

Apple: Another Byte

- Agenda
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 - Firm Analysis
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Strategic Issue

- Apple is facing a projected decline in earnings per share in 2009 and must assess the future leadership of the organization

Recommendation

- Apple must manage, plan, and execute a transition from one CEO to the next emphasizing positive outcomes for all key stakeholders
- Apple must introduce new products to target the decline in the PC market and to address their stagnant product line

Personal Technology Industry

Personal Technology Industry

Key Success Factors

- Branding – Product recognition in the industry
- Innovation – Creating new products through R&D
- User friendliness – Ease of use for consumer
- Sales and marketing – Ability to effectively sell products
- Strong Management – Ability to enable the firm to be innovative and efficient
- Distribution – Assembly of products and worldwide consumers

Personal Technology Industry

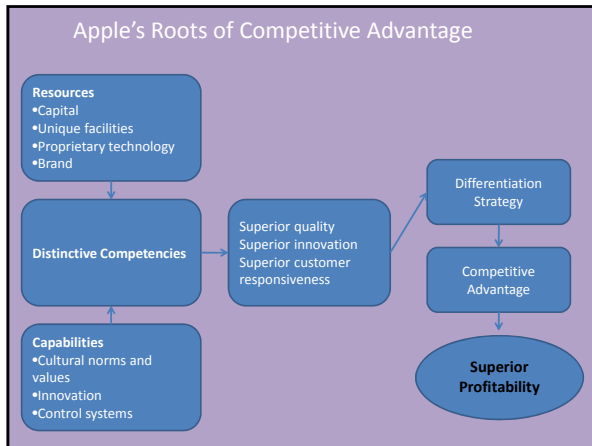
Trends

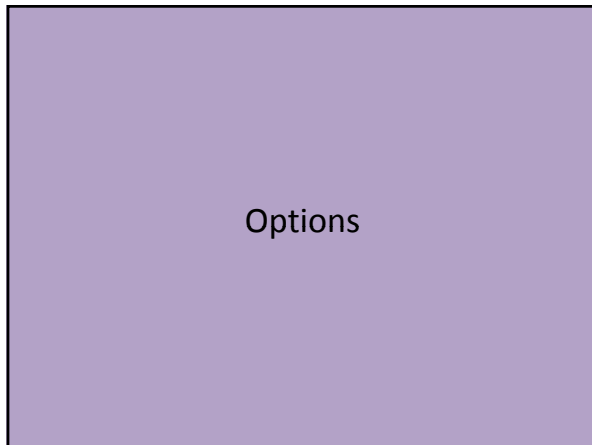
- Increased demand for portability
 - Increased notebook sales
 - Increased “netbook” segment
 - Stabilized growth in desktop market
- Increase in smartphone sales
 - Increased competition and offerings
- Decrease in MP3 player sales

Analysis of Apple

Analysis of Apple

Strengths	Weaknesses
<ul style="list-style-type: none">•Brand Loyalty•Steve Jobs – strong leader•Corporate culture - innovation•Research and Development•Viral marketing – Consumer promotions through groups	<ul style="list-style-type: none">•Steve Jobs – dependency•Limited to premium segment•Corporate culture





Option 1:

Maintain leadership and introduce new products

- Allows Steve Jobs to remain as CEO with Tim Cook running day-to-day operations
- Maintain current roll out of products with incremental innovations as well as introducing a radical new addition to the product line

Advantages	Disadvantages
<ul style="list-style-type: none"> •Keeps Steve Jobs as focal point •Addresses EPS issue through new product 	<ul style="list-style-type: none"> •Does not solve leadership issue

Option 2:

Change leadership and maintain status quo in production

- Introduce succession planning
- Maintain current introduction of incremental innovation

Advantages	Disadvantages
<ul style="list-style-type: none"> • Succession plan in place • Stock price does not fall due to stability 	<ul style="list-style-type: none"> • Does not address EPS issue • Potential loss of customers due to departure of Steve Jobs

Option 3:

Change leadership and introduce new products

- Introduce succession planning
- Incremental innovation of existing products
- Introduce new product(s) to consumers

Advantages	Disadvantages
<ul style="list-style-type: none"> • Addresses EPS issue • Addresses leadership issue • Stock price does not fall • Increases product type 	<ul style="list-style-type: none"> • Possible loss of brand loyalty with customers

Decision Matrix

Decision Criteria	1. Maintain Leadership	2. Succession Strategy	3. Succession Strategy
	New Product Line	Status Quo Production	New Product Line
Branding	2	1	3
Innovation	3	0	3
User Friendliness	3	1	3
Sales and Marketing	2	1	3
Strong Management	1	3	3
Distribution	1	1	2
Total	12	7	17

