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MAY

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2013

Diploma Programme subject in which this extended essay is registered: Business Management Studies
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Title of the extended essay: To what extent has innovation and product development contributed to Apple being a market leader?

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I have acknowledged each use of the words, graphics or ideas of another person, whether written, oral or visual.

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I became supervisor during her second year of BMS. She had already picked her topic and started writing before I had met her as I am a new teacher at this school. She started her research in February 2012 and worked through the summer. Due to working with an international, large company, she relied on a lot of secondary research. Her main difficulties were time management because the IB curriculum is very demanding and she is involved in a lot of clubs and sports. However, she overcame this by utilizing all her study halls and staying organized. She also had a hard time finding resources as [redacted] has few libraries and is located eight hours from Manila. However, [redacted] asked a lot of faculty for any advice finding resources and data bases. Overall, [redacted] put in a lot time working on her EE. When I met her in August 2012, she already had a draft done. She was glad the EE was a long process because she had a lot of time to edit and revise and seek help or guidance from faculty.

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To the best of my knowledge, the extended essay is the authentic work of the candidate.

I spent hours with the candidate discussing the progress of the extended essay.

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Assessment form (for examiner use only)

Criteria	Achievement level		
	Examiner 1 maximum	Examiner 2 maximum	Examiner 3 maximum
A research question	<input type="text" value="1"/>	<input type="text"/>	<input type="text"/>
B introduction	<input type="text" value="1"/>	<input type="text"/>	<input type="text"/>
C investigation	<input type="text" value="2"/>	<input type="text"/>	<input type="text"/>
D knowledge and understanding	<input type="text" value="2"/>	<input type="text"/>	<input type="text"/>
E reasoned argument	<input type="text" value="2"/>	<input type="text"/>	<input type="text"/>
F analysis and evaluation	<input type="text" value="2"/>	<input type="text"/>	<input type="text"/>
G use of subject language	<input type="text" value="3"/>	<input type="text"/>	<input type="text"/>
H conclusion	<input type="text" value="1"/>	<input type="text"/>	<input type="text"/>
I formal presentation	<input type="text" value="2"/>	<input type="text"/>	<input type="text"/>
J abstract	<input type="text" value="1"/>	<input type="text"/>	<input type="text"/>
K holistic judgment	<input type="text" value="2"/>	<input type="text"/>	<input type="text"/>
Total out of 36	<input type="text" value="19"/>	<input type="text"/>	<input type="text"/>

“To what extent has innovation and product development contributed to Apple being a market leader?”

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ABSTRACT

Apple is regarded as one of the top leading electronic brands today. Despite the many different factors that contribute to Apple as a market leader, two factors will be focused on in this essay: product development and innovation. Considering these factors, I have devised the research question: To what extent has diversification and product development contribute to Apple being a market leader? All together, however, other factors like premium pricing, brand loyalty, quality, diversification, and its competitive advantage are explored since they all contribute to Apple as a market leader. This information will be obtained mainly through secondary research since Apple is a multinational company that releases records for public viewing.

For this essay, I have chosen to focus on innovation and product development since it is seen more often through Apple's range of products. Apple's well-known innovative product is its iPad while its other products such as the iPod, iPhone, and the iMac have evidently undergone product development to improve on its features.

Being a market leader means that Apple is in the spotlight. Despite its strong, established brand image, Apple is still faced with many different problems like Samsung's lawsuit against Apple. Despite such, Apple still remains to be the overall market leader. Samsung, along with Apple dominates more than half of the market. Therefore, Samsung's business activity and nature, in comparison to Apple will also be researched.

In conclusion, all factors that contribute to Apple as a market leader will be connected and evaluated together with the role of Samsung in the operations of Apple as a multinational firm. All together, these factors prove and justify Apple as a market leader.

