

# Apple Inc. Industry Analysis Business Policy and Strategy

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**Executive Summary:** Apple Inc. is an information technology company with a wide range of products which include cellphones, computers, tablets, television products and wearable devices. Apple's customers seek performance products that are aesthetically pleasing and provide assurance that the product will be of quality. Apple Inc. was established in 1976 as a computer software and hardware company. Since then Apple has transitioned into the creation of other technological devices and has established a chain of retail stores in order to provide their customers with a better buying experience.

Apple competes in a highly competitive industry that has high buying bargaining power. Apple keeps these facts in mind when designing new products and when deciding on pricing. They must always stay ahead of their competitors in innovation as well as keep up with them in regards to pricing. Apple differentiates itself by providing both the hardware and software in all of their devices. They also try to keep their designs simple, easy to use, interconnected and aesthetically pleasing.

In the following analysis we will be discussing Apple Inc.'s performance relative to their industry. Using information gathered on their top competitors, Samsung, Google and Microsoft, we will be revealing how well Apple is performing comparatively. We will be providing recommendations on how Apple can be more successful. We will be looking into some of the ethical conundrums that Apple has encountered. We will also analyze Apple's financials to determine if they are on a successful, sustainable path. We will be analyzing Apple's strengths, weaknesses, opportunities and threats compared to their industry competitors.

## Introduction – Apple Inc.

### Background

The world economy has evolved through centuries driven by several events and factors that have shaped the world business field into what it is today. In the modern era, the most significant economical revolutions were the agriculture revolution, which occurred in the 17<sup>th</sup> century, the industrial revolution, in the 18<sup>th</sup> century, the technical revolution, in the 19<sup>th</sup> century, which shortly developed to what is known as the scientific-technical revolution. Nowadays, we are living the revolution of information and telecommunication, which is also known as the digital revolution, which started around the 1980's. This current revolution is hugely driven by the technological advancements within the Information Technology field. IT companies that were well established at the beginning of the digital revolution, and the new startups that have had the advantageous business mentality, financial resources, and flexibility to adopt the new fast

pace advancements that were taking place within the electronics field, grew up massively within a few decades and became major players nowadays, not in their field alone, but overall in the world economy.

In this case study, the focus will be on Apple, the world largest publicly traded company by market capitalization with current estimated value of US\$530 billion and the second largest mobile phone manufacturer in the world (Booton, 2016). Apple is an American company based in Cupertino, CA, that is solely focused on manufacturing and selling consumer electronics, software programs and online services (Apple Reports, 2005). Its products include, but are not limited to, cell phones, media players, tablets, computers, computer applications and operating systems.

The company was established by Steve Jobs, Steve Wozniak and Ronald Wayne as a small personal computer manufacturer and its first product was hand made by Wozniak himself and was called Apple I (Apple History, 2015). Wayne sold his share a year after for US\$800 at the same time an investor named Mike Markkula became part of the company and helped Apple with the business expenses needed to expand and invested US\$250,000 in Apple (Apple History, 2015). The company's revenues were growing at an exponential rate and doubling every four months for the first five years (Apple History, 2015). Apple kept growing and introduced new versions of its computer in 1977 and 1980 hoping to compete in the corporate computers field. By the end of 1980, Apple went public and its shares were offered in the stock market for US\$22 a share (Apple History, 2015).

Apple launched the Macintosh in 1984, which sold well at the beginning, but failed to grow or even maintain the sales numbers few months after (Apple History, 2015). Its high retail price and limited use due to lack of software options were the reason behind this failure (Apple History, 2015). This all changed with the introduction of LaserWriter and PageMaker, an affordable printer and publishing software that, when combined with Macintosh capabilities, becomes highly appealing for businesses, writers and publishers (Apple History, 2015).

A year after, Jobs got into a power related conflict with the CEO at that time, John Sculley (Apple History, 2015). This led to Jobs leaving the company and selling all of his shares in Apple, except one, for US\$70 million. Jobs established his own company called NeXT which had a focus of software programming (Apple History, 2015). At that same time, Sculley had a strategy of implementing a 55% profit margin on Apple products (Apple History, 2015). This strategy failed as soon as PC's came out having similar capabilities as the Macintosh and sold for a fraction of Macintosh's retail price (Apple History, 2015). Apple faced a huge losses at that time and went back into the shadow (Apple History, 2015). To get over this loss, Apple decided to get back the share it lost to Microsoft and the PC market by working together with IBM and Motorola to bring a new platform to the market (Apple History, 2015). It also launched an email platform called eWorld, which was part of its business diversifying strategy (Apple History, 2015).

In 1996, NeXT won a bid to provide an operating system firmware to Apple (Apple History, 2015). NeXT was acquired shortly thereafter that and Steve Jobs was able to make his way back into Apple (Apple History, 2015). A year after his return, he was appointed interim CEO and became permanent four years after. Jobs' return was a company changing moment for Apple due to the new philosophy that he implemented, which consists of simple design and unique products (Apple History, 2015).

In 1997, Bill Gates, Microsoft CEO, and Steve Jobs decided to settle a long-term legal battle regarding patent infringement by bringing the office suite to Apple computers, making internet explorer the default browser on all Apple computers and having Microsoft invest \$150 million in the Apple (Arthur, 2011). Apple used this investment to bringing more creative contents to its products and investing in the education market (Apple History, 2015). This eventually led to the introduction of the iMac, an all-new computer with an attractive design of a multicolor see-through plastic shell (Apple History, 2015). Apple sales of the iMac averaged to

about 1 million units a year and it announced a strong return to the computers market (Apple History, 2015).

The year 2001 was full of major events for Apple. It started with introducing the Mac OS X, an all-new user-friendly computer firmware that was a revolution at its time due to its stability, quality of graphics used in the interface, and it brought the well-known high security level of Unix operating systems to Apple computers (Apple History, 2015). Later in May of that year, Apple announced opening a chain of retail stores to assist in establishing a direct connection with its customers, and better marketing for its products due to the dissatisfaction of how third-party retailers presented Apple products (Apple History, 2015). The major event in that year was announced in October and it was the introduction of the iPod, a digital music player (Apple History, 2015). The iPod had smashing sales and took Apple's total revenue from \$1.9 billion dollars in the first quarter of 2000 to \$3.2 billion dollars in the same quarter of 2001 (Apple History, 2015). Three years after, Apple announced that it had 76% of the music player market. In order to supply the demand for digital music tracks, Apple introduced the iTunes store, a digital media library focused on music (Apple History, 2015). Apple was able to sell a total of 1 billion songs on iTunes in just three years after its launch, and a grand total of 10 billion songs by early 2010 (Apple History, 2015).

In 2007 Apple entered the cellphone market by introducing the iPhone, which was highly admired due to its unique style, touch screen capability and lack of physical keyboard (Apple History, 2015). The iPhone was followed by the iPad in 2010, which was simply a bigger iPhone without the calling capabilities, targeting people who are looking for lightweight devices with big screens that can do most of the tasks they can do on their computers (Apple History, 2015). Later on 2010, a significant historical moment occurred (Apple History, 2015). Apple's most important rival and the longtime dominant of the computers market, Microsoft, lost its position in regards to stock value and revenue when Apple stock market value and total revenue surpassed Microsoft for the first time ever (Apple History, 2015). This was far from expectations

back in the 80's and 90's, but due to Apple continued success in several markets especially the cellphone market while Microsoft was failing in several business fields especially in its online search engine business, it became possible (Apple History, 2015). Apple's success continued, even after its success maker Steve Jobs' departure in 2011 and Tim Cook taking his place, by continuing to develop its current products and introducing new products like the most recent Apple Watch (Apple History, 2015).

