

Apple, Inc.: Where Is It Going From Here?

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ABSTRACT

Apple's central business model has not changed since the company's emergence in the late 1980s. While being a leader in consumer electronics innovation, Apple has reliably produced proprietary hardware and software, which has provided the company a competitive advantage in gaining a share of any market into which they have ventured. Apple's strategic management decision to include non-PC products in its portfolio has thrived so far, driven by the success of the iPod, iPad, and iPhone. However, iPod sales have slowed. The iPhone is facing increased competition within the smartphone industry. The success or failure of Apple's latest creation, the iPad Mini, remains to be seen. The combination of these events begs the question: Will Apple's existing and emerging product lines take it to the next level? This paper presents a synopsis of Apple's current and emerging product lines as a means to predict the future direction of the company.

Keywords: Innovation; Competitive Advantage; Strategic Management; Consumer Electronics

INTRODUCTION

Apple Computer is one of the most innovative and interesting companies to emerge in recent years. No other company has helped revolutionize the U.S. consumer electronics market like Apple. The company's creator, Steve Jobs, helped to transform the ways in which the computer is used today through his creation of the first computer processing unit and his creative product innovations. Apple was established by two college dropouts, Steve Jobs and Steve Wozniak, in April 1976. Jobs and Wozniak wanted to establish a processing unit completely opposite to that of its competitor IBM. At that time, IBM was a traditional company that distinguished itself with a bland corporate culture. Apple's founders sought to provide an alternative to IBM's traditional corporate culture as a means to change how computers were fundamentally used. Apple was incorporated January 3, 1977 (Apple, Inc., 2011) and served as a challenger to IBM's corporate structure.

As a result of these efforts, Apple currently operates more than 350 retail stores in multiple countries. Not only has Apple established its retail presence with stores throughout the world, but the company also manages an online store that has served as the primary driver of its success in recent years. With the advent of music downloading and the popularization of the iPod, people have begun using iTunes on a daily basis to obtain their favorite music. Apple has over 42,000 employees worldwide and makes annual sales of \$18 billion with a "retailing operating profit of 4.4 billion" (Blodget, 2012).

In Apple's early years, the company struggled because of mismanagement at the corporate level. After returning to the company after a short absence, Steve Jobs was able to save the company. During the company resurgence, Steve Jobs created many new products that brought the company back to its position as a leader in the technology world.

Today, Apple is focused on designing and manufacturing electronics and software products that are useable for all consumers. Apple's most recent and most well-known product is the line of Macintosh computers. This computer was designed to be the first personal computer that could be accessible to all consumers. Other lines of products include the iPod, which is a portable media player; the iPad, which is designed to be a medium for multimedia formats such as magazines, ebooks, music, word documents and video games; and the iPhone, which is altering the ways in which information is accessed from the World Wide Web. Apple's software products include the Mac OS X operating system; the iTunes media browser; the iLife suite of multimedia and creativity software; and Final Cut Studio, a suite of professional audio- and film-industry software products. These software products are helping Apple set the tone for the ways in which its competitors should be producing software (Apple, Inc., 2011).

Through its software and product lines, Apple emphasizes high quality and accessibility. The company prides itself on its knowledgeable sales representatives that offer assistance in finding whatever Apple product a consumer feels they may need. In addition to being knowledgeable, Apple sales representatives are also friendly and take pride in their jobs, making for a high quality service experience for the consumer.

A large portion of Apple's sales is made through third parties that sell many of its products directly to customers and businesses. Many of these customers are in the education, creative, consumer, and business markets. Because competitors continually improve their products, the industry is in a constant state of flux. As a result, Apple is similarly in a constant state of change to remain competitive in the marketplace.

The company's current business strategy is to bring the best user experience to its customers with superior ease-of-use, seamless integration, and innovative design. Apple believes that its greatest competitive advantage stems from its investment in research and development to provide products that are technologically superior to those of the company's competitors. This business strategy also incorporates high-quality marketing and advertising.

