

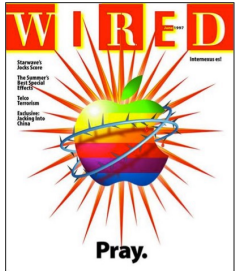
What is the USP of APPLE?

- Technology.
- Eco System — simplicity.
- Quality te-ups.
- Security. marketing gum.
- BRAND
- R&D / Innovation.

Positioning. / Segment. Elite.
 Differentiation.
 Customer Needs. OS. Proprietary.
 Steve Jobs.
 Industrial Design.
 Music Industry
 Predict Visionary.

1

Is the PC Industry Favorable?



Buyer Power. High. Corporate / Individual. Price, Service Security/Privacy. Price, service specification.

Rivalry. High. Fragmented Rapid tech changes. Open standard - commodity.

Entry Barriers. Low. Price sensitive. Assembled standardize mobile, tabs, Smart TV, AMD, Intel, Microsoft, Qualcomm

Substitutes. High.

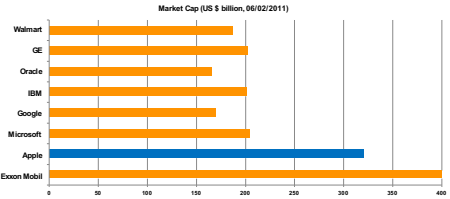
Suppliers. High.

1996 – the Apple debacle

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How did APPLE Survive?

In 2011, Apple's market cap overtook Microsoft + Intel

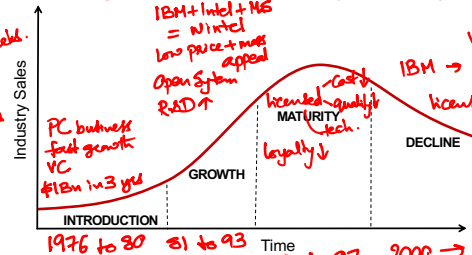


Company	Market Cap (US \$ billion)
Walmart	~180
GE	~180
Oracle	~150
IBM	~150
Google	~150
Microsoft	~150
Apple	~300
Exxon Mobil	~300

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THE INDUSTRY LIFE CYCLE

Stages of the Industry Life Cycle



OS - \$1 Bn. \$60 x 17mm x 8 weeks.
 Windows 7 \$2.5 Bn. \$78m - 3 months
 OS X - \$1 Bn. \$30 x 5mm. 5 yrs.

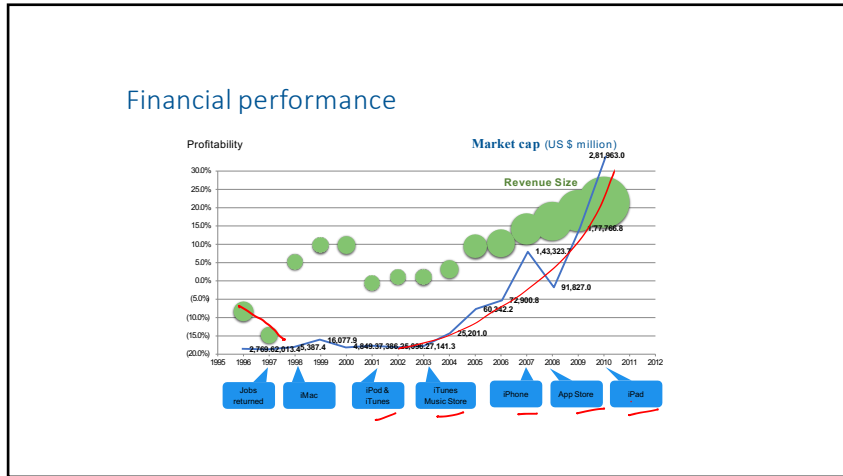
IBM + Intel + MS = WinTel
 Low price + mass appeal
 Open System
 R&D ↑

PC business fast growth
 VC \$1 Bn in 3 yrs

Vertical Integration. IBM → Intel - faster thinner.
 licensing → Outsourcing. China. Direct Mktg. R&D

Drivers of industry evolution:
 • demand growth
 • creation and diffusion of knowledge

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iPod & iTunes Software (2001)

Reconstruction of the Digital Music Player (mp3) Industry

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Digital Music (mp3) Players in the late 1990s

Target customers
Technologically literate teens and twenty-year olds, MP3 file traders

Flash MP3 Player

OR

Hard Drive MP3 Player

Expensive (\$300-\$800)
Bulky size
Big storage (up to 5,000 songs)
Poor navigation system