### **Vision**

Apple, Inc.'s vision, as found on their website, is "Apple is committed to bringing the best personal computing experience to students, educators, creative professionals and consumers around the world through its innovative hardware, software, and Internet offerings"

### **Mission**

Apple, Inc.'s mission is stated on their company website and is the following: Apple designs Macs, the best personal computers in the world, along with OS X, iLife, iWork and professional software. Apple leads the digital music revolution with its iPods and iTunes online store. Apple has reinvented the mobile phone with its revolutionary iPhone and App Store, and is defining the future of mobile media and computing devices with iPad

### **Values**

Apple, Inc.'s values can also be obtained from their company website and include the following factors: We believe that we're on the face of the Earth to make great products. We believe in the simple, not the complex. We believe that we need to own and control the primary technologies behind the products we make. We participate only in markets where we can make a significant contribution. We believe in saying no to thousands of projects so that we can really focus on the few that are truly important and meaningful to us. We believe in deep collaboration and cross-pollination of our groups, which allow us to innovate in a way that others cannot. We don't settle for anything less than excellence in every group in the company, and we have the self-honesty to admit when we're wrong and courage to change.

## **Business Strategy**

Apple Inc. has a clearly stated business strategy that can be found in their annual 10-K reports. Their business strategy is as follows: The Company is committed to bringing the best user experience to its customers through its innovative hardware, software, peripherals, and services. The Company's business strategy leverages its unique ability to design and develop its own operating systems, hardware, application software, and services to provide its customers new products and solutions with superior ease-of-use, seamless integration, and innovative design. The company believes continual investment in research and development and marketing and advertising is critical to the development and sale of innovative products and technologies. As part of its strategy, the Company continues to expand its platform for the discovery and delivery of third-party digital content and applications through the iTunes Store. As part of the iTunes Store, the company's App Store and iBook store allow customers to discover and download applications and books through either a Mac or Windows-based computer or through "iOS devices," namely iPhone, iPad and iPod touch. In January 2011, the Company opened the Mac App Store to allow customers to easily discover, download and install applications for their Macs. The company also supports a The Innovative Success that is Apple, Inc. 4 community for the development of third-party software and hardware products and digital content that complement the Company's offerings. The Company's strategy also includes expanding its distribution network to effectively reach more customers and provide them with a high-quality sales and post-sales support experience." (Apple Inc., 2015). The mission, vision, strategy and goals define decision making at the company and provide a framework for day to day business flow.

## **Target Market**

Apple's target market focuses on marketing to people with a few different characteristics. Apple's main target market is middle to upper class people because usually this demographic has the means necessary to pay the higher premium price for Apple products (Gaille, 2015).

These people are willing to pay a little extra for quality and have the income to do so. 94% of Apple users are more affluent than those who purchase other brands of mobile devices (Gaille, 2015). Millennials are also a huge target market for Apple as Millennials are typically hooked on technology more than other generations and are seeing an influx of money. The average age of an Apple customer is 35 – 44 and 1 in 4 people in the 18 – 34 age demographic say they plan to purchase an Apple product within the next six months (Gaille, 2015). Apple also targets those who enjoy music. Apple's products are all focused on the iTunes store and the ease of music downloads. People who enjoy music and want an easy way to store, share and purchase music are drawn to Apple products (Gaille, 2015). Also professionals in the media and design fields also find Apple products to be preferable because Apple products pride themselves on making creative functionality a key factor in all of their devices (Gaille, 2015).

### **Markets and Distribution**

Apple has many retail and online stores where they sell their products, and third-party products, directly to the customers (Apple Inc., 2015). They also employ third party, indirect, distribution channels to sell their products such as cellular network carriers, wholesalers and retailers (Apple Inc., 2015). In 2014 Apple Inc.'s net sales through its direct sales channels accounted for 28% of their total net assets and 72% was accounted for through their indirect distribution channels (Apple Inc., 2015). Apple Inc. believes that by employing knowledgeable salespersons they can enhance the sale of their products (Apple Inc., 2015). They believe these salespeople can convey to the buyer the importance of the hardware and software integration and demonstrate the vast capabilities of Apple products better to the consumer (Apple Inc., 2015). Apple's vast retail store locations are typically located in high-traffic locations in quality locations in order to better attract their desired customers (Apple Inc., 2015). The stores are all designed to simplify and enhance the products in order to ensure a high quality customer buying experience and to attract new customers (Apple Inc., 2015). Apple Inc. has also invested in programs with third party sellers to enhance the display of Apple products

at their stores (Apple Inc., 2015). This program is called the Apple Premium Reseller Program (Apple Inc., 2015).

Apple has also committed itself to helping the education system by delivering solutions to help educators teach and students learn (Apple Inc., 2015). Apple believes that by effectively integrating technology into the class room students can have a higher level of learning and achieve a higher level of education (Apple Inc., 2015). Apple has designed a range of products, services and programs to address the needs of education. Apple also has a mobile learning platform that allows access to education related materials through the iTunes U store (Apple Inc., 2015). The iTunes U store allows students and teachers to share and distribute educational material online (Apple Inc., 2015). Apple sells these products to educators through its direct sales force, third-party resellers and its online and retail stores (Apple Inc., 2015).

Apple also sells its hardware and software products to enterprise and government customers (Apple Inc., 2015). Their products are favorable in these markets because of their performance capabilities, productivity, ease of use and seamless integration into information technology environments (Apple Inc., 2015). Apple's products are compatible with most third-party applications and services and the products tools enable the development and secure delivery of custom applications (Apple Inc., 2015). In July 2014 Apple announced a partnership with IBM to offer an application called MobileFirst for iOS providing a new class of industry-specific mobile solutions (Apple Inc., 2015). Apple also implemented AppleCare for Enterprise, which is a new service and support product tailored to the needs of enterprise customers (Apple Inc., 2015).

## **Industry Analysis**

### **Competitive Rivalry**

Apple faces a strong competitive rivalry force or strong competition. This means that Apple's competitors have a huge influence on each other. Apple is in direct competition with other hardware and software suppliers such as Google, Microsoft and Samsung (Mavrick,



2015). All of these companies, Apple included, spend significant capital on Research and Development as well as Marketing in order to keep up with and potentially out due each other. One major factor that keeps the industry highly competitive is the low cost of switching companies (Mavrick, 2015). It does not require substantial capital for a customer to move from Apple's iPad to a Google Chromebook or any other tablet computer, for example. The industry competitiveness is a key consideration for Apple, and one it has dealt with through continually developing new and unique products in order to strengthen its market share (Mavrick, 2015). Apple also combats price-based competition by staying away from low end markets and ensuring high end products (Sophlee, 2015). Since Apple products never go on sale they have been able to position themselves in consumers' minds as high end products with great quality, great customer service and unique products (Sophlee, 2015).

