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Class

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Case Analysis: Apple in China

Apple is a highly profitable company with many strengths. It was named the top brand in the world in 2015 and has very strong brand power. Part of this brand power comes from its products being status symbols. Part of it comes from the strong connectedness of its products that work in an “ecosystem” (Teagarden, 2). When people buy one of Apple’s products they are more likely to buy others and continue upgrading with new releases. A recent weakness of the company has been a slower rate of innovation. CEO Tim Cook made important changes to operations when he was COO of the company. However, he does not have the same type of unique and future thinking that former CEO Steve Jobs was known for. Apple is relying on old successes to keep growing.

In the external environment, Apple has several opportunities in China. Chinese middle class citizens have more buying power than ever before. Smartphone ownership in the country is growing exponentially. Status symbols are especially important to them and Apple’s iPhones are an important show of face. However, Apple faces many more external threats. It is not only competing with strong global competitor Samsung for Chinese market share. There is a strong threat of new substitutes in the smartphone market from new Chinese entrants like Xiaomi and Huawei. Apple is also struggling to protect its copyrights and compete with fake products and stores. Apple’s largest contract manufacturer Foxconn has also had serious negative media attention for working conditions. Finally, there are differences in the Chinese market that Apple

must make manufacturing modifications for. There is also the stress of building contracts with three major service providers. These providers have more profit incentives to promote Chinese phone makers and Apple has struggled to reach agreements with them in the past. This analysis suggests that Apple is in a much weaker competitive position in China than in other markets.

To succeed in the long term, Apple first needs to use the influence of its major strengths better. These are its strong brand and its ecosystem. It should continue to promote its products as luxury items as it has been doing. But this will also require staying ahead of competitors with innovation. Apple should invest a larger share of its profits into research and development (R&D) so that its newest models are more exciting to consumers than competitors'. The company also needs to focus more on promoting its services like the App Store in China. Consumers need to be uncomfortable switching to a competitor's operating system.

Second, Apple needs to develop a better understanding of what makes the Chinese market unique. The poor sales of its cheaper 5C iPhone show that it has struggled to understand what motivates Chinese consumers. It needs to develop better knowledge of the market so that consumers prefer its products not just because they are status symbols. This could mean negotiating better contracts with service providers or giving providers incentives to promote iPhones. Perhaps partnerships with or investment in Chinese technology companies would help (van der Hoek).

While Foxconn has received negative media attention, changing contract manufacturers would be very costly. Apple has already made good efforts to improve safety and lower environmental costs of production. Consumers probably do not think about corporate responsibility very much when deciding to buy an Apple product versus one from a competitor.

Regarding the threats of counterfeits and stolen intellectual property, Apple can continue to place pressure on the Chinese government for compensation and protection. However, it is unlikely that it can make much progress in this area on its own. These issues are much larger in the Chinese market and will take many companies and governments to negotiate improvements. For these reasons, Apple should focus most on existing strengths, more research and development, better understanding of the Chinese market, and developing stronger business connections in China.



Works Cited

Teagarden, Mary B. "Apple in China." *Harvard Business Review*, 21 Mar. 2016, pp. 1–11.

van der Hoek, Kirsten Spahr. "APPLE & CHINA."

