

# Analysis of Diversification strategy of Apple Inc

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**Abstract:** *In order to study how Apple can quickly improve its own advantages and become a leader in the digital realm, this paper analyzes the different stages of Apple's diversified products and services as well as its diversified strategy, it is found that the external causes of Apple's diversification are strategic industry transfer, scope economic benefit, tactical development, tax advantage and the influence of government anti-monopoly measures. The internal motivation of Apple's diversification is to make full use of the remaining resources, to spread the risk, to reduce the gap between the target and the transaction cost. The role of Apple's diversification strategy: one is to spread risk, improve operational security. The second is to help Apple move into promising new industries. Third, it is conducive to promoting the development of Apple's original business, to achieve synergy. In this paper, the case of Cook's acquisition of Didi horizontal expansion of the company's business, the analysis is to reduce management risk, improve compensation and benefits for the diversification of motivation. Through the analysis of the internal and external environment, we can see that the diversification strategy implemented by Apple can be adapted to the resources, core competitiveness and the opportunities and threats in the national system and competitive environment, this gives Apple a strategic advantage.*

**Keywords:** *diversification, Apple Inc, core competitiveness*

## 1. Analysis of Apple's diversification strategy

### 1.1 Introduction to Apple Inc

Apple Inc. (AAPL) is an American high-tech company that was renamed Apple Computer, Inc. (AAPL) in 2007. Our core business is electronic technology products, and we are headquartered in Cupertino, California. Apple's Steve Jobs, Steve Gary Wozniak and Ronald Gerald Wayne founded on April 1, 1976, is famous for its innovation in the high-tech company, leading products are Apple II, Macintosh computers, the MacBook computer, iPod music player, iTunes store, iPhone, iMac machine and tablet computer, etc.

Vision -- a computer for everyone

Mission - To build trust and confidence in the Internet by promoting fair data usage practices.

Core values - to provide the public with powerful computing power

### 1.2 Judgment of Apple's diversification strategy

Apple Inc. is judged to be a diversified company because it provides a wide range of products and services involving multiple fields and industries. At the same time, Apple faces formidable competitors in a number of areas, including personal computers, entertainment media and mobile payments.

In personal computers:

While PCs powered by Microsoft's operating system have been the mainstay of consumer use since the 1980s, Apple also has a strong following of users who are happy with its Macintosh and Safari operating systems<sup>[1]</sup>. Overall, Apple's main competitors in the PC business include Dell, Hewlett-Packard, Acer and Lenovo.

Mobile computing:

The iPod led to a huge change in Apple's business model, and it also spurred a huge expansion of the entire mobile computing industry. Apple remains by far the most profitable and profitable company in the industry. In general, Apple's main competitors in mobile computing include Google, Samsung, Nokia and Asustek.

**Smart phones:**

The smartphone industry was once dominated by one-time Canadian giant RESEARCH in Motion, but that landscape has changed dramatically with the introduction of Apple's iPhone. The iPhone has decimated RIM's business model and even led to multiple reorganizations. Google makes the Android operating system, which is installed in non-Apple-branded phones from Huawei, Samsung, SONY, HTC, Lenovo and many others, making them Apple's main competitors in smartphones.

**Entertainment media and Applications:**

The two biggest players in entertainment media and apps are Apple and Google, with Apple's iOS operating system powering its own iPhones and iPods and Google's Android operating system powering most of its competitors' phones and tablets. Apple's and Google's operating systems interact with iTunes and Google Play stores, respectively, to let users buy music, books, apps and other media products. As a result, Apple's main competitor in entertainment media and apps is Google.

**Mobile payment:**

Apple is still a relative newcomer to mobile payments, having entered the industry in October 2014. The company's mobile payment app passed 1m users in its first 72 hours of launch, making Apple Pay "more users than all of our competitors combined", said Tim Cook, chief executive. In general, Apple's main competitors in the field of mobile payment are PayPal and Google<sup>[2]</sup>.

Diversified companies operate several different businesses in several separate product markets, resulting in two types of strategy: firm-level and business-level strategy. Focus on Apple's corporate strategy -- diversification strategy.

