

MANAGEMENT AND MARKETING

“APPLE” – UP OR DOWN

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ABSTRACT

In this article the future of Apple, Inc. was investigated. The emphasis was made on the analysis of the statistical data demonstrating the dynamics of the company's revenue, as well as the market share of its main product - iPhone. The main stages of the development of the company and its strategy was examined also. Having analyzed this information, author gave a prognosis about the future of Apple company.

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*In the memory of Steve Jobs,
the Leader, who transformed
our minds and souls.*

June 28, 2007 would forever go down in history as the “day before”. That unremarkable day was the last one when people kept pressing the buttons of their mobile phones with a vengeance, not even thinking that soon those familiar gadgets would change beyond recognition. Already on June 29, 2007, a new era began – the iPhone era. The market of mobile phones in an instant turned to belong to a new miracle, making it possible with a light touch of a finger on the screen to flip through pictures, taken with the same smartphone, and comfortably surf the Internet. The whole world was waiting for the moment when the phone, resembling the machine from the most fantastic movies, could be picked up to make the first call without pressing traditional buttons. It was incredible. A new gadget had emerged to instantly transform people's idea about mobile phones and pin down the button competitors. But that wasn't all. Along with the innovative smartphone, new innovative services were offered to customers:

- A website offering information about the product, how to purchase it, and supporting service.
- Apple retail stores, enabling potential customers to familiarize themselves with the iPhone and other company's products.
- iTunes – the music store – registering there and downloading a special application, the iPhone holder could download and listen to the music.
- AppStore – the online store where users could download different apps to install them on a new iPhone.
- iCloud – Apple's signature cloud storage where you could store backup copies of information hosted on your iPhone and iPad. This service, according to Apple, was one of the most significant options offered by the company. Customers got the opportunity to back up all their data and easily transfer it to a new iPhone.

Not all services were offered by the company at one time. Yet, customers noticed that the company cared about their convenience, constantly offering new solutions that added value to its products and made them even more attractive.

Apple also offered customers not simply a product and service of exceptional quality but also a special image: people in white earphones originally stood out in a crowd. They were willing to demonstrate they were the holders of the iPhone. Thanks to its wonderful smartphone, Apple managed to do nearly impossible – the company had turned its customers into its worshipers.

Moreover, third-party companies got engaged in the manufacture of the innovative original iPhone cases. Thus, iPhone holders got a unique opportunity to personalize their phones, to emphasize their character with a huge variety of available accessories for their smartphones.

It is safe to say that Apple had surpassed customer expectations by creating an offer of the highest value through innovative product and servicing.

Besides, with its innovative products, Apple had changed the entire mobile phone industry and inspired companies to follow the pattern.

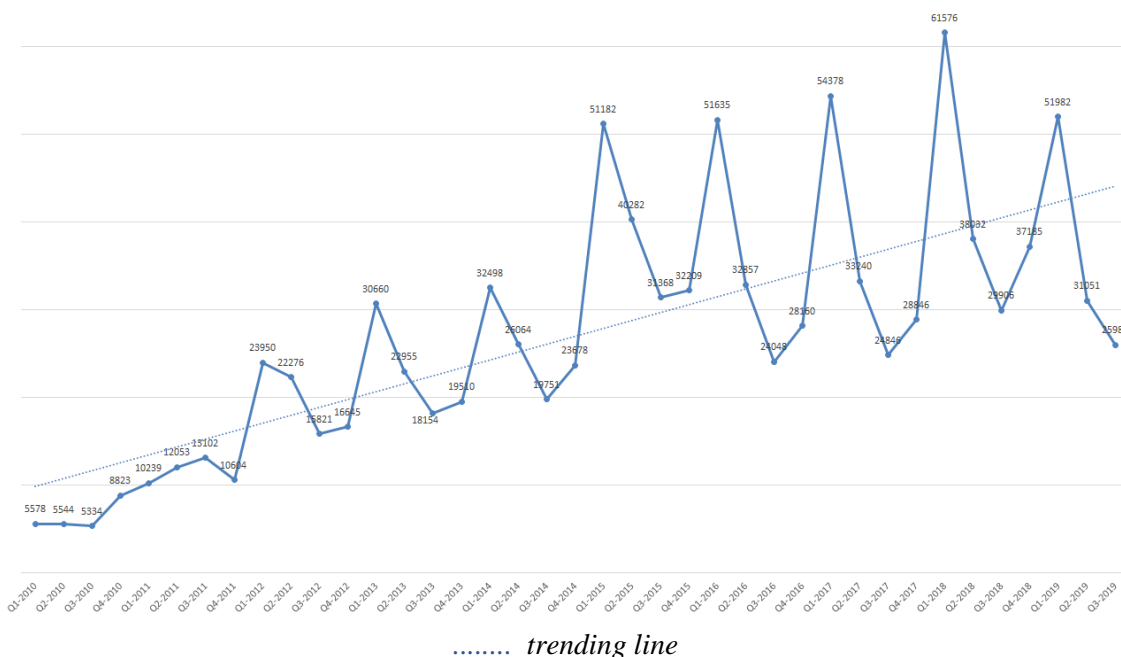
According to BCG (Boston Consulting Group) research, Apple had been holding the first leading position among the most innovative companies for 13 years. However, in 2019, also according to BCG information, Apple, came down to the third position in this rating, giving way to Alphabet\Google and Amazon. Most likely, the main product of the company – the iPhone – had most significantly caused this change. According to expert estimates, the new iPhone models have almost ceased to surprise their customers with innovations. Moreover, Apple has long been repeating the achievements of its closest competitors. In 2009, HTC launched a smartphone with a screen of 4.3 inches. In 2011, Samsung offered customers a Galaxy Note with a screen size of 5.3 inches. Just Apple alone stubbornly kept on releasing smartphones having a screen of 3.5 inches, and only in 2012 it introduced a new iPhone 5 with a 4-inch screen.