SMARTPHONE GROWTH

In 1992, IBM created what would later be known as the world's first smart phone. This product, called the IBM Simon, combined the technologies for mobile phones, pagers, fax machines, and personal digital assistants (PDAs) into a single device that retailed for \$899 (\$1400 in 2012 USD). Nokia followed suit by developing the 9000 Communicator, the first smart phone with (limited) Internet access. It utilized the clamshell design Motorola popularized and had a full keyboard and LCD screen. Nokia continued to pave the way for smartphone development with the 8810, a device with a sliding keyboard cover and without an external antenna. This model helped to create the market that other smartphone corporations would try to capture. Nokia, Kyocera, and Sharp also created multiple smartphone models that helped to establish the market and force other companies to adapt by producing phones that offered more advanced Internet access and other features.

When social networking websites emerged in the mid-2000s, T-Mobile's Sidekick was a staple for teenagers and college students as it offered a quick way to text message, make phone calls, and check web applications (Meyers, 2011). BlackBerry, Palm, and Microsoft created smartphones that incorporated telephone and PDA technology, which made smartphones increasingly popular among those in the business sector. Blackberry phones became especially popular among corporate personnel, as applications could be created specifically for those corporations and could remain proprietary. Originally, BlackBerry devices were restricted to data-only uses, but as the smartphone market expanded, it incorporated the voice component. Palm's Treo line eventually offered the same type of product, leading to increased revenues for the company after the Treo was introduced in 2002.

Perhaps the largest shake-up to the smartphone market occurred in 2007 when Steve Jobs, CEO of Apple, introduced the iPhone. Jobs had seen the multiple devices that people carried, such as MP3 players, telephones, and PDAs. It occurred to Jobs that one could probably create a single product that performs all the functions of these multiple devices with the right technology and operating system. At this time, BlackBerry and Palm had seemingly eclipsed the market. As a result, it has been estimated that Jobs spent \$150 million to develop a product that competes with extant products. This product was the first iPhone (Foresman, 2011).

The touch-screen, WiFi, and (eventually) 3G-compatible device made the iPhone one of the quickest-selling smartphones in history. Customers clamored for the iPhone with its new operating system (dubbed iOS). The iOS combined the iPod and Mac operating systems and fundamentally changed the operating system market for smartphones. By 2012, there were three iPhones on the market – the iPhone 3GS; the iPhone 4, which provided users with multitasking features; and the newest iPhone, the iPhone 5, with improved style and features.

The Smartphone Market in 2012

The number of U.S. smartphone subscribers surpassed the 100 million mark in January 2012, up 13% from October 2011. In the ongoing competition between operating system developers, Symbian and Android swapped places; Symbian's market share fell from 39% to 17% while Android increased its share from 18% to 43%. Later,

Apple's iOS pulled ahead of Blackberry's OS Symbian. In addition, Microsoft's new Windows Phone surpassed its older counterpart, Windows Mobile, but still has only about 1% of the market share (Ahonen, 2012; see Table 1).

Table 1
Full Year Operating System Statistics

Operating System	2010 Units (Millions)	Market Share 2010	2011 Units (Millions)	Market Share 2011
Android	54	18%	208	43%
iOS	48	16%	93	19%
Symbian	116	39%	81	17%
Blackberry	48	16%	52	11%
Bada*	3*	1%*	9	2%
Windows Phone*	2*	1%*	.5	1%
Windows Mobile	11	4%	.4	1%
Others	16	7%	28	6%
Total	298 M		486 M	

Further, Table 2 suggests that the battle for the top spot in the smartphone market is between Samsung Galaxy III and iPhone 5.

Table 2
Full Year Smartphone Sales Statistics

	2010 Units (Millions)	Market Share 2010	2011 Units (Millions)	Market Share 2011
Apple	47.5	15.9%	93.1	19.1%
Samsung	24.0	8.0%	90.9	18.7%
Nokia	100.3	33.7%	77.3	15.9%
RIM	48.0	16.1%	52.5	10.8%
HTC	24.6	8.3%	44.6	9.2%
Sony	9.5	3.2%	26.8	5.5%
LG	7.0	2.4%	23.3	4.8%
Huawei	5.0	1.5%	20.0	4.1%
Motorola	13.7	4.6%	18.6	3.8%
ZTE	3.5	1.2%	12.0	2.5%
Other	14.7	5.1%	26.5	5.6%
Total	297.8 M		486.0 M	

The overall smartphone industry grew by 63.2% between 2010 and 2011. Apple performed very well in this time period, growing by 96% and taking hold of the largest share of the market. Samsung performed even better with respect to growth by more than tripling its sales and increasing its market share by 279% (Ahonen, 2012).