I. Introduction

Apple, founded in the year 1976 by Steve Jobs and Steve Wozniak, has grown to become one of the world's leading electronics and computer hardware manufacturers. In the year 1977, Apple, which was formerly known as Apple Computers Inc. released its first computer, Apple II. However, in 2007, the company removed "computer" and changed to Apple Inc.: a broader, suitable name that encompasses their range of products¹. Apple diversified and now manufactures a range of products: smartphones, portable music players, computer tablets, and laptops in over 300 Apple Stores worldwide². There are many factors, which contribute to the success of Apple today such as premium pricing, brand loyalty, quality, diversification, innovation and product development. However, the essay focuses on: "To what extent has diversification and product development contribute to Apple being a market leader?"

It is important to research on Apple since it's a market leader. As a market leader, it's the company that sets an example towards other companies in the market like product pricing. It is more important to be knowledgeable of Apple's activity compared to other companies that hold an insignificant market share since Apple has more power and influence over the market. In this way, managers are aware of the operations of a market leader and can possibly mimic it. Due to Apple's innovative ideas, it has set forth an example to other companies, which lead to the production of similar products by competitors.

Despite the various companies involved in the market of electronic and computer hardware, a large share of the market belongs to Apple and Samsung. Together, both companies accumulate more than 50% of the total market share. It is therefore evident that Apple and Samsung are the two leading, competing companies in the world³. The rivalry and

¹ "40 Fast Facts on Apple."

² "Apple Store Locations."

³ "NPD: Apple, Samsung Control 55 Percent of the Smartphone Market, Prepaid Sales up 91 Percent."

competition encourages both companies to strive in hopes to surpass the other. The intensity of the competition between Apple and Samsung eventually lead to court.

II. Aim

Despite the various factors that contribute to why Apple is a market leader, the aim of this research focuses specifically on how innovation and product development has contributed in the development of Apple as a market leader. In addition, Samsung, its main competitor will also be investigated and compared to Apple since it directly affects Apple as a market leader. To successfully investigate the prompt, an Ansoff Matrix will be presented and an analysis of its net income.

III. Problem

To what extent has diversification and product development contribute to Apple being a market leader?

IV. Definitions⁴

Product Development -“a medium-risk growth strategy that relates to the business selling existing products in new markets”

Ansoff Matrix- “an analytical tool that helps managers to devise their product and market growth strategies”

Innovation- the process of pioneering new and creative ideas in the new production process

Market Leader- brand, product, or firm that has the largest percentage of total sales revenue (the market share) of a market. A market leader often dominates

⁴ Hoang, Paul. Business and Management.

its competitors in customer loyalty, distribution coverage, image, perceived value, price, profit, and promotional spending

V. Ansoff Matrix

M A R K E T	New	Market Development	Diversification iPad iPhone iPod iMac
	Existing	Market Penetration iPad iPhone iMac MacBook iTouch	Product Development iPad iPhone iMac MacBook iTouch
		Existing	New
		Product	

Based on the matrix, it is evident that Apple has introduced several products into the market (Innovation). The first product Apple introduced to the market was Apple II, which underwent product development and is now known as the iMac. The latest innovative product Apple introduced was the iPad, a tablet computer that also underwent product development to improve on its features. Usually, once Apple introduces a product to the market, its products undergo product development, which improves its quality thus provides consumer confidence

and gains brand loyalty. In the long run, Apple was able to establish premium prices due to consumer loyalty since Apple was confident that its products would be bought. Practicing product orientation where Apple creates products they can make rather than what they can sell allows them to be more flexible in the production of new products. Apple is no longer limited to what consumers demand, thus Apple can confidently introduce innovative products into the market. The consumers' loyalty to Apple is evident today since the newest, innovative Apple products introduced in the market are always accepted and bought. Through this, Apple gained its status as market leader.

