

Apple from the iPod to the iPad

A Case Study in Corporate Strategy

Second Edition 2012



iPod shuffle



iPod nano



iPod classic



iPod touch



Foreword

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Apple from the iPod to the iPad

This is the case study of Apple in the digital age. The great era of the iPod, the development of the digital hub and Apple's move into the mainstream consumer market with the iPod, the iPhone and the iPad.

It has many great examples and lessons for enthusiasts of marketing, leadership, organization, financial analysis and strategic management.

The iPod has been a huge success for Apple Inc. But why the iPod in 2001 and what had happened to Sony, the Walkman and the Discman?

The more the subject was researched, the clearer the methodology emerged.

This is the case study of Apple from the iPod to the iPad - a classic example of Corporate Strategy in action.

First mover advantage, product life cycles, pricing strategy, key success factors, Kaizen, market profiling and much more are revealed in the Apple story.

A story which has led to the sale of 575 million digital devices, and a market cap of \$575 billion in just ten years. 585,000 apps in the App store producing 25 billion downloads since launch, a measure of the success of the digital hub strategy.



About the Author

John Ashcroft is a visiting professor in Manchester UK specialising in economics, corporate strategy and business modelling. Extensive experience in business with over sixty corporate finance acquisitions and disposals, John has worked with large corporate finance companies and corporate strategy advisors including Bain and Company, First Boston, Wasserstein Perella, Goldman Sachs and S G Warburg.

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The iPad update- 2012



The iPhone

1 Introduction

In 2001, Apple sales fell 33% to \$5.4 billion from \$8 billion. The company reported an operating loss of some 6% of turnover. The basic product offer was under pressure. Desk top sales had been hammered, unit sales of the PowerMac had fallen by 35% and those of the iMac by 45%. Desk top revenues were down by 45%. Portable sales volumes were static and revenues were down by 8%. Software service and other revenues had fallen by 13%. It was a difficult year.



The company was heavily dependent on the business and creative professional market. Over 76% of sales were from the industrial and commercial sector. The US economy had slowed from 4% growth in 2000 to just over 1% in 2001. Apple faced a difficult future.

The company was looking for a consumer digital device to boost growth and revenue prospects and diversify away from the traditional business sectors into the consumer market.

A number of options were evaluated, games, digital cameras, video cameras and music.

In the end, as Jobs said : We chose music, we all love music, it's a huge market and no one has got it right. In this simple sentence, Jobs expressed the basics of two dimensional corporate strategy analysis - relative market attraction and relative market strength, best identified in the BCG Growth Share Matrix. A huge market with no major player. Who could ask for more, a huge star with great cash cow potential.

In that year the the iPod was launched, the concept of the digital hub developed. Since then, sales have increased from \$5 billion to over \$100 billion [2011] and profits have soared to over \$34 billion. [Apple Financial Results 10-K 2011]

Since the search for a consumer digital device began in 2000 and the digital hub strategy emerged Apple has sold a staggering 575 million digital devices in just ten years.

But why the iPod in 2001 and what had happened to Sony, the Walkman and the Discman. This is the case study of Apple from the iPod to the iPad - a classic example of Corporate Strategy and business development.

2 Company Background

Apple Inc. and its wholly-owned subsidiaries design, manufacture, and market personal computers, portable digital music players, and mobile communication devices and sell a variety of related software, services, peripherals, and networking solutions. This is from the financial report 10-K in 2001. By 2011 the emphasis had changed - devices to the fore and computers off centre stage. Such had been the magnitude of the success of the strategy.

Apple Inc. and its wholly-owned subsidiaries designs, manufactures and markets mobile communication and media devices, personal computers, and portable digital music players, and sells a variety of related software, services, peripherals, networking solutions, and third-party digital content and applications. [2011].

Over the ten year period, the importance of digital devices notably mobile communication and media devices has emerged. The sale of some 575 million digital devices over the decade is witness to the strategy of the digital hub and the commitment to the consumer digital device market.

3 Distribution and Market Segments

The Company sells its products worldwide through its retail stores, online stores, its direct sales force, and third-party wholesalers, resellers, and value-added resellers. The Company sells to consumer, small and mid-sized business, education, enterprise, government, and creative customers.

This simple statement from the financial report, underplays the importance of multi channel marketing to the business to the growth of the Apple business. Third party, own retail, online stores, including itunes, the apps store and the ibooks store.

4 Business Strategy

The Company is committed to bringing the best personal computing, portable digital music and mobile communication experience to consumers, students, educators, businesses, and government agencies through its innovative hardware, software, peripherals, services, and internet offerings. The Company's business strategy leverages its unique ability to design and develop its own operating system, hardware, application software, and services to provide its customers new products and solutions with superior ease-of-use, seamless integration, and innovative industrial design. The Company believes continual investment in research and development is critical to the development and enhancement of innovative products and technologies.

5 The Digital Hub

In 2001 the strategy of the digital hub emerged. In the financial report of that year, the following statement appeared.

"The Company believes that personal computing is entering a new era in which the personal computer will function for both professionals and consumers as the digital hub for advanced new digital devices such as digital music players, personal digital assistants, digital still and movie cameras, CD and DVD players, and other electronic devices."

In addition to evolving its personal computers and related solutions, the Company continues to capitalize on the convergence of the personal computer, digital consumer electronics and mobile communications markets by creating and refining innovations, such as the iPod, iPhone, iTunes Store, and Apple TV®. The Company desires to support a community for the development of third-party products that complement the Company's offerings through its developer programs. The Company offers various third-party software applications and hardware accessories for Mac® computers, iPods and iPhones through its retail and online stores, as well as software applications for the iPhone platform through its iTunes® App Store. The Company's strategy also includes expanding its distribution network to effectively reach more of its targeted customers and provide them with a high-quality sales and post-sales support experience.

The Digital Hub and iCloud

By 2011, the gadgets were to break free from the hub and moving into Cloud. In October 2011, the Company launched iCloud, its new cloud service, which stores music, photos, applications, contacts, calendars, and documents and wirelessly pushes them to multiple iOS devices, Macs and Windows-based computers. iCloud's features include iTunes in the Cloud, Photo Stream, Documents in the Cloud, Contacts, Calendar, Mail, automatic downloads and purchase history for applications and iBooks, and iCloud Backup. Users can sign up for free access to iCloud using a device running iOS 5 or a Mac running Mac OS X Lion. By 2012, iCloud had secured one hundred million users. For the moment in 2001, the digital hub strategy was dominant.

6 Market Segmentation

At the turn of the millennium, Apple identified four key market segments within the customer profile, Business, Creative professionals, Education, and "high-end" consumers. Apple core product strengths were in the areas of CAD, Computer Aided Design and DTP, Desk top Publishing.

Apple and Quark Express were the core products for a high number of publishing solutions including Newspapers and Magazines.

In the year 2000, some 75% of sales were to the traditional business and professional markets. By 2011, the situation had reversed with almost 75% of sales in the consumer markets. The drive for the consumer digital device market had been secured, over 500 million devices sold the measure.



"The choice we made was music, why music, because we we all love music and it's always great to do something you love."

"It's a very large target market all around the world.

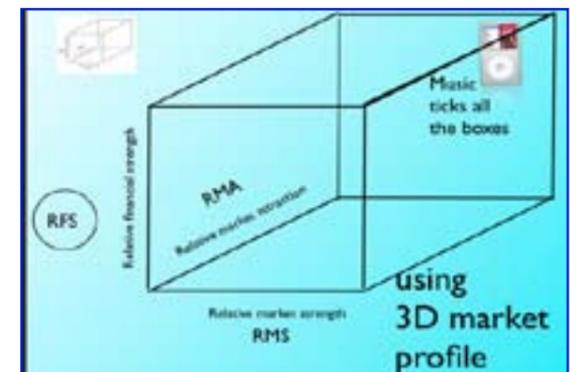
It is not a speculative market,

there is no market leader,

there are small companies like Creative and Sonic Blue and there are some large companies like Sony who haven't had a hit yet.

No one has really found the recipe

But we think the Apple brand is going to be fantastic. People trust the Apple brand to get their great digital electronics.



7 Apple in 2001

2001 was a critical year for Apple Inc. The US economy was slowing from over 4% in 2000 to just over 1% in 2001. Apple sales had fallen from \$8 billion in 2000 to \$5.4 billion. Operating income had turned from a profit of \$522 million to a loss of \$344 million. Sales in the USA and Europe had fallen by 30%, in Japan they had fallen by almost 50%. Gross margins were under pressure collapsing from 27% to 23%.

Desk top sales had been hammered, unit sales of the PowerMac had fallen by 35% and those of the iMac by 45%. Desk Top revenues were down by 45% overall. Portable sales volumes were static and revenues were down by 8%. Software service and other revenues had fallen by 13%.

The company was heavily dependent on the business and creative professional market. Over 76% of sales were from the industrial and commercial sector. Consumer exposure was limited to the student-education market at some 15% of revenues, the high end "advanced" consumer market, the AB premium sector accounted for the balance.

