

COMPANY ANALYSIS: APPLE'S GLOBAL STRATEGIC PLAN

INTRODUCTION

Effective use of the HR, technology, advertising, production and design units is the key to business prosperity as it increases the chances of any company to withstand the unforgiving competition. With the existing companies constantly evolving their strategic management approaches and new entrants utilizing low price advantage, it is of material importance to create, develop, and sustain a comprehensive global strategy especially now that domestic markets are no longer adequate (Jung, 2014). Apple, Inc. is one of the companies that use a well-structured global strategic plan to overcome the adverse marketing conditions attributable to stiff competition.

Over the last 20 years, Apple has grown beyond expectations. Its total return on stock (ROS) cumulatively rose by an astonishing 331% in 2008-2013. In addition, Apple maintains the number one spot in the S&P 500 list with \$415,655.2 million market cap. This market cap is 2.975 of the index weight (Patterson et al., 2013). This successful growth can be attributed to three factors: (1) Apple's transformation of the technology sector, (2) Apple's capitalization of technological dependence and (3) Apple's apprehension of computer market through the improvement of pre-existing technology and creation of demand for new devices and services by utilizing seductive life-changing invention. Whilst celebrating a mouth-watering \$730 billion net worth and domestic market supremacy, its progression relies on the manufacturing of new and upped technology for growing and established markets (Patterson et al., 2013).

FIRM ANALYSIS

Background Study of Apple

Apple Inc. is an American global company that majors in designing, developing, and selling consumer electronics, computer software, and PCs. SIC and NAICS – organs responsible for classifying companies in the United States - categorize it as a *Radio and Television Communication Equipment Manufacturing and Wireless Communications Equipment Manufacturing* firm (Patterson et al., 2013).

The company was co-founded by Steve Jobs, Ronald Wayne and Steven Wozniak in April, 1 1976 as Apple Computer in Apple Campus, Cupertino, CA. While Wozniak took care of the engineering aspects, Jobs acted as the face of the company especially in matters to do with product and services marketing. In January 3, 1977, Apple was incorporated. As Apple was adding more products and services, it found it more in place to remove the word *Computer* in January 9, 2007, shortening its name to just Apple (“Apple Inc.: Group Written Case Synopsis”).

The company continued to grow drastically in the 2000s and as of September 2010, Apple had 2,800 temporary full time and 46,600 permanent full time employees. By then, its global sales exceeded \$65.23 billion. Jobs and Wozniak would go on to establish a unique and enviable reputation in the consumer electronics industry. In the light of these events, Apple acquired unimaginable number of loyal customers in the US. This is not a promotional remark, but it is ethical to appreciate the fact that Fortune Magazine reported that Apple was the most venerated firm in the US in 2008, and in the world in 2008, 2009, and 2010.

Products and Services of Apple

Products

As part of its diversity policy, Apple Inc. manufactures smart phones (iPhone), laptops (MacBook), music players (iPod), tablet (iPad), Apple TV (digital media player and a micro-console), OS X and iOS (Operating Systems), iWork (a version of MS Office), iLife (Apple Creativity Apps such as iMovie and iDVD, iWeb, iPhoto, and GarageBand) and watches (Apple Watch). The company also acquired Beats Electronics in 2014 that manufactures headsets, radios and home theatres. This is a “we-have-something-for-everyone- policy that helps the firm extract customers from each and every square inch of the American and global market.

Services

Apple Inc. offers services in its iTunes Store (music retail store), Apple Store (retails computers and consumer electronics), Apple Store Online, iBooks, iCloud (cloud computing and cloud storage service), iOS App Store (digital distribution system for mobile applications on iOS), and Apple Music (music streaming service) to millions of its consumers. All these services are created and maintained by Apple Inc.

Financial Condition

Apple, during its 39-year existence, has observed ups and downs in financial performance (“Apple Inc.: Group Written Case Synopsis”). However, the company’s financial curve started to go up after the introduction of the iPod, iPad and iPhone in 2007. It is a constituent of the NASDAQ-100 (traded under the sticker AAPL) and S&P 500.