### **Buyer Bargaining Power**

As mentioned above, there is a low switching cost for consumers in this industry. This aspect strengthens the buyers bargaining power and is a key force that Apple should consider when making decisions. There are, however, two different types of buyer bargaining power that we must consider; individual buyer bargaining power and the collective buyer bargaining power (Mavrick, 2015). As an individual buyer your bargaining power is low because the loss of any one customer to a company is negligible when it comes to the amount of revenue lost (Mavrick, 2015). However, the bargaining power of the collective buyer is very high and the loss of numerous buyers to competitors could be potentially detrimental to the company and will significantly affect revenues (Mavrick, 2015). Apple has combated this force by continually investing in research and development to continuously develop new products such as the Apple Watch and Apple Pay (Sophlee, 2015). Apple also tries to increase the switching cost for their products by keeping critical product features the same and easily transferable across Apple products only; such as contacts, calendar, Pages, Numbers, iCloud, iPhoto, iMovie and etc (Sophlee, 2015).

## **Supplier Bargaining Power**

The bargaining power of suppliers is very low in this industry. The bargaining position of suppliers is weak due to the large number of potential suppliers Apple has to choose from (Mavrick, 2015). Apple is free to choose from a vast array of potential suppliers for its component parts for all of its products (Mavrick, 2015). The switching cost for Apple to move between suppliers is relatively low and not a significant obstacle, giving Apple more leverage over suppliers (Mavrick, 2015). Apple also requires a large volume of product which gives them more power over the suppliers. Since Apple requires a large volume of products, Apple is a major customer for any supplier; therefore, suppliers will fight to keep Apple as a customer in hopes to not lose their business and money (Mavrick, 2015). Apple has taken their power to another level by designing their own chips (Sophlee, 2015). By designing their own chips Apple has greatly reduced the supplier power of chip suppliers (Sophlee, 2015). Apple has also bought the manufacturing equipment necessary for producing their part components and only allows the equipment to be used for the manufacturing of Apple components (Sophlee, 2015). Apple keeps increasing their power over suppliers and driving down their costs while forcing their competitors to find different manufacturers and suppliers (Sophlee, 2015).

## **Threat of Substitutes**

The threat of substitutes in the industry is moderate. Substitutes would not include the same products but like products that might satisfy the same need for the product. Apple stays ahead of the game in this aspect by creating products that replace their own products before someone else can do it (Mavrick, 2015). Apple has created a cheaper version of the MacBook in order to mitigate the threat of another companies substitute (Sophlee, 2015). Apple created a substitute for their own product so they would continue to profit off of the substitute instead of losing that business to a competitor. Apple has also created the Apple Watch to replace the need for an iPhone (Sophlee, 2015). The Apple Watch can perform the same functions as the iPhone but is more compact and easier to transport everywhere (Sophlee, 2015). Another

substitute for a iPhone would be a land line telephone but the threat of a land line is very minimal as an iPhone can perform many more functions that a land line (Sophlee, 2015). Also a desk top would be a substitute for a MacBook, however, a MacBook can perform all the functions of a desk top at the same speeds and in some cases even faster minimizing the threat of this substitute (Sophlee, 2015). Apple tries to stay ahead of their competitors in all factors even if it means potentially retiring their own products with their new products.

### **Threat of New Entrants**

The threat of new entrants in this industry, that could actually affect market share, is relatively low. This is due to the extremely high cost of establishing a reputable company within the industry that already has established well respected and trusted companies (Mavrick, 2015). There is also a high cost associated with establishing a brand reputation that would exceed existing brands (Mavrick, 2015). Any new entrant into the market for personal computers or smartphone would need to have extensive capital to spend on research and development and manufacturing to develop and produce products prior to even entering the market (Mavrick, 2015). Customers are already loyal to existing companies that have been around since the beginning and breaking this loyalty would cost a massive amount of money in marketing as well (Mavrick, 2015). Though it is possible for a new company to enter the market and be successful, at this time it is very unlikely (Sophlee, 2015). Apple has also created a supply chain that exists in their favor and has a great defense against low end disruption from new entrants (Sophlee, 2015). New entrants would find it very difficult to compete with Apples supply chain cost structure (Sophlee, 2015).

## **Ethical Issues**

### **Industry wide Ethical Issues**

The consumer electronic industry has changed the way individuals live their lives. For many reasons we have incorporated these devices into our daily activities. This particular industry is one of the most lucrative around the globe. Although it is recognized as one of the

most lucrative industries, it is definitely not recognized as being the most ethical industry (Mawson et al., 2016). The high-tech products, that are widely used, are manufactured in factories with harsh working conditions (Mawson et al., 2016). This is a recognized issue in this industry and many cases and issues have developed for these major corporations that participate in the electronics industry (Mawson et al., 2016). Companies such as Apple, Microsoft, Google, and Samsung are competing to create the latest and greatest in consumer electronics (Mawson et al., 2016). Manufacturers in this industry are facing heavy amounts of pressure to produce and meet requirements. Products are taking precedence and being moved through the supply chain much faster, all while the health and safety of the factory workers is being dismissed (Mawson et al., 2016).

Majority of electronic companies are outsourcing manufacturing and value chain activities, it is known that these resources are much cheaper abroad (Jefferies, 2014). Benefits are created for an organization when involving outsourcing; many of these corporations are also using the benefits of outsourcing as a way of getting around fair labor practices, even dismissing their own standards regarding company codes of conduct (Jefferies, 2014). Awareness has risen regarding these issues that have not yet truly been addressed. Journalist and activists have been documenting and reporting on all conditions involving these manufacturing facilities, bringing light to these issues and wanting solutions put in action (Jefferies, 2014). For many years now negative reports in newspapers and magazines have damaged the reputations of companies such as Apple, Dell, IBM, Lenovo, Motorola, Nokia, Sony, Toshiba, and many others (Jefferies, 2014).

From an ethical standpoint, the biggest flaw in this industry is in the outsourcing of the manufactured goods. This industry wide flaw makes it near impossible to find an electronic product that is produced ethically (Jefferies, 2014). These corporations must remember and keep in mind that, regardless how large the corporation is, they still have a social responsibility to the public (Jefferies, 2014). Not only are they in the business of developing and producing the

latest and greatest in electronics but they also must maintain a responsible presence with the public (Jefferies, 2014).

There are some corporations in the industry that have made initiatives for “greener” products. Meaning that attention is placed on the materials that are being used in manufacturing and the value chain is monitored and reported (Hawthorne, 2012). Initiatives and policies have been put in place servicing all fronts of company operation in order to be effective and maintain good face in the public eye (Hawthorne, 2012). Several companies have become “greener” and environmentally friendly; most have partnered and participated in recycling electronics and energy efficiency in the delivered products (Hawthorne, 2012). In doing so, these corporations are painting an image aimed towards openness and transparency for their end user and the public (Hawthorne, 2012).

These major corporations are in business for the long haul, they are here to deliver and change consumer electronics entirely for many years to come. They should to be aware of all facets in their business; everything should be created and produced whole heartedly with the right intentions and no one should be taken advantage of.

### **Apple Inc.'s Ethical Issues**

Apple has encountered many different ethical issues as an organization during their tenure. The issues have ranged from things such as child labor law violations, workers natural rights being violated, workers low wage cases, to unethical methods of hiring. These are some ethical issues that have come to light; however, it would not be a surprise if there were more violations that are still unknown.