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iPod

- Targeted noncustomers: the over34-year-olds
- Great capacity of hard drive players (5GB=1,000 songs)
- Portability and ease of use of flash memory
- Simplified user interface with one wheel & four buttons
- iTunes software application
 - Simple to use software to transfer music from CD to player
 - Automatic & fast synchronization with iPod
 - Automatic battery charge from the computer
 - Easy to manage digital music collection
- Fun to use
- Sleek design unlike conventional electronic devices
- Priced at \$399 ✓

1,000 songs in your pocket

Handwritten notes: PC → R&D, functional organization, ipod

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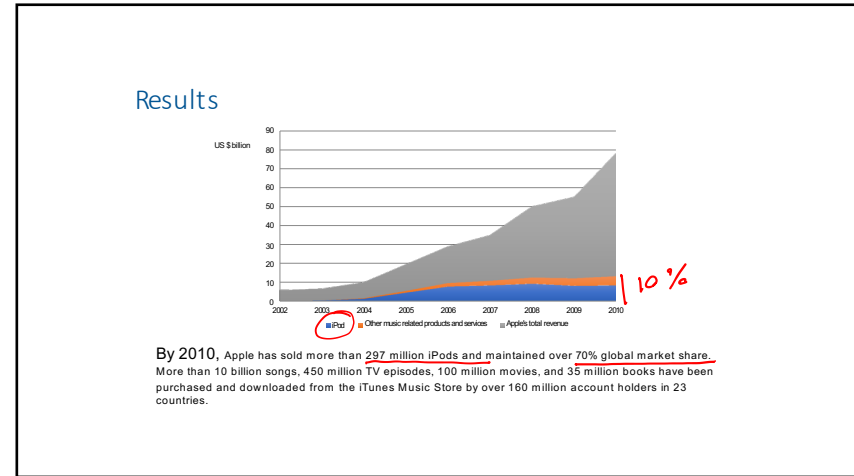
iTunes Music Store (2003)

Reconstruction of the Digital Music Retailing Industry

How digital music was bought

<div style="border: 1px solid red; border-radius: 50%; width: 40px; height: 40px; margin: 0 auto; display: flex; align-items: center; justify-content: center;"> OR </div>	<div style="border: 1px solid black; border-radius: 50%; width: 40px; height: 40px; margin: 0 auto; display: flex; align-items: center; justify-content: center;"> + </div>	<div style="border: 1px solid black; border-radius: 50%; width: 40px; height: 40px; margin: 0 auto; display: flex; align-items: center; justify-content: center;"> - </div>
<div style="border: 1px solid red; border-radius: 50%; width: 60px; height: 60px; margin: 0 auto; display: flex; align-items: center; justify-content: center;"> Subscription-based music services </div>	<p>Legal Good quality Limited rights Complex pricing methods Limited selection</p>	<p>Limited rights Complex pricing methods Limited selection</p>
<div style="border: 1px solid red; border-radius: 50%; width: 60px; height: 60px; margin: 0 auto; display: flex; align-items: center; justify-content: center;"> P2P network (File-sharing network) </div>	<p>Free Wide selection Simple & Easy to use</p>	<p>Illegal ✓ Poor quality ✓</p>

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iPhone (2007) & App Store (2008)

Reconstruction of the Mobile Phone Industry

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- ## The Mobile Phone Industry in the Early 2000s
- **Handset makers**
 - Engaged in R&D arms race to make more technologically innovative, value-added handsets.
 - Focused on selling more units of hardware (handsets). The more add-ons were equipped, the more expensive mobile was.
 - Two strategic groups: Feature phone OR Smartphone
 - **Carriers**
 - Faced downward pressure on prices, slimmer margins on voice calls.
 - Dictated to handset makers what to build, how to build, and at what cost.
 - **Market was flooded with me-too handsets and services**

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App Store (2008)

Software.

- **Customize the iPhone the way the user wants**
 - Application programs developed by Apple and third-party developers.
 - 20 categories ranging from Games & Entertainment to Books & Education.
 - Easy and convenient to purchase, download, and synchronize with iPhone on one Apple ID.
- **Price**
 - Free Apps: 25% of applications were free of charge.
 - Low price: More than 25% of applications cost \$0.99.
 - The average price of an application was \$3.21.
- **Win-win proposition**
 - Apple got 30% from the sales of apps (70% for developers).
 - App Store boosted sales of the iPhone by up to 15%. Apple generated revenues continuously through app sales from the increased iPhone users.

