A CRITICAL ANALYSIS OF INTERNAL AND EXTERNAL ENVIRONMENT OF APPLE INC

Usman Ali Khan
Faculty of Management Sciences, Qurtuba University, Peshawar, Pakistan
thisisusme@hotmail.com

Mohammd Noor Alam
Faculty of Management Sciences, Karwan University, Kabul, Afghanistan
dr.alam@karwan.edu.af

Shabbir Alam
College of Administration and Finance, Saudi Electronic University, KSA
shabbier.alam28@gmail.com

Abstract
Apple had made our life even easier than time when Apple was just a fruit. The article focused on critical analysis of Apple’s governance and social responsibilities. Article also intended to draw a critical conclusion on Apple’s management techniques and solving conflict between business strategies. A variety of tools were used to evaluate the internal and external environment through SWOT analysis, PESTLE analysis, BCG matrix and Porters five forces model. A critical analysis of Apple was done on its corporate governance, corporate social responsibility and strategies. The highest profitable technology company and historic trend setter original aspect is hidden from its customers. Company had been directly or indirectly through contractors being booked for adverse social events, major causes found for such events was its minimum cost and maximum profit values. It had weakly diversified board members with emphasis on keeping product development highly secret. Its strategic value are segregated strategy, less or but integrated products, low focus on market share, low shareholder return policy, global cheaper marketing. Based on report findings; intensive investment in new market segments, decreased product prices, increased market share, bringing diversity in board, more shareholder returns, focus on emerging markets, retention of human resources, decrease dependency on iphone and Mac as image developers.

Keywords: SWOT, PESTEL, Iphone, Ipod, Ipad, CSR, Ethics, Strategy, IT, R&D
INTRODUCTION
In the year 1976 Steve Jobs & Co started a company dealing in computers, which later named Apple Inc. famous for its glamorous product design, updated technology and aggressive visionary pioneer Steve Jobs. Initiated as a pure I.T company but later it focused on consumer products because of intense competition in tech sector. Apple had gained brand recognition and high customer loyalty via its related diversification strategy i.e. it offers computer, mobile phones, music players, television, tablets, and laptops. Another booster is ample acceptance of Apple as a brand and whatever they manufacture is acknowledged by the customer, because they are designed according to the wants of the customer.

The aim of the report has been accomplished via critical analysis of Apple’s environmental analysis through SWOT, PESTLE, STEEPLE, Porter’s industry competitive five forces model and Porter’s diamond model. Second, critical analysis of Apples products/services, markets, divisions, subdivisions and how they impact the overall corporate strategies, while bringing balance between shareholder value and enterprise social responsibilities.

OBJECTIVES AND RESEARCH METHODOLOGY
The Purpose of the paper is to study the impact of corporate strategy, governance and ethics on the achievement of Apple’s Goals. With a view to conduct the research for the paper, research methodology is the most important aspect.

For the purpose of the study, data was collected from secondary sources. This study heavily banked on secondary data and Secondary data were collected using various published and unpublished sources, different case studies on Apple. For achieving the objectives, we analyses the external as well as internal environment of Apple Inc. with the help of SWOT analysis, PESTEL analysis and Porter's five forces analysis.

CORPORATE STRATEGY, GOVERNANCE, AND ETHICS AND THEIR IMPACT ON THE ACHIEVEMENT OF APPLE’S GOALS

Environmental Analysis
Apple’s key internal strengths and weaknesses were examined in the context of its industry. External factors are those that are beyond the control of company. SWOT, PEST, and Porter's Five Forces Analysis were used in order to identify the strengths and weaknesses of Apple and the available threats and opportunities in the competitive market, while taking into consideration various political, economic, social, and technological factors.
SWOT Analysis - Internal Environment

A SWOT analysis summarizes the key issues from the business environment and the strategic capability of an organization that are most likely to impact on strategy development (Johnson, Scholes, and Whittington 2008). Thus, strengths and weaknesses are part of business internal environment while opportunities and threats are from external business environment (Fred R. David).

Strengths

Since diversifying beyond personal computers, Apple has enjoyed terrific sales growth and has wisely managed its cash flow which resulted as No. 1 brand at Forbes with a total capital of $416.62 billion.