Apple was mentioned in a 2016 report, published by Amnesty international, detailing how human rights were being abused in the mines of the Democratic Republic of Congo (Ethical, 2016). These mines supply cobalt, a key component in the lithium-ion-batteries that are used in all of Apples electronic devices. More than 20% of cobalt is currently exported from the DRC (Ethical, 2016). The work conditions in these mines are brutal for those that are heavily

involved and working and have men, women, and children working night and day (Ethical, 2016). The supply chain is what links this activity to Apple and the final products that are distributed to its consumers. The cobalt is collected from the mines and sold to manufacturers, distributors and suppliers (Ethical, 2016). These manufactures, distributors and suppliers then sell the cobalt to different companies including Apple (Ethical, 2016). Amnesty international contacted Apple regarding its findings of the working conditions in the mines and Apple stated that they were currently evaluating whether or not the cobalt in its products originated from the DRC (Ethical, 2016).

With regard to child labor, Apple stated “Underage labor is never tolerated in our supply chain and we are proud to have led the industry in pioneering new safeguards. We not only have strict standards, rigorous audits and industry-leading preventative measures, but we also actively look for any violations. Any supplier found hiring underage workers must 1) fund the worker’s safe return home, 2) fully finance the worker’s education at a school chosen by the worker and his or her family, 3) continue to pay the worker’s wages and 4) offer the worker a job when he or she reaches the legal age (Amnesty International, 2016).” Apple also stated, “We have been reporting on our supply chain for 10 years because we believe in transparency and the feedback that comes with it makes us better. Of more than 1.6 million workers covered in 633 audits in 2014, our auditor’s uncovered 16 cases of underage labor and all were successfully addressed. We take any concerns seriously and investigate every allegation (Amnesty International, 2016).” It is a positive factor that Apple has a policy in place regarding findings of child labor but only 16 cases have been documented. What if there were more that we are not of aware of and might have not been addressed? There have been allegations made for several years now that child labor is an issue with organizations like Apple.

There have been lawsuits filed against four major tech firms, including Apple, that involve salary and job mobility (Prasad, 2013). These cases arose through the finding of emails that were exchanged between Steve Jobs, Eric Schmidt and other industry competitors

discussing how they would not poach each other's valued engineers (Prasad, 2013). Due to this deal workers were unable to find another job at a different firm (Prasad, 2013). This allowed salaries to be determined and capped by employers; if employees are unable to move around and seek higher paying jobs then the company can fully control salaries (Prasad, 2013). The case received considerable attention and involved high dollar amounts as well as specific demands from both workers and employers (Prasad, 2013).

Another issue Apple has faced is accusations of unethical hiring practices in its supply chain. When this issue came to the attention of Apple, they quickly resolved it. Apple reported that its supplier was using recruiters who were charging potential employees a fee and Apple insisted that the recruiters repaid all employees who were charged the fee. Workers who were charged this fee typically raised the cash by taking a loan from the company that tied them to employers—a modern-day version of the ancient practice of bonded labor. Apple made its suppliers return \$4 million dollars to its 4,500 workers. Individual's rights shall not be violated and no terms should be set with employees that violate their rights. Apple must continue to evaluate and report on possible cases such as these.

An undercover investigation was conducted into factories in China where Apple products are assembled. The investigation filming of Apples production line showed works falling asleep at their positions due to working 16 hour shifts for 18 consecutive days (Wopschall, 2011). The undercover reporters found that standards were being breached on the factory work floor (Wopschall, 2011). Apple had often claimed to protect its Chinese workers from the violation of their rights but this documentary proves that they have failed to do so (Wopschall, 2011). The factory workers were still facing the harsh conditions of twelve individuals to a room, twelve to sixteen hour work days, over fourteen consecutive days working and denied requested time off (Wopschall, 2011). Apple denied these allegations and has stated that they will be further investigated (Wopschall, 2011).

Overall, unethical practices are becoming a continuous trend across all industries. A nature that is unlikely to stop due to the money that is saved from these unethical practices. The companies will continue to claim they are investigating and looking into the claims but in actuality they will not be completely addressing the problems. Could this be the cost of doing business on such a global scale? Firms, like Apple will continue to pay the fines, take the bad publicity, and address some problems because in the end the fines and bad press are cheaper than practicing ethical behavior in their factories around the globe.

### **Industry Financial Analysis**

Apple announced the biggest profit in history with net income of \$53.4 Billion. As shown in Apple's 10-K financial reports for fiscal year 2015, the latest set of annual reports available, Apple's full year total revenue totaled \$233.7 Billion and net income almost reached \$53.4 billion, which is an increase of 26% from the previous year where revenues totaled \$39.5 billion. This has been driven by their expansion into the international market using different products and services. The increase in revenue has been promoted by the massive increase in iPhone 6 and iPhone 6s sales in the last year. The product has proved to be a benchmark in the mobile handset industry dominating the market of major suppliers like Samsung and Nokia. This was driven by the nature of the product as the style and application features appeal to many people around the world. The company has also allocated a lot of resources to the marketing department. This has led to the increase in market share in international markets hence the increase in sales of the iPhone and revenue. This is evident from the fact that international sales of different products by the company accounted for 62% of total revenue. This shows that there is a shift in trend in the International market as more people are willing to get Apple products.

The company also has benefited from the sale of other products such as the Apple watch and mac. These products have also contributed heavily to the good performance of the company by creating an increase in revenue. The Mac was released in the end of the last



quarter in 2015 with great and new features that got the attention of technology lovers around the world. This means that it has a lot of potential to perform better this year. This can lead to higher revenues for this product and forecast good results for the year 2016.

As Exhibit 1 provides, Apple's return on assets and net profit margin ratios for 2015 increased by almost 1.3% each comparing with the year before. The asset turnover of 2015 remained at the same as what it was in 2014, but the inventory turnover slightly increased in 2015, which explain that the company did well if we compare it with 2014. However, in 2013 the assets and inventory turnover were slightly improved than the one of 2015. This explains when the company was expanding in purchase of more inventories in the year of 2013. These inventories were driving the company towards a great performance in future. The year 2014 saw a slump in inventory as the company focused more on the production process. These efforts led to the production of the Mac computer in the year 2015, which was a massive boost for the company's sales. The year 2015 also witnessed the production of the iPhone 6 and iPhone 6S, which were global, hits in terms of production. The year 2015 was very busy for the company as it led to new products being launched in the market and setting up of future ventures that would lead to growth in the company.

Exhibit 2 shows the income statements for Apple, Samsung, Google, and Microsoft for the fiscal year 2015. Apple holds the biggest numbers regarding revenues, cost of revenues, and net income. However, Apple spent less on research and development than what the other three companies did. Talking about the R&D, Samsung, Google, and Microsoft are spending almost the same on R&D despite the huge gap in their revenues.

Apple is unique from the other companies due to the blueprints that the company founder left for future generations. The company has a lot of projects for the future that need proper formulation of policies and strategies to develop. This is evident from the fact that the company spends the least amount of money among the tech giants on research and

development. R&D is vital for the performance of any company as it helps to provide the clients with a new product that will increase sales and maintain the market share.

