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Class

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Recreating the Role of At-Home Electronics: Apple's Competitive Advantage

1. Following Steve Jobs' reintroduction to Apple in 1997, the company has developed a distinct name for itself in the personal computer, tablet, and cell phone market; a name that capitalizes on intuitive programming, sleek design, and optimized user experience. The main competitive advantage of Apple has been the focus on releasing products that were a part of a "cultural force." For this cultural force to be created, Apple had to focus on reinventing items that were already on the market, making them more stylish, more intuitive to use and still keeping them at low prices in order to be palatable to mass markets. From the early 90's onward, Apple has spent more money on research and development (9% of sales) than any of its competitors (Yoffie and Baldwin 1). The focus of Apple has been simplicity: namely a single-minded focus on developing a few items rather than focusing on a broad product line. One can see this strategy in action through Jobs' restriction of the product line from fifteen products to four, shortly after his regaining control of the company (Yoffie and Baldwin 2). Apple has been a trailblazer in the market with completely new products; such as the iPod with its connected iTunes, iTunes Music Store, the iPhone, and finally the iPad (Yoffie and Baldwin 7). In order to protect its assets, Jobs turned Apple into a fierce competitor. When the iPhone launched, Apple entered into exclusive deals with both AT&T and Sprint, both of which left Apple at a business advantage (Yoffie and Baldwin 9). Apple became known for questionable labor practices which kept down production

costs (Yoffie and Baldwin 10). The company had no end of lawsuits “on design and intellectual property.” (Yoffie and Baldwin 11).

2. The biggest drawback of the company originally, was that a lack of compatible software (Yoffie and Baldwin 2), forced some users to opt for Windows based laptops which boasted more accompanying features and additional programs. This challenge was evidenced by its large competitor in the early 1980s, the IBM PC. While Apple practiced horizontal and vertical integration, the IBM PC had an easy to clone, more “open” system running on “Microsoft’s DOS operating system and a microprocessor from Intel” (Yoffie and Baldwin 2). Because of its easily cloned nature, this model became the new standard for PCs, available widely on the consumer market. Apple’s attempts to combat its first major company through slashing costs and cloning their products had threatened to lead the company into bankruptcy in 1996. After Jobs regained power in 1997, his first move as CEO was to reduce their product line and focus on developing core products, such as Microsoft office. The year after Jobs’ return profits leaped from the cusp of bankruptcy to \$309 million in profit (Yoffie and Baldwin 3). A few years later, in 2006, the classic issue of Macintosh PCs being inaccessible to some due to lack of compatible software was fully resolved. Macs began running on Intel (Yoffie and Baldwin 7), which allowed Macs to natively run Microsoft Windows and Windows applications.

3. While the iPhone has made its place on the smartphone market following the release of the iPhone, managing to take “93% of the handset industry’s profits” in 2014 (Yoffie and Baldwin 9), its position in the market is not sustainable. In 2014, Android-based phones became the most popular phones on the market, dominating at an 81% market share compared to Apple’s 15%. Android-based phones are rapidly becoming more popular due to their low cost, larger variety, and a similar set of applications available on both (Yoffie and Baldwin 9). A new competitor,

Xiaomi, threatens to take hold of the smartphone market, boasting low cost devices with high end specifications. Starting in China in 2011, Xiaomi has since then gained 4.4% of the market. Though their tactic of keeping a relatively small product line with discounts on older models has made their sales skyrocket initially, there is now too much variability on the smartphone market for this model to be sustainable. If the sheer amount of options on the market is not enough to make one fear for the longevity of iPhone sales, there is the issue of recent legal disagreements. Particularly damaging is the several lawsuits filed in early 2015 from the Swedish company Ericsson, asking U.S. courts to block sales of iPhones and iPads due to failure to come to terms on a licensing agreement regarding patents on “technology for connecting to high-speed wireless communications networks” (Yoffie and Baldwin 12). If the Apple smartphones are to once again dominate the market they must set themselves apart from the competition whose low prices and large product line is superior.

4. Though Tim Cook’s approach has been met with immediate success with stock price nearly doubling and revenues up almost 70% (Yoffie and Baldwin 15), if this success is to be sustainable he will soon need to seek out other avenues for success that do not hinge on iPhone sales. While his recent releases such as Apple Watch and Apple Pay have been innovative, stylish, and well-orchestrated, both of them depend on a compatible iPhone. The strategy harkens back to the first release of the iPod, whose sales were greatly hindered until the iPod was released in a Windows compatible version to allow a larger market to access the products (Yoffie and Baldwin 7). The appeal of products with similar functionality at a much lower cost will eventually overtake iPhone in this competition. With so many other companies with major customer bases, such as Google and Samsung, lining up to release their own smartwatch connected with their specific phones, Apple Watch may very well become lost within the

plethora of options (Yoffie and Baldwin 14). In order to continue to be a frontrunner in the industry, Apple must focus its efforts on creating new markets for itself, rather than attempting to outmaneuver the competition in a preexisting market. In order to do this, Apple must do as it has always done, turn focus toward looking at preexisting products and finding a way to capitalize on their popular functions. By focusing on what Apple has historically already done well, the next step becomes finding a way to develop an entirely new product, such as the iPhone developed from the iPod. If Cook's efforts are to continue to be met with success he must focus on true development of innovative products rather than the production of add-ons.



Works Cited

Yoffie, David B., and Eric Baldwin. "Apple Inc. in 2015." Harvard Business School Case 715-456, May 2015. (Revised October 2015.) Accessed November 8, 2015.