VI. Net Income⁵

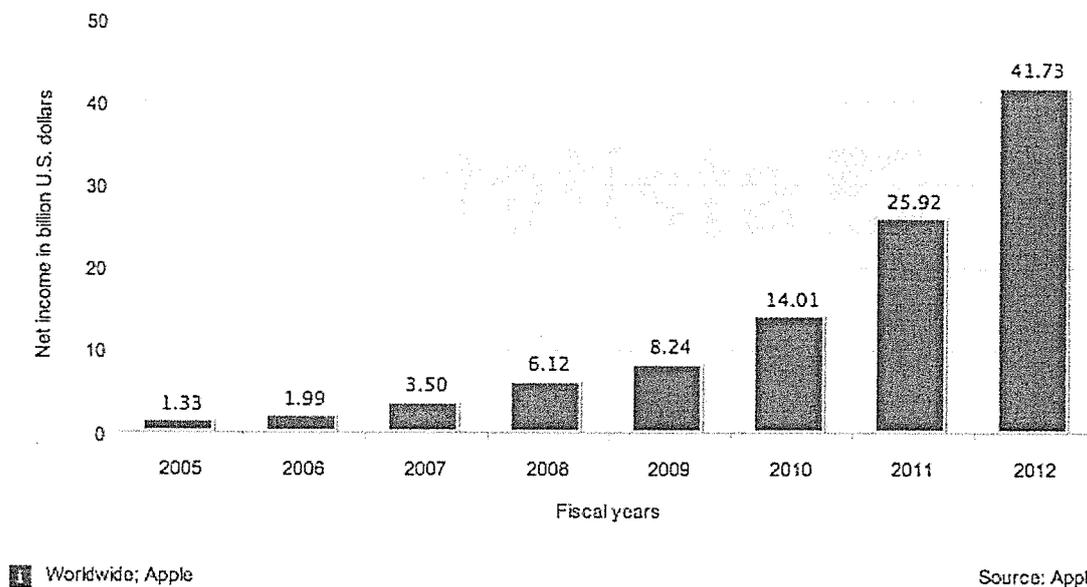


FIGURE 1

As seen in the graph, there is a positive trend to Apple's increasing net income for the past eight years due to the different factors, which contribute to Apple as market leader such as product development, innovation, premium pricing, brand loyalty, quality, diversification, and Apple's competitive advantage. In the year 2010, there was a significant increase in net income. Its net income has increased by at least six billion dollars compared to the previous

⁵ Net Income of Apple Inc

years where it increases by more or less only two billion dollars. It was also in the year 2010 that the iPad was released.⁶ The iPad, a tablet computer was the first of its kind to be introduced in the market. Today, other companies also manufacture computer tablets like Samsung and BlackBerry. It can be deduced that the release of the iPad, an innovative product of Apple, is a factor to the significant increase in Apple's net income in the year 2010. The iPad was accepted and bought by consumers in the market due to brand image and brand loyalty. Even though the iPad was an innovative product, it was Apple that introduced the product thus recognized by the market. Apple was confident to set a premium price, knowing that its consumers are loyal and that the product would be bought. Even though the iPad was a different product, loyal consumers were willing to purchase it even with its premium price since Apple produced it. It is through the iPad's premium price that Apple's net income significantly increased in the year 2010.

VII. Apple as a Market Leader

Throughout the years, Apple has diversified, innovated and manufactured new products and improved current ones. By offering a selection of innovative products to the market, Apple slowly climbed its way towards becoming the market leader. It currently holds a large share of the market and sets premium prices, which results to its soaring profits compared to its competitors in the market. Samsung, its main competitor admits that Apple has been overpowering their company in terms of their designs and consumer preferences⁷.

Throughout the years, Apple has established its image through an increasing customer base. As it has reached a global market, its net income increased and multiplied over the years like seen in Figure 1. One of the monumental innovative products that Apple

⁶ "iPad." *Wikipedia*

⁷ Samsung: We'll Match Jonathan Ive's Apple Designs

introduced was the iPad, which was released in the year 2010⁸. The release of an innovative product, a portable tablet computer, resulted to a significant increase in Apple's net income. Before the release of the iPad, tablet computers existed, which was manufactured by Microsoft⁹. However, it was only after the release of the iPad that other electronic firms like Samsung and Blackberry released computer tablets similar to Apple. Therefore, this shows how Apple sets forth an example to other firms in the market since it is the market leader.