The competition for new products is evident between Samsung and Apple as seen in the quick response that Apple had when Samsung produced Galaxy S6 and Galaxy S6 edge. This market share is important for the growth of any company as it provides a platform where products can have a readily available market. Samsung has, however, invested more on research and development as they hope to get a piece of Apple's market share in America. This is a stronghold for Apple products and it has a special connection with people in the different states in America. It can be argued that most of the funds spent on R&D were to benefit the company in getting a higher International market share.

As what's appear in the table, Samsung has the second biggest revenue with 177.5 billion yet the cost of revenue reached to 62% of the total revenue. Samsung and Google net income are almost the same despite the fact that Samsung's revenue was 58% higher than Google. Samsung also spent on SG&A 44 Billion, almost twice as much as apple spending on SG&A. Samsung's net income totaled with 16.856 Billion where Google and Microsoft net income reached to 16.348 and 12.186 Billion respectively. Where Apple net income is \$53.3 Billion, which means 14% higher than the other three companies combined!

Samsung recorded the largest revenue due to the fact that it was gaining an increasing in the market share from other countries abroad. The company launched an initiative that saw it penetrate the International market hence the high revenues recorded for that year. However, this venture came at a high cost in terms of marketing and advertising their products in other markets especially in the United States.

The net income of Samsung and Google is almost as same as each other despite the massive disparity in revenue between the two companies. This is because Samsung has a very high cost of revenue compared to Google. Samsung and Google deal in different types of products that a governed by unique principles. Google does not face a lot of competition from

the market and has a very low cost of operation. The company does not need to invest a lot of money into advertising compared to the amount of revenue it generates from advertising. This is the main reason why Google has a lower cost of revenue compared to Samsung, hence the similarity in the net income of the two companies despite the high revenue for Samsung. However, Samsung and Google still doing far better than Microsoft.

Samsung spent a lot of money on SG&A compared to the rest due to the need to create awareness of the product among people in the new market. If the company gets a good percentage of the market share in the United States, then it will record a higher net income in the 2016 financial year. This is because less money will be spent to increase sales for the different products. These figures are normal for a company like Samsung when venturing into a market that has a very high level of competition.

The net income of a company refers to the total profits that a company accrues after covering all costs and paying of tax. Return on assets refers to the profitability of a company compared to its total assets. ROA shows how the managers of a company are using the assets of the company to generate revenue. Return on sales is used to know the level of operational efficiency of the company. ROS is calculated by dividing Net income by the interest from sales. This shows the amount of profits that the company is making from any sale that is made in a business transaction. Inventory turnover on the other hand shows how a company is selling and replacing its inventory.

As demonstrated in Exhibit 3, Apple is the most profitable company of the four as it has the highest level of net income. Apple enjoys the highest return on assets among the four companies, where Microsoft and Samsung having the lowest. This means that Apple is utilizing the assets of the company better in creating value and profit. Return on sales shows that Samsung is the least efficient in terms of operations among the four companies. Apple has the highest level of operational efficiency which means that it is working at greatest levels. Inventory turnover is the most significant indicator of performance because it shows the rate at which

products are being purchased from the shelves. Exhibit 3 shows that Apple is moving their products at a higher speed compared to the rest of the companies. This can be the reason behind the good performance of the company. Google has no inventory turnover since it generates most its revenue from advertisements and online transactions. Exhibit 3 clearly shows that Apple had a very good financial year compared to the rest of the companies.

Exhibit 4 shows how the share price of the four companies has been performing in the last three years. Microsoft has recorded a continuous positive increase in its share value for the last three years despite the low revenue that it records every year. Google has no data for the years 2013 and 2014 and that because the company, on March 27, 2014, splits its shares as 2-for-1 stock. However, the increase of the value of the share by more than 22% shows that the share price is heading in the right direction.

The share price of Samsung has not made major gains in the last three years, which can be attributed to the expansion programs and high costs of revenue. When the company stabilizes and gets a good percentage of the market share the prices can start making substantial gains. The share price of Apple has made significant gains since inception with the highest gain being made in the year 2015. This can be attributed to the revenue accrued from International markets.

The graph in Exhibit 4 clearly shows that Apple prices are more volatile compared to the rest of the companies. Apple has made the highest gains and losses in the last three years. This means that Apple is a good investment opportunity if a person can get a good entry price into the market. Samsung is ranging at the opening prices for the year 2013. This shows that the company is not growing as expected which can be attributed to different situations in the company. Microsoft is more volatile than Apple but it has an upward trajectory that shows good signs on the performance of the company. Microsoft and Apple are the good investment objectives in the four companies under discussion.

As it shown in Exhibit 5, Samsung has the highest market share in terms of the amount of devices on display at different shops. This can be attributed to the great marketing strategy being used by the company. This is due to the need to entering into different markets around the world. Apple has the second largest market share in terms of vendors, which is a significant number given that they have just recently ventured into the international market. With not involving in the distribution or production of smartphones Google has no market share. Microsoft is not significant in the smartphone market share. There are other smartphones that are operating well in the current market but share in the huge percentage of market share.

The chart in Exhibit 6 shows that Google's Android operating system is the most dominant among the competitors. A lot of smartphones are using the operating system due to the user-friendly nature and the ability to access application via the Google play store. Apple's iOS is only used by the iPhone. However, 14% of the market share is not a bad number for a company that does not outsource when it comes to software. Microsoft Windows phone is not widely used by people around the world. This is because the company has not decided to venture fully in the mobile devices market. Samsung has no market share as it uses Google's operating system in all its devices.

## **SWOT Analysis**

### **Apple (Exhibit 7)**

Apple has many strengths as an established company they have created a strong brand image and brand equity. Throughout their many years as a company they have been able to create a strong brand image through their effective innovation process (Smithson, 2015). They have revolutionized their industry by creating products that are very user friendly and that can easily connect with each other through the use of the cloud (Smithson, 2015). Due to this fact Apple has been able to gain a huge customer base that comes with strong customer loyalty. When a person buys an iPhone they will then want to get an iPad or MacBook so they can easily connect all their devices and never miss anything no matter what platform they are using

(Smithson, 2015). This is one of Apples biggest draws when customers are deciding on what brand to purchase. Apples sleek design throughout all of its products is also another selling point that customers are drawn to when deciding what products to purchase.

Though Apple has many strengths and is a well-known established company, they do have some weaknesses. Steve Jobs was the innovator that put Apple on the map with his ideas of simplification and aesthetics of all products. After his death customers have become weary of how Apple will continue to be a great company with great products after his death (Smithson, 2015). This has causes some people to turn to competitors and some loyal customers to question their loyalty. Apple also has a limited distribution network that is limited to the high end market. Apples products are all on the higher end of the price scale (Smithson, 2015). Their competitors' products are much cheaper than Apples; therefore, if people are unable to afford their products they will go for the cheaper competitors' products (Smithson, 2015). Apple has also had some issues with their battery life in their products. Apple products provide a vast array of functions and customers have complained that the battery life in the products is not conducive with using these functions for a long period of time (Smithson, 2015).