Strength analysis showed that Apple is endorsed by a large brand; company has a strong recognition because of its aggressive nature of founder towards creativity and innovation (Schmeiser 2008). As the existence of innovative culture it had increased investment in R&D i.e. $4.5 billion in 2013, $3.4 billion in 2012 and $2.4 billion in 2011 (Apple’s 10K). It also had elevated sales as of practiced and skilled sales personals (Apple’s 10K). It had positioned its direct sales branches at high traffic locations which contributes towards strengthen company’s revenues (Apple’s 10K). It had significantly controlled its supply chain and publishes its supplier codes of conduct report annually which further enhances brand recognition. Further strength of Apple is implausible trade name trustworthiness; Customer can stand whole freezing night (Guenette, 2012) to be the first one to get new iphone. Philosophy of ease to use is also plus point for company. Every product that they produced is user friendly and easy to understand.

Weaknesses

To be world’s biggest information technology company brings higher responsibilities as well. Apple like other entities is also facing problems in some of its areas.

Based on internal analysis of Apple, it was found that it had a strong strategy for promotion of direct sales channels but unfortunately they are still lacking behind. As they only had direct sales locations in just 13 countries (Apple 10-K). In addition, one of the weak area is the Apple’s dependency on iPhone and iPod, as their contribution towards overall sales is dominant (Biddle 2014). As well, it’s hardware products are only supported with iOS, which makes it difficult to use, whereas competitors’ products are android which doesn’t have such issues. It is also researched that its products are luxury products as carries a premium price. Ordinary man would prefer to spend dollars on more productive places rather than to buy (Nair 2014). Since Apple had a well-recognized manager, Steve Jobs whose death is a big loss for
company. More important there is a change of philosophy for iphone between Cooks and Jobs. Another weakness in Apple is the declining sales growth causing diminishing market share (Apple 10-K).

**PESTEL Analysis - External Environment**

**Political Analysis**

Apple Inc. is exposed to many political problems, as company had a decent number of contract suppliers in world especially in Asia (CNET 2012). Also major sales contribution for Apple is from outside US (Apple 10-K). Any political insurgence for sure leaves Apple to danger. Furthermore, Apple recently was in political pressure and its supplier worker issues, suicides cases were registered against one of its biggest supplier, Foxconn, long working hours brings stress to workers and in May 2010 two of workers lost their life and sixteen were injured during an explosive in one of Apple’s supplier facility (Torres et al 2012). Survey conducted by SOMO shows, Delta Electronics a facility of Apple Inc. had about 5000 workers registered in union although they aren’t having any significance clashes with management but still Apple is espoused to political risk (Green Beagle 2011).

Apple’s political problems are not just confined to abroad infect. Apple is facing legal stress domestically also. Previous year, it restored imports of some of its parts used in iphone which ever earlier banned by US government. America’s toughing labor and environmental laws are also making it difficult to compete in highly competitive environment (Apple 10-k).

**Economic Analysis**

Apple felt the heat, as the world advanced economies i.e. America, Japan and Europe were and are but recovering from global recession (IMF 2013). Further, the growth of world’s economy was also very slow in 2012 and was expected to be same in 2013-14 as obvious. Apple has been affected by crisis i.e. the change in American region sales for current year was 9% in 2012-13 compared to 50% of 2011-12, in Europe 4% in comparison to 31% and in greater China 13% in comparison to 78% (Apple10-K). Unemployment rate in US was 7.9 during 2012-13, 4.1 in China and 4.6 in Japan, was one of the significant causes of downturn in sales growth (Trading Economics). Euro crisis, US fiscal problems and hard landing of large developing countries will likely to continue in coming couple of years leading Apple to more toughen economic situations (IMF 2013). Moreover, stringing dollars had also source of problem for Apple product prices, transportation cost and profit margins (Apple 10-K).
Social Analysis
Throughout its history, Apple has been making a series of changes in its products to satisfy and fulfill what its customers expect. In order to do so, it has been making many acquisitions – such as Embark, Prime Sense, and Topsy – and many alliances – e.g., Sony, Motorola, Phillips, and AT&T (Business Insider). Sales of Apple products increased by a good percentage in India in 2013, which forced the firm to open franchises and make investments in India, which is clear evidence of Apple showing a rationale as her growth strategy.

