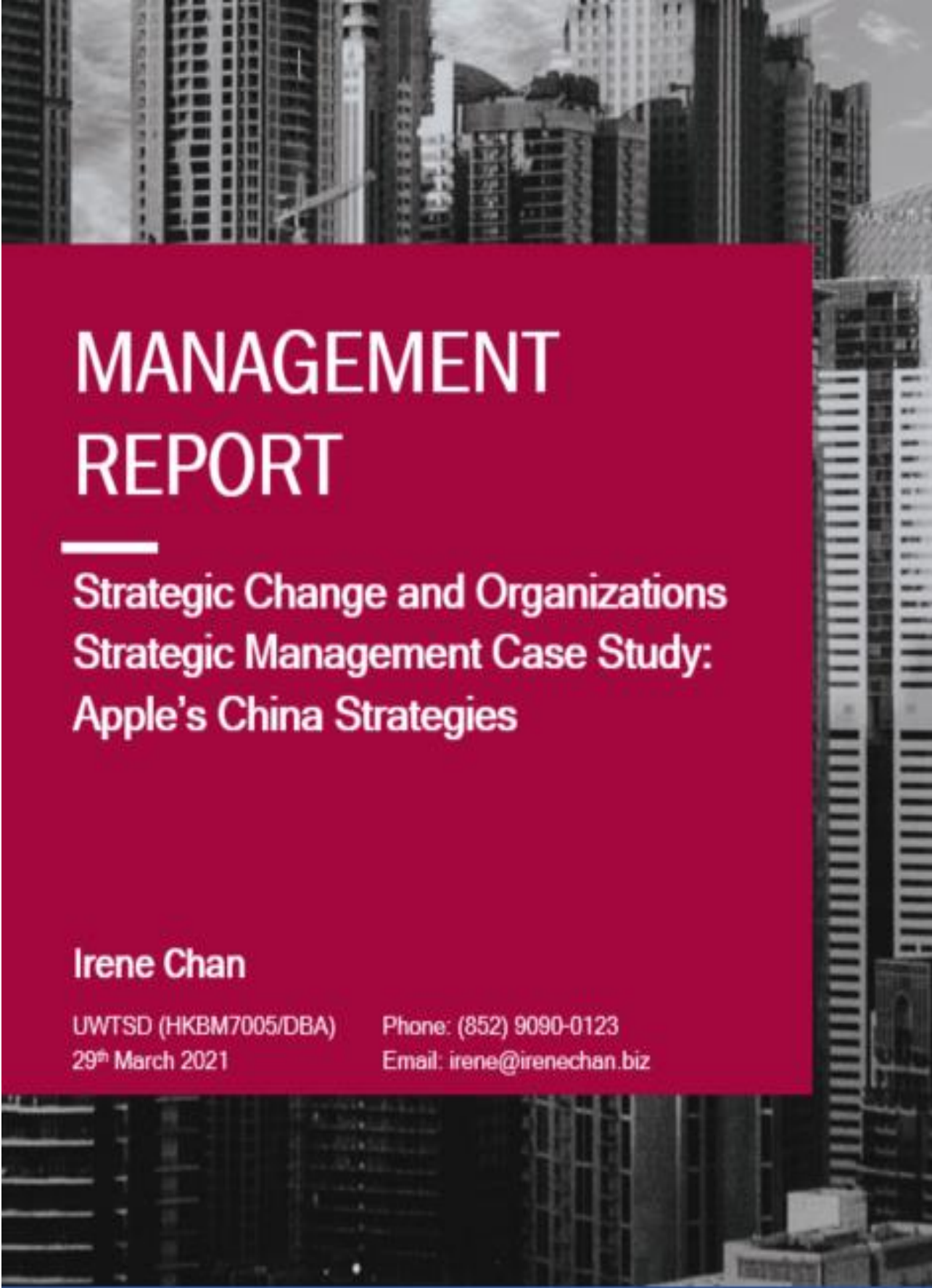


1.1.1.1 LEVEL 7 ASSESSMENT SPECIFICATION

Student name:	Irene Chan	Student number:	ID	2023583
Programme:	DBA			
Module:	Strategic Change and Organisations			
Module code:	HKBM7005	1.2 Contribution to Overall Module Assessment (%):	100%	
Lecturer:	Prof. Peter Fong	Internal Verifier:		
Assignment Title:	Management Report	Word count (or equivalent):	7,500 words	
Submission deadline:	7 th April 2021	Return date of provisional marks & written feedback:	4 May 2021	
Submission method:	All written assessments, where practical and possible, must be submitted via Turnitin unless otherwise instructed by the Lecturer. (Please DO NOT put this assessment specification into Turnitin or it will match many similarities with other students' submissions.) Alternative submission method (if applicable): Late submission of the assessment will result in a late penalty mark. Penalties for late submission: Up to one week late, maximum mark of 50%. Over one week late, 0%. Only the Extenuating Circumstances Panel may approve a change to submission dates.			
Academic honesty / referencing:	Academic honesty is required. In the main body of your submission you must give credit to authors on whose research and ideas your work is based. Append to your submission a reference list that indicates the books, articles, etc. that you have used, cited or quoted in order to complete this assessment.			



MANAGEMENT REPORT

**Strategic Change and Organizations
Strategic Management Case Study:
Apple's China Strategies**

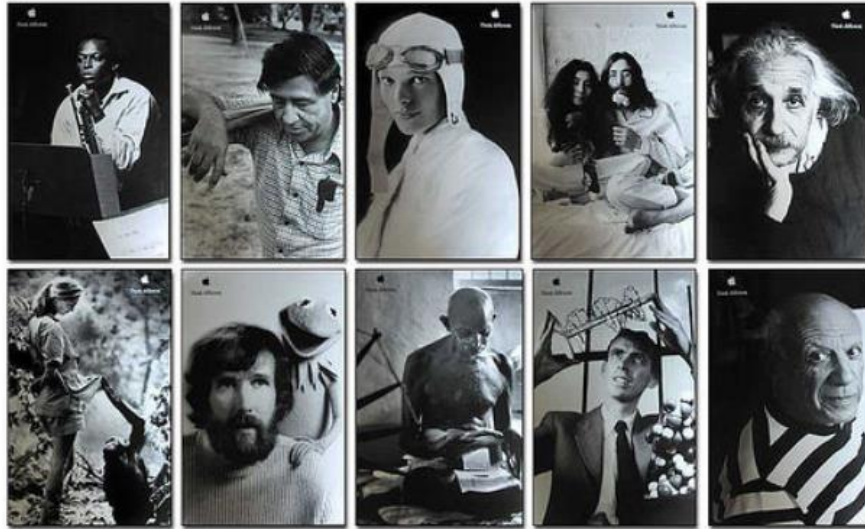
Irene Chan

UWTSD (HKBM7005/DBA)

29th March 2021

Phone: (852) 9090-0123

Email: irene@irenechan.biz



The people who are crazy enough
to think they can change the world
are the ones who do.

Apple's "Think Different" TV commercial, 1997
"The ultimate all-in-one design. It just works."

*"Well, today, we're introducing **three** revolutionary products of this class. So, three things: a widescreen iPod with touch controls; a revolutionary mobile phone; and a breakthrough Internet communications device. An iPod, a phone, and an Internet communicator. These are not three separate devices, this is one device, and we are calling it **iPhone**."*

-Steve Jobs, 9 Jan 2007, Launch of iPhone

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🍏 (2) Introduction- Executive Summary

Apple Inc. designs, manufactures and markets smartphones, personal computers, tablets, wearables and accessories, and sells a variety of related services. It is a Cupertino California corporation established in 1977 by its world famous founders, **Steve Jobs and Steve Wozniak**. Apple is now ranked as the world's **most** admired company by Fortune Magazine¹ in 2021. It had just announced an all-time record revenue of US\$111.4 billion for its fiscal Q1 2021 results² in January 2021 and reached two major milestones during this quarter (Oct-Dec 2020). First of all, Apple broke past **US\$110 billion** in revenue of any quarter in the company's history and it has also surpassed **1 billion** active users for the first time in its history. In addition, Apple CEO Tim Cook (see **Exhibit 1-** Tim Cook's bio) also said that the company had a record number of iPhone "upgraders" during the quarter, "the most we've ever seen in a quarter."³

Apple's outstanding performance is inconceivable when the world is facing the biggest global public health crisis during this period. Covid-19 has spread rapidly throughout the world and this pandemic has significantly curtailed global economic activity and caused drastic volatility and disruption in global financial markets. Can Apple sustain this phenomenal financial performance and success? Can Apple maintain this leading position in this highly competitive IT/Mobile/PC market? What kind of **market development** strategy should they deploy to expand their current business operations in Asia?

This management consultancy report aims to take a deep dive into Apple's business strategy and conduct an in depth **strategic internal and external audit** of the company. We will also leverage several analytical tools, namely, **PESTEL, SWOT and Porter's Five Forces, TOWS, SPACE Matrix** analysis, to conduct a detailed strategic diagnosis for Apple. The findings will help generate an **optimal option** for Apple to sustain their competitive advantages. We will argue that **China** is the best strategic location for Apple in the long term. They have to realign their business focus and put more resources and investment into Mainland China in order to capture the untapped potentials for their long term business growth and maximise the **shareholders' value** for their stakeholders.

¹ Fortune Magazine, 2021, p.100

² Apple Q1 2021 Press release, 27 Jan 2021.

³ Kharpal A, CNBC, 28 Jan 2021.

The current delicate geopolitical situation and especially US and China trade war, may appear to be too challenging or risky for Apple to expand further into China. For example, the latest international backlash grows over claims of abuses in the cotton-growing Xinjiang region and sanctions were introduced as a coordinated effort by the European Union, UK, US and Canada. China responded with its own sanctions on European officials. After all, Apple Inc is a US centric company and listed at home. The US public sentiment may combat against its further expansion into China and there may also be political pressure exerted by the US administration, just to name a few.