The profit generating Power Mac was at the wrong end of the product life cycle curve. The iMac was dated. It had never really looked cool. The product range needed a revamp or better still a new product altogether.

Should Apple develop further into the consumer market? An electronics product? Experience with the Newton PDA, the Pippin games console and Quicktake digital camera in the 1980s was not a good omen. Apple considered several areas for expansion, games, video cameras, digital cameras and music. After careful analysis the company chose music and the iPod. Why music - because we all love music, it's a huge market and no one has got it right.

8 Launch of the iPod

"Music on the move" had been pioneered by Sony with the Walkman and the Discman but the digital age beckoned. Consumers had music stored on computers. Updating the collections online was possible but the launch of Napster in 1999 and subsequent legal challenge confused consumers about the legality of it all. Travelling with a large music library was only possible with a box of CD favourites.

The MP3 player offered the technical solution to digital music on the move. Hard drive players offered greater capacity up to 100 MB but at a price. Data transfer was slow and early products were difficult to use and poorly designed. The chip for the players had been developed in 1997 but take up of the product was shunned by the major manufacturers. Early players in the market were Saehan, Pontis and Diamond Rio.

In 1999, some 23 other companies launched into the MP3 market. With the exception of Sony, Samsung and Thomson/RCA, all were small and medium-sized entrepreneurial firms and industry new comers, many relying on sales over the internet.

By the year 2000, the US market was valued at \$80 million rising by 25% to \$100 million in 2001. Volumes had increased from 510,000 units to over 700,000 units. The market was fragmented with as many as 50 manufacturers largely dependent on internet sales. The largest market shares were held by Diamond Rio and Pontis but both were financially vulnerable.

Pontis ceased production in 2002 and Diamond Rio filed for bankruptcy in the following year. The large industry manufacturers such as Sony, Samsung and Thomson RCA were not big players. No one had found the "recipe".

Key success factors (KSFs) in the market were identified as design, size, capacity, battery life, software and download facility. The Diamond Rio PMP 300 MP3 player had a capacity of 32 MB with an additional storage slot capacity. Retailing for \$200 it had the capacity to play 12 songs and an approximate 10 hour battery life. The product was not without design flaws and vulnerable to performance problems. For Apple, the KSF mantra was outlined annually in the Annual Report.

The market was attractive in terms of size and growth potential. The market was



Key Success Factors KSFs

Design
Style
Size
Capacity
Battery life
Software
Download facility

fragmented, without major players, relative market and financial strengths could be brought into play. Tony Fadell, a former employee of Phillips had ideas for a brand new MP3 player. Smaller in size, with large capacity, hard drive based, with down load content access and delivery system to legally obtain music.

Apple seized the opportunity to hire Fadell. He was given a budget and a development team and a one year to market timetable. Apple developed all three components in house, the music store, the player and the software on the computer. They all worked together seamlessly. Steve Jobs had a very much hands on experience with the product design team at every stage. Jony Ive, the British born head of design co-ordinating the process.

Design ethos - from out to in. Apple and Steve Jobs had a very specific approach to design. A sort of "helicopter" or holistic approach to process. Engineering is reversed into design. Apple employees talk about "deep collaboration" or cross-pollination" or "concurrent engineering". Products don't pass from team to team. They are not discrete sequential development stages. It is simultaneous and organic. Products are worked on in parallel by all departments at once in endless rounds of inter discipline design review meetings."

So too of market research, Jobs would recall the words of Henry Ford in developing the Ford Model T, "If I asked my customers what they had wanted, they would have just said a faster horse" eatin less hay presumably.

The first iPod was launched with a 5 GB Toshiba hard drive, a capacity for 1000 tunes and a price tag of \$399 in October 2001 later followed by a 10 GB version. The product was launched in Europe one month later, "1000 tunes in your pocket" the tag line. It was so cool.

"It's great for workouts because digital music doesn't skip, and my entire music library is strapped to my body."

"I used to carry a separate case with 50 or more CDs when I traveled," says Todd Gray, an art professor at California State University-Long Beach.

In April 2003, the iTunes Music Store opened. Access to music and downloads became even easier. A unique blend of hardware, software and content availability.

Apple's iPod has experienced phenomenal growth since its 2001 unveiling. Like the Mac, the iPod largely created a new market rather than displacing an existing one. In 2002, Apple had 33% of the hard drive market. A year later, it had 64% of that market. Apple more than doubled its sales, while the rest of the market failed to grow at all.

In 2004, Apple had 82% of the hard drive market with sales of 2 million in the winter quarter. Other competitors were selling less than a half million units combined. Apple wasn't eating into other players' sales, it was greatly expanding the entire market for hard drive audio players.

By 2008, Apple was selling over 50 million units a year worldwide, with a dominant 75% of the US market. The iTunes Music Store accounts for 87 percent of all legal digital music sales in the USA. The success of the iPod has had a significant knock on or halo effect with the Apple core business as more consumers have experience of the great Apple product line.



Key Success Factors

In the Annual Report 10-K in 2001, Apple outlined the key factors in computers:

Relative Price / Performance
Product Quality
Reliability
Design Innovation
Software Availability
Product Features
Marketing and Distribution
Capacity
Service and Support
Availability of peripherals
Corporate reputation
Internet Connectivity
Constant Development
Smaller devices
Simpler devices



Say Hello to the iPod

Say goodbye to your hard drive

At time of launch the most expensive MP3 players with flash memory were selling for around \$249. The Rio 600 with 64MB of flash memory retailed at \$199. Apple followed a premium price entry model. Initial sales volumes and supply chain could be tested before adjustment in market pricing.



Microsoft Zune

Jobs on Microsoft

"The only problem with Microsoft is that they just have no taste,

I don't mean it in a small way, I mean it in a big way, they don't think of original ideas and they don't bring much culture into their products.

I have a problem with the fact that they just make third grade products."



iPod shuffle



iPod nano



iPod classic

9 Here Comes the Zune

Not all had been confident of the iPod success. In 2005, Bill Gates predicted that Apple's success in entertainment electronics and in the music business would not last. Apple had opted for a closed system using its own hardware and software. "I think you can draw parallels here with the computer: here, too, Apple was at first in an extremely strong position with its Macintosh and graphic possibilities -- as with iPod today -- and then let it's position slip." Gates said in a newspaper interview in May.

Apple had anticipated a Microsoft reaction and in 2006, five years after the appearance of the iPod, Microsoft launched the Zune in November just in time for Christmas. The Zune had 30 GB of memory and was priced at \$299. It had a 3" screen and a built in FM radio.

The initial launch went well. Zune was off to a quick start, grabbing 9 percent of the U.S. digital music player market in its first week of sales, taking the No. 2 spot from SanDisk. Microsoft was adept at dealer loading but the gains were not held. By 2008 the brand had claimed just a 4% share of the market. Gains had been made at the expense of Creative and iRiver, the core Apple business remained undamaged.

Jobs had never been a fan of the Microsoft product development process. "I have a problem with the fact, they just make third grade products.

10 Brand Development and Product Extension

Apple had always relied on a programme of constant improvement of Kaizen, in the product offer. Not without reason, the Apple campus in Cupertino was One infinite Loop, Cupertino, USA.

Identify the Key Success Factors and drive a process of constant improvement - Kaizen and KSFs. Constant improvement in one infinite loop.

Smaller, simpler, more features, less expensive. By 2006 the iPod was into a fifth generation and the family had extended kinship with the appearance of the iPod shuffle and the iPod Nano.

In 2007, the iPod Touch appeared. The product offer was to swamp the market map in terms of price segmentation and capacity. A price point for every pocket.

The Nano was a flash based product released in January 2005 costing \$99 for a 512MB version. The solid state Nano appeared in February, available in 2GB and 4GB versions. In October 2005, the fifth generation iPod appeared available in 30GB and 60GB with video play capacity.

An 80 GB version was to follow. The Shuffle appeared around the same time. Apple introduced two versions of the "iPod shuffle," priced at just \$99 or \$149, and respectively holding about 120 and 240 songs based on 512MB an 1 GB of memory.

Based on flash memory, the new player was aimed at a low-end segment of the market that had been untapped largely by Apple to date. By the time the Zune arrived, Apple had created and captured a new market empire defended by a product range extended in price, range and quality. From the \$99 shuffle to the top end video iPods with 80GB and video capability priced at \$399, the array was extensive.

By 2009, the product offer was comprehensive but maybe lacking internet connectivity and mobile connection. In 2007 it was time to introduce the iPhone. Microsoft would laugh at the product because of the price but the world was ready.



iPod touch



The iPhone cometh

11 Developments in Distribution - Multi Channel Retailing

Before dealing with the launch of the iPhone, it is worth looking at the developments in distribution. Apple launched the first Apple stores in May 2001 and by the end of the year, the company had 25 stores.