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Results

By 2010, Apple has 51% of the profits of the global mobile phone industry, with just 22% share of revenue and only 4% market share (units sold). By 2011, over 100 millions iPhones were sold worldwide. App Store hit 10 billion downloads from over 300,000 apps available.

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iPad (2010)

Reconstruction of the Personal Computer Industry

The Personal Computer Industry in the late 2000s

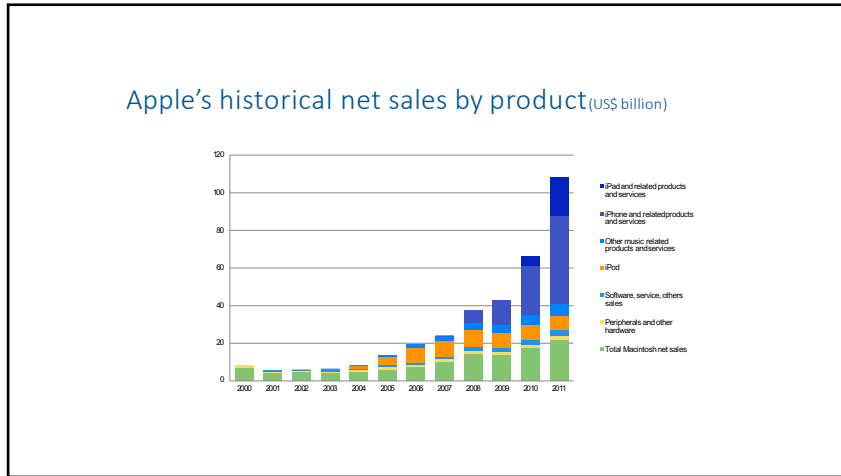
- Low PC sales growth
- Global competition
- Commoditization of PC: R&D arms race & price war
- Segmentation strategy
- Netbook: Low-end laptop
- Threats from substitutes: smartphones

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iBook Store (2010)

- Read e-books through iBooks apps
 - Own the collection of ebooks in iBooks
 - Read in color with full audio, video support
 - Turn pages by tapping the display, adjust brightness, font and its size; bookmark pages; find vocabulary in the dictionary
- A new market space for iTunes
 - Partner with established book publishers, individual publishers & authors
 - Easy and convenient to purchase, download, and synchronize with iPad
- Compelling buyer value
 - Easy and simple to browse, purchase, download, and manage ebooks
 - Free sample before purchasing a book
 - Free books
 - Priced the same as in other ebook stores (e.g. Amazon) and paper version
- Milestones (as of Feb. 2011)
 - 100 million ebooks were downloaded via iTunes iBook store
 - 2500 publishers in its store
 - Apple had more than 200 million Apple ID accounts

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SEGMENTATION AND STRATEGIC GROUPS

Strategic Group Analysis

A strategic group is a group of firms in an industry that follow the same or similar strategies

Identifying strategic groups:

- Identify principal strategic variables which distinguish firms.
- Position each firm in relation to these variables.
- Identify clusters.

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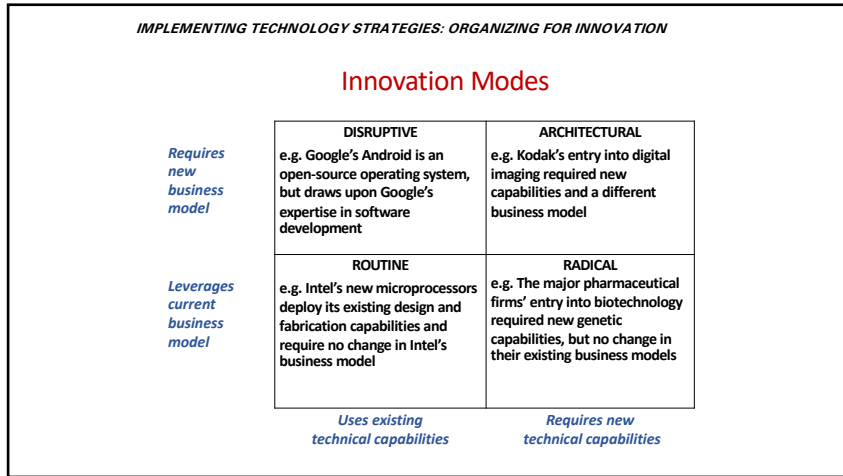