**Product diversification:**

In the first fiscal quarter of 2015, Apple's revenue from iPhone was \$51.182 billion, up 57% from \$32.498 billion in the same period last year.

Revenue from the iPad was \$8.995 billion, down 22 percent from \$11.468 billion a year earlier.

Revenue from Mac was \$6.944 billion, up 9 percent from \$6.395 billion a year earlier.

Revenue from services was \$4.799 billion, up 9 percent from \$4.397 billion a year ago.

Revenue from other products was \$2.689 billion, down 5 percent from \$2.836 billion a year earlier.

It can be seen that iPhone is the main business, and the revenue of the main business accounts for 68% of the total business, which is related to the diversification strategy. Apple's move from iPod to iPhone, iPod touch to iPad is a concerted diversification.

**1.3 Diversification stage of Apple Inc****1.3.1 Early Stages (1977-2000)**

In 1976, Steve Jobs and Steve Wozniak founded Apple and The Company and developed the Apple I motherboard. 1984 - The revolutionary Macintosh, the first graphical user interface applied to a personal computer, is released. 1985 Founder Steve Jobs resigned from Apple in favor of Carley. In 1996, founder Steve Jobs returned to Apple, overhauled its product line, formed an alliance with Microsoft and revived the company.

**1.3.2 Jobs Stage (2001-2011)**

In March 2001, MacOSX, a new generation of Apple computer operating system, was released, a complete reform of the previous UNIX. In 2001 Apple launched the iTunes store, an online music service. Now it has become one of the hottest online music stores in the world. Apple's iPod was released in October 2001 and has been continuously updated. Beyond electronics to become a symbol, a pet and a status symbol. In 2003, iTunes, a music management platform, was launched to match<sup>[3]</sup>. Apple introduced the iPhone in the summer of 2007 and the iPad in 2010. Jobs died in 2011.

**1.3.3 New Stage of Cook (2011-present)**

Tim Cook takes the stage as Apple's CEO in the post-Jobs era.

## **2. The motivation of Apple's diversification strategy**

The core of diversified development strategy is resource sharing and risk dispersion. Apple inc. implements this strategy for two reasons: internal motivation and external motivation.

### ***2.1 External motivation for Apple's diversification***

#### ***2.1.1 Transfer of strategic industries***

Every product and industry has its own life cycle. When apple's existing industry is in decline, it must diversify in order to avoid death. Moreover, in industries with high market concentration, a few Apple companies have absolute advantages in market and cost, while other Apple companies can only enter other industries if they want to achieve high growth.

#### ***2.1.2 Economic benefits of scope -- core competitiveness and resource sharing***

Obtaining scope economy is one of the motivations for Apple's diversification, especially related diversification. Core competencies at the corporate level include managerial and technical knowledge, experience and expertise. Apple inc. has successfully achieved the transfer of core competitiveness between businesses. The application of marketing core competitiveness in its many industries, creating brand marketing is an example.

#### ***2.1.3 Tactical development***

When the attraction of a new industry is very large, that is, the market capacity is large, the growth rate is high and the competition is low, Apple, which has enough business resources remaining, may enter the new industry and engage in diversification with tactical development as the target.

#### ***2.1.4 Tax Advantages***

Diversification Apple can shift investments from businesses with lower marginal returns to businesses with higher marginal returns within Apple. And diversifying would allow Apple to spread losses among its different businesses without having to spread them forward or backward over time.

#### ***2.1.5 Impact of government anti-monopoly measures***

When Apple expands the market share of a product beyond the limits of antitrust law, its expansion and growth will be stopped. As a result, Apple has often changed the direction of its expansion and growth, seeking to expand and grow in industries that are not restricted by regulations.

### ***2.2 The internal motivation of Apple's diversification development***

#### ***2.2.1 Make full use of surplus resources***

Diversification is possible when Apple can use its internal spare resources, or tap into some technical resources.