Technological Analysis
Information technology is highest earner for past a decade but only those companies have earned well who had innovated. Apple is a trend setter in consumer electronics business and had aggressive philosophy on innovation. It by offering unique and advanced technology retained 49% of its customers and convert 20% to iOS in year 2012-13 (Frobes 2013). The cracked deal with China Mobile had also brought 760 China Mobile subscribers into their circle, giving Apple and immense competitive advantage in world largest growing market (Frobes 2013). Along with above mentioned positive technology industry related points for Apple Inc. there are some risk factors also present.

Apple needs to invest more and more in R&D as of competitive and short product life cycle nature of industry (Apple 10-K). Apple designs are unique but consumers are also giving preferences to screen size. Moreover, it is famous for its one floor software application offering which is third party software, bringing risk to its continuation of contract with the Apple (Apple 10-K).

Porter’s Five Forces Analysis
The analysis of Porters five forces enables more effective strategic decision making (Porter 2008; Johnson, Scholes, and Whittington 2008).

Rivalry among competing sellers: (High)
Apple Inc. had a well-diversified portfolio of tech based products; it sells hardware and software which makes a tough situation for Apple to compete globally (Apple 10-K). The impact of highly competitive market can be seen in lesser sales growth 50% to 9% in America, 31% to 4% in Europe, 94% to 27% in Japan. Apple is also losing it smart phone market share, 14% decline in recent company’s quarterly report, Apple iPad growth also slowed to just 13% as compared to competitors 79%. Positive point of Apple is, its product line is less, simple and user friendly, so they manage to make sales out of it as compared to competitor’s one where enough choice is
present to confuse consumers (Apple Form 10-K). Apple products had high differentiation with competitor’s products. Moreover, Apple distribution channel i.e. via Amazon and direct outlets is very strong, helps Apple to strategically position their products. Looking into the intense competitive environment it should increase its investment more in mobile, computer and software.

**Potential entry of new competitors: (Low)**

Apple’s threat of new entrant’s competitors is low. As Apple is world’s dominant IT having focus on niche market i.e. high income consumers, makes it difficult for new entrants to grasp market share specially when just alone iPhone need $100million investment. Apple also use contract manufacturing strategy saving unnecessary cost and expense, as no need to spend money directly on social responsibilities helping them to be the world’s most profitable and capitalized corporation. Other reasons for low threat is copyrights, patents and high switching cost. But Apple is also in risk if the suppliers refuse to renew the contracts.

**Competitive pressure from substitute products: (High-Moderate)**

Apple’s substitute product pressure is high-moderate. For almost every product of Apple there is a substitute present.

- Ipod ➔ Samsung mp3 player & Sony mp3 player
- Ipad ➔ Samsung tab
- Iphone ➔ Samsung galaxy, Samsung note, HTC, Nokia, Sony Erickson

But Apple’s OS still proves to be a strong area of Apple which is not having any near substitute. Another positive area is the Apple own app store, iTunes and iclouds.

**Bargaining power of suppliers: (Low-Moderate)**

Suppliers bargaining power is moderate because of their unique capability to manufacture product for Apple. But, Apple had a very well diversified supplier numbers; they aren’t manufacturing everything from one supplier and one place. Because Apple buys in large quantity, giving them higher buying power (Green Beagle 2012).

**Bargaining power of customers: (Low)**

Apple enjoys its bold image of being innovator, quality continuer and big investor in R&D helps it retains its current customers. Along with retention, Apple is also successful in switching competitor’s customers towards itself many times (Tech Crunch 2014).
SWOT Analysis - External Environment

Opportunities

Apples iPhone has plentiful result since its invention; recent statistics shows that iPhone still is Hercules (Apple 10-k). IPhone 6 introduction will rewrap market for Apple. Further contract signed last year with China Mobile has and will open up abnormal opportunities in growing market. Rumors of Apples wearable made up of bending glass material if offered in early 2015 would be an asset for company, as it would be closest substitute to Samsung’s wearable and with unique material. Apples goodwill worth $1577 million, one of key cause is talented personals; competitor's attractive offering may pull them which Apple can’t afford i.e. to lose human resource (Apple 10-k). Opportunity for Apple is if management retained talented human resource which in return connects company to creativity and innovation.