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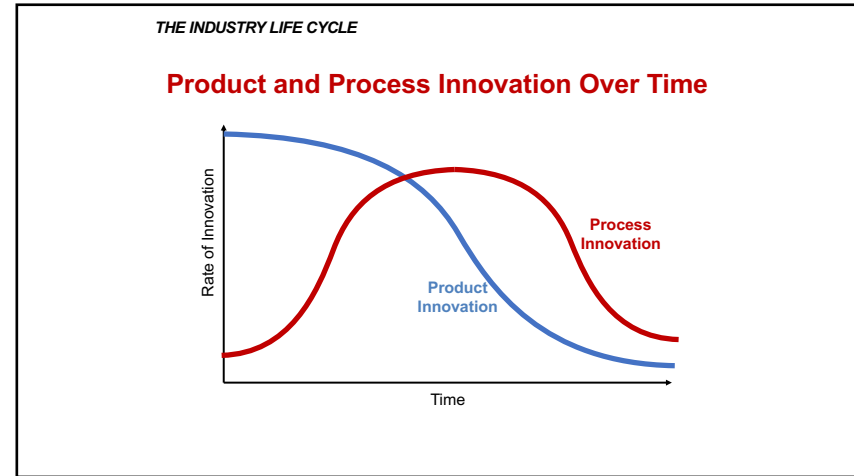
How has Apple sustained in this business?

		Core Activities	
		Threatened	Not Threatened
Core Assets	Threatened	Radical Change <i>Everything is up in the air.</i> Examples: makers of landline telephone handsets, overnight letter-delivery carriers, and travel agencies.	Creative Change <i>The industry is constantly redeveloping assets and resources.</i> Examples: the motion picture industry, sports team ownership, and investment banking.
	Not Threatened	Intermediating Change <i>Relationships are fragile.</i> Examples: automobile dealerships, investment brokerages, and auction houses.	Progressive Change <i>Companies implement incremental testing and adapt to feedback.</i> Examples: online auctions, commercial airlines, and long-haul trucking.

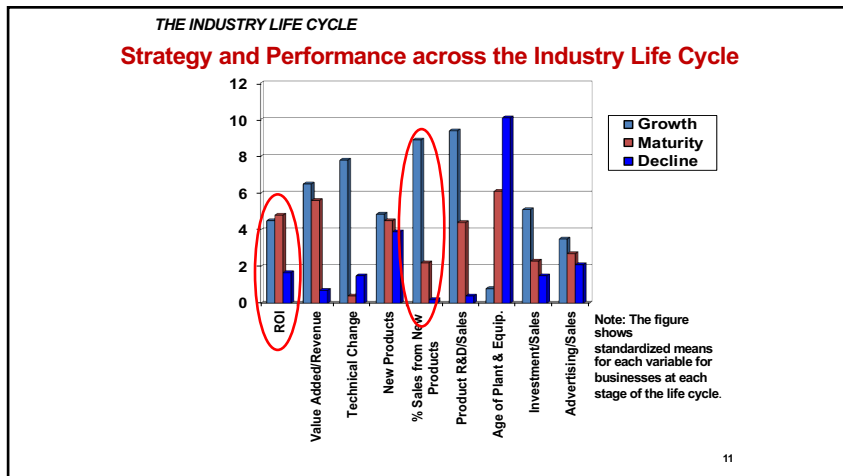
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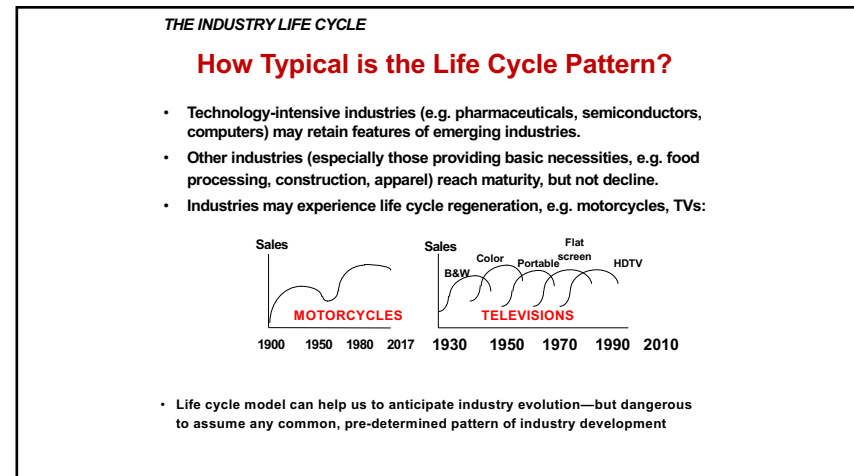
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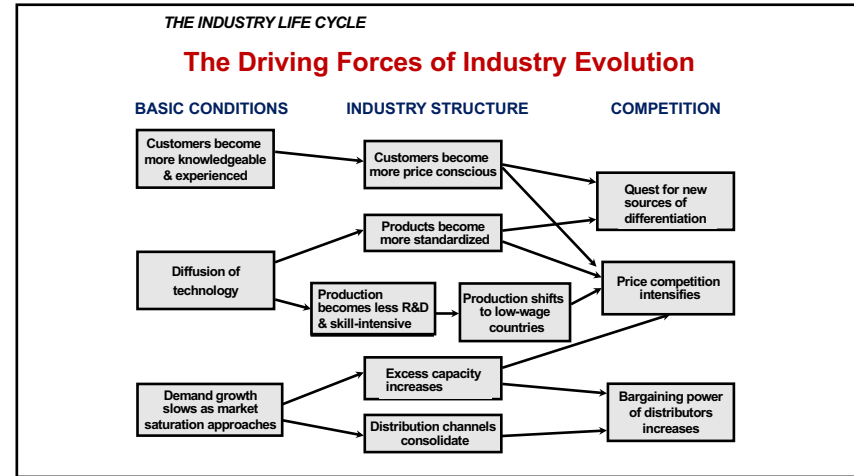
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THE INDUSTRY LIFE CYCLE