Like most manufacturers, Apple was dependent on the big retailers like Sears and Compuserve. In the late 1990's, Jobs had already started to cull retailers who were not doing a good job for the brand.

The manufacturer faced the classic dilemma of controlling product, sales and presentation at point of sale. Share of dealer mind, stock and floor space was critical. Vertical integration into retail seemed the logical solution. Combined with the online store and the iTunes store, own-retail would offer a solution to the dilemma.

There already had been an agreement with CompUSA to develop the Apple shop in shop model whereby some 15% of the store would be devoted to Apple products and merchandise. But the sales failed to materialise. The shop in shops were located at the rear of the store were footfall and sales were lowest. Share of mind was not secured.

Jobs recruited retail experience from Gap and Target. The mock up store was created in a warehouse in Cupertino Apple's home base. Jobs wanted to create a hands on experience, with demo machines, tutorials and sample media projects. The stores also included a Genius Bar where Mac users could get their Macs repaired or deal with queries or just hang around.

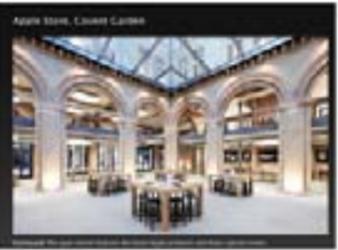
The Apple stores were a success, combined with the launch of the iPod, the stores were able to replicate the "Apple" experience, with workshops, youth programmes, one to one training, personal shopping and the "Genius Bar".

By the Summer of 2009, there were 211 Apple stores in the USA, 45 in California alone. Internationally there were 48 stores, 21 stores in the UK, 10 in Canada, 7 in Japan, 5 in Australia, 3 in Switzerland, 1 in Italy and 1 in China.

By 2012, the number of stores had increased to over three hundred and sixty. Retail sales had increased from \$19 million in 2001 to \$1 billion by 2004 and to \$6.3 billion in 2008. Own retail accounted for 10% of sales in 2003 and almost 20% of total revenues by 2008.

Average revenue per store increased to \$29.9 million in 2008, compared to \$23.1 million in 2007 according to the 2008 Annual Report. The Company has typically located its stores at high-traffic locations in quality shopping malls and urban shopping districts. Sales per square foot average over \$3,000 based on an 8,000 square foot model.

By the end of the 2011 financial year, retail sales had increased to over \$14 billion. During the year, the Company had an average of 326 stores compared to an average of 288 stores during 2010. The average revenue per store increased 27% to \$43.3 million in 2011 compared to \$34.1 million in 2010. A sales per square foot of almost \$5,500.



Multi Channel Marketing

- Independents
- Own retail stores
- The Apple on line store
- The iTunes store
- The Apps store
- The iBooks store

12 Strategic Alliances

The development of the iPod reveals an interesting story of market alliances in the supply chain. According to Electronics Design Chain magazine, much of the underlying iPod design was performed by outside companies. “The Cupertino folk haven’t given up on their heritage of design excellence—they’re just bowing to some inevitable directions in consumer electronics by borrowing from established experts linked together for what may be the first design chain for the iPod.” Apple were in a race to get to market within the year.

Given the tough time to market timetable, the company relied on a platform and reference design created by a third party, PortalPlayer, of Santa Clara, California. PortalPlayer had developed a base platform for a variety of audio systems, including portable digital music devices, general audio systems and streaming audio receivers. It appears that Apple picked PortalPlayer because its design expertise yielded the highest quality of sound, according to industry sources.

“The product was elegantly designed in classic Apple fashion,” says David Carey, president of Portelligent. “They did product design from the outside in.” Carey says the company had a vision of what the player should be and what it should look like.

The device uses a dedicated MP3 decoder and controller chip from PortalPlayer, a Wolfson Microelectronics Ltd. stereo digital-to-analog converter, a flash memory chip from Sharp Electronics Corp., a Texas Instruments 1394 firewire interface controller, and a power management and battery charging IC from Linear Technologies Inc.

Throughout the development of the product offer, the principal of syndicated rather than integrated component manufacturing applied.

13 The launch of the iPhone

The first iPhone was launched in 2007 but almost before you could fill the address book, the iPhone 3G was on the way. Launched in 2008, the improved 3G performance followed the Apple Kaizen mantra. “Constant improvement - one infinite loop”, the HQ address in Cupertino. In 2009, the company launched the iPhone 3GS complete with video camera. More features, much faster and with the new iPhone 3.0 software.

The iPhone 2G only supported WiFi, GSM, and Bluetooth. Slow speeds meant surfing the internet was quite limited. The iPhone 3G introduced third generation speeds to the original flagship model, and it also supported WiFi, GSM, and Bluetooth. This makes for a better experience surfing, watching Youtube videos, and downloading data onto the phone from the Internet.

“Comparing two great phones is always hard, but Apple made a great move by creating the 3G iPhone. The iPhone 2G is impressive, but with the features the 3G provides and the transition with new phones all moving to 3G, it’s a definite requirement if Apple wants to maintain its new status as the #1 selling phone in the US.”

In many ways, the 3GS is a mirror image of the iPhone 3G; externally there’s no difference. It’s inside where all the changes have happened, with Apple issuing a beefed-up CPU, new internal compass, larger capacities for storage, and improved optics for its camera. More to the point, the release of the 3GS coincides with the launch of iPhone OS 3.0, a major jump from previous versions of the system software featuring highly sought after features like cut, copy, and paste, stereo Bluetooth, MMS, tethering, video recording, landscape keyboard options for more applications, and an iPhone version of Spotlight.

In 2007, iPhone sales were \$123 million. In the first full year of sales 2008, revenues were \$1.8 billion, in 2009 revenues were expected to increase to \$6.2 billion but the out turn was much higher at \$ 13 billion. By the end of 2011 revenues had soared to \$47 billion and the company had sold over 146 million phones since launch.

The iPhone had captured some 25% of the US smart phone market. Challenging the RIM Blackberry and pushing Nokia in to a furious programme of product development.



In 2008, sales of the iPhone, iPod and related music sales totalled \$14 billion out of \$37 billion. 40% of revenues from products which did not exist on the Apple playlist at the turn of the decade.

In 2010 the iPhone 4 appeared. The iPhone 4GS offered an 8 megapixel camera with 1080p video recording. Despite teething troubles on launch, the phone soon became a must have device.

By 2011, sales from the iPod, the iPhone and the iPad together with related music sales totalled over \$80 billion, 75% of revenues from products which did not exist on the Apple playlist at the turn of the decade.

14 What next for Apple - the Apple Games Console?

By 2009 analysts and pundits were beginning to suggest, the next product for Apple should be a Games console but The Nintendo Wii, MS Xbox 360 and Sony PS3 dominated the market.

Lifetime console shipment numbers for the U.S. were 20.7 million for the Wii, 15.5 million for the Xbox 360 and 7.9 million for the PS3. Respective market shares are 47.0%, 35% and 18%. The relative market share stats are 1.0 - 0.75 and 0.38.

It is a big market, the worldwide market grew by an estimated 14% in 2007 and 12.5% in 2008 from \$12.4 billion in 2006, \$14.2 in 2007 and \$16 billion in 2008. In volume terms the market grew by 18% in 2007 and 15% in 2008, from 63 million units in 2006, to 74 million units in 2007 and 85 million units in 2008. By 2012, the market is forecast to increase to a value of \$25 billion from 100 million units.

Apple has a strong brand franchise, a clear route to market and thousands of applications available for the iPhone and the iPod. But this is not the MP3 market at the turn of the millenium. Three players with strong RMS relative market strength and RFS (relative financial strength) scores operate in a market were market shares swing with technology advances.

Similar KSFs apply and the Kaizen ethic is apparent but the investment is huge. Rumours were rife that Apple was recruiting game executives and a raft of gaming related patents. On the other hand Apple is adept at mis information and mis direction.

Many should have been warned. Instead of a Games console in April 2010, Apple launched the iPad.

15 Launch of the iPad

[Magical & Revolutionary Device at an Unbelievable Price](#)
[In January 2010 Apple announced the launch of the iPad.](#)

SAN FRANCISCO—January 27, 2010—Apple® today introduced iPad, a revolutionary device for browsing the web, reading and sending email, enjoying photos, watching videos, listening to music, playing games, reading e-books and much more. iPad’s responsive high-resolution Multi-Touch™ display lets users physically interact with applications and content. iPad is just 0.5 inches thick and weighs just 1.5 pounds—thinner and lighter than any laptop or netbook. iPad includes 12 new innovative apps designed especially for the iPad, and will run almost all of the over 140,000 apps in the App Store. iPad will be available in late March starting at the breakthrough price of just \$499.