Apple Inc. manufactures a range of products: iPhones, iPods, iPads, iMacs and MacBooks. Apple originally manufactured computers, to adapt to the fast changing business environment, Apple invented its iPod, iPad, and MacBook. In addition, it designed its own touch screen phone, the iPhone: a first of its kind.

Throughout the years, Apple improved their various products, which is also known as product development. For example, the iPod now has different styles and generations: the iPod Classic, iPod Nano, iPod Shuffle, and iPod Touch. Apple improved the iPod Nano until the 6th generation, each generation with its better, improved design compared to the previous generation. With always offering a better, improved design of products for consumers, more sales and profit will be made, which lead to the success of Apple. This is similar with the other products of Apple: iMac, iPhone, MacBook, and iPad.

Apple adapted to the fast changing business environment and invented new products that suffice to the demands of consumers. In the beginning, Apple can be regarded as a company that is product-oriented, as Apple began to earn brand loyalty, the company began market-oriented approach: creating products, introducing it to the market knowing that the company will receive high sales due to its established brand image. Confident that customers will purchase Apple products, Apple is now more flexible to innovate products to introduce

⁸ "iPad" *Wikipedia*

⁹ Tablet Design Before & After the iPad

to the market rather than creating products according to the demand of consumers. In this way, Apple can also focus on the quality of their products since the company no longer needs to be concerned on whether or not customers will buy their products. With guaranteed product quality, Apple provides consumer loyalty. Therefore, sales will continue to soar and Apple will remain to be a market leader.

A market leader is a “brand, product, or firm that has the largest percentage of total sales revenue (the market share) of a market. A market leader often dominates its competitors in customer loyalty, distribution coverage, image, perceived value, price, profit, and promotional spending”¹⁰. Apple and Samsung accumulate more than half of the market. Even though the percent of market share that Apple and Samsung hold are similar, Apple exceeds Samsung in its sales profit, which is also affected by its location of Apple stores. Apple has over 300 stores worldwide, meaning that it has gained a large customer base in different regions around the globe: United States, Canada, Australia, Europe, Philippines, Hong Kong, and Japan¹¹. A large customer base generates more profit and a larger reach of audience means there is an increased loyalty to Apple.

Apple’s soaring profits are also a result of its premium prices. Customers are willing to pay high prices for Apple’s products even though there are cheaper alternatives in the market. Since Apple has established its image as a firm that produces unique, high quality products, consumers prefer to purchase these products instead, disregarding the high prices Apple charges.

Apple is well known throughout the globe and therefore does not require extravagant spending on marketing. Consumers are updated with the current situation of Apple where they are already aware of a product that is to come before it is even released. Consumers are

¹⁰ "Market Leader."

¹¹ "Apple Store Locations."

loyal to Apple, meaning there are guaranteed sales, which all together results to Apple acclaimed as a market leader. With a large customer base, “word-of-mouth” marketing can also be practiced and therefore no longer requires extravagant marketing of new products. Since Apple does not require extravagant spending on marketing, Apple generates higher profits, which is another quality when regarded as a market leader.

With the continuous improvement of Apple products and its innovative products, Apple has dominated the market, evident through the significant increase in its value through assets¹². Apple also sells stocks and there is a large number of people that currently hold Apple stocks. This shows the confidence in the wellness of Apple as a strong firm leading the market¹³.