Because Apple and Samsung are in an intense competition for market share and sales, the two companies compete with regard to every function and application in their products. As of October 12, 2012, the iPhone 5 accounts for more web traffic than does Samsung Galaxy III (56% and 44%, respectively). According to Chitika, "record-breaking sales numbers, along with new 4G browsing speeds which encourage data usage, are the most likely explanation for this tremendous growth." Chitika notes that businesses probably want to ensure that their ads can reach both flagship devices, but adds that the head-to-head comparison "emphasizes iPhone users still being the most active — and hence marketable — users of the mobile Web" (Fried, 2012).

Legal Battle between Samsung and Apple

In April 2012, Apple filed a suit in the U.S. District Court alleging that several Samsung Android-based smartphones and tablets infringed on Apple's intellectual property. Apple's original suit against Samsung covered the Samsung Nexus S, Epic 4G, Galaxy S 4G, and Galaxy Tab. Apple's original suit accuses Samsung of infringing on seven technical patents related to user interaction, specifically pinching, zooming, scrolling, and selecting. Apple also claimed that Samsung violated three design patents, including one covering the flat black face of the iPhone and iPad (Duncan, 2012a). In August 2012, the U.S. District Court jury awarded Apple \$1.05 billion in damages in their lawsuit against Samsung. The verdict represents a substantial victory for Apple and its claims that Samsung's

mobile phones and tablets copied key elements of Apple's flagship products. The jury's decision, however, does not mean that Apple has killed Android, nor does it mean that Android devices are suddenly going to disappear from store shelves. Instead, Android device makers are going to have to think carefully about their products going forward, and Samsung is probably going to suffer a setback in the U.S. market.

During the trial, Apple disclosed that they offered to license their patents to Samsung for \$30 per smartphone and \$40 per tablet. Most Android device-makers are already paying a per-device royalty to Microsoft to protect them from the possibility of patent litigation, making the "free and open" operating system something less than free. If Android device-makers have to pay per-device royalties to Apple — especially anything in the range of \$30 per phone or \$40 per tablet — Android's claims of being "free" will be all but false. In fact, Android would be a bigger revenue generator for Apple and Microsoft than it is for Google (Duncan, 2012b)

The onus to protect Google's ecosystem falls on Google itself. Thus far, Google has indicated that it is willing to go to bat for Android — after all, Google's \$12.5 billion acquisition of Motorola aimed at strengthening Android's patent position. In fact, Google's Motorola division just filed suit to block imports of iPhones, iPads, and Macs, claiming the devices infringe on seven Motorola patents. However, Google's patent benefit from Motorola doesn't seem to be as strong as it first appeared, and now Apple has a major court victory to its credit. Google will now be under pressure to cut a patent licensing deal with Apple that not only protects Motorola devices from infringement suits from Apple, but covers all Android device-makers as well. The main reason Google might be willing to make that kind of deal would be to prevent Apple from hobbling the Android ecosystem with a divide-and-conquer approach. If Apple goes to every Android device maker and demands exorbitant royalties — like \$30 per phone or \$40 per tablet — what are some of those device makers likely to do? (Duncan, 2012a)

This "smartphone showdown" is important because Apple and Google are bringing radically different business models to the competition. This is bigger than just a commercial clash between two technological titans. It's a war between two fundamentally different visions for the future of computing, described in simplistic terms as "closed" vs. "open." (Duncan, 2012b) While Apple's model is end-to-end control over the iPhone process, from hardware to software to the mobile applications that it must approve for sale in the App Store, that of Google has been to distribute the Android system free of charge to the developer community at large. Each company has been successful with its respective strategy: Apple makes \$1 billion per month on iPhone sales, and the device is considered the gold standard for smart phone design. Android, meanwhile, generates vastly less revenue per unit sold, but has racked up massive market-share gains, which has led to their lead in the global mobile OS space in just five years (Gustin, 2012).