But as the Chinese has said, for every **crisis** (危機), there is always an opportunity. This management report will argue that this is indeed the **best** time for Apple Inc to invest and expand strategically into the China market. There will be barriers and challenges in this **strategy execution** and implementation. However, **recommendations** will be proposed in this report to mitigate the associated risks and maximise benefits for Apple Inc. Most important of all, this strategic move will maintain sustained business growth and competitive advantages for Apple for many years to come.

Apple and China, together, can be a match made in heaven.

In 2013, Tim Cook travelled to China. It was his second trip to the country since taking over as CEO in 2011. It was reported that he made many more visits to China, say March 2012, January 2013, July 2013, January 2014, and October 2014, just to name a few. By contrast, his predecessor Steve Jobs, had never made an official trip to China during his tenure as Apple's CEO.⁴ Cook's mileages revealed China's changing place in Apple's business strategy, from place of manufacturer to primary consumer. In fact, he visits frequently. This month, it was reported that Cook would attend 2021 China Development Forum (CDF) put on by the Chinese government amid continued tension. "The 2021 CDF is expected to see its biggest ever foreign attendance hinting that despite political turbulence and some companies moving manufacturing out of the country, China remains a powerful hub for global business."⁵ We may never know the exact numbers of trips (both official and personal) that Cook had ever made to China. However, it is a good sign that he certainly puts a lot of focus and attention into China amid continued tension.

⁴ Keck Z, 22 Jan 2013, Apple and China: A Match Made in Heaven?

⁵ Potuck M, 15 March 2021, Tim Cook to attend 2021 China Development Forum amid continued tension.

(3) Purpose: A Challenge Brief

A challenge brief was developed for Apple Inc by this management consultant. This brief is a top line and simple starting point which aims to demonstrate an overview of the strategic questions and challenges faced by Apple if they are going to further expand its business in China. It covers all key questions which need to be addressed by Apple.

Challenge Brief – Apple’s China Strategies (March 2021)

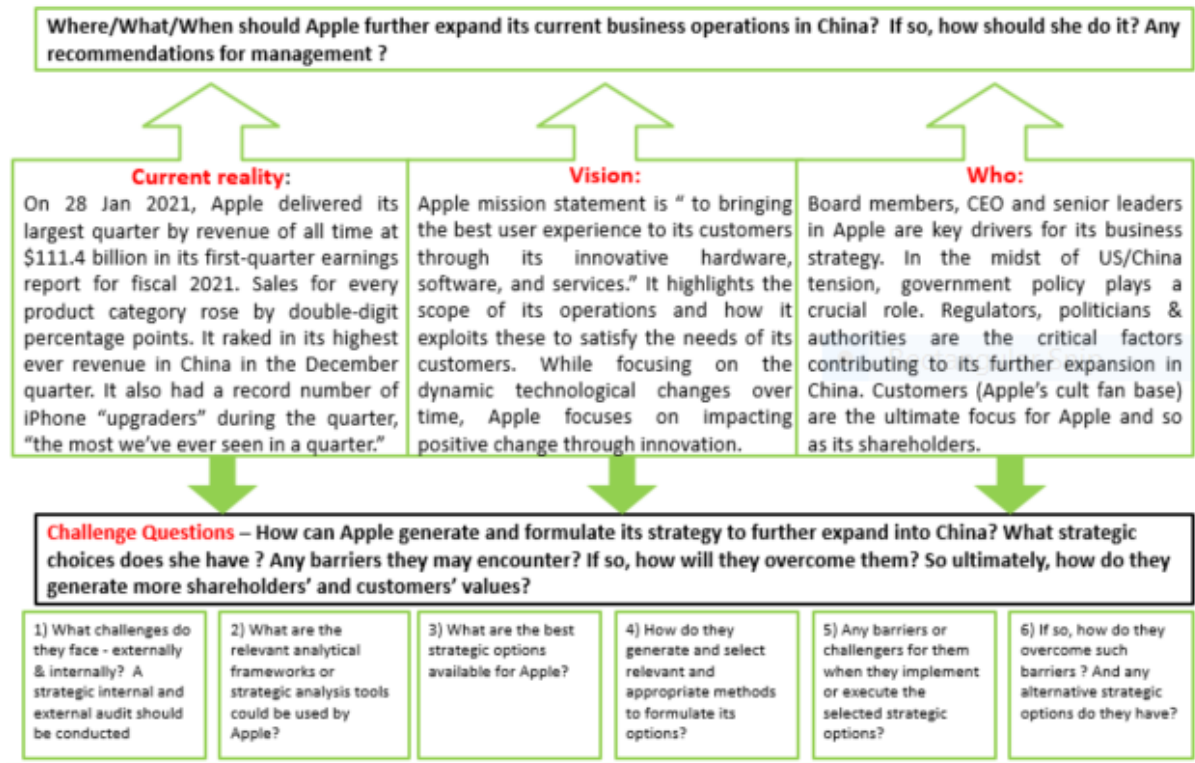


Figure 1: Challenge Brief for Apple’s Market Development Strategy

There are several key questions which need to be addressed by this report. For example, what are the challenges faced by Apple- externally and internally? What are the relevant analytical frameworks or strategic tools which could be used by Apple? What are the best strategic option available for Apple? How do they generate and select relevant and appropriate tools to formulate its options? Any barriers or challengers for them when they implement or execute the selected strategic option? If so, how do they overcome such barriers? And any alternative strategic options do they have? This challenge brief is a useful tool to frame our analysis and enhance our understanding of their management issue.

(4) Background of Apple Inc.

The tale is as old as time. It all started in a Los Altos' garage. Steve Jobs and Steve Wozniak, a pair of college friends founded Apple Computer on 1st April 1976 and it was incorporated in 1977. Jobs' vision was to bring an easy-to-use but also ready-to-use personal computer to the market, which subsequently led to the release of the Apple II in April 1978. It ignited a computing revolution which drove the personal computer (PC) industry to US\$1 billion in annual sales in less than three years.⁶ (Yoffie & Fisher, 2020) In December 1980, Apple launched a successful initial public offering (IPO). In January 2021, Apple announced an all-time record revenue of US\$111.4 billion for its fiscal Q1 2021 results. The Apple's path to success was extraordinary and unparalleled. Due to the limited time and resources available, we will only highlight the key milestones of Apple's development which are relevant to our strategy formulation and execution.

4.1 Apple's History

In 1983, Steve Jobs was featured on the cover of the Time Magazine when the personal computer was named “**Machine of the Year.**” His co-founder, Steve Wozniak, was quoted as saying, “Steve didn't do one circuit, design, or piece of code.”⁷ (Wasserman, 2011, p.1) The two had launched Apple Computer seven years before. The ‘Two Steves’ (2Ss) partnership laid the foundation of Apple Inc. The rest of its evolution has become history now. Apple has revolutionised the way of living or being for millions of people around the world. It all started with Apple I in 1976. (See **Exhibit 2** for its History road map from 1976-2021 which was compiled from various sources and also see **Exhibit 3** for iPhone's development journey from 2007-2019).

4.2 Apple's Vision and Mission

To the best of my knowledge and based on the writer's limited desk top research, Apple has not published any official “vision or mission statement” on either its website, annual report or Form 10-K, unlike most listed companies such as Amazon. However, Jobs did say in 1980, “ To make a contribution to the world by making tools for the mind that

⁶ Yoffie David B and Fisher D, (6 April 2020), HBR Case Study: Apple Inc in 2020, p. 2.

⁷ Wasserman Noah, (4 Feb 2011), Harvard Business Review Case Study: Apple's Core.

advance humankind.” In addition, the **quotes from CEO Tim Cook** regarding Apple's business philosophy can cast some light on its vision, mission and purpose. Below are some highlights of Cook’s quotes collected from various sources:

- 🍏 “It is committed to bringing the best user experience to its customers through its innovative hardware, software and services.”⁸ (Apple Inc, 2018, Form 10-K)
- 🍏 “The Company’s business strategy leverages its unique ability to design and develop its own operating systems, hardware, application software and services to provide its customers products and solutions with innovative design, superior ease-of-use and seamless integration.” (Apple Inc, 2018, Form 10-K)
- 🍏 “We believe that we are on the face of the earth to make great products and that’s not changing.” Apple believes that they will deliver quality products for its clients and they intend to do so “for quite some time”.
- 🍏 ”We are constantly focusing on innovating.”
- 🍏 ”We believe in the simple, not the complex.”
- 🍏 ”We believe that we need to own and control the primary technologies behind the products we make, and participate only in markets where we can make a significant contribution.”
- 🍏 ”We believe in saying no to thousands of projects so that we can really focus on the few that are truly important and meaningful to us.”
- 🍏 ”We believe in deep collaboration and cross-pollination of our groups, which allow us to innovate in a way that others cannot.”
- 🍏 ”And frankly, we don’t settle for anything less than excellence in every group in the company, and we have the self-honesty to admit when we’re wrong and the courage to change.”
- 🍏 ”And I think, regardless of who is in what job, those values are so embedded in this company that Apple will do extremely well.”⁹ (Above Cook’s quotes: Go, 2011)
- 🍏 “Apple strength will always be its boundless creativity and innovation.” (Tim Cook, 28 Jan 3030, Earnings’ announcememt press conference).

⁸ Apple Inc., 2018, Annual Report & Form 10-K for the year ended 29 Sept 2018.

⁹ Go, R (18 Jan 2011), Business Insider.

🍏 “Apple is fundamentally strong, and the disruption to our business is only temporary”.
(Tim Cook, CEO Letter to investors for Q2 2020)

🍏 ” Team, the response to Covid-19 has touched the lives of so many in the Apple Family, and I want to thank everyone for their dedication, empathy, understanding and care. Today, we more than doubled our donation to support the historic and global health response.” (Miller, 2020- Tim Cook, Memo to Staff, Q2 2020)

🍏 4.3 Apple's Core Values

Apple publishes detailed information related to its core values. Apple core values include **accessibility, education, environment, inclusion & diversity, privacy, racial equity & justice and supplier responsibility**. (See **Exhibit 4** for details of its core values, supplier responsibility and ethics & compliance.) Its core values reflect the fundamental principles that Apple adheres to. They are also basic criteria for Apple to conduct its business as an innovation and technological leader. To stay true to these standards, the company has to ensure all its business operations are in line with these values. But it is no easy task at all for China especially with such a worldwide operation across the globe.