VIII. Samsung

Samsung, a Korean company, which holds a similar percentage of the market, is considered to be Apple’s closest competitor. Samsung manufactures similar products to Apple and vice versa. Actually, it is Samsung who provides most parts needed to produce an Apple iPhone¹⁴. There recently has been a court order regarding patent and copyright issues between the two companies. Throughout the years, there continues to be close competition but Apple remains to exceed Samsung in sales and profit¹⁵. Samsung admits that Apple has overpowered them in terms of the designs, thus proving the success of Apple since Samsung has accepted defeat. Like Apple, Samsung manufactures smartphones, tablets, laptops, desktops, television sets and cameras. Samsung clearly has a more diversified product portfolio compared to Apple, who only offers a few products. Some consumers still prefer Samsung smartphones since Samsung’s market approach offers a variety of models of smartphones to consumers unlike Apple that only produces the iPhone. However, one fact

¹² "Apple Inc. Balance Sheet."

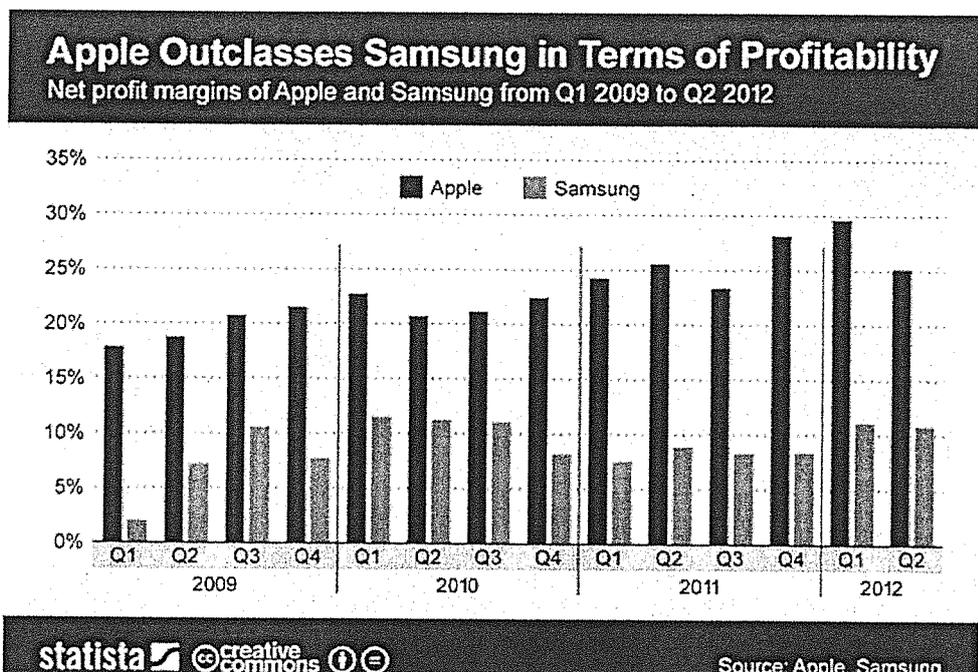
¹³ AAPL Major Holders | Apple Inc. Stock - Yahoo! Finance

¹⁴ *The Economist*

¹⁵ "Apple and Samsung Are the Only Profitable Smartphone Makers."

remains clear. Samsung and Apple are the two contenders on who truly dominates the market, but Apple still exceeds Samsung in net income.

In response to Apple's iPhone is Samsung's Galaxy series, which was released in the year 2010¹⁶. Similarly, Samsung products continually undergo product development to improve on its features to offer a better phone to the market. If there's an iPhone 5, there is a Samsung Galaxy SIII. Samsung does not only manufacture the Galaxy series for smartphones, also manufactures other smartphones as well. Therefore, unlike Apple, Samsung needs to ensure quality for its range of products, unlike Apple that can focus more on the high quality of the iPhone.



¹⁶ "Samsung (

Figure 2¹⁷

The table above shows the net profitability of each company. It is clear that Apple has surpassed Samsung for the past four years by at least double. Even though Samsung offers more products like its cameras and television sets, it is clear that consumers still prefer Apple. However, these results are also influenced by Apple's premium prices due to brand loyalty.