Threats

The competitive nature of business sector in which Apple Inc. operates brings many potential threats for them. Majority of the competitor’s ample resource brings a threat that they go for low profit margins, break even or even negative pricing (Apple 10-K).One of the reasons of intensive competition among rivals is Apples competitors in order to be cost effective also don’t have their own software. Moreover, Apple’s majority suppliers are from Asian countries. Any economic or political problem may cause shortage of supplies or increase in production cost (Apple 10-K). Apple would be consistently losing market share if they wasn't able to innovate continuously or rather reduce price.

Boston Consulting Group Matrix

Boston Consulting Group (BCG) matrix is among the widely used model that helps making timely and efficient strategic decisions (Fred R. David).

<table>
<thead>
<tr>
<th>Brands</th>
<th>Revenues</th>
<th>% of corporate revenues</th>
<th>Largest competitor’s market share</th>
<th>Your brand’s market share</th>
<th>Relative Market Share</th>
<th>Market Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iphone</td>
<td>91,279</td>
<td>53%</td>
<td>26%</td>
<td>32%</td>
<td>1.2</td>
<td>44%</td>
</tr>
<tr>
<td>Ipad</td>
<td>31,980</td>
<td>18.70%</td>
<td>18.80%</td>
<td>38.80%</td>
<td>2.11</td>
<td>51.80%</td>
</tr>
<tr>
<td>Ipod</td>
<td>4,411</td>
<td>2.60%</td>
<td>20%</td>
<td>32.60%</td>
<td>1.68</td>
<td>3%</td>
</tr>
<tr>
<td>iTunes</td>
<td>16,051</td>
<td>9%</td>
<td>22%</td>
<td>63%</td>
<td>2.86</td>
<td>5%</td>
</tr>
<tr>
<td>Mac.</td>
<td>21,483</td>
<td>13%</td>
<td>26.50%</td>
<td>13.70%</td>
<td>0.52</td>
<td>-5.60%</td>
</tr>
</tbody>
</table>
Only five of products were analyzed based on the data availability in Apples 10-K form. Iphone pretty obviously positioned itself in stars, as iphone remains the core revenue generator for company. Along with high market share, it had high market growth potential which Apples is planning to exploit via introduction of iphone 6. Ipad had a huge potential but unfortunately due to high availability of its substitutes, ipad is not performing to its capacity, differentiated features with increased application software support and direct selling strategy can help reach its capacity. iPod and iTunes being at dogs shows the maturity of the technology.

Apple had a defendable strategy of not investment more in iPods but just bring modified versions like increasing the memory size etc. to cope with sales. Apple’s hope from Mac is still high despite of at cash cows because around to Apple 10-K form, Apple’s philosophy toward future is Smartphone’s and computers.

**Critical Analysis of Apples Corporate Governance and Corporate Social Responsibility**

Increasing conflicts between management and shareholders, more corporate scandals and increasing outsider’s stakes in company had emphasized on growing importance of literature over corporate policies and procedures over its organization’s ownership structure. Aim of corporate governance is to overcome the competition in organization rising from inside structure (Mitchell, 1997). Apple Inc. had decent number of corporate governance guidelines present, covering almost majority sections of International Corporate Governance Network principles (ICGN). Despite of being literature rich Apple’s real time implement of principles are poor. Calpers, a US largest public pension fund in 2010 filed a resolution against IT giant on its one electing of directors, Calpers also emphasized on incumbent of majority voting system as criteria for board election (Apple Insider 2014).Moreover, Apple had been criticized on its diversity i.e. inclusion of more female director which is in response of questions on its other
competitors male dominant board for the purpose of bringing people from different backgrounds and color to contribute positively to the global company (Satariano 2014).

According to a National Centre for Public Policy Research published in 2012 conflict of interest raised against Gore Ex-Apples board member when Apple signed contract of hydrogen power plant with Bloom Energy, Gore was accused of using his influence as Gore had ownership stake in Bloom Energy (Almasi, 2012). Further the company had also been criticized on its excessive compensation to executives, with a proposed solution of tying pay with Apples performance (Satariano 2014). In Early 2014, Apple’s CEO was criticized by its shareholder on green goals of the company (Winston 2014), shareholder emphasized focus on short term goals rather than long term goal which clearly predicts that company never neglects the importance of long term goal but should also focus on shorter returns for shareholders, too.