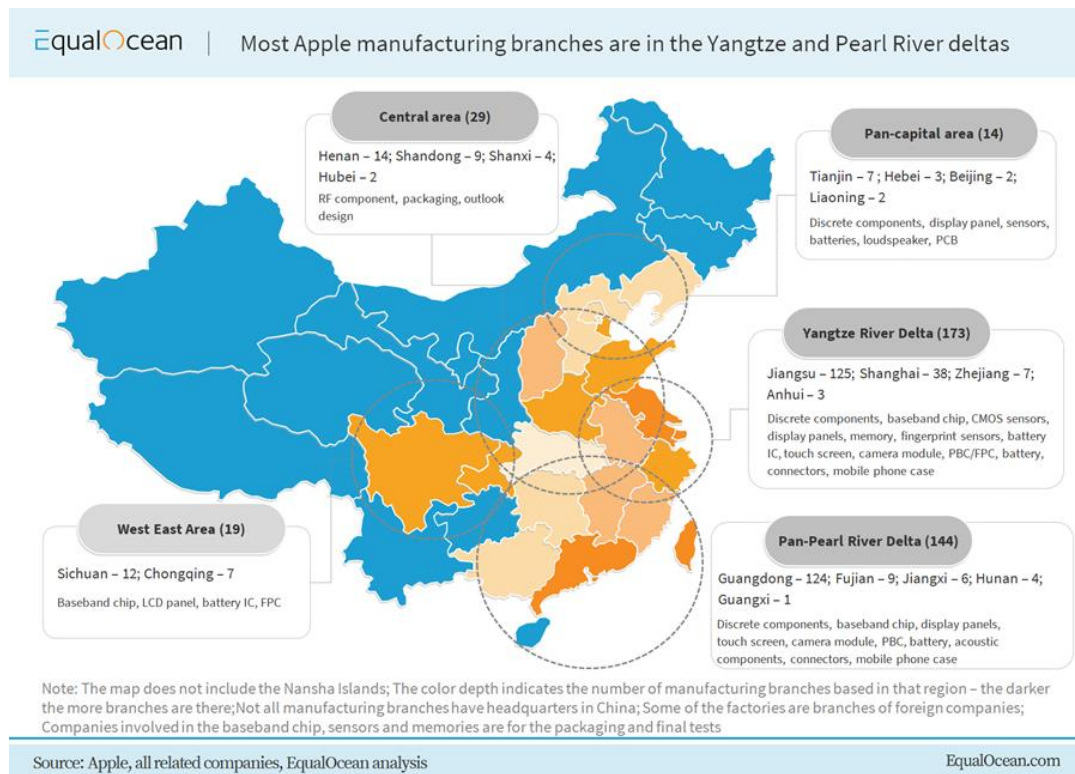


Figure 2: Apple's manufacturing bases around the world

(Source: Sheehan, 2020, Apple and China: A Mutually Beneficial Relationship)

Supplier responsibility is very important to Apple as its manufacturing bases and supply chain thus spread around the world and the majority of them are located in China. Above Figure 2 shows that most of its manufacturing operations are located in **Yangtze and Pearl Delta Regions**. For example, its top manufacturer, Taiwan's Foxconn Technology Group, hires hundreds of thousands of employees in China. However, conditions in China thus challenged Apple occasionally. Suicide at Foxconn factories and reports of employees exceeding a 60-hour workweek led to criticism of the company in the past. It is crucial that Apple thus puts a lot of focus on its supplier responsibilities and detailed report is published yearly to evaluate and report workplace conditions.

In 2011, Cook replaced an ailing Steve Jobs as Apple's CEO on 24th August. It was a big shoe to fill, if not an impossible one. "Some people wondered out loud how Jobs's more humble second-in-command would fare in the absence of the firm's brash and brilliant co-founder, who died in October."¹⁰ (Economist, 2012) But Cook continues to smash records. When Apple was attacked for its use of Foxconn, Cook went on a highly publicised tour of a Foxconn factory in China immediately and pledged to improve workers' conditions. The Fair Labour Association, a non-profit group that audits workplaces, said progress has been made but more need to be done, (Economist, 2012). (See **Exhibit 4- Supplier Responsibility Report**) Apple pledges that it holds suppliers to the strictest standards in the industry. This is an important step for Apple to consolidate its presence and manufacturing bases in China and earn its trust and loyalty from its devoted consumers and regulators worldwide.

4.4 Apple's WordCloud: The Apple Way

Apple has successfully revolutionised customers' experiences since 1976. This movement is still in progress. "Apple's success was not just the result of a few clever strategic moves or an innate sense of market timing. It came from a deep commitment to understand how people used computing devices and a desire to develop **"insanely great products."**¹¹ (Thomke, 2012, p.1) There was, however, a surprising consistency in the way the company worked. Simply put, the '**Apple Way**' was a set of principles with a deep

¹⁰ The Economist (25 Aug 2012). Apple- A Good Cook.

¹¹ Thomke S and Feinberg B, (2012), HBR: Design Thinking and Innovation at Apple.

commitment to great products and services at its core: design thinking, clear development strategy and execution, its CEO as chief innovator, and the rational courage to conduct bold business experiments.¹² (Thomke, 2012, p.1). Below please find the Wordcloud created by the writer to aggregate all key words which used to describe the ‘Apple Way’ by many in the public domain.



Figure 3: WordCloud for Apple.

🍏 4.5 Apple's Products

Apple's product and service evolution journey all started with Apple I but the *turning point* was definitely the introduction of iPod in 2001 and the first iPhone in 2007. Life has never been the same again for many people around the world. Based on Apple's Annual report in 2020, below please find the summary (covered in page 13-15) of its key products which contributed to its outstanding quarterly earnings announced in Jan 2021.¹³ (Apple's Form 10-K, 2020) This high level synopsis is important for our strategic analysis and strategy generation for China discussed later in the report. (See Chapter 8 and 9)

¹² Thomke S and Feinberg B, (2012), HBR: Design Thinking and Innovation at Apple.

¹³ Apple Inc. Annual Report/2020 Form 10-K for the fiscal year ended on 29 Sept 2020.

-iPhone

iPhone® is the Company's line of smartphones based on its iOS operating system. During 2020, the Company released a new iPhone SE and also announced four new iPhone models with 5G technology: iPhone 12 and related models.

-Mac

Mac® is Apple's line of personal computers based on its macOS® operating system. The Company released a new and redesigned 16-inch MacBook and many other new models in 2020.

-iPad

iPad® is Apple's line of multi-purpose tablets based on its iPadOS® operating system. It also released an updated iPad Pro and an all-new iPad Air last year.

Wearables, Home and Accessories

Wearables, Home and Accessories includes AirPods®, Apple TV®, Apple Watch®, Beats® products, HomePod®, iPod touch® and other Apple-branded and third-party accessories. AirPods are the Company's wireless headphones that interact with Siri. The potential growth for Wearables are huge as more upgrades/switches can be foreseen and the production cycle is shorter but most important of all, it is more affordable for general consumers as compared to the iPhone/mobile phone.

Services

-Advertising -The Company's advertising services include various third-party licensing arrangements and the Company's own advertising platforms. The potential growth in this area is substantial.

-AppleCare

Apple offers a portfolio of fee-based service and support products under the AppleCare brand. The offerings provide priority access to Apple technical support, access to the global Apple authorized service network for repair and replacement services, and in many cases additional coverage for instances of accidental damage and/or theft and loss, depending on the country and type of product. This is also an area which the company can further explore in market such as China as tailor-made service will be required due to the upsurge of wealth and middle-class population.

Cloud Services

The Company's cloud services store and keep customers' content up-to-date and available across multiple Apple devices and Windows personal computers. This area of business has a lot of scalable potential.

Digital Content

Apple operates various platforms, including the App Store, that allow customers to discover and download applications and digital content, such as books, music, video, games and podcasts. It also offers digital content through *subscription-based* services, including Apple ArcadeSM, a game subscription service; Apple Music, which offers users a curated listening experience with on-demand radio stations; Apple News+SM, a subscription news and magazine service; and Apple TV+SM, which offers exclusive original content. In September 2020, the Company announced **Apple Fitness+SM**, a personalized fitness service built for Apple Watch. Healthy living is a big potential market in China . (See Chapter 9 for China's strategy).

Payment Services

Apple also offers payment services, including Apple Card, a co-branded credit card, and Apple Pay, a cashless payment service.

🍏 4.6 Apple's Markets and Distribution

Apple's primarily sells its products and resells third-party products in most of its major markets directly to consumers, small and mid-sized businesses, and education, enterprise and government customers through its retail and online stores and its direct sales force. The Company also employs a variety of indirect distribution channels, such as third-party cellular network carriers, wholesalers, retailers and resellers. During 2020, the Company's net sales through its direct and indirect distribution channels accounted for 34% and 66%, respectively, of total net sales.

🍏 4.7 Apple's Stock Performance

The following graph shows a comparison of cumulative total shareholder return, calculated on a dividend-reinvested basis for the five years ended 26 September, 2020. The shareholder returns are positive and very encouraging.