“iPad is our most advanced technology in a magical and revolutionary device at an unbelievable price,” said Steve Jobs, Apple’s CEO. “iPad creates and defines an entirely new category of devices that will connect users with their apps and content in a much more intimate, intuitive and fun way than ever before.”

iPad features 12 next-generation Multi-Touch applications. Every app works in both portrait and landscape, automatically animating between views as the user rotates



Honey, they shrank the shuffle



iPad in any direction. The precise Multi-Touch interface makes surfing the web on iPad an entirely new experience, dramatically more interactive and intimate than on a computer. Reading and sending email is fun and easy on iPad's large screen and almost full-size "soft" keyboard. Import photos from a Mac®, PC or digital camera, see them organized as albums, and enjoy and share them using iPad's elegant slideshows. Watch movies, TV shows and YouTube, all in HD or flip through pages of an e-book you downloaded from Apple's new iBookstore while listening to your music collection. iPad runs almost all of the over 140,000 apps on the App Store, including apps already purchased for the iPhone® or iPod touch®. The iTunes® Store gives you access to the world's most popular online music, TV and movie store with a catalog of over 11 million songs, over 50,000 TV episodes and over 8,000 films including over 2,000 in stunning high definition video. Apple also announced the new iBooks app for iPad, which includes Apple's new iBookstore, the best way to browse, buy and read books on a mobile device. The iBookstore will feature books from major and independent publishers.

iPad syncs with iTunes just like the iPhone and iPod touch, using the standard Apple 30-pin to USB cable, so you can sync all of your contacts, photos, music, movies, TV shows, applications and more from your Mac or PC. All the apps and content you download on iPad from the App Store, iTunes Store and iBookstore will be automatically synced to your iTunes library the next time you connect with your computer.

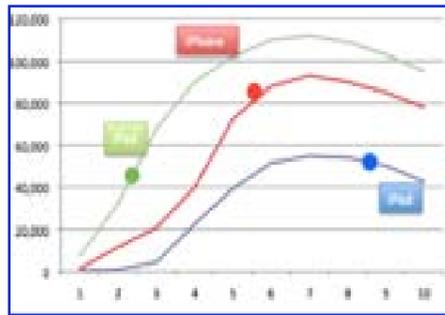
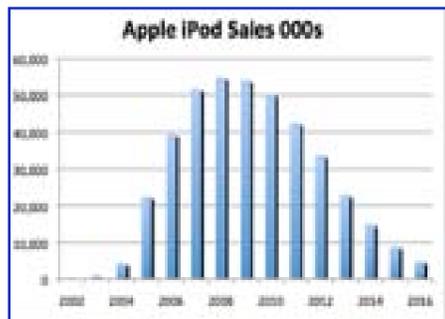
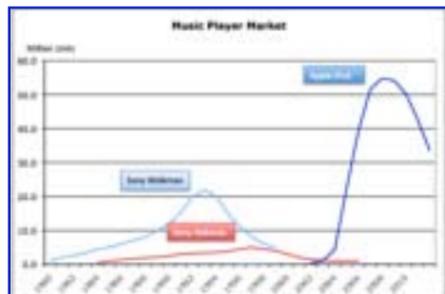
iPad's brilliant 9.7-inch, LED-backlit display features IPS technology to deliver crisp, clear images and consistent color with an ultra-wide 178 degree viewing angle. The highly precise, capacitive Multi-Touch display is amazingly accurate and responsive whether scrolling web pages or playing games. The intelligent soft keyboard pioneered on iPhone takes advantage of iPad's larger display to offer an almost full-size soft keyboard. iPad also connects to the new iPad Keyboard Dock with a full-size traditional keyboard.

iPad is powered by A4, Apple's next-generation system-on-a-chip. Designed by Apple, the new A4 chip provides exceptional processor and graphics performance along with long battery life of up to 10 hours.* Apple's advanced chemistry and Adaptive Charging technology deliver up to 1,000 charge cycles without a significant decrease in battery capacity over a typical five year lifespan.**

iPad comes in two versions—one with Wi-Fi and the other with both Wi-Fi and 3G. iPad includes the latest 802.11n Wi-Fi, and the 3G versions support speeds up to 7.2 Mbps on HSDPA networks. Apple and AT&T announced breakthrough 3G pre-paid data plans for iPad with easy, on-device activation and management.

iPad will be available in late March worldwide for a suggested retail price of \$499 (US) for the 16GB model, \$599 (US) for the 32GB model, \$699 (US) for the 64GB model. The Wi-Fi + 3G models of iPad will be available in April in the US and selected countries for a suggested retail price of \$629 (US) for the 16GB model, \$729 (US) for the 32GB model and \$829 (US) for the 64GB model. iPad will be sold in the US through the Apple Store® (www.apple.com), Apple's retail stores and select Apple Authorized Resellers. International pricing and worldwide availability will be announced at a later date. iBookstore will be available in the US at launch.

In the first year of launch, the iPad sold 7.5 million units, in the second year 32 million units, in the first quarter of the 2011/12 financial year the company sold a further 15 million units. Over 54.5 million units in the first 24 months of sales. It had taken five years to sell as many iPods since launch and four years to sell as many iPhones.



In a sense, the iPad was a logical extension of the iTouch. Effectively a bigger version with better connectivity and more facilities. The iPhone had preceded the iPad because at the time of conception, the technology and materials to develop the iPad were not available.

16 Lessons from the iPad 3.0 2012

The iPad has been a huge success for Apple, yet within a year the iPad 2 was launched followed by a further update in 2012. Weeks before the launch, no one was really sure about the final design, look and feel of the product. Of one thing we could be sure, the iPad 3 would represent a further continuation of the Apple Corporate strategy.

Apple released the first iPad in April 2010, within twelve months, (March 2011) the iPad 2 was released. Twelve months later the iPad 3 arrived. So what are the ten key things we can learn about Apple Corporate Strategy from the launch of the new model.?

16.1 The iPad 3 and Kaizen – constant improvement.

The Apple product development programme reflects a process of constant improvement, Kaizen, exemplified in the development of best practice (Deming and others) in Japanese industry following the second world war. Apple's address in Cupertino is One Infinite Loop, not just a location but a dedication to the process of constant improvement of the product offer. The Apple New Product Development Programme reflects a process of constant improvement, always improving in one infinite loop.

16.2 The iPad 3 and cannibalisation

Apple is never afraid to cannibalise or eat it's own as a result of the product development programme. The iPhone hit sales of the iPod and the iPad is hitting sales of the Mac. Apple never holds back on new product launches to protect sales of old established product lines. At a recent Goldman Sachs seminar Tim Cook Apple's new CEO said "We would rather take away sales from the Mac with the iPad than someone else taking away Mac sales with another product."

16.3 The iPad 3 and KSFs – Key Success Factors

Apple identify the key success factors for the product and develop a programme of constant improvement or Kaizen to improve the product offer and enhance the user experience. The mantra – thinner, faster, sleeker, lighter, longer, greater, better. Identify the KSFs in the product offer and develop a Kaizen plan to push the product development along.

- Thinner – design
- Faster – processor
- Sleeker – style
- Lighter – in weight;
- Longer/stable – battery life
- Greater – storage capacity
- Better features – higher screen resolution, better camera, updated software and more. How much of this can we see in the new iPad?

16.4 The iPad 3 and Product Life Cycles

The introduction of the iPad 3 develops perfectly product life cycle theory. An analysis of the sales of the Walkman, the Diskman and the iPod clearly demonstrates product life cycle theory in action. In the last financial year iPod sales fell by 15%, in the first quarter of this year iPod sales fell by 21%, sales of the iPad doubled. The iPod, the beginning of our story is beginning the end phase of the product life cycle.

16.5 The iPad 3 and pricing policy

Apple always engages in a premium price strategy. It is a good way of testing demand to establish the supply chain. Prices are more easily reduced following a product introduction than increased. For Tim Cook: "Price is rarely the most important thing." A cheap product might sell some units. Then people get it home, use it and the joy is gone. And the joy is gone every day you use it. You never think, "Oh I got a good deal!" because you hate it. Apple have so much confidence in the product offer, they are never afraid to premium price.





Then the prior premium price is followed by a plethora of price points. The iPod product range exemplifies this strategy. By retaining the iPad 2 in the product line up and dropping the price by \$100, the plethora of price points strategy is exemplified.

16.6 The iPad 3 – consistent strategy

In 2001, Apple sales fell by a third and the company reported an operating loss of \$350 million 6% of sales. It was in that year the concept of the Mac as the digital hub for consumer products emerged – the iPod was launched. Since then Apple sales have increased from \$5 billion to over \$100 billion last year and profits have soared to \$34 billion.



Over this time, the company has followed the strategy of the digital hub moving along the Golden Staircase with constant product improvement and enlargement of the product offer. In the first quarter of this financial year [2012] revenues increased by over 60%. Since launch the company has sold over 330 million iPods, 180 million iPhones and over 55 million iPads. Over 575 million digital devices sold.

16.7 The iPad 3 and multi channel marketing

The iPad either wifi or now 4G offers high connectivity and exemplifies best practise in multi channel marketing, almost 600,000 applications available from the Apple Apps store, millions of songs available from the iTunes store. Twenty five billion apps downloaded. The iPad offers instant interaction on line or in retail stores. The total number of own retail stores now over three hundred and sixty.