With weakness comes opportunity. Apple has some opportunity to improve. They can expand their distribution network in order to reach a different market and tap in to some of their competitor's market share (Smithson, 2015). They will also be able to reach more customers in the global market if they expand their distribution network. Apple could also break into the application creation market. Nowadays almost everyone has a smartphone or tablet all of which applications are becoming more popular. Apple could create their own apps and join this vastly growing market. Apple could also create more accessories for their products (Bhasin, 2014). The accessories market is never ending and if Apple expanded in to this market they could see bigger profits from customers (Bhasin, 2014).

Apple faces many threats in the market of which the biggest are Android and Samsung. The Android operating system is Apples number on threat as google has positioned their

operating system in all other smart phones (Bhasin, 2014). Since the android operating system it is a free for all it is the number one operating system in mobile devices (Bhasin, 2014). On the other hand Apple has to compete with Samsung products on aesthetics of their mobile devices. The threat of Android and Samsung has become much stronger over the past few years since Steve Job's death because the innovation Jobs brought to Apple is no longer there (Bhasin, 2014). Apple has not produced a new innovative product that their customer base is used to getting from Apple and because of this some of their customers have switched over to Apples competitors (Bhasin, 2014). Apples brand equity is on the line and Apple needs to start innovating if they want to stay in the running with Android and Samsung (Bhasin, 2014).

### **Samsung (Exhibit 8)**

Apples main hardware competitor is Samsung. Samsung is the world's number one marketer of mobile phones with a 21.4% of the world's market share compared to Apples 13.9% market share (Makos, 2015). Samsung also has strong manufacturing and marketing capabilities as it has a long-standing relationship with retailers in the United States and Europe (Makos, 2015). Samsung has also been able to effectively replicate many capabilities of both Apple's iPhone as well as Google's Android operating system in their mobile devices making them a very strong competitor (Makos, 2015).

Samsung currently holds the market share in smartphones, however, they are unable to match Apples marketing capabilities causing its market share in the US to fall by 2.3% between 2014 and 2015 (Makos, 2015). Samsung is also dependent on the software of another company as all of its devices run on Googles Android operating system and many consumers view the Android operating system as inferior to Apples iOS system (Makos, 2015). Many consumers view Apples products to be more advances and dependable than Samsung's (Makos, 2015).

Samsung has yet to break into the wearable technology market. Samsung could prove to be a big threat to Apple if they were to break into this market successfully. Samsung could

also introduce Samsung Pay to compete with the currently available Apple Pay (Makos, 2015). Though Samsung is Apples number one competitor Samsung falls short of Apple in many aspects of the business such as marketing and brand equity. Samsung is also reliant on another company's operating system while Apple has their own (Makos, 2015). Though Samsung holds the top spot in research, design and manufacturing capabilities they need to revamp their marketing and design efforts in order to maintain their market share (Makos, 2015).

### **Google (Exhibit 9)**

Google owns and operated the Android operating system. The Android system is a launch free operating system and is therefore able to be used by any manufacturing company who need software to run their products. Due to this the Android operating system is running on 80% of the global mobile devices (Sun, 2015). All devices that run the Android operating system come with the Google Play Store, which is where all applications are downloaded, and Google retains 30% of all sales from the Play Store (Sun, 2015). Also, Google has the Google Maps application which is more popular than the Maps application that Apple operates (Sun, 2015). Google uses the Maps application to obtain user information and is able to better cater their advertising to their users (Sun, 2015).

90% of Googles revenues comes from advertising which is not necessarily good because if they were to lose any advertising space or capabilities it could cut tremendously into their margins (Sun, 2015). In recent years Apple has slowly been carving Google out of its ecosystems replacing Google with Bing as it default search engine on the iOS platform (Sun, 2015). Apple has blocked Google Maps on its Apple Car Play and will enable ad-blockers for its mobile Safari in the iOS 9 platform (Sun, 2015). This is not good for Google as it relied on iOS for 75% of its mobile revenue in 2015 according to Goldman Sacks. Google could be in trouble, after Apple completely cuts them out of their iOS operating system, since 90% of its revenues come from advertising.



## **Microsoft (Exhibit 10)**

When it comes to software Microsoft is Apples biggest competitor. Microsoft was the first operating system that most people have grown up using and has created a great brand reputation (Jurevicius, 2013). Few other brands can compete with Microsoft for this reason and this is why Microsoft has more than 90% of the market share in PC OS (Jurevicius, 2013). Microsoft's easy to use Windows and Office software also helps make Microsoft very popular. Apple has its own version of Microsoft Office software called iWork, however, it is not as popular as Office and because of this Microsoft created an Office version that is compatible with Apples iOS system (Jurevicius, 2013). Microsoft also has strong distribution channels working with companies such as Lenovo, Dell, Toshiba and Samsung to make sure their computers are sold with pre-installed Windows software (Jurevicius, 2013). Microsoft, on the other hand, was successful because they were the first starters in their industry; however, since then they have been slow to innovate and have fallen behind competitors even though they had the means necessary to innovate (Jurevicius, 2013). Microsoft is also very depended on hardware manufactures since their product is software based they are reliant on the companies they supply to (Jurevicius, 2013). Apple on the other hand does both hardware and software and is reliant solely on themselves and has an advantage over Microsoft in this aspect.

Microsoft has yet to break into cloud based services and could take market share from Apple if they were to explore this. They could also consider moving in to the mobile advertising industry like Google to increase revenues (Jurevicius, 2013). The market for smartphones and tablets is growing exponentially and if Microsoft were to move into the hardware side of this industry as well they could potentially gain vast market share from Apple (Jurevicius, 2013). Apple should be wary to Microsoft's next step because if Microsoft plays their card right they could potentially tap into Apples market share (Jurevicius, 2013).

## **Recommendations**

### **TOWS Analysis**

Based on our findings in our SWOT analysis of Apple we are able to make several strategic suggestions for Apple to consider implementing by conducting a TOWS analysis (see Exhibit 11). From analyzing our TOWS analysis, below, we recommend that Apple use their strong research and development department to develop new product lines to meet the rising demand in the smartphone industry, the wearable technology industry as well as the accessory market as it pertains to Apple products. Apple could increase their profit margins by moving in to these rising markets before their competition does.

Apple could also increase their brand equity by expanding their distribution networks into the lower end, cheaper products. By expanding into this new market Apple would be increasing their brand width and will be able to tap into a new customer segment. They will be expanding into a new customer segment that has the potential to become loyal customers. Apple could also find a partner globally to expand brand. Apple could form alliances with other companies to combat hackers and software pirates. If Apple could get this issue under control customers would become more trusting of the brand which would increase customer loyalty and brand equity.

We feel that Apple could expand their brand in less developed countries, who might not be able to afford an Apple product at full price, by selling their older products that are out of date for a reduced price in these countries. Apple would be able to get rid of existing inventory and expand their market share at the same time. If Apple were still unable to sell their remaining inventory they could recycle the parts for use in their new products. This will decrease revenue loss due to excess inventory.

Apple could also use their strong marketing capabilities to expand into the growing mobile advertising market. Apple could reach new customers as well as increase profit margins by tapping into this emerging and fast growing market. Apple could also utilize its marketing skills by combating scandals when they arise as to not lose customers. Apple could train employees on how to immediately respond to legal issues and scandals before they get out of

hand. Apple could also use their marketing abilities to promote environmentally friendly practices to combat ne environmental regulations.