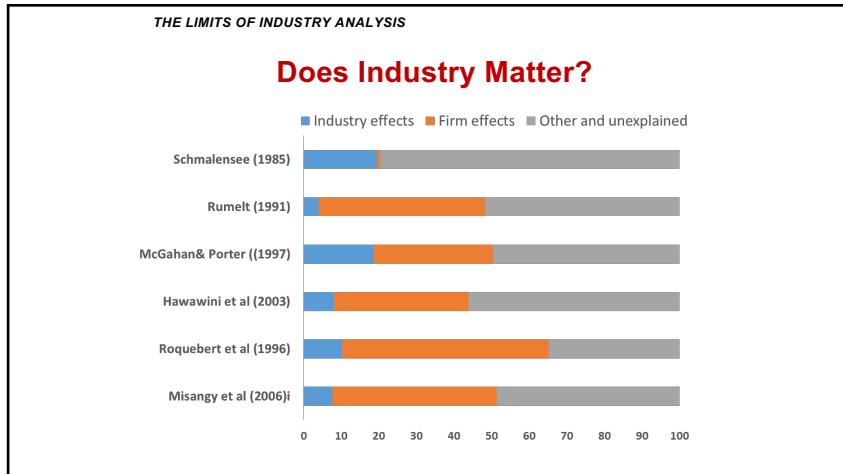
Evolution of Industry Structure over the Life Cycle

	INTRODUCTION	GROWTH	MATURITY	DECLINE
DEMAND	Early adopters	Rapid increase in market penetration	Replacement/ repeat buying; price sensitive customers	Obsolescence
TECHNOLOGY	Competing technologies; rapid product innovation	Standardization; rapid process innovation	Diffused know how; incremental innovation	Little innovation
PRODUCTS	Wide variety of features and designs	Design & quality improve; dominant design emerges	Commoditization; brand differentiation	Differentiation difficult
MANUFACTURING	Short-runs, skill intensive	Capacity shortage, mass-production	Over-capacity emerges; deskilling	Overcapacity
TRADE	-----Production shifts from advanced to emerging countries-----			
COMPETITION	Few companies	Entry, mergers exit	Shakeout & consolidation	Price wars & exit
KSFs	Product innovation	Design for manufacture; Process innovation	Cost efficiency (scale economies, low cost inputs)	Low overheads; rationalization

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LIMITS OF INDUSTRY ANALYSIS

Competition as a Dynamic Process: Hypercompetition

Porter framework assumes:

- (a) industry structure drives competitive behavior
- (b) industry structure is (fairly) stable.

But, competition also changes industry structure:

- **Schumpeterian Competition:** A "perennial gale of creative destruction" –market leaders overthrown by innovation
- **Hypercompetition:** "intense and rapid competitive moves... continuously creating new competitive advantages and destroying existing competitive advantages"

Implication: --Within 5-forces framework:
 INDUSTRY STRUCTURE → COMPETITION

--Under dynamic competition:
 COMPETITIVE STRATEGY → INDUSTRY STRUCTURE

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