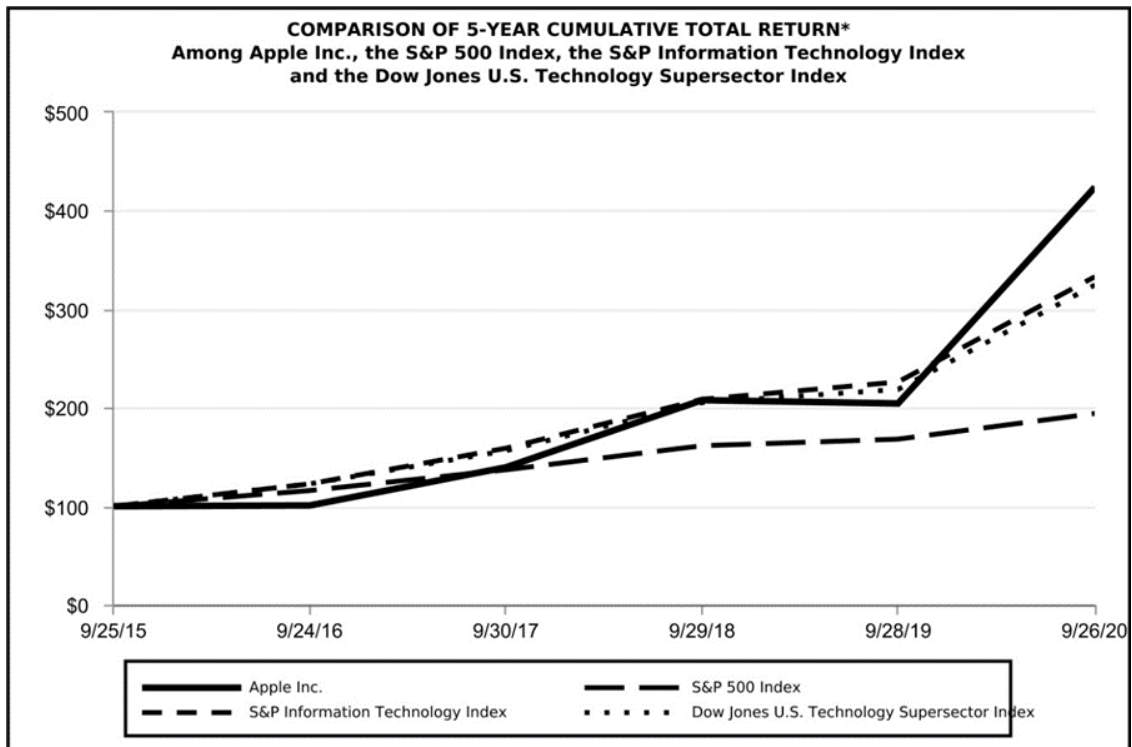
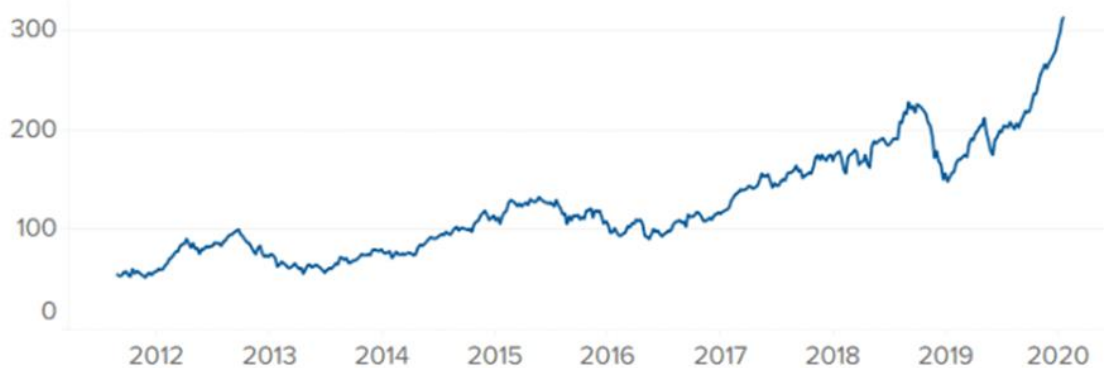


Figure 4: Comparison of 5 year cumulative total return for Apple (2015-2020)

Source: Apple Inc. Form 10-K (2020)

Apple stock in the Tim Cook era

Weekly AAPL price since Cook took over as CEO on August 24, 2011



SOURCE: FactSet. Data through market close on 1/14/2020.



Figure 5: Apple Stock in Tim Cook Era (2011-2020) (Source: Kovach, 15 Jan 2020, CNBC)

🍏 (5) Internal Audit

Businesses are constantly shifting and evolving — and never more so than now. Since this report aims to evaluate Apple’s plan to expand its current business operations in Asia/China, the first important step of this strategy formation process is to conduct an internal audit for Apple.

STAGES OF STRATEGIC MANAGEMENT

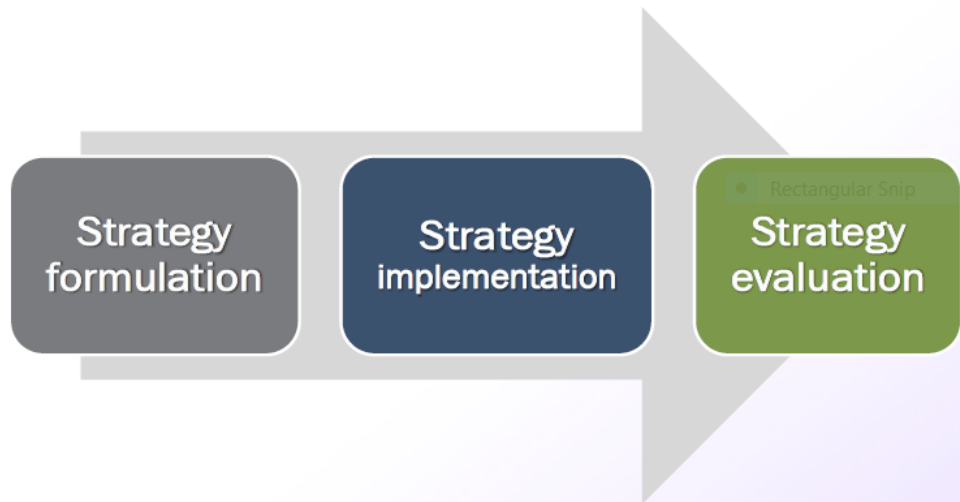


Figure 6: Stages of Strategic Management (Source: David F & David F (2017) ¹⁴

Internal audit evaluates the strengths and weaknesses within an organisation and conduct an ‘*inside out*’ perspective with an improvement agenda. The assessment and findings from an internal audit can help transform the organization and align its activities with its business strategy and objectives. With the right capabilities, it can further achieve its business objectives by identifying weaknesses — as well as improvement opportunities — in the design and operating effectiveness of processes and controls, just to name a few.

There is a famous quote from Sun Tzu’s The Art of Writings, “故曰：知彼知己，百戰不殆；不知彼而知己，一勝一負；不知彼，不知己，每戰必殆。” If you know your enemy and also know yourself, you need not fear the result of a hundred battles. If you know yourself but not the enemy, for every victory gained you will also suffer a defeat.

¹⁴ David, Fred R. & David, Forest R. (2017), Strategic Management: A Competitive Advantage Approach- Concepts and Cases, 16th edn. Pearson. And Professor Peter Fong’s lecture notes. (March 2021)

If you know neither the enemy nor yourself, you will succumb in every battle.” Hence, for any strategy formulation, the company has to conduct both the internal and external audit in order to understand your own self and your enemy better. (知彼知己，百戰百勝). A better understanding of your company and enemy may not guarantee 100% success of the new strategy, but it thus certainly increases your odds of success.

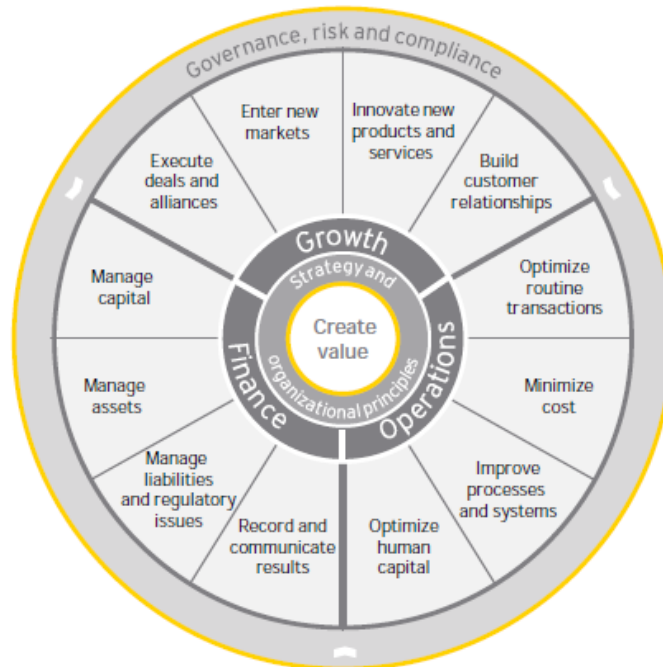


Figure 7: Alignment of Internal Audit and business value agenda (Ernst and Young, 2010).¹⁵

Due to the limited time available for this research, this report will only focus on a few key internal areas/functions of Apple; namely, *organisation structure, corporate culture, financial health, china’s strategy, marketing strategy, product differentiation, and distribution and operations.*

🍏 **5.1 Organisation Structure**

Apple organization structure can be defined as hierarchical and functional. (Dudovskiy, 2021)¹⁶ This structure can help focus more on creativity, innovative ideas and roles and responsibilities. There has not been much changes in its organizational structure even after 2011, Cook has fully embraced Jobs’ legacy and belief in decentralization of

¹⁵ Ernst and Young (2010), Unlocking the strategic value of Internal Audit- Three steps to transformation. URL https://i.forbesimg.com/forbesinsights/StudyPDFs/Unlocking_Strategic_ValueofInternal_Audit.pdf

¹⁶ Dudovskiy, John (3 February 2021) Apple Organizational Structure: a brief overview

decision making in order to foster innovation and creativity at various levels. Nevertheless the structure remains to be largely hierarchical. (Dudovskiy, 2021) Figure 8 illustrates the current Apple organization structure (Also see **Exhibit 5- Functional Organisation**):