The average selling price of an iPhone is roughly around \$676. However, the manufacturing costs are only \$197¹⁸. There is about \$400 value added. Apple can choose to sell the iPhone for \$250 and still get profit. Yet, they can sell its for \$676 and still get high sales. This shows that Apple product's are premium priced, knowing that it will be sold to the market. Due to its high quality from product development, where its features are improved each time, it can easily be sold in the market thus its higher profitability compared to Samsung.

It can be argued that Samsung walks in the shadows of Apple or that Samsung imitates Apple. Samsung recently opened a store in North America that is similar to any other Apple store around the world¹⁹. Even the way Samsung products are presented are similar to Apple's products. The threat that Apple imposes to Samsung influences Samsung to operate similar to Apple due to its dominance and the probability that Apple can easily overpower Samsung completely. Samsung began creating touch phones when the iPhone was released; The company also began making tablet computers when the iPad was released. While the iPad was released in April 2010, the Samsung Galaxy Tab was released shortly in September 2010. Due to consumer preference to Apple, Samsung needs to answer back to what Apple produces thus producing products to meet consumer demands, which was set by Apple when introducing an innovative product to the market. Even though Apple clearly overpowers Samsung, this company should still be taken seriously since it is the other strongest contender

¹⁷ "â€ Chart: Apple Outclasses Samsung in Terms of Profitability | Statista."

¹⁸ "Adding Value - How Much Profit Is Made by the iPhone?"

¹⁹ "Samsung Opens First North American Apple Store -- Er, Samsung Store."

in the market. Even though Apple has higher sales and profit, Samsung, also generates a high level of profit considering it shares as the second largest company in the market.

For example, the similarity of the products between Apple and Samsung has caused patent issues, which had to be brought to court. Despite this, the verdict is in and Apple won. Apple's success impacted Samsung sales as well²⁰. Even the law has decided that Apple does not copy Samsung. It creates its own innovative products, which all the more increases its strength as a market leader.

Even though Samsung and Apple manufacture similar products, Apple continues to overpower Samsung. Samsung is still considered a competitor since it is the company that holds a similar market share percentage like Apple. Both companies practice the same routine of product development to offer to customers. However, Apple still exceeds sales like its iPhones sold compared to Samsung phones sold, which is 85 million to 21.25 million²¹. Apple sells more than twice of what Samsung sells, which also clearly indicates the dominance of Apple in the market.

IX. Problems as a Market Leader

Being a market leader means being in the "spotlight." Despite the current strength of Apple as a company, it still needs to strive to be the best company it can be due to the high expectations burdened upon the company. Like seen in the trial case between Apple and Samsung, Samsung tried to prove that Apple was guilty but all of Apple's patents were valid and therefore is the reason why Apple won the case. Despite the attempts to overthrow Apple as a market leader, its strength is what allows the company to remain on top.

Recently, Apple has been attacked regarding its treatment towards their workforce in China. Such issues can hinder the growth of Apple since it can ruin the exceptional reputation that it currently holds. Foxconn manufactures Apple products, which are eventually sold in

²⁰ "Apple Wins Big in Patent Case."

²¹ "Sales Numbers Revealed in Apple vs Samsung Trial."

Apple stores located worldwide. What most people know is that it is only Apple that Foxconn manufactures for. However, Foxconn also works for other companies like Dell and Amazon²². Yet, it is Apple that is being attacked with claims of unfair treatment and poor working conditions. It is inevitable when Apple is the company that dominates the market. It will always receive criticisms and allegations to try to destroy the reputation of the company.

This should be taken seriously since it can harm the exceptional reputation that Apple currently holds. What people fail to see, too, is the opportunity Apple is giving to Foxconn. With Apple's high sales, it holds 40% shares of Foxconn and therefore, basically operates Foxconn²³. Without Apple, Foxconn would no longer require jobs, which will therefore cause unemployment to many in China.

It is inevitable to come across such criticisms with such a strong market leader. All contending firms in the market look up to Apple and therefore focuses on its flaws. However, despite all of these problems, Apple still remains to be of dominance. This shows how strong the company is, and how it will most likely remain strong since it can surpass problems that had the potential to harm its reputation.