WHAT'S NEXT FOR APPLE?

Rumors have been floating about the future release of the iPad Mini by Apple by the end of 2012. The release of iPad Mini will put Apple in the tablet market against Amazon's Kindle and Barnes & Noble's Nook. Apple consumers are known to continually pursue the latest Apple product, and an iPad Mini is likely to be treated no differently. However, in releasing the iPad mini, Apple may face some competition from Google, as it is said that Google intends to release two new versions of its Nexus 7 device towards the end of 2012 (Fisher, 2012). Despite Google's plans, Amazon's Kindle is the main competitor of the iPad Mini. The biggest disadvantage the Kindle faces is its lack of features. According to Amazon, however, the Kindle hardware is not intended to go head-to-head with the iPad Mini. Amazon is interested in selling the Kindle service. Amazon is finally showing the industry that it doesn't want to make large profits by selling Kindles. Kindle is more concerned with the sale of digital books (Fisher, 2012). In other words, Amazon will choose not to compete with the iPad Mini at all. The Kindle's price has been reduced to \$139.00, which could be much cheaper than the iPad Mini (the price of the iPad Mini has yet to be disclosed). However, iPad Mini users will be able to download the Kindle app to access Amazon's vast ebooks library.

Apple's legal dispute with Samsung is still pending in courts in the United States, South Korea, and European Union. The case in the United States has gone to the appeals court. Apple has also filed a lawsuit against Amazon for the use of phrase "App Store." Apple claimed that Amazon's use of the term "App Store" constituted false advertising because it has been used to solicit mobile software developers. According to a filing submitted to

the U.S. District Court in Oakland, California, Amazon stated that the term “App Store” has become generic and is not false advertising (Fisher, 2012). These lawsuits may be filed with the intent of creating a negative image of Apple’s competitors or to suffocate the innovation and reduce competition in the market place. If Apple’s intent is to hurt the competition in terms of market share through these lawsuits, then it may work only in the short term. The company needs to focus on continuous innovation to capture additional market share and drive their competition out of the consumer market.

Although Apple and Samsung may be in court over patent infringement, Samsung remains a core Apple supplier by producing microprocessors, flat screens, and memory chips – both dynamic random access memory (DRAM) chips and NAND memory chips – for iPhone, iPod, and iPad. Samsung remains the sole producer of Apple-designed microchips that power the iPhone and iPad, making their relationship too important for either party to put at risk. Samsung’s component sales could hit \$13 billion next year and bring in \$2.2 billion in operating profit, according to a recent estimate by Morgan Stanley; this figure is nearly 8% of the estimated group operating profit (Big Bad John R., 2012).

In the short term, Apple may try to expand its supply chain to reduce its reliance on Samsung. As such, small suppliers may temporarily benefit from the deteriorating relationship between Samsung and Apple, but in the long term, they may not be able to compete with Samsung in terms of quality, volume, and prices. As the demand for mobile devices has soared, Samsung announced in August 2012 a \$4 billion investment to boost output at its U.S. chip plant, where it makes chips for the iPhone and iPad; this is in addition to \$2 billion in spending that Samsung unveiled two months ago to build a new chip plant and convert existing chip lines to make logic chips for powering mobile gadgets (Kim, 2012). Samsung has traditionally been a quiet marketer of its devices, but the latest legal battle may force them to be more aggressive in their marketing strategy.

Will Apple fall from the tree?

Even with their strong market position and high cash flows, Apple has many questions to answer. The biggest question concerns the company’s leadership after the death of Steve Jobs. He worked hard to transform Apple into a world-changing company. Will the current leadership after Jobs be able to continue this legacy? With Apple’s growing product line extending from computers to smartphones to tablets, what will its newest product be, and will it have the same market repercussions as the company’s past products have? All of these questions will be answered in the coming years, but we can expect Apple to be a major force in the technological marketplace for some time.

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