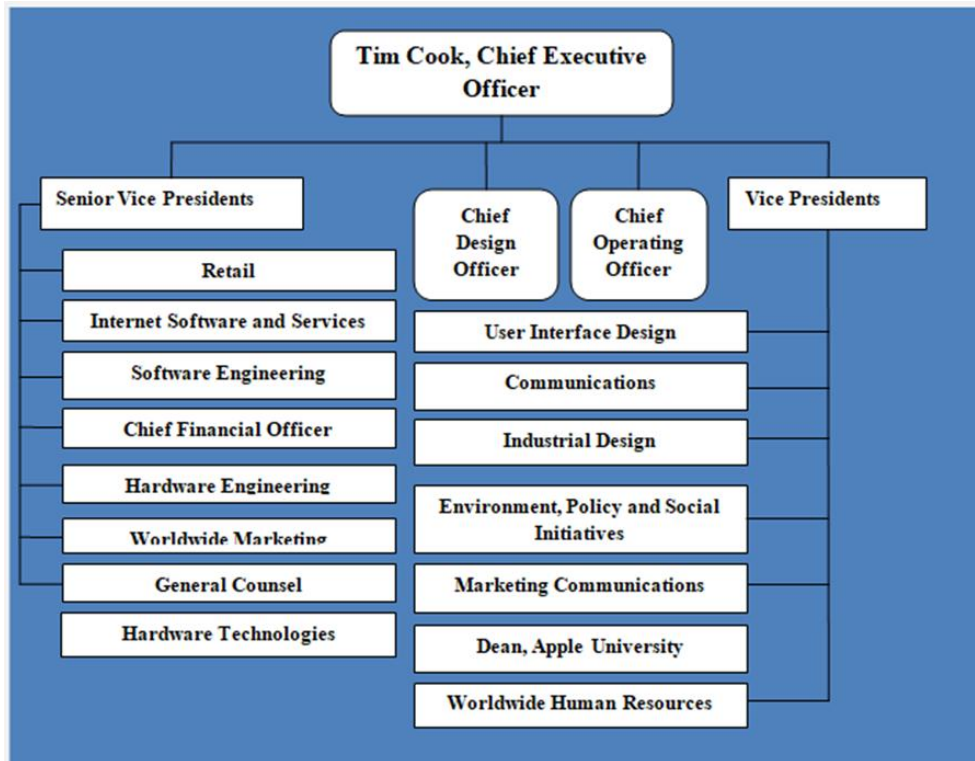


Figure 8: Apple Organisation Structure (Source: Dudovskiy, 2021)

Apple structure is clearly *hierarchical, functional and product focused*. A hierarchical framework is necessary for a global company with more than 147,000 staff worldwide.¹⁷ Moreover, functional organizational structure allows Apple to “neglect short-term financial targets when developing new products that require considerable investments”. (Dudovskiy, 2021) The executives at Apple can take a holistic approach to the business, similar to small start up firms. For example, the investment in R&D will not be compromised by short term loss and cost. The management will focus more on the bigger picture and longer term sustainable business gain.

🍏 **5.2 Corporate Culture**

There are many different types of corporate cultures covered by different kinds of management literature. A well known categorisation by Deal and Kennedy (1982)

¹⁷ Apple Inc, Annual Report / Form 10-K for year ended 26 Sept 2020.

describes culture from a contingency perspective. (See **Exhibit 6** –Comparison of Steve Jobs’ and Tim Cook’s Leadership Styles)

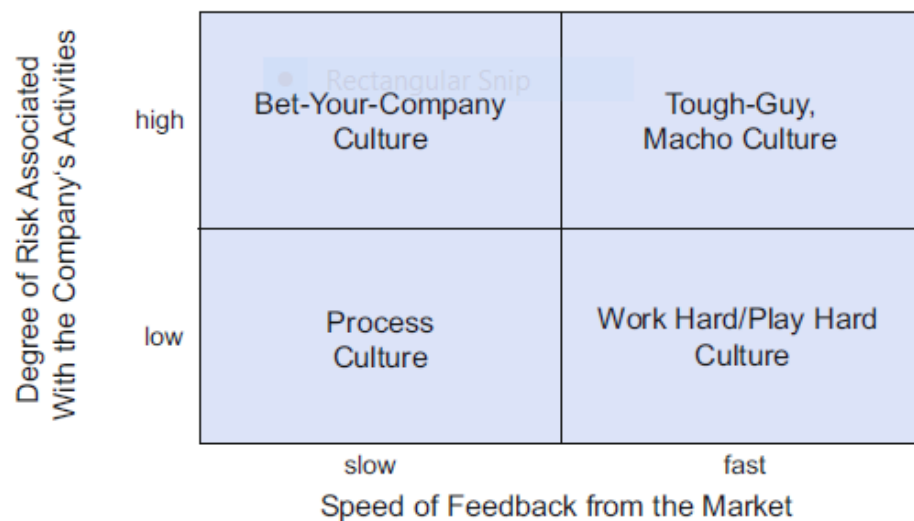


Figure 9: Corporate Cultures¹⁸ (Source: Morschett et al, 2015, p. 282)

Apple has cultivated a *monoculture strategy* and assigns its predefined brand values and norms to all of its international Apple stores. (Morschett, 2015) “There are no local adjustments to the products or services. “On location, the highly trained staff provides product information, services and training for the operating systems and hardware to ensure a consistent and satisfying customer shopping experience. Apple considers a high quality sales and after-sales experience as the key to retaining existing customers and gaining new clients. This is an important part of its marketing strategy. The company currently sells and resells their own and third-party products directly to consumers in most major markets. For this reason, Apple could be seen as a **work-hard/play-hard** culture company.” (Morshcett, 2015). Below **Figure 10 summarised Apple’s Brand Values:**

Brand Values	Characteristics
Innovative	frequent hardware and software updates
Customer Support	highly trained and skilled retail staff; on-site ability for the customer to get their hands on the product
High Quality Products	high build quality; low error count in both hardware and software, therefore a low amount of customer complaints
Great Design	high attention to detail; an overall consistent brand image, reflected by design, form and function
Easy to Use	no previous background knowledge required

¹⁸ Morschett, Dirk, Schranm-Klin, H, Zentes, J. (2015), Strategic International Management: Text and Cases, 3rd. edn. Springer.

Apple is committed to bring the best user experience to its customers through innovative hardware, software and services. This unique focus on details, devotion to simplicity and passion for innovation and excellence will keep driving them forward. “And their continued investment in research and development, making and advertising are critical to the development and sale of innovative technologies, which is a key factor of the brand value.” (Morschette, 2015)

🍏 5.3 Financial Analysis

Apple has a very strong financial fundamentals and very rich cash flow. On 27 Jan 2021, Apple had just announced an **all-time record** first quarter results ended 26 Dec 2020 with a revenue of US\$ 111.4 billion, up 21% year over year and quarterly earnings per diluted share of \$1.68, was also up 35 percent. International sales accounted for 64 percent of the quarter’s revenue.¹⁹ (Apple, 2021). “Our December quarter business performance was fueled by double-digit growth in each product category, which drove all-time revenue records in each of our geographic segments and an all-time high for our installed base of active devices,” said Luca Maestri, Apple’s CFO. “These results helped us generate record operating cash flow of \$38.8 billion. We also returned over \$30 billion to shareholders during the quarter as we maintain our target of reaching a net cash neutral position over time.” (Apple’s Press release, 2021) Apple’s Board of Directors has declared a cash dividend of \$0.205 per share of the Company’s common stock. The dividend is payable on February 11, 2021 to shareholders of record as of the close of business on February 8, 2021.

Apple also makes **acquisitions** on a regular basis to further consolidate their product development and R&D strategy development. Cook said that Apple has acquired close to 100 companies over the course of the last six years. "We're not afraid to look at acquisitions of any size," said Cook. "Focus is on small, innovative companies that complement our products and help push them forward." ²⁰ (Clover, 2021) “ Hence, Apple buys a company every three to four weeks. (Harper, 2021) There are many analytical tools to reflect the financial health of Apple. Below are a few which will help present a holistic picture of Apple’s great potential to further grow and expand its business in China/Asia.

¹⁹ Apple’s Press Release (January 27, 2021) Apple Reports First Quarter Results.

²⁰ Clover, Juli (23 Feb 2021). Tim Cook Shares Details on Acquisitions, Future of Mac and More at Shareholders Meeting

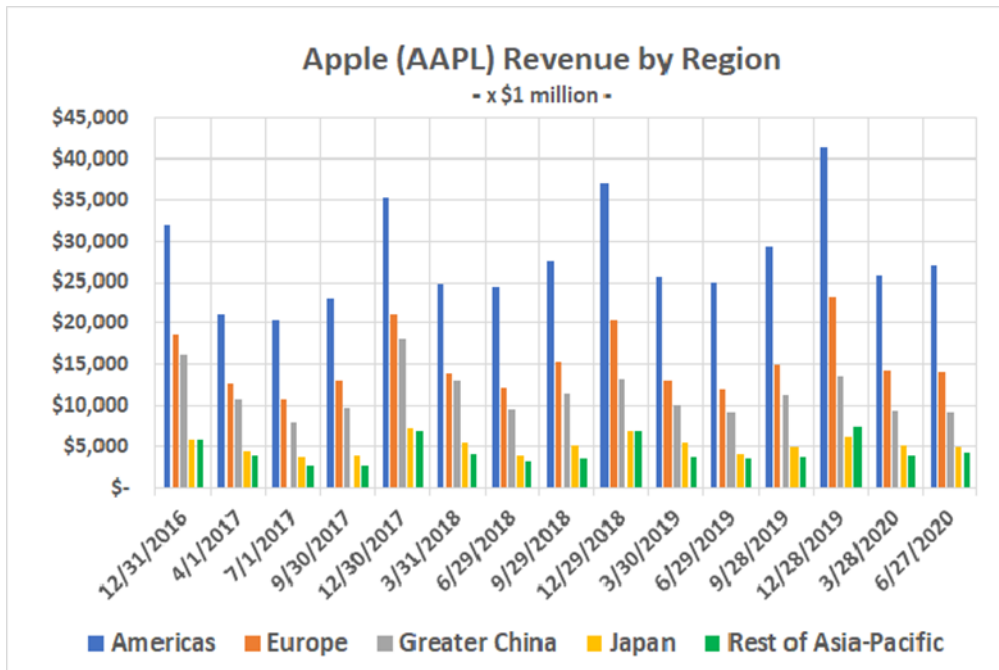


Figure 11: Apple Revenue by Region (Source: Brumley, 2020) ²¹

US market is still the key revenue driver for Apple but the growth potential in China and rest of Asia are catching up fast and provide a big growth fundmanetal for Apple.