#### ***2.2.2 Risk diversification***

The risks of operating apple as a single company are great when the market is saturated or demand changes. Relying on diversification to disperse its business risks, so as to be in a favorable position in the market competition. Especially when bankruptcy risk exists, even unrelated diversification without operational synergies can bring benefits by reducing bankruptcy risk. In addition, diversification can reduce the risk of layoffs of managers and employees.

#### ***2.2.3 Target gap***

Apple inc. always sets strategic goals for its development. If apple Inc. can achieve the set goals, it will have little motivation to explore new industries and implement diversified growth. Otherwise, if Apple Inc. cannot achieve the original goals, it will have a greater possibility to adopt diversified growth.

#### ***2.2.4 Reduce transaction costs***

Apple's success in growth requires business expansion and expansion, and there are certain transaction costs when Apple trades. By implementing the diversification strategy, Apple inc. can internalize various transaction costs, thus improving its operating profit and enhancing its market competitiveness.

### **3. Performance of Apple's diversification strategy**

Apple inc. 's diversified business strategy can play the following roles:

#### ***3.1 Spread risks and improve business security***

The ups and downs of the business cycle, the changes of the market situation and the evolution of the competitive situation all directly affect the survival and development of Apple Inc. If Apple's production and operation activities are limited to a category of products or concentrated in a certain industry, it will be risky. As a result, some Apple companies have diversified to spread their risk and improve their ability to adapt to the external environment.

#### ***3.2 It is beneficial to Apple's transfer to promising emerging industries***

Due to the influence of the new technological revolution, a number of high-tech emerging industries have emerged. Apple's diversification into emerging industries on the original basis can, on the one hand, reduce the pressure of competition in the original market and, on the other hand, gradually shift from industries with slow growth and low yield to industries with high yield.

#### ***3.3 It is beneficial to promote the development of Apple's original business and achieve synergistic effect***

Synergy generally refers to the complementarity of two or more activities or processes so that the combined effect is greater than the simple superposition of the effects of two or more activities. The reason is that many industries promote each other. By diversifying and expanding service items, they can often promote the development of the original business.

### **4. Examples of the motivation for excessive diversity in Apple's management**

There are four motivations for diversifying managers : (1) uncertainty of value, (2) value creation, (3) improvement of compensation and welfare, and (4) reduction of management risk

Cook expanded the company's business horizontally through the acquisition of Didi in 2016, and participated in diversified competition in more product markets by launching a series of new products such as Apple Watch. Instead of emphasizing apple's hot-selling products in the Era of Steve Jobs, such as iPhone, Cook expressed his new business strategy and tactics<sup>[4]</sup>. As Apple's performance has declined in recent years, I suspect cook is motivated to diversify in order to reduce management risk and increase compensation and benefits. Managers' motivation to diversify may lead to over-diversification and may reduce the company's ability to create value. Apple's future direction is unclear.

### **5. Analysis of apple's internal and external environment**

#### ***5.1 External PEST analysis***

##### ***5.1.1 Political and legal environment***

China's political situation is relatively stable, but China's politics is highly centralized, the policy is extremely discontinuous. China's laws on piracy are imperfect, leading to the proliferation of shanzhai products in the country.

##### ***5.1.2 Economic Environment***

China's GDP is rising year by year, money supply is rising steadily, income is rising, and the proportion of expenditure in income is rising.

##### ***5.1.3 Social and cultural environment***

The improvement of education level also has a certain impact on consumers' purchasing behavior, and their appreciation ability and life taste will change accordingly. Therefore, it is urgent for some products with outstanding personality and high quality to meet their needs.

**5.1.4 Technical environment**

To some extent, apple has been hurt by technological advances that have made replication more possible for a large number of domestic companies. Technological change may lower barriers to entry. High-tech products update quickly, product life cycle is short.

**5.2 Industry Analysis**

**5.2.1 Competition among existing competitors**

Hardware: HP, Dell, Lenovo, Acer and other companies; Software: Microsoft, Google, etc. Mobile phones: Nokia, SONY Ericsson, Samsung, etc. Handheld entertainment terminal: SONY, Patriot, etc.

**5.2.2 Potential entrants**

Advanced market pattern and technology, high barriers to entry. Capital needs are also high. Technology and expertise are not readily available.