16.8 The iPad 3 and the Halo effect

For Apple, the success of the iPod has stimulated sales of Apple Macs and Mac Book Pros. Converting many PC users to the Mac experience. In turn the success of the iPod and the iTouch facilitated the introduction of the iPhone. The user experience on the iPod, the iTouch and the iPhone created a user base the iPad was better able to exploit. A classic halo effect. [Halo effect : a cognitive bias that involves one trait influencing others in judgement of another product or company.]

16.9 The iPad 3 – and the Golden Staircase.

Since launch the iPad has sold 55 million units . Says Cook : that's something no one would have guessed, including us. It took 22 years to sell that many Macs, 5 years to sell so many iPods and 3 years to sell so many iPhones. The iPad trajectory is off the charts but the iPad stands on the shoulders of the products the products leading the way along the golden staircase. The iPad 3 continues the original strategy of the digital hub and the Golden Staircase. In time the digital hub will yield to cloud and iCloud.

16.10 The iPad 3 – and corporate culture : Tim Cook

The iPad 3 is further homage to strong corporate culture. Says Tim Cook, CEO "You can't replicate Apple. Steve grilled in all of us the company should revolve around great products and we should stay extremely focused on a few things. We should only go into markets where we can make a big contribution to society. No better thrill to look at a market and see people using iPhones or iPads. Always focused on the future. We don't sit and think about how great things were yesterday. We are always looking to where we would like to be next."

So there you have it, ten things we can better understand about the Apple Corporate Strategy, exemplified in the launch of the new iPad. Apple from the iPod to the iPad, it is a great case study in corporate strategy.

Financial Analysis, Excel files and Keynote presentations are available on the [Apple Case Study Web Site](#)

17 Summary and Conclusions

Since 2001, Apple revenues have increased from \$5 billion to an \$108 billion in 2011. Gross margins have increased from 23% to over 40%. Operating profits have leapt from a loss of \$344 million to over \$33 billion in 2011, a ROS of 32%, ROCE of 44% with Net Assets of \$77 bn. The company has a market cap of \$582 billion and an enterprise value of \$550 billion.

The company has sold over 330 million iPods, almost 200 million iPhones and 55 million iPads. Over 75% of sales are from products which didn't exist at the turn of the millenium. The iPod may have peaked in tems of Product Life Cycle but the prospects for the iPhone and the iPad are huge.

In 2001, Apple reviewed the options for extension of the product offer eschewing the digital and video camera market at the time. Apple chose music, the launch of the iPod, music on the move and 1000 tunes in your pocket. It is a classic case study in Strategic Management. The four dimensions of RMA, RMS, RFS and RES brought into play, with examples of leadership, organization, marketing, pricing strategy, product development and much more. Constant improvement is "one infinite loop".

The launch of the iPhone was the logical extension of the improvement process. Introducing connectivity, with a digital camera (3.0) and a video camera (3GS) to music on the move. The iPad followed with greater connectivity and access to apps developing better cameras and video in the process.

Having created a vision of the "digital hub", the product offer has been extended to provide a "Golden Staircase" to fulfill mission and strategy. In time the hub will yield to cloud, with 100 million cloud users already, the transfer is well underway.

575 million digital devices sold, 585,000 apps available on the App store, 25 billion Apps downloaded, 100 million iCloud users registered, over 10 billion songs sold, the digital strategy secured.

Apple :

Market Driven

Strong design ethos

Strong Kaizen instinct

Strong leadership

Strong direction

Premium price entry

Price extension follows

iPod family - demonstrates product extension

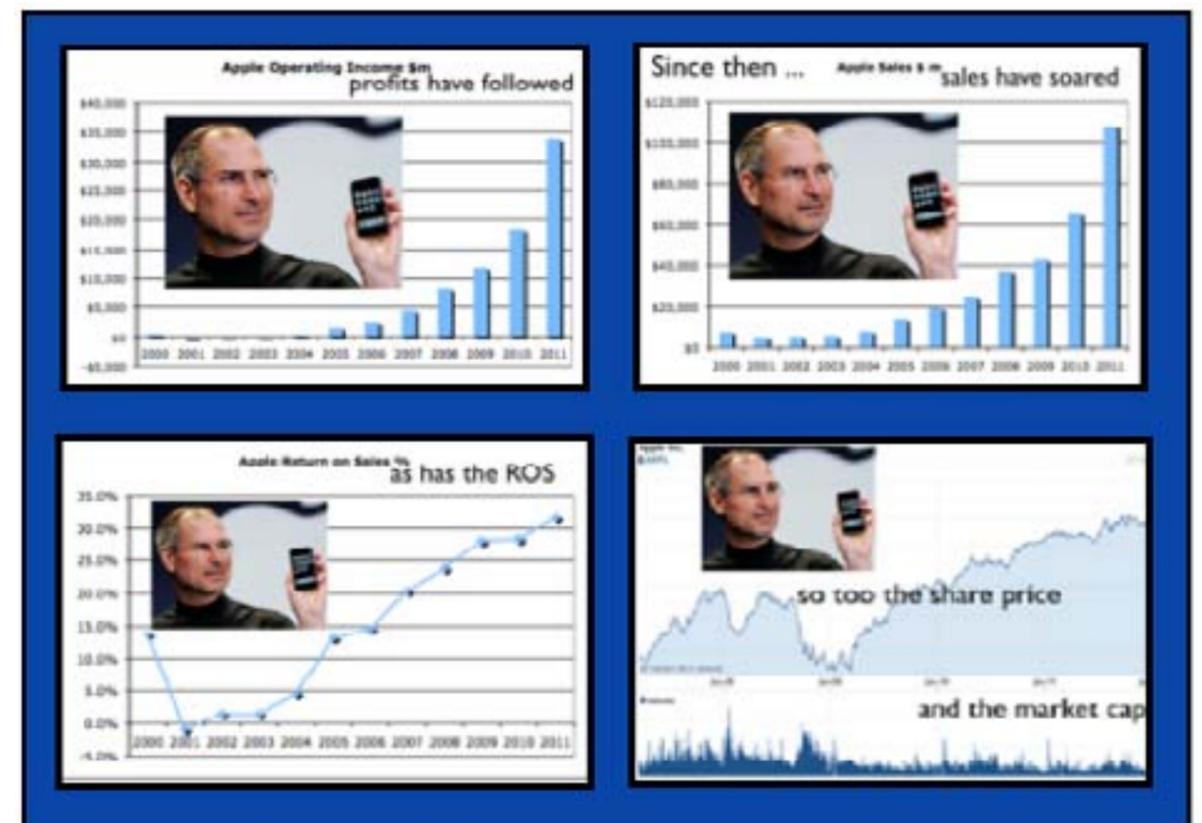
Multi channel marketing, own retail and on line

Great software

Great support

For the digital hub

Yielding to cloud



18 Appendix 1 Blog Post

George Bernard Shaw and Steve Jobs – looking for unreasonable men

Posted on March 31, 2012 by John Ashcroft

Business growth is dependent on the unreasonable entrepreneurs who strive to expand and develop their business ideas, no matter how difficult the market situation and the economic climate.

George Bernard Shaw said “The reasonable man adapts himself to the world, the unreasonable man persists in trying to adapt the world to himself. Therefore all progress depends on the unreasonable man.” Shaw was right, we need unreasonable men and women to secure growth in the UK Economy.

In Walter Isaacson’s book on Steve Jobs, Isaacson wrote of the Steve Jobs’s reality distortion field. The term derived from an episode in Star Trek in which aliens create a new world through sheer mental force.

Steve Jobs would insist on the impossible in terms of task and timetable to achieve objectives, creating his reality distortion field into which the team would be drawn.

“The reality distortion field was a melange of charisma, rhetoric, indomitable will and an eagerness to bend any fact to fit the purpose at hand.” according to Andy Hertzfeld who joined the Apple Mac team in the eighties.

You did the impossible because you didn’t realize it was impossible, the classic remark.

The reality distortion field can serve as a spur to progress but in the end reality hits. Jobs had his share of failure with the the Lisa, the NExt computer and the Macintosh. The latter resulting in the twenty million dollar write off of the state of the art production plant in Fremont, California.

Jobs gradually realized the flaw in the field. He once quoted Alice through the looking glass, the episode in which Alice laments that no matter how hard she tries, she can’t believe in impossible things. The White Queen retorts, “Why sometimes I believed in six impossible things before breakfast”. Jobs smiled – a reality check perhaps.

In his earlier years Jobs said that from time to time he was be prepared to bet the company on some new idea or technology. But this was a younger Jobs before the brutal reality, the ousting from his own creation had taken place.