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Stock Performance of Total & Trailing Returns (06/30/2010-06/30/2015)

| Stock Performance of Total Returns | | | | | | |
|------------------------------------|---------|---------|---------|---------|---------|---------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| AAPL | 53.07% | 25.56% | 32.71% | 7.64% | 40.03% | 14.53% |
| Consumer Electronics | 41.41 | 9.79% | 29.81% | 10.95% | 33.38% | 12.94% |
| S&P 500 TR USD | 15.06% | 2.11% | 16% | 32.39% | 13.69% | 1.23% |
| Plus/Minus Consumer Electronics | 11.66% | 15.77% | 2.9% | -3.31% | 6.64% | 1.59% |
| Plus/Minus S&P 500 TR USD | 38% | 23.45% | 16.71% | -24.75% | 26.34% | 13.3% |
| Dividend Yield | NILL | NILL | 1.00% | 2.10% | 1.67% | 1.54% |
| Market Cap \$ (000,000) | 297,089 | 377,547 | 499,696 | 500,741 | 643,120 | 715,600 |

Source: <http://www.financial.morningstar.com>

| Total Return % | | | | | | |
|---------------------------------|--------|--------|--------|--------|---------------------|---------|
| | YTD | 1-YEAR | 3-YEAR | 5-YEAR | 10-YEAR | 15-YEAR |
| AAPL | 13.96% | 30.30% | 14.77% | 28.44% | 35.36% | 27.29% |
| Consumer Electronics | 12.13% | 26.22% | 15.37% | 23.40% | 21.21% | 10.58% |
| S&P 500 TR USD | 2.14% | 6.775 | 18.31% | 15.95% | 7.61% | 4.37% |
| Plus/Minus Consumer Electronics | 1.55% | 4.08% | -0.60% | 5.03% | 14.15% [^] | 16.71% |
| Plus/Minus S&P 500 TR USD | 11.55% | 23.53% | -3.55% | 12.48% | 27.75% | 22.92% |

Source: <http://www.financial.morningstar.com>

Income Statement

| APPLE INCOME STATEMENT (\$000,000) | | | | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 9/29/2011 | 9/29/2012 | 9/29/2013 | 9/29/2014 |
| Total Revenues | \$108,249 | \$156,508 | \$170,910 | \$182,795 |
| Cost of Goods Sold | \$64,431 | \$87,846 | \$106,606 | \$112,258 |
| GROSS PROFIT | \$43,818 | \$68,662 | \$64,304 | \$70,537 |
| Total Selling General & Admin Expenses | \$7,599 | \$10,040 | \$10,830 | \$11,993 |
| R&D Expenses | \$2,429 | \$3,381 | \$4,475 | \$6,041 |
| Total Other Operating Expenses | \$10,028 | \$13,421 | \$15,305 | \$18,034 |
| Operating Income | \$33,790 | \$55,241 | \$48,999 | \$52,503 |
| Interest Expense | NILL | NILL | (\$136) | (\$384) |
| Interest & Investment Income | \$519 | \$1,088 | \$1,616 | \$1,795 |
| Net Interest Expense | \$519 | \$1,088 | \$1,480 | \$1,411 |
| Currency Exchange Gains(Loss) | NILL | (\$658) | (\$301) | (\$105) |
| Other Non-Operating Income Expenses | (\$104) | (\$92) | (\$23) | (\$121) |
| EBT, Excluding Unusual Items | \$34,205 | \$55,763 | \$50,155 | \$53,688 |
| Gain (Loss) On Sale Of Investments | NILL | NILL | NILL | (\$205) |
| EBT, Including Unusual Items | \$34,205 | \$55,763 | \$50,155 | \$53,483 |
| Income Tax Expense | \$8,283 | \$14,030 | \$13,118 | \$13,973 |
| Earnings From Continuing Operations | \$25,922 | \$41,733 | \$37,037 | \$39,510 |
| Net Income | \$25,922 | \$41,733 | \$37,037 | \$39,510 |
| Net Income To Common Including Extra | \$25,922 | \$41,733 | \$37,037 | \$39,510 |
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Source: <http://www.bloomberg.com>