IJSER

## Exhibits

### Exhibit 1 – Apple’s Financial Ratios

<b>Financials</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Total Revenue	233,715,000	182,795,000	170,910,000
Cost of revenue	140,089,000	112,258,000	106,606,000
Profits	93,626,000	70,537,000	64,304,000
R&D	8,067,000	6,041,000	4,475,000
SG&A: Sales	14,329,000	11,993,000	10,830,000
Operating Income or Loss	71,230,000	52,503,000	48,999,000

Total Other Income/ Expenses Net		1,285,000	980,000	1,156,000
EBIT		72,515,000	53,483,000	50,155,000
Income Tax Expense		19,121,000	13,973,000	13,118,000
<b>Net Income</b>		<b>53,394,000</b>	<b>39,510,000</b>	<b>37,037,000</b>
<b>Ratios</b>	<b>Industry 2015</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
ROA	16.40%	18.38%	17.04%	17.89%
ROS (Net Profit Margin)	20.08%	22.85%	21.61%	21.67%
Asset Turnover	0.80	0.80	0.79	0.83
Inventory Turnover	46.73	59.64	53.18	60.43

### Exhibit 2 – 2015 Income Statements for Apple, Samsung, Google, and Microsoft

Financials	2015			
	Apple	Samsung	Google	Microsoft
Total Revenue	233,715,000	177,458,271	74,989,000	93,580,000
Cost of revenue	140,089,000	109,207,811	28,164,000	33,040,000
Profits	<b>93,626,000</b>	<b>68,250,460</b>	<b>46,825,000</b>	<b>60,540,000</b>
R&D	8,067,000	12,125,357	12,282,000	12,050,000
SG&A: Sales	14,329,000	32,767,650	15,183,000	30,340,000
Operating Income or Loss	<b>71,230,000</b>	<b>23,357,453</b>	<b>19,360,000</b>	<b>18,150,000</b>
Total Other Income/ Expenses Net	1,285,000	-397,987	291,000	346,000
EBIT	72,515,000	22,959,466	19,651,000	18,496,000
Income Tax Expense	19,121,000	6,102,477	3,303,000	6,310,000
<b>Net Income</b>	<b>53,394,000</b>	<b>16,856,989</b>	<b>16,348,000</b>	<b>12,186,000</b>

### Exhibit 3 – Company Ratios

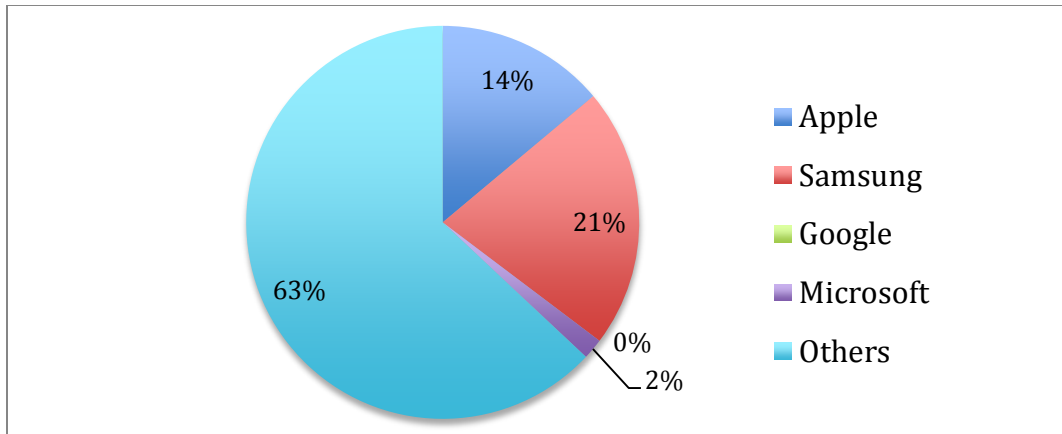
Company	Apple	Samsung	Google	Microsoft
Net Income	\$53,394,000	\$16,856,989	\$16,348,000	\$12,186,000
ROA	18.38%	7.87%	11.33%	6.92%
ROS	22.85%	9.50%	21.80%	13.02%
Inventory Turnover	59.64	6.56	-	11.39

### Exhibit 4 – Share Price



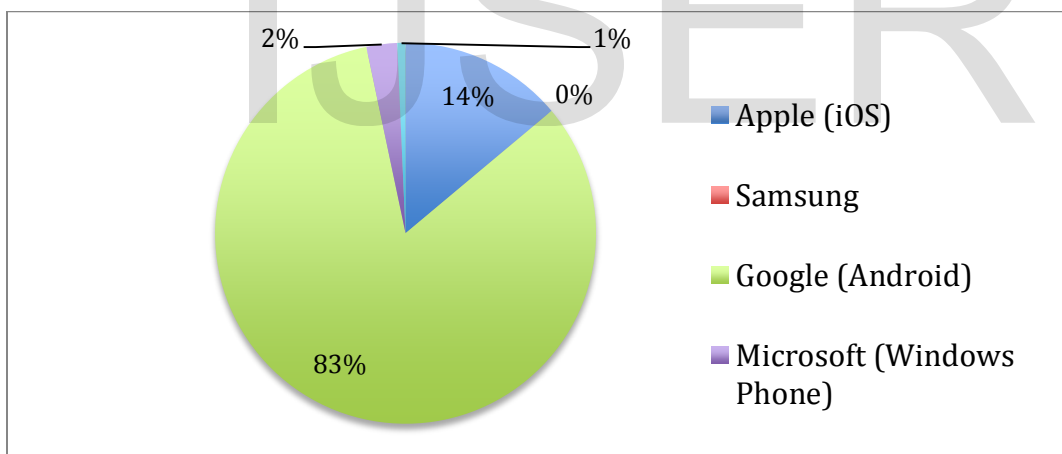
Date	Apple	samsung	Google	Microsoft
1/4/16	96.81	\$1,168.00	742.95	52.33
1/2/15	\$114.58	\$1,210.00	\$534.52	\$39.33
1/2/14	\$68.50	\$1,175.00	—	\$35.86
1/2/13	\$60.80	\$1,308.00	—	\$25.25

**Exhibit 5 – Market Share**



Smartphone Vendors Market Share	2015	2014	2013
Apple	13.9	11.6	12.9
Samsung	21.4	24.8	31.9
Google	0	0	0
Microsoft	1.7	3	3.6
Others	63	60.6	51.6

**Exhibit 6 – Operating System Competitiveness**



Smartphone OS Market Share	2015	2014	2013
Apple (iOS)	13.9	11.6	12.9
Samsung	0	0	0
Google (Android)	82.8	84.8	79.8
Microsoft (Windows Phone)	2.6	2.5	3.4
Others	0.7	1.1	3.9