The Jobs returning to Apple in 1996 had become more cautious. He had realized leaders can create a reality distortion field to strive for the impossible and motivate others. He had also realized the canny entrepreneur should never be oblivious to reality and never be prepared to bet the firm. When the force field collapses, the reality check can be brutal and there is no Scottie to beam us aboard the Starship Enterprise.

All progress depends on the unreasonable but successful entrepreneurs. JKA.

Appendix 2

The Corporate Strategist : Apple product life cycles, iPod, iPhone, iPad – is this the future?

Posted on January 31, 2012 by John Ashcroft

On January 24th Apple reported first quarter results with the highest quarterly revenues and earnings ever. In this article, we look at the product life cycles of the iPod, the iPhone and the iPad. The Corporate Strategist – Apple Product Life Cycles iPod, iPhone, iPad

The Company posted record quarterly revenue of \$46.33 billion and record quarterly net profit of \$13.06 billion. The results compare to revenue of \$26.74 billion and net quarterly profit of \$6 billion in the year-ago quarter.

It is a great result but what happened to the product sales?

The company sold 37 million iPhones in the quarter, representing 128 percent unit growth over the year-ago quarter. Apple sold 15.43 million iPads an 111 percent unit increase.

The Company sold 5.2 million Macs during the quarter, a 26 percent unit increase over the year-ago quarter and Apple sold 15.4 million iPods, a 21 percent unit decline from the year-ago quarter.

Tim Cook Apple’s CEO said : “We’re thrilled with our outstanding results and record-breaking sales of iPhones, iPads and Macs, Apple’s momentum is incredibly strong, and we have some amazing new products in the pipeline.”

For lovers of product life cycles, the Apple product line demonstrates some classic lines. The iPod is on the wane but the future of the iPhone and the iPad look incredibly strong.

In the charts, the performance of the Sony Walkman and the Disk man is compared to that of the iPod in the period from 1980 to 2012.

The second chart outlines the performance of the iPod from launch to the present day with a forecast of future sales up to 2016.

The third chart maps the performance since launch of the iPod, the iPhone and the iPad.

Is this the future path of the iPhone and the iPad. The only problem, latest sales for the iPhone suggest total sales could be off the chart in the current year with sales of 150 million units compared to the 88 million modelled here

Appendix 3

The Corporate Strategist : Steve Jobs, the exclusive biography by Walter Isaacson Posted on October 27, 2011 by John Ashcroft

This week a great chance to burn through the six hundred page Steve Jobs biography by Walter Isaacson. It is a great read and provides some detail to my Apple corporate strategy case study.

Jobs was a great visionary and product champion. To work with he could be an ungrateful, ungracious character. It is best this is outed early in life post Jobs. One of the US online journals this week outlined the 16 really bad things Steve Jobs did. Yeah he did them all, storming out of a hotel, chastising suppliers. He could be really heavy on non performing staff. Jobs was not overly strong on people skills yet the close group of Jonathan Ive, Phil Schiller and Tim Cook stayed with him. They lived within his reality distortion field, a field in which time and tasks were folded into a new ever demanding dimension.

Jobs was a great product champion with a fanatical obsession with detail. Shades of colour, degrees of angle, density of material were his every day commitment. One would be exhausted to maintain the pace. He and his wife would spend two weeks in which every night included a debate about US versus European washing machines prior to purchase. In the end opting for Miele, for me it has always been ten minutes begrudgingly spent in Comet to buy anything in white.

Even in great pain, Jobs tore off his oxygen mask complaining of the design, asking for five options from which to choose before taking relief. The doctors should have been told to present all, saving the best until last, just as Jonathan Ive had done with the iPod mock ups ten years earlier.

Jobs was not infallible. It is important to realise our corporate heroes are now without failings or failure. Apple III, Lisa, the Macintosh, the Fremont factory, the Next computer and even the early endeavours with Pixar were failures. A series of lucky breaks with animation led to the success of Toy Story even as the threat of bankruptcy for Pixar neared.

Each of the failures became a building block for later success, not least the failures in integrated manufacturing, which led to the supplier syndication, of itself an essential component in the success of the iPod. The iPod, one thousand songs in your pocket, it was so cool, we should never forget.

Jobs was a product genius and a visionary. Without him, the iTunes store could not have been a success. It would need the power of his personality to convince the record moguls to get on the web page. So too with some of the music stars like Bono, Dylan and the Beatles he got them to sign up and sing on line.

To move towards the end of the book, is to move towards the end of his life. It is sad. To lose one friend to cancer is a tragedy. We watch them emaciate and lose energy, the very hallmark of life and soul. Radiation yields, to emission of a finite resource. It is too much. To lose a hero to cancer, is a great tragedy. In the latter stages, Jobs was grateful to see his son's graduation. That was the deal with his maker. He probably added a sub clause to get to launch the iPad 2. He could never resist a good negotiation.

Steve Jobs is a fascinating character, a zen loving vegan, wealthy but with no real interest in wealth. Offering to work for a dollar a year on his return to Apple, he refuses fourteen million share options but then asks for twenty million. A visionary and product champion, Jobs realised the potential of the digital hub before anyone. The hub begat the iPod, the iTouch, the iPhone and the iPad. Now all maybe lost in cloud. Rumour has it, he had cracked the Apple television and no doubt he was working on the Apple washing machine. It would have been a cool wash. This is a great book about a great man who will be missed.

Steve Jobs by Walter Isaacson is published by Simon and Schuster USA and Little, Brown, Great Britain.

Appendix 4 Case Study Teaching Notes

1. Introduction

The case study deals with the progress of Apple Inc in the period from 2000 - 2011, the iPod to the iPad. In 2001, Apple developed the strategy of the Mac as the centre of the Digital Hub for digital photos, videos and music. This led to the launch of the iPod, the iTouch, the iPhone and the iPad. Apple sales increased from \$5 billion in 2001 to \$108 billion in 2011.

Profits increased from a loss of \$350,000 in the period to over \$3 billion a return on sales of 28%. By 2010, Apple had sold 300 million iPods, 100 million iPhones and 25 million iPads. The iTunes store has sold over 12 billion songs, 450 million TV episodes, 100 million movies and 35 million books. Apple had become according to Steve Jobs, "the largest mobile devices company in the world".

2. Position of the Case

The case study is concerned with corporate strategy and the management of corporate strategy.

3. Learning Objectives

The case is designed to help students and executives understand the corporate strategy process and the management of strategy in a dynamic environment. The iPod story offers an insight into innovation, entrepreneurship and product design management. But it also reflects a devotion to the Apple digital hub strategy developed in 2001, initiated by the iPod but still evident in the launch of the iPhone in 2007 and the iPad in 2010.

4. Teaching Scheme

The Apple is most likely to be used as a basis for plenary discussion but can also be used for small work groups such is the wealth of topics included in the case study.

5. Questions for discussion

- 5.1 Market Analysis and Segmentation
- 5.2 Three dimensional analysis : relative market strength, relative market share and relative financial strength.
- 5.3 Understanding Critical or Key Factors for success. The CSFs and KSFs.
- 5.4 First Mover and First Mover advantage - MP3 players and the iPod.
- 5.5 Managing the Innovation Process, a holistic approach from out to in.
- 5.6 Technology Push versus market pull.
- 5.7 Product or Process Innovation
- 5.8 Pricing Strategy, premium price entry, later defended by a plethora of price points, a price for every pocket.
- 5.9 Product Extension as a strategic marketing tool. Defending all sectors.
- 5.10 Distribution Strategy - Multi Channel marketing, own retail, online, iTunes and the Apps store.
- 5.11 Diffusion, the S curve and the tipping point. Did the iPhone ring the death knell for the iPad.
- 5.12 Kaizen and KSFs - constant improvement driving the Key Success Factors.
- 5.13 Porter's five forces - what happens when your major competitors become your major suppliers?
- 5.14 The Experience curve - does supply syndication suggest the experience curve is no longer the driver?
- 5.15 The Resource Based view of the firm - the Apple success - resource based or market driven?

6 Case Analysis

6.1 Market Analysis and Segmentation

In 2001, Apple identified four key market segments within the market profile, Business, Creative Professionals, Education, and “high-end” consumers. In the year 2000, 75% of sales were to the traditional business and professional markets. By 2010, the situation had reversed with 70% of sales in the consumer markets of education, students and the broader consumer market. The search for a consumer product in 2001 was the cause of this dramatic turn around. During the decade Apple dropped “Apple Computer Inc” to become “Apple Inc”, By 2010, Apple had become, according to Steve Jobs, “the largest mobile devices company in the world”.

6.2 Three dimensional strategic analysis.

Relative market strength, relative market share and relative financial strength. In 2001 at the launch of the iPod, Steve Jobs explained “Why music” because it’s a big market and nobody has got it right yet” Apple had the resource in terms of finance and brand credibility to “pull it off” in a big market where competition was weak.

6.3 Understanding Key or Critical Factors for success. The KSFs or CSFs.

How well did Apple understand the KSFs, and how well equipped was Apple Inc compared to Sonic Blue to meet the challenges of the market. The KSFs were outlined clearly in the Apple financial reports as early as 2001 and formulated the guidelines for product development.

