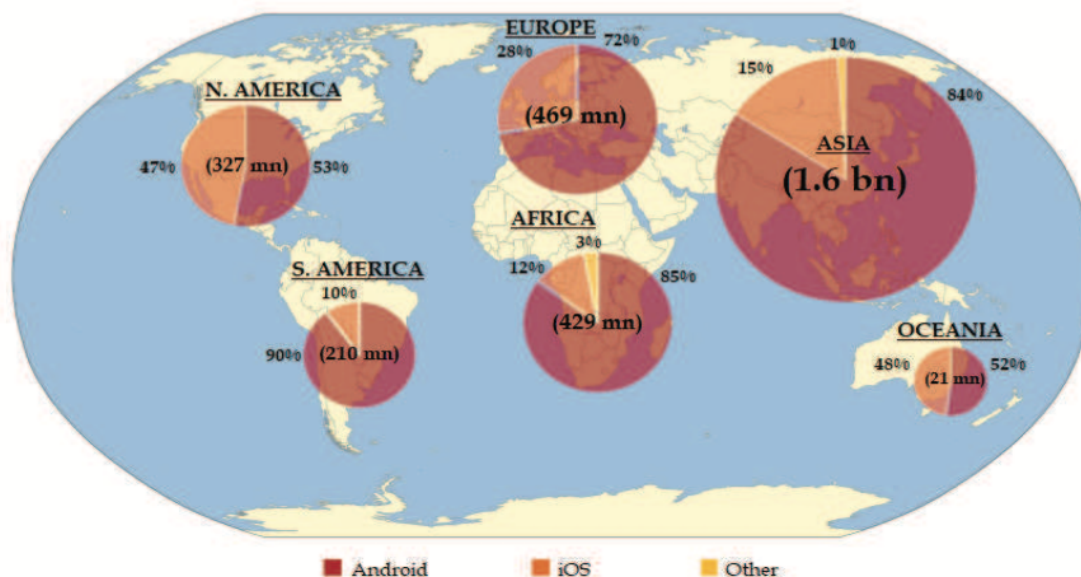
Appendix D

Exhibit 2 Apple's Share Price vs. S&P 500 Index, 1995-2020 (December 31, 1995 = 100)



Appendix E

Exhibit 6 iOS v. Android Market Share by Geography (as of February 2020)



Appendix F

Exhibit 1a Apple Inc., Selected Financial Information, FY2001–FY2019 (in millions of dollars, except for number of employees and stock-related data)

	2001	2003	2005	2007	2009	2011	2013	2015	2017	2018	2019
Net sales	5,363	6,207	13,931	24,578	42,905	108,249	170,910	233,715	229,234	265,595	260,174
Cost of sales	4,128	4,499	9,889	16,426	25,683	64,431	106,606	140,089	141,048	163,756	161,782
Research and development	430	471	535	782	1,333	2,429	4,475	8,067	11,581	14,236	16,217
Selling, general, and administrative	1,138	1,212	1,864	2,963	4,149	7,599	10,830	14,329	15,261	16,705	18,245
Operating income (loss)	-333	25	1,643	4,407	11,740	33,790	48,999	71,230	61,344	70,898	63,930
Net income (loss)	-25	69	1,328	3,495	8,235	25,922	37,037	53,394	48,351	59,531	55,256
Total cash, cash equivalents, and marketable securities	4,336	4,566	8,261	15,386	23,464	25,952	40,590	41,995	74,181	66,301	100,557
Accounts receivable, net	466	766	895	1,637	3,361	5,369	13,102	16,849	17,874	23,186	22,926
Inventories	11	56	165	346	455	776	1,764	2,349	4,855	3,956	4,106
Net property, plant, and equipment	564	669	817	1,832	2,954	7,777	16,597	22,471	33,783	41,304	37,378
Total assets	6,021	6,815	11,516	25,347	47,501	116,371	207,000	290,345	375,319	365,725	338,516
Total liabilities	2,101	2,592	4,088	10,815	15,861	39,756	83,451	170,990	241,272	258,578	248,028
Total shareholders' equity	3,920	4,223	7,428	14,532	31,640	76,615	123,549	119,355	134,047	107,147	90,488
Cash dividends paid	-	-	-	-	-	-	-10,564	-11,561	-12,769	-59,531	-14,119
Number of employees	11,434	13,566	16,820	23,700	36,800	63,100	84,400	110,000	123,000	132,000	137,000
International sales/sales	45%	42%	40%	40%	46%	61%	61%	65%	63%	63%	60%
Gross margin	23%	27%	29%	33%	40%	40%	37%	40%	39%	38%	38%
R&D/sales	8%	8%	4%	3%	3%	2%	3%	3%	5%	5%	6%
SG&A/sales	21%	20%	13%	12%	10%	7%	6%	6%	7%	6%	7%
Return on sales	-6%	0%	12%	18%	27%	31%	29%	30%	27%	27%	25%
Return on assets	0%	1%	12%	14%	17%	22%	18%	18%	13%	12%	16%
Return on equity	-0.64%	1.63%	17.88%	24.05%	26.03%	33.83%	29.98%	44.74%	36.07%	55.56%	61.06%
Stock price low ^a	1.04	0.94	2.71	9.81	11.71	40.41	57.09	97.72	107.68	150.24	145.72
Stock price high	1.94	1.67	7.69	22.14	26.99	60.41	96.68	134.54	195.96	233.47	233.47
P/E ratio at period-end	NM	30.94	24.28	28.3	18.86	10.14	7.29	8.33	11.79	14.44	13.4
Market value at period-end	3,367	2,982	52,081	128,465	154,303	346,369	448,639	687,450	927,168	956,625	1,112,797