In 2018, Samsung introduced its first smartphone with a triple-camera setup. While Apple was only about to present its new iPhone 11 with triple camera.

Aside from that, Huawei and Samsung launched innovative smartphone with a folding screen – Mate X and Fold, which implies again that Apple gradually steps away from innovations and stop surprising their customers.

In 2016, there were problems with batteries deployed to smartphone iPhone 6s. The company argued that the problem affected limited number of smartphones and that they would guarantee the replacement of defective batteries. At the same time, experts referred to some issues related to batteries replacement as they were missing in service centers, and problems in communication between customers and the company. It is also worth pointing out that only under pressure Apple agreed to cut the replacement price from \$79 to \$29.

Nevertheless, despite these facts – the lack of significant innovations since the release of the first iPhone and the problems associated with the replacement of batteries – Apple has been successfully showing a very positive financial growth.



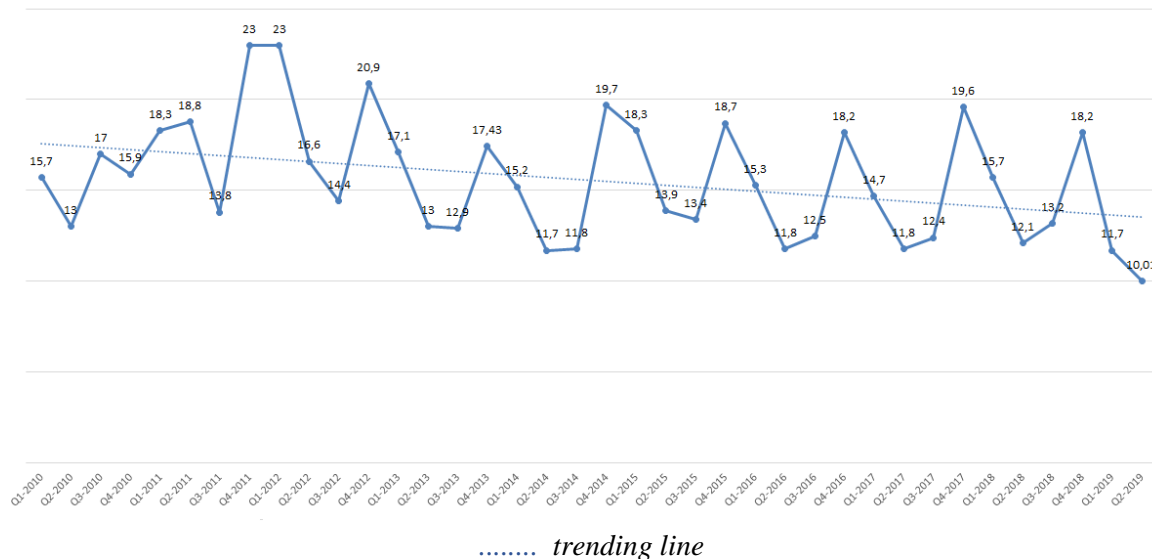
..... trending line
 Fig. 1. Apple's iPhone revenue from Q1- 2010 to Q3- 2019 (dollars in millions). Source of information: Statista.

Very noteworthy is that in the second quarter of 2018, according to Counterpoint research, Apple got 62% of the global cell phone market's profits, taking about 11% of the total smartphone market at that moment.

Apple managed to reach this financial progress applying the differentiation strategy for the iPhone, highlighting it from the competitive range. It should be noted that the differentiation of any product is up to such factors as technological progress, exceptional image, or the primacy of providing the appropriate product to customers, as a result of which the company gets a significant advantage against competitors. This was demonstrated by Apple with the revolutionary iPhone confidently accelerated the engine of technological and trendy leadership, having produced quite a valuable offer to its customers. The iPhone differentiation strategy also allowed to set high value based price enabling to generate a significant profit. It is worth emphasizing that Apple is the inventor of smartphones in the category of 800 USD+. Thus, thanks to a well-chosen strategy, customers are still willing to pay a high value based price for the possession of iPhone, even despite that Apple has ceased to surprise. Customers also show a high level of trust and affection for the Apple brand. According to Interbrand “Best Global Brands 2018 Rankings”, Apple ranks first place in terms of customers’ strong sense of identification with this brand and differentiation it from other brands.