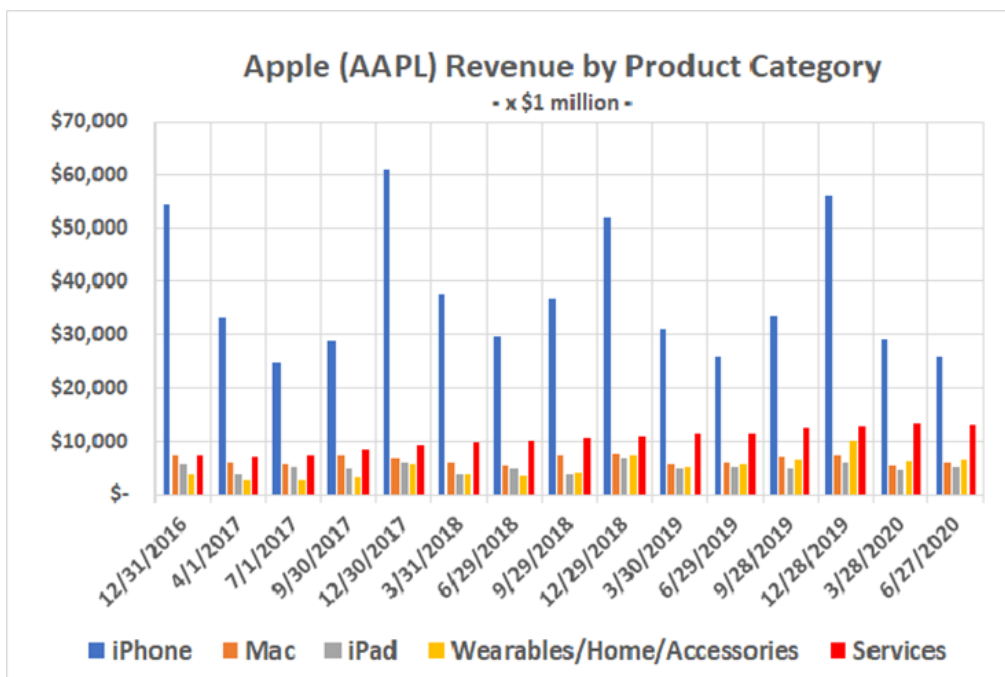


Figure 12: Apple Revenue by Product Category (Source: Brumley, 2020)

²¹ Brumley James, (28 Oct 2020). Apple In 5 Charts -A quick and easy visual guide to what makes Apple a powerhouse growth stock.

The **iPhone business** still remains as the core growth business driver for Apple but its influence is diminishing. The **growth of services** (such as subscription services for game, TV, iCloud etc) will replace the hardware relevance or reliance gradually. (See Chapter 4.5 under Apple Products). “Apple may have stopped reporting the number of iPhones it sells as of early 2019, but a close look at its quarterly results since then reminds us the company never stopped reporting total iPhone revenue. That may be the more important figure of the two, especially given Apple’s deliberate development of its services arm that reflects app and media revenue.” (Brumley, 2020) (Also See Exhibit 3)

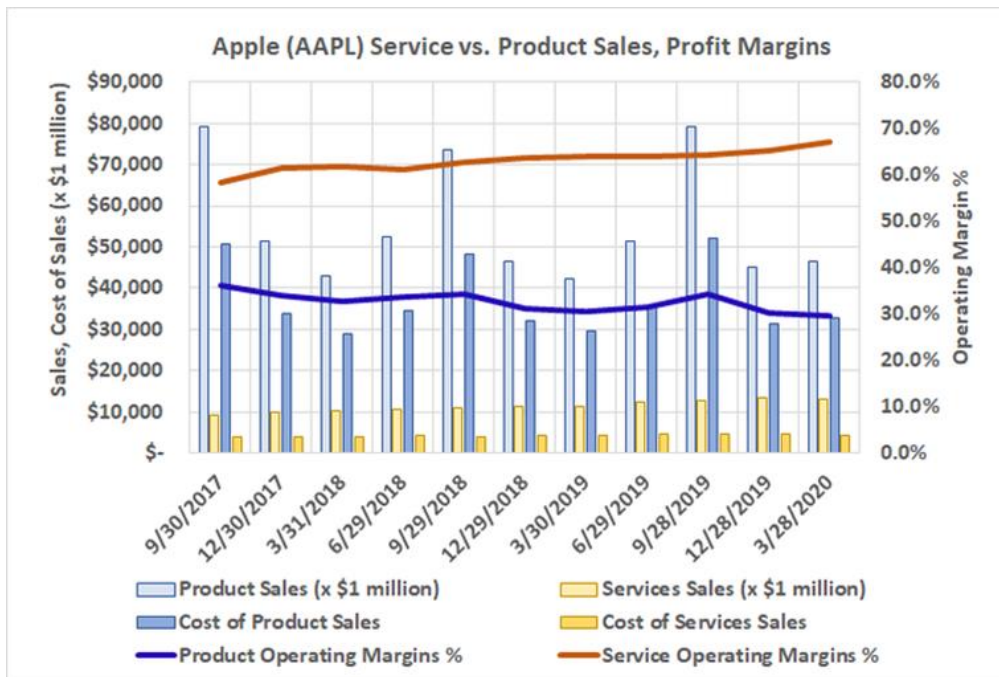


Figure 13: Apple Service vs Product Sales, Profit Margins (Brumley, 2020)

Most important of all, the product sales and profits margins for ‘**services**’ generate more income for Apple in the last five years. “Sales of physical products like Macintosh computers and the iPhone may contribute more to the bottom line, but not as much as those product revenues might suggest. The operating margins on digital goods and services (revenue minus the costs associated with offering apps, videos, music, etc.) is more than twice the profit margin percentages of hardware.” (Brumley, 2020) Although they only make up around one-fifth of Apple’s sales, services drive about one-third of the company’s operating earnings.

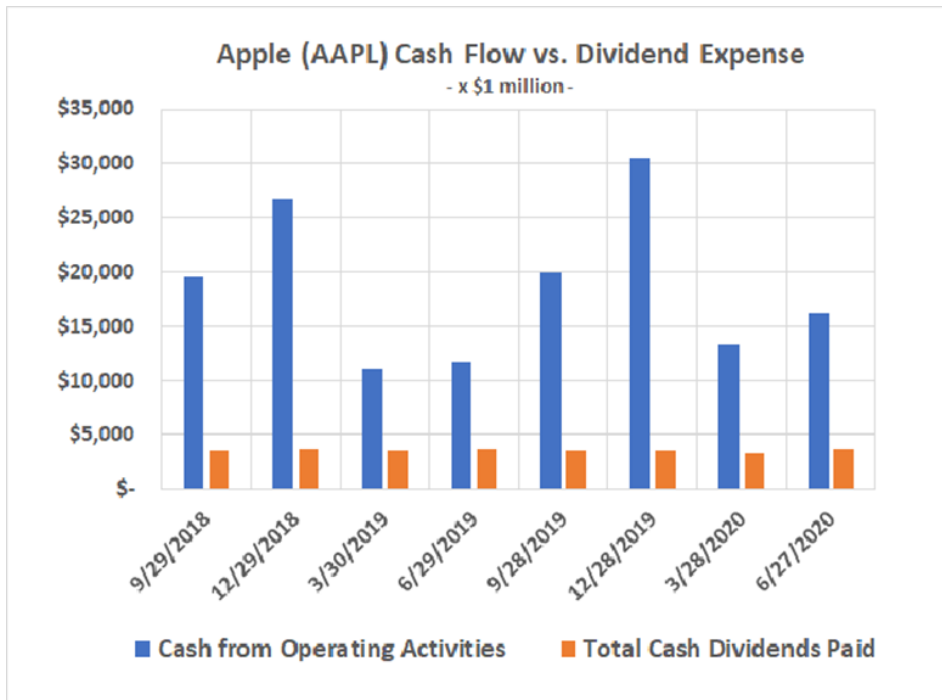


Figure 14: Apple Cash Flow and Dividend Expense (Brumley, 2020)

As mentioned, Apple's strong cash flow maintains a great basis for its further business development.

🍏 5.4 Additional Financials

Stock Price

The latest closing stock price for Apple as of 12 March, 2021 is US\$ 121.03. The all-time high Apple stock closing price was \$143.16 on 26 January 2021. The Apple 52-week high stock price is \$145.09, which is 19.9% above the current share price.²²

Revenue and Profit

Revenue can be defined as the amount of money a company receives from its customers in exchange for the sales of goods or services. Revenue is the top line item on an P&L statement from which all costs and expenses are subtracted so to deduct the net income. Apple revenue for the quarter ending 31 December, 2020 was US\$111.4 billion, a 21.37% increase year-over-year, as reported earlier.