6.4 First Mover and First Mover advantage

First mover advantage or fast second intervention. Sony and the Walkman, the MP3 device, Creative and Sonic Blue MP3 players, Napster downloads, all provided first mover guidelines, which Apple was able to exploit in developing the iPod, iTunes and the iTunes store. Apple utilised the business model of syndicated suppliers in a race to market timetable as a fast follower? Sonic Blue - Diamond Rio - and first mover advantage? In 2001, Sonic Blue was the market leader in the MP3 player market with an estimated 45% market share. In that year the company announced losses of \$760,000 on sales of just over \$200,000. In 2003, the company filed for bankruptcy. As a first mover, the company had been subject to legal action by the Recording Industry Association of America seeking to prevent the sales of MP3 players. Although the RIAA action failed it provided an expensive distraction. Sonic Blue was a market leader with a very weak financial position.

6.5 Managing the Innovation Process

Steve Jobs as product champion. Design as an integrated process. “Design from out to in”. A continuous process, products don’t pass from team to team. No sequential and discrete development stages. Products are worked on, in parallel by all departments. Jobs didn’t invent the iPod but enabled the organisational environment and framework which made it possible. Kaizan the Apple process of continuous improvement was not just the Apple address (One infinite loop, Cupertino,) it was a mantra for product development.

The launch of the Nano with video recorder. In 2009, Apple introduced the iPod Nano with a video recorder. Available in two sizes, the Nano had a capacity for 2,000 or 4,000 songs with 8 to 16 hours of video recording. To what extent was the launch of the Nano a continuation of the digital hub strategy and an example of the constant improvement process in product development and product differentiation within the Apple camp.

Launch of the iPhone - to what extent was the launch of the iPhone a “new market” opportunity or a logical continuation of the digital hub strategy. Consider the iPhone 3GS has digital camera and digital video capacity, music, photos and video with MMS, internet and telephone capability.

6.6 Technology push versus market pull

Technology push versus market pull, managing the balance between the extremes. Steve Jobs as a technological innovator working within a marketing framework determined by relative market attraction, relative market and relative financial strength. The iPod was an example of market pull pushing the technology.

6.7 Product or Process innovation

Ipod, “one thousand songs in your pocket”, not just a product innovation but a concept, part of a process innovation encompassing “music on the move”. A combination of hardware, software, content, access and delivery. The strategy of the Apple Mac as the digital hub for music, photos, video and DVD from which music was chosen to launch the first electronic device.

6.8 Pricing Strategy

To what extent did Apple utilise a premium price strategy to test market reaction and sales volumes before moving to a more competitive price platform? In the main Apple introduced a premium price product to determine market reaction, establish volume of demand and supply satisfaction before moving to a more amenable pricing model. In the second phase of product development, premium price is followed by a plethora of price points. The iPod shuffle at \$49 to the iPod at £399. A price point for every pocket.

The iPad is the exception, with established competition such as the Sony Reader and the Amazon Kindle, Apple was forced to enter the market with a competitively priced product from day one. Now with the introduction of the iPad 3, retention of the iPad 2.0 in the product offer with a \$100 discount reflects the second stage. iPad now from \$399 to £899. The top end model with WiFi, 4G and 64 GB of memory.

6.9 Sustaining competitive advantage

Product Extension as a defensive marketing tool. In November 2006 Microsoft launched the Zune, five years after the iPod launch. How well had Apple prepared for the Microsoft response? The product differentiation and price point proliferation prior to the arrival of the Zune generated a width and depth of product offer which would make competitive entry difficult and make it easy to defend the position of market leader.

6.10 Distribution Strategy - Multi Channel marketing

By 2011 Apple had developed a multi channel strategy with over 360 own retail stores a strong online store and the incredibly successful iTunes store and Apps stores, 585,000 apps available leading to 25 billion apps downloaded.

6.11 Diffusion, the S curve, tipping point

Understanding the diffusion process, the tipping point to tripping point. Understanding the pace of diffusion, tipping point to tripping point examples from the Walkman and the iPod. Understanding the diffusion process. Plotting the S curve for the iPod. To what extent, by the introduction of the iPod touch and the iPhone did Apple generate a tripping point for the iPod? The product development programme led to the cannibalisation of own sales and pushed the iPod into the end phase of the product life cycle.

6.12 Kaizen and KSFs

Constant improvement driving the Key Success Factors.

6.13 Porter’s five forces

We can best remember Porter’s 5 as CBS News, competitors, buyers and suppliers, new products and new players. But what happens when your major competitors become your major suppliers as with Samsung, a major competitor to the iPhone and a major supplier to the iPad?

6.14 The Experience curve

BCG, the Boston Consulting Group made much of the experience curve as market share created advantage - volumes led to bigger returns to scale and lower unit costs, creating competitive advantage. But does the move from supply integration to supply syndication undermine the true returns to scale, the experience curve and competitive advantage?

6.15 The Resource Based view of the firm

Is the Apple success - resource based or market driven?

Appendix 5 References - Books

Beahm George	I, Steve Jobs, in his own words.
Carlton, Jim	Apple the inside story of intrigue, Egomania and Business Blunders.
Isaacson W	Steve Jobs - The exclusive Biography
Linzmayr, Owen	Apple Confidential 2.0
Malone, Michael	Infinite Loop
Sculley, John	Odyssey : Pepsi to Apple, a journey of adventure Ideas and the Future
Wozniak, Steve	i, Woz : Computer Geek to Cult iCon. Getting to the core of Apple’s inventor

Great background books on Apple.

Appendix 6 Harvard Business Review Extract

Walter Isaacson : The real leadership lessons of Steve Jobs April 2012

Know Both the Big Picture and the Details

Jobs's passion was applied to issues both large and minuscule. Some CEOs are great at vision; others are managers who know that God is in the details. Jobs was both. Time Warner CEO Jeff Bewkes says that one of Jobs's salient traits was his ability and desire to envision overarching strategy while also focusing on the tiniest aspects of design. For example, in 2000 he came up with the grand vision that the personal computer should become a "digital hub" for managing all of a user's music, videos, photos, and content, and thus got Apple into the personal-device business with the iPod and then the iPad. In 2010 he came up with the successor strategy—the "hub" would move to the cloud—and Apple began building a huge server farm so that all a user's content could be uploaded and then seamlessly synced to other personal devices. But even as he was laying out these grand visions, he was fretting over the shape and color of the screws inside the iMac.

Focus

When Jobs returned to Apple in 1997, it was producing a random array of computers and peripherals, including a dozen different versions of the Macintosh. After a few weeks of product review sessions, he'd finally had enough. "Stop!" he shouted. "This is crazy." He grabbed a Magic Marker, padded in his bare feet to a whiteboard, and drew a two-by-two grid. "Here's what we need," he declared. Atop the two columns, he wrote "Consumer" and "Pro." He labeled the two rows "Desktop" and "Portable." Their job, he told his team members, was to focus on four great products, one for each quadrant. All other products should be canceled. "Deciding what not to do is as important as deciding what to do," he told me. "That's true for companies, and it's true for products." After he righted the company, Jobs began taking his "top 100" people on a retreat each year. On the last day, he would stand in front of a whiteboard and ask, "What are the 10 things we should be doing next?" People would fight to get their suggestions on the list. Jobs would write them down—and then cross off the ones he decreed dumb. After much jockeying, the group would come up with a list of 10. Then Jobs would slash the bottom seven and announce, "We can only do three." Focus was ingrained in Jobs's personality and had been honed by his Zen training. He relentlessly filtered out what he considered distractions he would refuse to shift his laser like focus until he was ready.

Simplify

Jobs's Zen like ability to focus was accompanied by the related instinct to simplify things by zeroing in on their essence and eliminating unnecessary components. "Simplicity is the ultimate sophistication," declared Apple's first marketing brochure. During the design of the iPod interface, Jobs tried at every meeting to find ways to cut clutter. He insisted on being able to get to whatever he wanted in three clicks. One navigation screen, for example, asked users whether they wanted to search by song, album, or artist. "Why do we need that screen?" Jobs demanded. At one point Jobs made the simplest of all suggestions: Let's get rid of the on/off button. At first the team members were taken aback, but then they realized the button was unnecessary. The device would gradually power down if it wasn't being used and would spring to life when reengaged. Likewise, when Jobs was shown a cluttered set of proposed navigation screens for iDVD, which allowed users to burn video onto a disk, he jumped up and drew a simple rectangle on a whiteboard. "Here's the new application," he said. "It's got one window. You drag your video into the window. Then you click the button that says 'Burn.' That's it. That's what we're going to make."