X. Conclusion

Apple is a market leader that has the largest percentage of total sales revenue (the market share) of the market, that dominates its competitors in customer loyalty, distribution coverage, image, perceived value, price, profit, and promotional spending²⁴. There are many factors that contribute to Apple as a market leader. However, of which that I have investigated, innovation and product development play the most important role in aiding Apple to gain its status as the market leader. It is from innovation and product development that other factors like quality, brand image, consumer loyalty and premium pricing have evolved. Apple has introduced many products into the market like the iPad, and

²² "Foxconn Technology."

²³ "Foxconn Wants to Reduce Its Dependency on Apple."

²⁴ "Market Leader"

to continuously guarantee customers of high quality, Apple's products undergo product development to improve on its features. Apple practices product orientation where the company produces products they can make rather than products that they can sell. With this approach, Apple is more flexible and therefore has the freedom to innovate, confident that consumers will purchase their products due to consumer loyalty, which was established by the high quality of their products as a result of product development.

Innovation has allowed Apple to establish its image and therefore increase its sales and net income. Considering the fast-changing environment of the technological market today, technology-involved companies in the market need to adapt to the demands of its consumers. The technological market is continuously changing due to innovative products. Companies need to adapt to these changes and produce these products in order to meet the high demand of consumers in the market. This is another factor why Apple is a market leader. Apple does not adapt, it introduces the innovative products, thus being a successful competitor in the market. Consumer loyalty and preference has allowed Apple to set premium prices, which also results to its high sales, thus dominating the market.

Product development improves Apple products, which ensures quality to its consumers and therefore establishes consumer loyalty. The consumers are assured that their products are only of high quality and in Apple's case, in particular, "user-friendly." Apple's products hold the reputation as "user-friendly" products, thus more appealing to consumers in the market. Not only are the consumers guaranteed of high quality. Consumers are also using an easy to use, high-end product. If Apple did not practice product development, their products can suffer from low quality, which can harm Apple's reputation. Therefore, practicing product development aids Apple in enhancing their brand reputation and brand loyalty. This is beneficial in the long run for it increases customer base, which generates more profits.

Being a market leader doesn't mean that all is well since Apple still faces problems like its supposed unfair treatment of workers in China and its strong competitor, Samsung. Samsung also has a high market share. Therefore, Samsung has the potential to surpass Apple in sales, and therefore be claimed as the market leader. Like Apple, Samsung holds a large customer base due to its diversified product portfolio, which offers a range of products in the market. However, Apple still holds a stronger brand image, with premium prices, which allows Apple to generate higher profits.

Being the market leader will cause more problems since Apple is in the "spotlight." Even though Apple has its core competencies like its strong brand image, brand loyalty, and quality, critics will continue to point out its flaws like its unfair treatment towards its workers in Foxconn, China. Foxconn does not only manufacture products for Apple. It also manufactures products for other companies like Dell, which is a company that sells computers, like Apple. Yet, only Apple is recognized as the company that treats its workers unfairly. Despite all these problems Apple faces, it remains to be the market leader. This furthermore shows the strength of the company and the loyalty of its consumers. Even though there are different controversies tied with the company, consumers will continue to support and purchase from the company.

In the end, with all the different contributing factors, it will always be Apple that will be claimed as a market leader. All the factors equally contribute to Apple as a market leader. First, it introduces innovative products into the market, which undergoes product development. Product development enhances the product's quality, which establishes Apple's brand image as a company that creates high-end, high-quality products. Therefore, consumers become more loyal towards Apple. Apple has now created consumer loyalty. Confident that Apple products will always be bought when introduced to the market, Apple is no free to set premium prices. Consumers will purchase the products, disregarding the amount they have to

pay. Therefore, this generates a higher level of profit for Apple. Apple's high market share and high level of profit allows it to gain its reputation as a market leader, always a threat to other companies in the market.



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