²² Macrotrends- Financials (2021), Apple - 41 Year Stock Price History (URL: <https://www.macrotrends.net/stocks/charts/AAPL/apple/stock-price-history>)

Assets

Apple total assets can be defined as the sum of all assets on a company's balance sheet. Apple total assets for the quarter ending 31 December 2020 were US \$354 billion, a 3.94% increase year-over-year. (Macrotrends, 2021)

🍏 5.5 China's Financials

If we take a deep dive into Apple's China business, the growth potential is huge. As Figure 15 shows, China is a very important market for Apple, despite the fact that the company's Greater China sales dropped in 2019. "After entering the Chinese smartphone market in 2010, Apple's sales in the region grew more than 20-fold within five years, peaking at US \$58.7 billion in 2015. That year, China accounted for 25 percent of Apple's total revenue. By 2019, that number had declined to 17 percent and might drop further depending on how quickly the COVID crisis recedes." (Richter,2020)

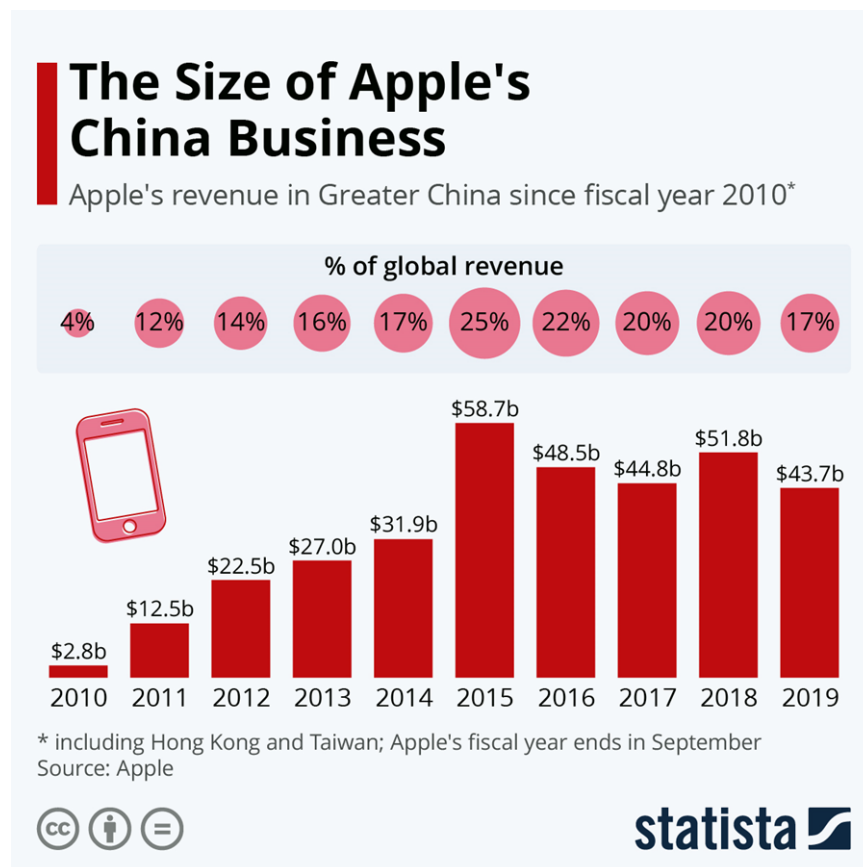


Figure 15: Apple's revenue in Greater China since 2010 ²³ (Richter, 2020)

²³ Richter F, (18 Feb 2020) Apple: The Size of Apple's China Business. (Online).

🍏 5.6 Marketing Strategy

Apple products speak for themselves. Their active users is now over 1 billion. This is nearly 15% of the world population. And they have a well coordinated and consistent marketing and branding strategy around the globe. Dated back to 1997, through the multimillion dollar marketing campaigns such as the successful “*Think Different*” ads and catchy slogans (“*The ultimate all-in-one design,*” “*It just works.*”) , Apple promised itself as an alternative to other computer and mobile brands. (Yoffie, 2020) The goal was always to differentiate it self even with a premium-pricing strategy.

Apple always has the ability to tap into a *zeitgeist* – a sense of what is popular, fashionable, trendy at the moment. (Thomke, 2012). Some said that Apple always create products that people want. But we believe that Apple actually has the sheer ability and foresight to produce products, even before the customers actually know themselves. This is their product differentiation strategy and needless to say, their **unique customer proposition** (UCP) and marketing strategy.

🍏 5.7 Product Differentiation

Professor Heracleous’s famously named that Apple has adopted the “**quantum strategy**” which might be seen as the “holy grail” of strategy. (Heracleous, 2013). Apple has accomplished “serial innovation and outstanding design in terms of its offerings and its business model as well as simultaneous cost leadership, having become more efficient than the traditional cost leader.” (Heracleous, 2013).

Table 1 How Apple Inc implements Quantum Strategy.	
Exceptional innovation & design. . .	At rock bottom cost
Indicators of differentiation	Indicators of efficiency
Winner of several innovation and design awards; consistent groundbreaking offerings	Lowest SG&A costs; highest inventory turnover; both more efficient than Dell
Ability to command premium prices and achieve exceptional profit margins and revenue growth	R&D intensity lowest in peer group (while recognized as world’s most innovative company)
How Apple achieves differentiation	How Apple achieves intense efficiency
Focus on, and investment in, innovation capability; deep collaboration approach	Strategic focus in terms of product-markets, types of products, and product features
People strategy – hiring the best people and motivating them to excel (location advantage from being based in Silicon Valley)	Distributed org design – high value added functions in California, manufacturing outsourced to cheapest locations
Branding – image of maverick creativity; Investment in Apple Stores in high profile locations	Synergies from related diversification in terms of industries as well as products (e.g. technological platforms)
Apple’s proprietary ecosystem allows higher pricing control and customer capture	Intense focus on supply chain efficiency (less warehouses, reduction of supplier numbers)
Historically, Steve Jobs’ leadership – demanding, perfectionist, visionary	Flat organization and simplified processes increase efficiency

Figure 16: How Apple Inc Implements Quantum Strategy (Heracleous, 2013, p.94)

🍏 5.8 Distribution and Operations

Apple customers are primarily in the consumer, small and mid-sized business, education, enterprise and government markets. The Company sells its products and resells third-party products in most of its major markets directly to consumers, small and mid-sized businesses, and education, enterprise and government customers through its retail and online stores and its direct sales force. It also employs a variety of indirect distribution channels, such as third-party cellular network carriers, wholesalers, retailers and resellers. During 2020, the Company's net sales through its direct and indirect distribution channels accounted for 34% and 66%, respectively, of total net sales. (Apple Form 10K, 2020)

As at now, Apple has a total of 511 **Apple Stores** worldwide and 271 of them are located in the US. They have 42 stores in China. Last but not least, Apple is much more efficient than its competitors and turns over its **inventory** by over **67 times** per year. And their investment in R&D is also much lower than its competitors (ie 2.7 % of revenues) even though they are way more innovative than the rest of the league. (Heracleous, 2013)

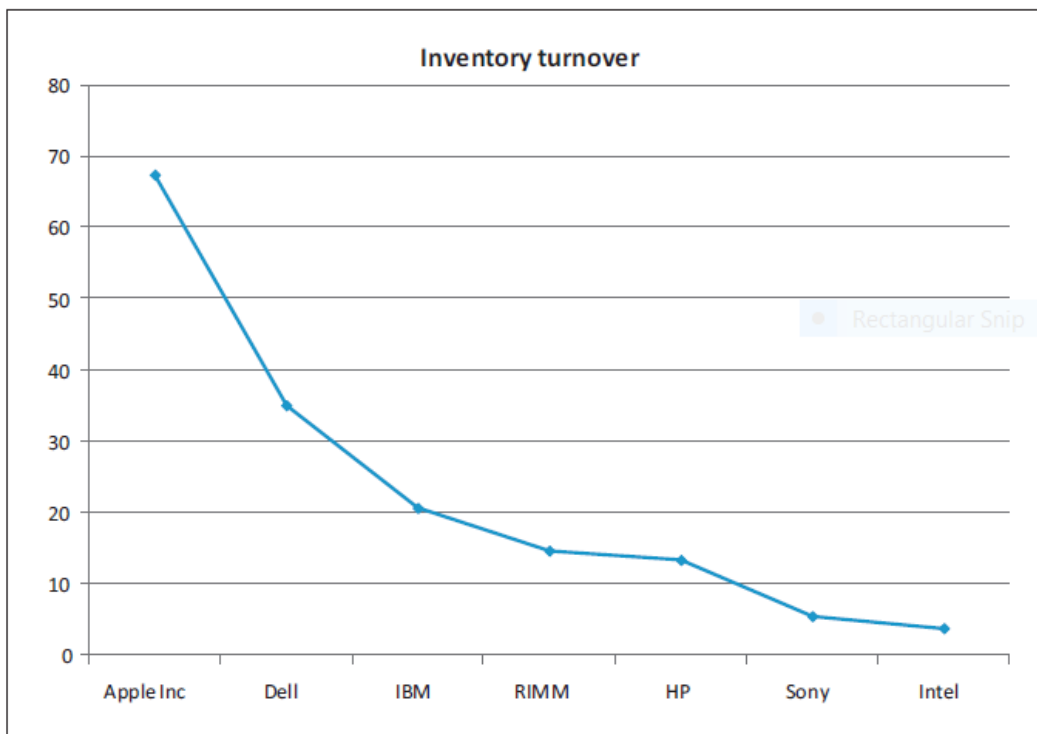


Figure 17: Inventory turnover of Apple vs competitors (Heracleous, 2013, p.93)

🍏 (6) External Audit

There are a variety of tools which can be used to evaluate both the internal and external environments. We have taken a deep dive to do an internal risk and business model evaluation in Chapter 5. We shall leverage **three** analytical tools to take an indept analysis of Apple's external business environment (ie external audit) to generate its strategic options for its business development in China.

🍏 6.1 PESTEL Analysis- External Environment

Apple, like all companies, is exposed to many external forces and uncertainties which can impact its sustainable competitive advantages or business success. PESTEL external forces can be roughly divided into six board categories: **Political**, **Economic**, **Social/cultural/ demographic**, **Technological** forces, **Environmental** and **Legal** forces. They are some of he significant external factors that are relevant to its business. A topline PESTEL analysis of Apple indicates that most of the external factors in the company's remote or macro-environment are **favourable** for its business development in China/Asia. "Its effectiveness in addressing these external strategic factors ensures that Apple remains strong despite tough competition in the global market and present business opportunities for its growth." ²⁴ (Lombardo, 2019)

According to Lombardo, the PESTEL analysis shows that the majority of external factors in Apple's remote or macro-environment provide opportunities. "Given its current industry position, the company can exploit these opportunities to expand its reach in the global information technology goods and services market. However, Apple must develop suitable strategies to effectively address the threats identified, especially those in the legal dimension of its remote or macro-environment. (Lombardo, 2019) It is also expected that Apple will remain in its **strong industry position**. Nonetheless, the dynamics of the market and the presence of aggressive competitors could drastically change the company's strategic position. In this context, it is of critical importance to further improve the strengths identified in the SWOT analysis of Apple. (See below Figure 18 for PESTEL details).