**5.2.3 Requires replacement**

Hardware: Lenovo, Dell and others are making computers thinner and lighter, like lenovo's LePad; Software: Microsoft operating system; In the mobile phone industry, the rise of Nokia and Samsung occupy a large number of market shares.

**5.2.4 Bargaining power of suppliers**

Apple requires low technology content, has a large change rate of suppliers, and has many suppliers to choose from. Moreover, Apple takes the absolute initiative in the relationship with suppliers.

**5.2.5 Bargaining power of buyers**

Customers know what they are getting before they even think about buying it. There will be less bargaining.

**5.3 Internal Environment Analysis**

**5.3.1 Development of new products and excellent market response**

Apple designed and created the iPod and iTunes, the Mac portable and desktop computers.

**5.3.2 Excellent corporate culture**

Apple has instilled a culture of individualism and excellence.

**5.3.3 High brand awareness and reputation**

The products are of good quality, fashionable appearance and have a high-end product image. Apple has strict quality control over its products from product design, process selection, raw material procurement, production, assembly and testing<sup>[5]</sup>.

**5.3.4 Internal Weaknesses**

- (1) Poor management, resulting in infringement lawsuits.
- (2) Imperfect after-sales service.
- (3) Low project management and manufacturing efficiency.

**5.4 A swot analysis**

	<p style="text-align: center;">Opportunities (O)</p> <p>The consumer electronics market is huge and consumers are keen on high-end products;</p> <p>The emergence of many EMS companies helped Apple outsource manufacturing and reduce costs;</p> <p>The emergence of large component manufacturers;</p> <p>Consumers' brand awareness has improved.</p>	<p style="text-align: center;">Threats (T)</p> <p>America's economy has slumped and consumer confidence has been dented</p> <p>At the same time facing many powerful competitors</p> <p>Low - cost high - copy shanzhai machine to seize the low-end market.</p>
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<p>Advantages (S)                  Brand awareness and reputation is very high;                  Emphasis on research and development;                  Strong innovation ability;                  Effective application of new technologies and research results;                  Outstanding characteristic marketing;                  A number of applications to maintain a leading edge                  Product gross profit is high</p>	<p>SO Strategy (Growth strategy)                  Seize the opportunity of the growth of consumer electronics, use outsourcing and supplier competition to reduce costs, and combine its own advantages in technology, innovation, brand and marketing to launch competitive products in the high, medium and low levels of products, so as to achieve rapid growth in performance and further expand market share.</p>	<p>ST Strategy (Diversification Strategy)                  Relying on the advantages of technology, innovation, brand and marketing, and relying on the high gross profit of high-end products to counter the economic recession and competitors' low price competition.                  Strengthen the fight against intellectual property infringement by targeting government agencies.</p>
<p>Disadvantage (W)                  Apple's market share remains low                  Low project management and manufacturing efficiency;                  Supply chain management is not perfect;                  Don't pay attention to systematic management system;                  Involved in a wide range of products; Too much focus on technological innovation rather than ultimately increasing company profits.</p>	<p>WO Strategy (Turnaround strategy)                  Take advantage of outsourcing and supplier competition to reduce costs to offset inefficiencies in pipeline and manufacturing, focus on cost control, take advantage of the growth of consumer electronics, and gradually achieve market share growth.</p>	<p>WT Strategy (Defensive strategy)                  Increase efforts in improving efficiency and reducing costs, attach importance to systematic management for quality and cost control, reduce product lines that cannot generate profits, attach importance to all kinds of innovations that can generate profits for the company, and maintain a stable market share.</p>

Through the analysis of internal and external environment, we can see that apple's diversification strategy can adapt to the company's resources, core competitiveness, as well as opportunities and threats in the national system and competitive environment, so that Apple can improve its strategic competitiveness and become the king in the digital era<sup>[6]</sup>.

**6. Conclusion**

Through the case analysis of Apple's diversification strategy, we can see the reasons for the implementation of diversification strategy, motivation and important value of diversification strategy, but it should be noted that managers should pay attention to the internal and external environment of the company when deciding the optimal level of diversification strategy of the company.

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