**CASE STUDY # 3**

**Apple Inc. in 2012 Questions**

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1. **What, historically, have been Apple’s competitive advantages?**

Since Apple was established the company has insisted on their unique programming system, forward design style and using a long term vision to design their own independent kingdom.

Apple's competitive advantages are:

Their hardware design is elegant. Apple has the best-designed hardware from an aesthetics point of view of any vendor. For the cell phone market, people are crazy with the advanced and developed iPhone. Because it is so impressive that make your life and work easier.

Apple has total control of their software (OS system) and hardware, marketing strategy, digital asset management, retail strategy and product differentiation.

iTunes & Digital Asset Management. iTunes is one of the most strategic elements of the Apple pie. Apple has fundamentally understood that owning content is not the key to the future, but owning the distribution of that content is. That is why Apple has become not just a software company but also a digital asset management company.

Apple’s Retail Strategy. Many people criticized Apple when they started to create their own retail stores, citing how many companies have tried and failed miserably at owning their own storefront. By 2011, the company estimated that more than half of all retail Mac sales were to new Mac customers. The retail division (with more than 300 stores in 13 countries) accounted for 13% of Apple’s total revenue.

1. **Analyze the personal computer industry. Why did Apple struggle historically in the PC market?**

The PC industry is highly competitive with dominant PC manufacturers such as Dell, Hewlett-Packard, Acer and Lenovo. These “Wintel” manufacturers are all accepted as the industry standard. Despite the market share of OSX having grown faster in recent years, Apple’s share of the worldwide PC market has been very low (below 5% since 1997).

Meanwhile, the industry average selling price has been declining. Driven by the lower prices and expanding capabilities the average selling prices of PCs have declined by a compound annual rate of 8%– 10% per year from the early 1990s through 2005. Falling prices directly influences the profit margins of major manufacturers (not including Apple), holding them at just 5%. The lower profit margins have also impacted R&D budgets.

Further, the majority PCs buyers are price conscious. The most knowledgeable consumers have moved away from full-service retailers and are now purchasing PCs or PC parts directly from manufacturers. Home consumers represent the largest segment of the market, accounting for nearly half of worldwide PC shipments. The shifts of distribution have had a negative impact on the industries profitability.

1. **How sustainable is Apple’s competitive position in PCs, MP3 players and smartphones?**

Thanks to the stable OS upgrades, the strategically built-in Intel chip and the well-coordinated software vendors, Apple’s PCs have improved faster than the rest of the industry. With the help of industry leading design Apple became the third largest PC vendor in the United States in 2011. Apple’s global PC market share has remained below 5% but is rising steadily.

In the MP3 player market, Apple’s iPod easily accounts for the majority of the market. Relying on sleek design and features the iPod became the industry standard, established a significant accessory market and takes the highest gross margin. By leveraging the ubiquity of iTunes, Apple secured the iPods market position. By using a pay-per-song sales strategy iTunes brings a galvanic impact on iPod. “In the quarter before the release of iTunes, Apple sold only 78,000 iPods. After the iTunes launch, iPod sales shot up to 304,000 units.”

Speaking of smartphones; every 12 to 15 months a new iPhone is released and becomes an icon of the industry. By 2011 Apple generated more than 50% of the cellphone industry’s total profits, with less than 4% unit market share. Due to the popularity of the iPhone, Apple always has the upper hand when negotiating with carriers to secure sales volume and service quality.

1. **What are Apple’s long-term prospects for the iPad?**

Apple has two long-term prospects for the iPad: profitability and industry standardization.

Apple first introduced its tablets in 2010. At that time the iPad was set to change the future of the personal computer. By February of 2012 55 million iPads had been sold generating $35 billion in revenue.

Android based tablets were rushed to the market in late 2010. By the end of 2011 Android held a 38% share. Apple needs the iPad to regain market share in the long term.

As the Digital Hub strategy describes: Apple wants to produce an integrated hardware and software hub. Therefore, an important goal for the iPad is to challenge the personal computer “Wintel” standard by changing people’s computer usage habits. This will help build up an OSX or iOS computing standard, securing the future benefits for Apple.

1. **What advice would you offer the new CEO Tim Cook?**

To continue the pace of Apple’s innovation. Apple introduced many leading edge and life changing technologies. Tim Cook should continue to push innovation within the company and feel free to challenge traditional concepts and industry standards.

Tim Cook should also pay attention to the developing market in Asia. China for instance, is the world’s largest market (and not just for phones). Apple’s traditional strength has been in developing high end products which will not sell well in low end markets such as China.