Financial Analysis of Apple

Apple has seen great performance prospects improving every year. The Company has been capable of increasing revenues from \$170.9 billion to \$182.8 billion. Furthermore, it has reduced the percentage of sales devoted to cost of goods sold from 62.38% to 61.41%. This factor helped Apple realize a bottom line growth from \$37.0 billion to \$39.5 billion. Currently, the company has a net worth of \$730 billion because of the hard work and effective strategies put in place.

Management Philosophy of Apple

The Company has been managed by different CEOs that each has their own management style, but the company values remain the same (Johnson et al., 2012). Steve Jobs used a rather arrogant approach in managing his employees in the sense that anyone who seemed not smart was not listened to. Steve Jobs realized that the project of developing iPod, iPad and iPhone had a limited time frame considering that the man's health was deteriorating – nearing death - by the day and that Apple made a promise of surging a revolution in the market by producing these unique devices. After Jobs' death, Apple is being run by a different CEO, but the management philosophy is still unchanged (Johnson et al., 2012).

The following are the things that define Apple's management culture.

- ✓ Manufacturing and assembly of device components are outsourced to China to reduce the cost of labor
- ✓ The company is majorly focused on quality products
- ✓ The 24/7 working policy is in place
- ✓ Discrimination of any sort is condemned and cannot go unpunished
- ✓ The company recruits the most competent professionals
- ✓ Innovation is the anthem at Apple. The CEO encourages innovation and provides all necessary incentives to ensure the staff uses their strengths to get the best out of themselves (Johnson et al., 2012).

Present and Past Global Position

Present: Presently, Apple is the biggest designer, developer, and seller of consumer electronics, computer software. The company's revenues have been increasing yearly and Apple

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stamped its authority as the dominant party due to its innovativeness and product and services diversity. Samsung Electronics causes major market upsets, but Apple looks okay.

Past: Things had not been always colorful for Apple, however. From the early 1980s to late 1990s, Apple experienced what was known as a competition defeat to Bill Gates' Microsoft. Bill Gates offered free MS DOS and other computer related software free of charge to companies like IBM and unfortunately, the Apple Computer was incompatible with Microsoft applications. As a result, people chose not to buy Macintosh PCs. Competitors outsold Macintosh PCs, subjecting the Apple to devastating financial status. In other words, the company started realizing tangible revenues after the launch of the iPod, iPad, and the iPhone and the various acquisitions that followed in the late 2000s ("Apple Inc.: Group Written Case Synopsis").

INDUSTRY ANALYSIS

Domestic and International

The domestic and global competitors of Apple are categorized as follows.

Smartphones: Nokia/Microsoft – Microsoft has acquired Nokia, Blackberry, and Samsung. Nokia had a problem with its smartphone ambitions, but the firm got back to its feet when Microsoft Corporation bought the Finnish mobile giant. Samsung tablets and smartphones cause Apple a lot of trouble both in the US and international markets.

Laptops: Sony, Acer, Dell, HP, Asus, Lenovo, Toshiba. Acer and Asus are Taiwanese companies that produce reliable but affordable laptops. Dell and HP are American brands that sell their laptops expensively due to the excess tax obligations to the US government. Sony (Japanese) and Toshiba (Chinese) also produce quality products.