Apple simultaneously offers the most harmonious interaction between “hardware” and “software” iPhone. It is pointed that when choosing different iPhone models the users can be fully confident that the software will be equally convenient and familiar. Very significant is that Apple very quickly updates the software to the latest version.

However, against the consistently declared profit there is some decline in Apple’s market position. As can be seen from the proposed graph (see Figure 2) the share of iPhone in the total smartphone market fell to 10.1% in the 2nd quarter of 2019 and it was the lowest mark since Q-1, 2010.



..... trending line
 Fig. 2. The share of iPhone in the total smartphone market Q1-2010—Q2-2019 (%). Source of information: Statista.

It is worth focusing on the fact that in the period from 2010 to the first quarter of 2019 the highest market share of Apple at 23% accounted only for the 1st and 2nd quarters of 2012. The company had failed to reach it ever again, having, on average, a market share in the global smartphone market at 15.5% (see Figure 2). All this tells that the company has almost stopped attracting new customers, even experiencing some outflow, which may have a negative impact on its further development.

In the premium smartphone market, according to Counterpoint, where Apple's share was 52% in 2017, it went down to 42% by the end of the first quarter of 2019. During the same period in the premium smartphone market, the share of the nearest competitor, as also Counterpoint informs, Samsung, slightly increased from 23 to 25%, and Huawei had an increase from 8 to 16%.

It should be noted that a company that follows the differentiation strategy and does not offer customers significant technological innovations will face the difficulty of expanding its market presence and attracting new customers, which is happening today. It is also likely that eventually customers, for lack of exclusive market offer, will not agree to pay required higher prices not supported by the valuable proposition.

Differentiation strategy also requires significant investments to maintain the proper technological level of the product or offer new unique products. A comparison of Apple's research and development spending with its nearest competitor in the smartphone market, Samsung, shows that Apple spends slightly less than its competitor, which can adversely affect its ability to win the protracted struggle for market supremacy (see Table 1). From 2010 to 2018, Apple spent on R&D an average of about 3,4% of its revenue, which in absolute figures amounted to an average of about 6 891 444 444 USD annually. Over the same period, Samsung's similar spending was 6,6% or 13 034 444 444 USD in average per year.

Table 1. The levels of research & development expenditure at Samsung Electronics and Apple, Inc. Source of information: STATISTA, Annual Reports (Apple Inc.) – 2010-2018, Samsung Sustainability Reports – 2010-2018.

year	APPLE		SAMSUNG	
	Percentage of revenue	Total expenses	Percentage of revenue	Total expenses
2010	3	1 782 000 000	6	8 460 000 000
2011	2	2 429 000 000	6	9 260 000 000
2012	2	3 381 000 000	6	11 060 000 000
2013	3	4 475 000 000	6	13 750 000 000
2014	3	6 040 000 000	7	14 260 000 000
2015	3	8 060 000 000	7	13 810 000 000
2016	5	10 040 000 000	7	13 750 000 000
2017	5	11 580 000 000	7	15 620 000 000
2018	5	14 236 000 000	8	17 340 000 000
average value	3,4	6 891 444 444	6,6	13 034 444 444

Moreover, according to estimates of Oxfam America and New York Times, Apple has accumulated between \$181 billion and \$236 billion in offshore accounts.

Thus, Apple has enough funds to invest in R&D and further progression, but apparently it just may not know what to do with them. It is also possible that its plans for future development are strictly classified, as it was when the first iPhone was created.

In addition, the company is constantly under the pressure of competitors, who are increasingly occupying the market of premium smartphones amid the growing popularity of Android. If in 2011 the share of Android smartphones, according to Statista, was 36.1%, in 2018 it jumped to 84.2%. At the same time, the Apple's software market of iOs, as well as the iPhone market, tends to some shrinking at the moment.

Summing it up, with the impressive financial results Apple also can be characterized by:

- the lack of innovative proposals that threaten adherence to the policy of differentiation and hence opportunities to establish high value-based price.
- the shrinking market share in premium smartphones and the global smartphone market;
- some customers outflow that apparently are not replenished with new ones.

The current situation can lead to a deterioration in financial performance, loss of market share and loyal customers.

These facts indicate that Apple may have come to the point where it will either take off with a new innovative proposal or gradually fade away. As it is known, giant stars burn down very slowly and smoothly, yet it would be sad to see their fate befell Apple, which has given us all a miracle called the iPhone and which is able to surprise the world more than once.

In any case, Apple's flywheel is still spinning quite confidently, and the company has enough resources, both intellectual and material, to choose between going up or down.

In conclusion, it should be noted that at the moment the smartphone market resembles the market of mobile phones, which had been formed before the first iPhone was released. Competing manufacturers enter the market with almost identical products; any innovation is quickly copied by the main players of this market. In other words, the world has stood still in expectation of a new "iPhone", which would again change our notion about mobile communication. What will it be like? The answer to this question can be based on information that Elon Musk and Jeff Bezos are working simultaneously on two projects – Starlink and Kuiper. These projects should help people get satellite high-speed broadband Internet all over the globe. This will probably require a new smartphone standard. Thus, the window of opportunity for the development of a much-needed gadget is open very widely, and the world is undoubtedly waiting for more than one innovative breakthrough.

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