**Exhibit 7 – Apple Inc.’s SWOT Analysis**

<p><b>STRENGTHS</b></p> <ul style="list-style-type: none"> <li>• 13.9 % market share</li> <li>• Strong brand equity</li> <li>• High R &amp; D</li> <li>• High profit margins</li> <li>• Great Marketing</li> <li>• Consumer loyalty</li> <li>• Software/OS</li> <li>• Consistency in design</li> </ul>	<p><b>WEAKNESSES</b></p> <ul style="list-style-type: none"> <li>• Limited distribution network</li> <li>• High selling prices</li> <li>• Battery limitation issues</li> <li>• Absence of Steve Jobs</li> <li>• Short Product Life</li> </ul>
<p><b>OPPORTUNITIES</b></p> <ul style="list-style-type: none"> <li>• Distribution network expansion</li> <li>• Rising demand for tablets and smartphones</li> <li>• Creation of new product lines</li> <li>• Formation of strategic partnerships</li> <li>• Accessory potential</li> </ul>	<p><b>THREATS</b></p> <ul style="list-style-type: none"> <li>• Aggressive competition</li> <li>• Imitation</li> <li>• Rising labor costs</li> <li>• Loss of innovations</li> <li>• Tax scandals</li> </ul>

**Exhibit 8 – Samsung’s SWOT Analysis**

<p><b>STRENGTHS</b></p> <ul style="list-style-type: none"> <li>• 21.4% market share.</li> <li>• Impressive research and design capabilities.</li> <li>• Replicate capabilities of Apple and Android for mobile devices.</li> <li>• Strong manufacturing and marketing capabilities.</li> <li>• Long-standing relationships with retailers that provide a steady sales channel for products.</li> </ul>	<p><b>WEAKNESSES</b></p> <ul style="list-style-type: none"> <li>• Launched a series of Smart phones which led to cannibalization</li> <li>• Nokia is considered to be the most preferred product in India</li> <li>• Hardware leader but too much dependence for software from other parties.</li> <li>• Online stores are giving better deals</li> </ul>
<p><b>OPPORTUNITIES</b></p> <ul style="list-style-type: none"> <li>• Growing market for smartphones, tablets and other mobile devices</li> <li>• Samsung Pay</li> <li>• New technologies such as wearable tech devices</li> <li>• Growing middle class in developing world will increase market for consumer electronics.</li> <li>• Growing online market from sales channels such as Amazon.com</li> </ul>	<p><b>THREATS</b></p> <ul style="list-style-type: none"> <li>• Has not been able to overcome Apple’s reputation for reliability.</li> <li>• The Google Android operating system is not as popular with average people as iOS is.</li> <li>• Declining or stagnating middle-class incomes in North America.</li> <li>• Chinese manufacturers could emerge as serious rivals.</li> <li>• Apple could enter more consumer products areas</li> </ul>

**Exhibit 9 – Google’s SWOT Analysis**

<p><b>STRENGTHS</b></p> <ul style="list-style-type: none"> <li>• Android- 80% of global market share.</li> <li>• Google Maps</li> <li>• Google Play Store – 30% retained</li> <li>• Google invests a tremendous amount into R+D.</li> <li>• They have the best engineers on the world.</li> </ul>	<p><b>WEAKNESSES</b></p> <ul style="list-style-type: none"> <li>• 90% of its revenues coming from advertising.</li> </ul>
<p><b>OPPORTUNITIES</b></p> <ul style="list-style-type: none"> <li>• Expanding into the enterprise market with Android for Work and Chrome for Work</li> <li>• Expansion into streaming music with Google Play</li> <li>• driverless cars, smart home efforts, robotics projects, artificial intelligence, medical equipment, and even medicine.</li> </ul>	<p><b>THREATS</b></p> <ul style="list-style-type: none"> <li>• Three key rivals -- Facebook, Amazon, and Apple</li> <li>• Apple is slowly carving Google out of its ecosystem replacing Google with Bing as the default search engine</li> <li>• Apple blocked Google Maps on CarPlay and will enable ad-blockers for mobile Safari in iOS 9.</li> <li>• Google relied on iOS for 75% of its mobile ad revenues last year</li> </ul>

**Exhibit 10 – Microsoft’s SWOT Analysis**

<p><b>STRENGTHS</b></p> <ul style="list-style-type: none"> <li>• Brand loyalty</li> <li>• Brand reputation</li> <li>• Easy to use software</li> <li>• Strong distribution channels</li> <li>• Robust financial performance</li> </ul>	<p><b>WEAKNESSES</b></p> <ul style="list-style-type: none"> <li>• Poor acquisitions and investments</li> <li>• Dependence on hardware manufacturers</li> <li>• Criticism over security flaws</li> <li>• Mature PC markets</li> <li>• Slow to innovate</li> </ul>
<p><b>OPPORTUNITIES</b></p> <ul style="list-style-type: none"> <li>• Cloud based services</li> <li>• Mobile advertising</li> <li>• Mobile hardware device industry</li> <li>• Growth through acquisitions</li> </ul>	<p><b>THREATS</b></p> <ul style="list-style-type: none"> <li>• Intense competition in software products</li> <li>• Changing consumer needs and habits</li> <li>• Open source projects</li> <li>• Potential lawsuits</li> </ul>

**Exhibit 11 – Apple Inc.’s TOWS Analysis**



<p><b>TOWS Analysis</b></p>	<p><b>STRENGTHS</b></p> <ul style="list-style-type: none"> <li>• Strong brand equity</li> <li>• High R &amp; D</li> <li>• High profit margins</li> <li>• Great Marketing</li> <li>• Consumer loyalty</li> <li>• Software/OS</li> <li>• Consistency in design</li> </ul>	<p><b>WEAKNESSES</b></p> <ul style="list-style-type: none"> <li>• Limited distribution network</li> <li>• High selling prices</li> <li>• Open to hackers and software pirates</li> <li>• Absence of Steve Jobs</li> <li>• Short Product Life</li> </ul>
<p><b>OPPORTUNITIES</b></p> <ul style="list-style-type: none"> <li>• Distribution network expansion</li> <li>• Rising demand for tablets and smartphones</li> <li>• Creation of new product lines</li> <li>• Formation of strategic partnerships</li> <li>• Accessory potential</li> </ul>	<p><b>SO STRATEGIES</b></p> <ul style="list-style-type: none"> <li>• Use R &amp; D to develop new product lines to meet rising demand</li> <li>• Increase brand equity by expanding distribution network into cheaper products</li> <li>• Find joint venture partners globally to expand brand.</li> </ul>	<p><b>WO STRATEGIES</b></p> <ul style="list-style-type: none"> <li>• Advertise older remaining products to less developed countries at a cheaper cost to reduce inventory</li> <li>• Growth opportunity in growing mobile advertising market</li> <li>• Form alliances to prevent hackers and software pirates</li> </ul>
<p><b>THREATS</b></p> <ul style="list-style-type: none"> <li>• Aggressive competition</li> <li>• Imitation</li> <li>• Rising labor costs</li> <li>• New environmental regulations</li> <li>• Loss of innovations</li> <li>• Tax scandals</li> </ul>	<p><b>ST STRATEGIES</b></p> <ul style="list-style-type: none"> <li>• Use strong R&amp;D to develop new technology to combat competition and rising labor costs</li> <li>• Use marketing skills to promote an environmentally friendly practice</li> <li>• Use marketing skills and customer loyalty to combat scandals</li> </ul>	<p><b>WT STRATEGIES</b></p> <ul style="list-style-type: none"> <li>• Recycle old outdate product parts for use in new products</li> <li>• Concentrate on software protections to combat hackers and pirates to increase competitiveness</li> <li>• Train employees on how to immediately respond to legal issues and scandals to prevent customer loss</li> </ul>

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