Push for Perfection

During the development of almost every product he ever created, Jobs at a certain point "hit the pause button" and went back to the drawing board because he felt it wasn't perfect. This was true for the iPhone. The initial design had the glass screen set into an aluminum case. One Monday morning Jobs went over to see Ive. "I didn't sleep last night," he said, "because I realized that I just don't love it." Ive, to his dismay, instantly saw that Jobs was right. "I remember feeling absolutely embarrassed that he had to make the observation," he says. The problem was that the iPhone should have been all about the display, but in its current design the case competed with the display instead of getting out of the way. The whole device felt too masculine, task-driven, efficient. "Guys, you've killed yourselves over this design for the last nine months, but we're going to change it," Jobs told Ive's team. "We're all going to have to work nights and weekends, and if you want, we can hand out some guns so you can kill us now." Instead of balking, the team agreed. "It was one of my proudest moments at Apple," Jobs recalled.

Always Challenge

Even as Apple became corporate, Jobs asserted his rebel and counterculture streak in its ads, as if to proclaim that he was still a hacker and a hippie at heart. When he returned to Apple, Jobs helped write the text for the "Think Different" ads: "Here's to the crazy ones. The misfits. The rebels. The troublemakers. The round pegs in the square holes..." "While some see them as the crazy ones, we see genius. Because

"the people who are crazy enough to think they can change the world are the ones who do."

Appendix 7

A full set of financial tables are available in Excel format from the Apple Case Study web site.

Keynote presentations are also available from the web site.

15.5 Apple Net Sales by Operating Segment \$m												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net sales by operating segment \$												
Americas	\$ 4,208	\$3,996	\$3,131	\$3,181	\$4,018	\$6,038	\$8,413	\$11,907	\$16,352	\$18,981	\$24,488	\$28,315
Europe	\$ 1,817	\$1,249	\$1,231	\$1,339	\$1,798	\$3,073	\$4,096	\$5,489	\$8,223	\$11,901	\$18,881	\$27,778
Japan	\$ 1,340	\$712	\$719	\$898	\$874	\$824	\$1,211	\$1,084	\$2,178	\$2,759	\$3,981	\$5,437
Other segments	\$ 133	\$20	\$362	\$612	\$1,181	\$2,278	\$3,246	\$4,362	\$7,261	\$8,639	\$9,789	\$14,227
Total	\$ 7,498	\$5,577	\$5,543	\$6,430	\$9,871	\$13,263	\$17,036	\$24,667	\$40,017	\$42,280	\$57,147	\$75,757
Home												
Net sales by operating segment Vol												
Americas	2,307	1,768	1,728	1,820	1,983	2,984	4,232	5,824	8,380	9,420	12,976	15,076
Europe	1,110	794	732	884	1,128	1,948	2,519	3,329	4,945	6,945	10,309	12,839
Japan	730	394	386	469	473	509	689	588	1,184	1,524	2,123	2,848
Other segments	211	104	172	280	520	790	1,030	1,330	2,358	2,846	3,581	5,374
Total	4,358	3,060	3,026	3,533	4,104	5,201	6,359	7,051	10,827	12,735	17,029	20,137
Pro												
Net Sales by Product												
Desktops	\$ 1,128	\$ 1,791	\$2,828	\$2,475	\$2,373	\$3,538	\$5,218	\$8,021	\$12,622	\$16,224	\$20,251	\$24,436
Portables	\$ 1,787	\$ 1,822	\$1,794	\$2,016	\$2,650	\$2,839	\$4,058	\$6,313	\$9,732	\$13,276	\$18,244	\$23,848
Total Mac	\$ 2,915	\$ 3,613	\$ 4,622	\$ 4,491	\$ 5,023	\$ 6,377	\$ 9,276	\$ 14,334	\$ 22,354	\$ 29,500	\$ 38,495	\$ 48,284
iPad			\$142	\$340	\$1,208	\$4,340	\$7,678	\$8,303	\$9,153	\$8,081	\$8,274	\$7,492
Other Mac-related products and services			\$4	\$8	\$278	\$899	\$1,880	\$2,496	\$2,942	\$4,538	\$5,968	\$8,314
Phone and related products and services			\$4	\$8	\$5	\$5	\$5	\$13	\$184	\$12,023	\$25,179	\$47,057
Mac and related products and services					\$5	\$5	\$5	\$13	\$184	\$12,023	\$25,179	\$47,057
Peripherals and other hardware	\$ 1,288	\$ 360	\$527	\$691	\$910	\$1,126	\$1,100	\$1,283	\$1,808	\$1,476	\$1,814	\$2,330
Software, services and other sales	\$ 7,985	\$1,503	\$1,198	\$1,565	\$1,974	\$3,581	\$4,122	\$4,129	\$4,109	\$4,257	\$4,573	\$4,820
Total Net Sales	\$ 17,943	\$12,823	\$12,743	\$14,207	\$18,278	\$24,911	\$33,311	\$44,228	\$63,527	\$76,503	\$103,223	\$130,249

15.2 Apple Inc. Balance Sheet \$m												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Fixed Assets												
Property, Plant & Equipment	\$313	\$384	\$621	\$689	\$707	\$817	\$1,281	\$1,832	\$2,455	\$2,954	\$4,768	\$7,777
Goodwill	\$786	\$128	\$29	\$85	\$80	\$89	\$38	\$38	\$207	\$206	\$741	\$896
Acquired Intangible Assets	\$277	\$76	\$119	\$24	\$17	\$27	\$29	\$29	\$299	\$247	\$242	\$1,336
Long-Term Marketable Securities									\$2,378	\$10,128	\$25,781	\$35,818
Other		\$10	\$121	\$130	\$181	\$203	\$1,230	\$1,232	\$820	\$2,011	\$2,263	\$3,526
Total	\$1,376	\$578	\$800	\$928	\$905	\$1,124	\$2,686	\$3,331	\$6,192	\$10,946	\$23,561	\$35,363
Home												
Current Assets												
Cash and Cash Equivalents	\$1,191	\$2,310	\$2,252	\$3,396	\$2,969	\$3,491	\$6,382	\$8,252	\$11,875	\$5,263	\$16,399	\$35,127
Short-Term Investments	\$1,836	\$2,020	\$2,085	\$1,750	\$2,495	\$4,772	\$3,718	\$6,234	\$10,230	\$18,221	\$4,414	\$6,248
Accounts Receivable	\$813	\$848	\$585	\$786	\$778	\$886	\$9,252	\$14,822	\$14,822	\$13,281	\$15,328	\$15,388
Inventories	\$33	\$11	\$43	\$56	\$121	\$165	\$270	\$346	\$509	\$455	\$1,021	\$776
Deferred Tax Assets	\$152	\$109	\$194	\$190	\$221	\$325	\$507	\$782	\$1,044	\$1,123	\$1,426	\$2,014
Other Current Assets	\$210	\$161	\$275	\$309	\$380	\$468	\$2,272	\$1,808	\$3,920	\$1,150	\$3,047	\$3,528
Total Current	\$3,403	\$5,419	\$5,389	\$5,987	\$7,553	\$12,301	\$14,309	\$21,956	\$23,952	\$31,153	\$41,178	\$64,308
Pro												
Current Liabilities												
Accounts Payable	\$1,152	\$801	\$811	\$1,134	\$1,452	\$1,779	\$3,290	\$4,970	\$5,220	\$5,601	\$12,213	\$14,632
Accrued Expenses	\$776	\$717	\$747	\$899	\$1,228	\$1,708	\$3,083	\$4,110	\$4,224	\$3,852	\$5,723	\$8,247
Long-Term Debt, Def. Rev	\$308	\$317	\$316	\$304				\$1,617	\$2,053	\$2,984	\$4,891	\$4,891
Total Current Liabilities	\$2,236	\$1,835	\$1,874	\$2,337	\$2,680	\$3,487	\$6,373	\$9,180	\$12,397	\$12,538	\$20,829	\$27,770
Non-current liabilities	\$852	\$268	\$220	\$220	\$220	\$220	\$220	\$1,220	\$1,700	\$1,000	\$6,000	\$11,700
Total Liabilities	\$3,088	\$2,103	\$2,094	\$2,557	\$2,900	\$3,707	\$6,593	\$10,400	\$14,097	\$13,538	\$26,829	\$39,470
Total Net Assets	\$4,387	\$3,475	\$3,695	\$4,223	\$5,076	\$7,428	\$9,984	\$14,532	\$22,605	\$32,483	\$47,781	\$74,815

15.5 Apple Net Sales by Operating Segment \$m												
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Home												
Unit Sales by Product												
Desktops	5,820	6,140	2,087	1,781	1,820	2,320	2,439	2,714	2,712	3,182	4,627	4,889
Portables	838	840	1,024	1,221	1,885	2,814	3,864	4,267	4,863	7,214	8,235	12,088
Total Mac Sales	6,658	6,980	3,111	3,002	4,205	5,134	6,303	6,981	7,576	10,396	12,862	16,977
iPad and sales	0	0	381	839	4,610	22,987	28,459	18,828	19,818	14,122	15,312	



Apple from the iPod to the iPad

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