Not only Apple’s corporate governance had room to be criticized, there is a strong contradiction between CSR policy and actions of company. Report also objects the limited CSR legal environment and its management by Apple critically. Apple is world’s largest information technology and most profitable business on earth. It is also responsible for the society in which they do business i.e. Apple’s corporate social responsibility. CSR is not a legal standard rather an ethical standard. Increased competition in sector requires Apple to be more innovative than before and more ethical in business transactions.

Corporate social responsibility is defined as a company’s obligation to exert a positive impact and minimize its negative impact on society. Despite of showing high commitment and insistence on suppliers to provide state of art save working conditions, avoidance of child labor, optimum labor working hours with fair wages. Still Apple has been under the ink of scholars and reporters because of series on conflicts i.e. The Foxconn suicides, Foxconn factory blasts, Foxconn long working hours and Foxconn’s underage workers (Cristina et al. 2012). Survey conducted by SOMO 2007 reported, PIMES, Hitachi Global Storage, volex Cable, CKL Delta Electronics who are some of the suppliers of Apple were found in volitions of working hours more than 60 hours. Working hours forced overtime. Nonpayment of overtime wages, Occupational safety, Occupational illness and industrial hygiene standards of EICC.

**Critical Analysis of Strategies Used by Apple**

Apple Inc. had small number of strategies to follow like premium pricing, low cost, product segregated strategy, less or but integrated products, low focus on market share, low shareholder return policy and global cheaper marketing. Apple Inc., being among the most successful brands of world and marked performance of implemented strategies, although, had faced lots of critics on its strategies.
Apple’s widely criticized strategy as always and obvious is the strategy of premium pricing (Nair 2014), the product market segment of Apple is higher, medium and upper class of economy making it difficult for the average people to purchase. Moreover, major competitors are consistently working of price minimization strategy, like Google plans to introduce less than $100 smartphone in India and free android software availability to Samsung intensified competition (Dutton 2014). Apple not really an inventory but a trend setter, following up their differentiation strategy they try to bring something which is complete and if it’s not they retain it rather to market, exposing Apple to giving up short term but critical market opportunities helping Apple to maintain their share until new product offering (Farber 2013).

Apple’s integrative strategy of full package of hardware mobile and software iOS is the most appreciated facilities with million applications from third party but is not cost effective, in 2013 out of every four smart phone sales iphone purchased is one (Meyer 2013). Alex Wilhelm in his article published in 2014 criticized the lower cash return policy of Apple Inc. to its shareholders while company has above $100 billion as there cash reserves. Weaker inorganic growth strategy as compared to competitors also could be hazardous for company as ‘Apple had one acquisition per year for past 25years compared to Microsoft’s 45, Google 40 and CISCO 30 (Cheney 2010).

Apple also believed to be trend setter in cheapest strategy of marketing via patents wars. In normal business they would have to spend millions and even billions to spend on high profile shows and timing, but thanks to this strategy, they are everywhere every time every channel for free. Although, now they won the law suites but not all of them, which costs at Apples image (Galasoo2014).

CONCLUSION AND RECOMMENDATION

Apple had this technique of wait and to bring full package for targeting niche market while giving focus to profit margins. They are successful in selling their products and had highest customer satisfaction ratio. Problem with Apple is that major consumers are unable to buy due to higher prices, Apple’s don’t had more than paper work for supplier codes, indirect reachability to maximum markets, app store is based on third party contractor. It is confronted with possible human resource turnover, criticism on its governance and issues such as not socially responsible corporation.

It is recommended that Apple along with cost minimization should work on price minimization. Looking forward for Blues Ocean strategy would be in favor as it is in lined with profit maximization goal of company. Apple can decrease its future threat via increase investments, currently which is a billion dollar on yearly which is basically not sufficient.
Company should pay more focus to emerging markets like China and India which already been occupied by competitors.

Apple must broaden their board of directors to improve corporate governance; they must be committed toward social responsibilities more than words, further there is lack of communication and valuing similarities between management and investors’ company by which they had lost enormous portion of its market capitalization, therefore it must improve communications with its investors.

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Porter’s Five Forces Diamond. https://www.youtube.com/watch?v=mYF2_FBCvXw; https://www.youtube.com/watch?v=Ht7O4yuk_5c.