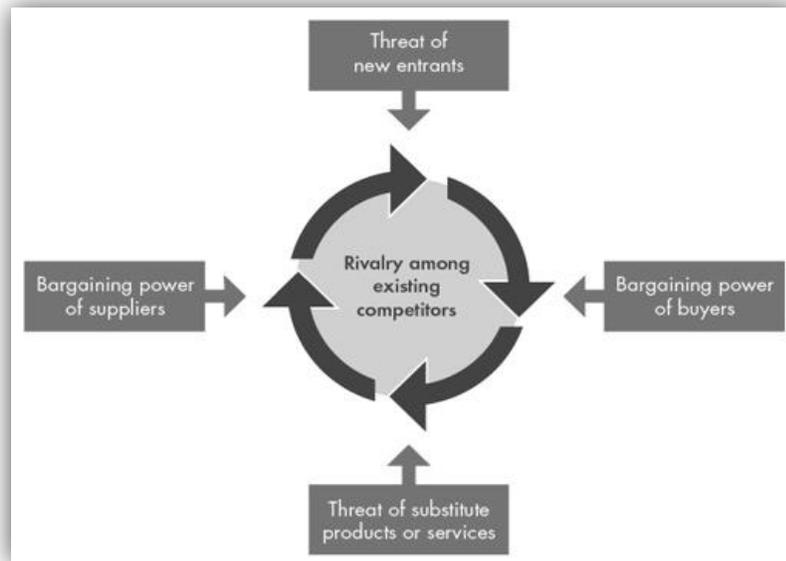
Software: Windows, Blackberry, Android. Android and Windows are preferred by many consumers due to their simplicity and upgradability.

COMPETITIVE ANALYSIS

5 Forces of Competitiveness

Porter's 5 Forces of Competition Position Model can be used to carry out a more thorough

industry definition and analysis. As shown in the diagram, the 5 forces of competition are:



1. Bargaining Power of Suppliers

✓ Switching costs from suppliers are exorbitant.

✓

✓ There are few chip designers, but only Intel plays as a dominant company.

2. Bargaining Power of Buyers

- ✓ Customers have different needs, thus, diversity is of importance
- ✓ Customers incur reasonable switching costs. A customer can abandon iOS for Windows without incurring high “OS portability costs”.
- ✓ Customers rely up on technology, so they will continue to buy Apple products and services.

3. Threat of Substitute Products or Services

- ✓ Tablets are highly portable so their use by consumers is going up beyond proportion.
- ✓ There are substitute forms of entertainment such as TV and movies.

- ✓ Smartphones that do the same function such as word processing are threats. There are tens of companies that manufacture smartphones, most of whom produce cheap devices.

4. Threat of New Entrants

- ✓ In response to the iPad, mobile phone manufacturers; Blackberry, Windows, and Samsung have joined the tablet market making thing uncomfortable to Apple. Statistically, Samsung tablets and smartphones outsold Apple's even in the American market. This prompted Apple to look for counter-measures including law suits against Samsung for what Apple decried to be patent theft.
- ✓ Mega chief players and consumers remain loyal to the Apple brand. This neutralizes the effect of new entrants.

5. Rivalry among Existing Competitors

- ✓ Price Competition: Samsung Galaxy S5 smartphones have features of equal superiority to iPhone 5, but the latter is being sold at about \$300 more. This made many people in the US to abandon iPhone 5 for S6.
- ✓ All computers and other electronic equipment have almost similar geometry, shape, color, and the material of the exterior. This makes it impossible for undecided customers to tell the difference as most do not care about a specific brand.
- ✓ Apple asserts that its products are of high quality while they do not last longer than its competitors' products. The life span of a computer, smartphone, or tablet is determined by the quality of the motherboard. Motherboards of Apple, HP, DELL, Samsung, Sony, Lenovo, Acer, ASUS etc. are produced in Taiwan (by Acer and ASUS) and other Asian countries. In fact, almost all leading companies contract Acer and ASUS to manufacture motherboards, an indication that all devices have the same life span.