Rankings
 3 = Focuses On This Criteria
 2 = Targets Criteria Effectively
 1 = Somewhat Targets Criteria
 0 = Does Little To Target Criteria

Recommendation

- Apple must manage, plan, and execute a transition from one CEO to the next emphasizing positive outcomes for all key stakeholders
- Apple must introduce new products to target the decline in the PC market and to address their stagnant product line

Recommendation

- We recommend Option 3: Change leadership and introduce new products because it targets:
 - Key success factors identified
 - Growth potential in EPS
 - Leadership issues

Implementation

Implementation

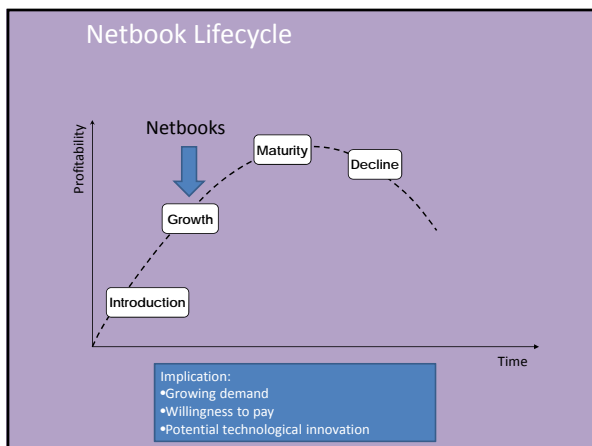
Short Term
Mar 2009 – Sep 2009

- **Succession Strategy**
 - Board of directors, Steve Jobs and an outside consulting group must:
 - Develop a methodical approach to identify desirable CEO characteristics
 - Draw out a short list of potential candidates
 - Tim Cook – responsible for current operations
 - Philip Schiller – worldwide marketing
 - Tony Fadell – innovator
 - External to company – no prior obligations to firm

Implementation

Short Term
Mar 2009 – Sep 2009

- **Research and Development**
 - Identify a new product and begin research and design
 - Netbook
 - Continue to develop incremental innovations to exiting product lines
- **Marketing**
 - Announce that a new product is to be developed – but no further details
 - Allow consumer hype
 - Decrease price of iPhone by 10%



Implementation

Short Term
Mar 2009 – Sep 2009

- Operations
 - Increase production of iPhone by 100%
 - Maintain current production of iPod Nano
 - Reduce production of iPod Classic by 50%
 - Increase laptop production by 30%
 - Maintain production of desktops

Implementation

Medium Term
Sep 2009 – Mar 2010

- Succession Strategy
 - Determine the candidate whose characteristics best fit the firm's strategic needs
- Marketing
 - Announce release of Apple's new netbook line "iNet" at MacWorld Expo 2010
- Operations
 - Reduce production of iPod Classic by 25%
 - Begin production of iNet

Implementation

Long Term
Mar 2010 – Sep 2010

- Succession Strategy
 - Introduce new responsibilities to the selected candidate such as overseeing management team meetings, approving products, and representing Apple to the public
- Research and Development
 - Develop and modify existing smart-phone technology to target business consumers

Implementation

Long Term
 Mar 2010 – Sep 2010

- Marketing
 - Market new iNet as THE all-in-one, user-friendly netbook
 - Utilize viral marketing resources
 - Increase market share of iPhone especially to businesses
- Distribution
 - Begin distribution through existing channels
 - Apple store
 - Online

Competitive Response

- Competitors in Netbook segment
 - Dell
 - Acer
 - Asus
 - Toshiba
 - Etc.

- Lower prices of existing products
- Increase innovation

iNet Sales Forecast

Revenue (millions)	2010	2011
Units	8	11
Sales	5,600	7,700
Assumptions - unit price \$700		

EPS	2009	2010	2011
Growth as % of 2008 sales	-	17.24%	27.55%

Conclusion

- Apple is facing a projected decline in earnings per share in 2009 and must assess the future leadership of the organization
- In order to address this issue, Apple should change leadership and introduce new products

THANK YOU

Appendices

Competitive Landscape

- Computer Division
 - Toshiba
 - Acer
 - Gateway
 - HP
 - Asus
- Smartphones
 - Samsung
 - Sony
 - Nokia
 - RIM
 - Palm
- MP3
 - Samsung
 - Creative
 - Microsoft
 - Sony

Revenue and EPS growth comparison

Year	Revenue (Billions)	% Growth	EPS	% Growth
2005	\$ 13,931	-	1.55	-
2006	\$ 19,315	38%	2.27	46%
2007	\$ 24,006	24%	3.93	73%
2008	\$ 32,479	35%	5.36	36%

Average Revenue Growth	32.33%
Average EPS Growth	51.67%
EPS Growth / Revenue Growth	159.79%