Effects of Political, Economic & Cultural Systems

Apple's over-reliance on Chinese manufacturing is worrying especially in the light of environmental problems in China. The government of China is planning to incentivize local governments in accordance with environmental factors. This might result in productivity restraint and serious supervision. The Chinese government is also arranging to raise – by 2020 - the percentage of profits that state-owned firms must give to the treasury from 5%-15% to 30%. This would increase Apple's cost of outsourcing to China; hence, lower profits. Moreover, China is under constant local and international criticism over matters of human rights and labor conditions; therefore, any adjustment made to fix the problem will increase labor cost, which will be shouldered by Apple alone. Outsourcing expenses are likely to go up with time, meaning Apple will see small profits.

The NSA spying allegations have soured relationship between the United States, Germany and China. It would be very unfortunate for Apple if its products were banned from being exported to China and Germany because of a poor political situation in the US. Apple reaped revenues from operations in China in 2013 that amounted to \$25,636.5 billion, so if there is a huge political problem between the US and China and that the Asian giant prohibits China Mobile from manufacturing components for Apple, then growth in the international and domestic markets will not be realized (Patterson et al., 2013).

SWOT ANALYSIS

Strengths

- ✓ Apple enjoys customer loyalty.
- ✓ Has a strong brand reputation.

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- ✓ Introduces new products recurrently.
- ✓ Its financial performance is through the roof.
- ✓ Customer switching costs are not low.
- ✓ Invests a lot in research and development making it a model of consistence.

Weaknesses

- ✓ Quality inconsistency of its products and services. Its products and services are continuously experiencing quality issues.
- ✓ Apple depends heavily on third party software development agencies.

Opportunities

- ✓ Apple is expanding its retail store.
- ✓ There is increasing demand in growing international markets like India and China.
- ✓ The brand image has become a lifestyle for millions of people around the world. Every classy man and woman wants to land their hands on Apple products and services making it the most admired brand.

Threats

- ✓ Terrorism and undesirable political events such as war or bad foreign policy might hinder the growth of Apple.
- ✓ Competing companies do not want to invest in research and development and instead decide to infringe Apple's intellectual rights. Apple sued Samsung for copying its patent design. Every company is now imitating Apple and this is a great danger.
- ✓ There is tense competition in the industry.

Recommendations

Apple is a reputable company and with the implementation of the following measures, the company will have nothing to worry about competition. In addition to the global strategy, some strategies, which also play part in the global strategy, have been enumerated:

Apple's Corporate Strategy

- ✓ The company should aim to become dominant in software and chips businesses, PC business, and supporting business. They must continue with their stringent recruiting system to fetch the best talents to further improve existing and invent new products.
- ✓ Diversity should be the order of the day. The company should ensure that they have something for everyone to maximize their market share both in the US and abroad.

Apple's Business Level Strategy

- ✓ Should produce unique products.
- ✓ Concentrate on fly quality and inventiveness.
- ✓ Create and maintain brand loyalty.
- ✓ Must try to lower the price of its commodities to come close to Samsung. This will boost sales.

Apple's Global Strategy

- ✓ Partner with foreign organizations to promote its products and services globally and also set standards.

- ✓ Should continue to control the price of its products and services by using a centralized supervision tool.
- ✓ Must improve its product durability to convince customers to buy their expensive products and services.

Apple's Corporate Social Responsibility

Apple must give back to the society. Sponsoring health and fitness programs, education for the needy and environmental conservation initiatives is the best way to connect to the customers at grass root level.

Conclusion

Effective use of the HR, technology, advertising, production and design units is the key to business prosperity as it increases the chances of any company to withstand the unforgiving competition. Apple, Inc. is a model company in the computer, consumer electronics, and software, design, manufacture and distribution.

It has faced competition from Samsung Electronics, Dell, HP, Blackberry, Sony, Toshiba, Acer, Asus, and Lenovo. To ensure that it retains and increases its market share in the industry, Apple must follow the recommendations put across and ensures product longevity and performance is improved. The prices of Apple products and services can also be relatively lowered to attract price-phobic customers.

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