²⁴ Lombardo, Jessica (9 June 2019) Apple Inc. PESTEL/PESTLE Analysis & Recommendations (Online)
URL: <http://panmore.com/apple-inc-pestel-pestle-analysis-recommendations>

PESTEL Analysis for Apple (March 2021)

Political	- Improving free trade policies post-covid (opportunity) - Stable geopolitical situations in developed countries (opportunity) - Trade disputes, especially tension between U.S. and China (threat)
Economic	- Stable economies of developed countries (opportunity) - Rapid growth of developing countries (opportunity) - Increasing disposable incomes among target customers (opportunity)
Social/ Cultural	- Rising use of mobile access (opportunity) - Increasing dependence on digital hub/ Internet of things (IOT) (opportunity) - International anti-Apple /USA sentiments or consumerism (threat)
Technological	- Growing cloud computing demand (opportunity) - Increasing technological /digital integration in businesses (opportunity) - Growing mobile market (opportunity) - Growing technological capabilities of other firms (threat)
Environment	- Business sustainability trend (opportunity) - Energy efficiency trend (opportunity) - Health and environmental consciousness (opportunity)
Legal	- Increasing privacy regulations (opportunity & threat) - Legal challenges against Apple's policies and practices (threat) - Patent court cases (opportunity & threat)

Figure 18: PESTEL Analysis for Apple (Source of information: Lombardo, (9 June 2019) Apple Inc. PESTEL/PESTLE Analysis & Recommendations)

🍏 6.2 SWOT Analysis

A detailed SWOT analysis was also prepared for Apple. Apple's success is linked to the ability to use business strengths to overcome weaknesses and threats, and to exploit opportunities in the industry environment. A SWOT analysis of this technology company gives strategic insights on maximizing business growth based on its strengths and opportunities. (Smithson, 2020)²⁵ The following figures (19 & 20) summarised the SWOT analysis of Apple which scan the business for relevant strengths, weaknesses, opportunities, and threats with reference to the China's market.

²⁵ Smithson, Nathaniel (13 Dec 2020), Apple Inc. SWOT Analysis & Recommendations (Online).

SWOT Analysis – Apple Inc (as at Mar 2021)

	Helpful to achieving the objective(s)	Harmful to achieving the objective(s)
Internal origin	Strengths • Visionary and strong leadership/founder • Creativity and Technological Innovation • Strong Brand affinity and solid loyalty • Sheer Size, Scale, Wide Scope and rich resources/capital • R&D/ Technology/IT Leader • Digital Hub for customers (one stop shop/user friendly) • Comprehensive Distribution channels • Liquidity Position & Financial performance • Long term business growth – Cash Rich! (Premium pricing) • Apple Cult/ 'Captive Customers' (Upgraders Switchers) • Over 1b registered users/apps/ largest quarterly earning \$111b • Immense Data Base/ in depth metrics	Weaknesses • Leadership/ Succession (1997-2011 Jobs' Legacy vs Cook 2011-now) • Sustainable business success • Legal Proceedings /Lawsuits (eg Antitrust challenges) • Lack of new product (ipod/iphone/ipad/iwatch – what's next?) • Wearables/Services – Intense competitions • Premium Pricing Strategy – sustainable? • Quantum Strategy- sustainable ? (High Price & Low Cost) • Geopolitical/ PESTEL challenges • US/China Tension even during Biden era (high uncertainties) • Further Business Development vs Jobs' Legacy • US Centric – can be a potential weakness in a global world • Covid 19 challenges and impacts on business
External origin	Opportunities • Product Development (New product: Services/ Health Tech) • Market Development/ Platform /Distribution Strategy/5G • Diversification Strategy • Potential M&A / Alliances Strategy/ Strategic Initiatives • Design /Digital expert with great creativity • Strong and loyal customers fan base (Cult) • Great BRAND • Millennials' markets and young generation (X/Y/Z) potential • New Areas: Education/Services field/AI Technology • Focus on privacy protection • Keen on climate change advocacy • Diversity/Inclusiveness/Racial justice advocate	Threats • Intense Competition/ Intensifying Market Rivalry • Dependence on Network Providers • Buyers' /Customers' negotiating power is high vs its high premium price • Technological Changes • Risk associated with Trade War between US and China • Labour Standards/ ILS (International Labour Standards) • Media's intense scrutiny and public opinion matters • Foreign Exchange Risk • Leaders' retention (eg Levy's departure- Chief of Design) • Shareholders' expectations • Succession Plan

Figure 19: Apple's SWOT Analysis

SWOT Analysis – Apple's China Strategies (as at Mar 2021)

	Helpful to achieving the objective(s)	Harmful to achieving the objective(s)
Internal origin	Strengths - Strong Brand recognition 5G iPhone 12 (growth during covid -2020) - Substantial business opportunities/market potential - Distribution Channels - Proven track record in China - Appreciation of Chinese market/ Culture (eg Cook's apology 2013) - Production/manufacturing base in China - Affluent Customers Segments in China / Customers database - Digital hub /Cross sell from hardware to software - New Areas: Services/wearables/Health Tech - Liquidity /Financial Performance	Weaknesses - Intense Competition/Market Rivalry in China - Mobile Phone supplier like Huawei/Oppo/ Xiao mei etc - Gross Cultural Considerations (as Apple is still USA centric) - Legal Proceedings / Patents - Dependence on iPhone and iPad Product Lines - Risks associated US/China trade war/political tension - R&D centralised in US's HQ - Genuine Cultural Respect for local market and considerations (Not PR stint) - Lack of Cultural sensitivities (eg Tim Cook's apology in 2013) - Diversity in Apple's sincere management / board composition
External origin	Opportunities - Expansion of its business has great upside/potential - Alliances/ partnerships with local Chinese companies - Strategic Initiatives in China eg vertical integration/ Friendly M&A - New customers' segment in China /huge markets - Strong R&D/ design capabilities - Big data base synergy and availability - Strong innovation and technological supports eg AI Technology - New digital hub offerings to Chinese Customers eg Health Tech - New product specially designed for China eg health and education 'Wearables' potential is great 'Services offerings' can also be enriched 'Education' sector is always in great demand for Chinese	Threats - Growing/Strong competition in all sectors (eg IT/hardware/software) - Threats to maintain Sustainable market/business growth - Quality control - Brand dilution - US Centric - Risk associated with US/China trade war & political tension & tariff - Succession Plan (Post Tim Cook's era)- better planning than 2011 - Leaders' retention - Customers' interests & Rise of Consumerism - Foreign Exchange Risks - Centralised Manufacturing base in China / international labour standards - Privacy issue/ Climate Change issue

Figure 20: Apple's SWOT Analysis- China's Strategy

🍏 6.3 Porter's Five Forces Analysis

The Five Forces analysis gives insights about the external factors influencing the company's success. Professor Michael **Porter's Five Forces** framework is a strategic management tool for evaluating the five forces affecting the business organization: **customers, suppliers, substitutes, new entrants, and competition**. Based on this Five Forces analysis, the company addresses competition /rivalry and the high bargaining power of buyers, which are among the most significant external factors impacting its business expansion in China. This Five Forces analysis demonstrates clearly that Apple must focus its strategic efforts on these two external factors (ie buyers and rivalry) to keep its leadership in the industry.

Porter's Five Forces Model- Apple's China Strategies (as at Mar 2021)



Figure 21: Porter's Five Forces Analysis for Apple's Strategy in China

🍏 (7) Summary of Internal and External Audit

As mentioned earlier, it is crucial to ‘know your enemy and know yourself’ (知彼知己,百戰百勝) And you may not fear the result of a hundred battles. All in all, the fundamentals for Apple at all fronts (PESTEL & SWOT) are **strong** albeit a few potential issues related to high rivalry and buyer’s bargaining power. Most important of all, we are of a view that its internal structure (esp financials, operations, organisation structure) is very **robust and strong** and equip the company to tackle and handle all the challenges identified. We would recommend Apple to expand its business in China and achieve its sustainable business growth and competitive advantage- the ***holy grail of business***.

🍏 (8) Strategy Generation

🍏 8.1 SWOT/ TOWS Matrix

TOWS Analysis is a variant of the classic business tool, SWOT Analysis. **TOWS and SWOT** are acronyms for different arrangements of the words Strengths, Weaknesses, Opportunities and Threats. By analyzing the external environment (threats and opportunities), and Apple’s internal environment (weaknesses and strengths), we can use these techniques to think about the strategy of Apple and its development strategy in China. The main difference between TOWS and SWOT is that TOWS emphasizes the external environment whilst SWOT emphasizes the internal environment. This tool can help identify the strategic options for Apple.

TOWS Analysis			
INTERNAL FACTORS			
EXTERNAL FACTORS		Strengths (S)	Weaknesses (W)
	Opportunities (O)	Strengths/ Opportunities (SO)	Weaknesses/ Opportunities (WO)
	Threats (T)	Strengths/ Threats (ST)	Weaknesses/ Threats (WT)

Figure 22: TOWS Analysis- Strategy Generation

SWOT/TOWS Analysis- Strategy Generation

EXTERNAL	INTERNAL FACTORS		
		Strengths (S) -One of the world's strongest brands -High profit margins based on premium pricing -Effective rapid innovation processes based on long history of technological innovation/ Strong R&D -Liquidity Financial position -Distribution Channels	Weaknesses (W) -Limited distribution network for its goods -High premium selling prices -Dependence of sales in high end market segments -High Reliance on iPhone and iPad Product Lines
	Opportunities(O) -Expansion of the distribution network for wider consumer electronics market reach -More focus on higher sales volumes based on rising demand -Exploring AI -Development of new product lines in consumer electronics and online services (eg Healthtech) - Stores Expansion	SO Strategies (Strengths-Opportunities) Use Apple's internal strengths to take advantage of external opportunities	WO Strategies (Weaknesses-Opportunities) Aim at improving internal weaknesses by taking advantages of external opportunities
	Threats (T) -Aggressive /intensive competition from local Chinese Brands such as Huawei, Oppo, Xiaomi and Samsung etc -Other compatible products competing based on low prices -Rising labor costs in various countries where the company maintains production facilities -Dependence on Network Providers -Technological Changes -Foreign Exchange Risk -Geopolitics/US-China Trade War	ST Strategies (Strengths-Threats) Use Apple's strengths to avoid or reduce the impact of external threats	WT Strategies (Weaknesses-Threats) Defensive tactics directed at reducing internal weakness and avoiding external threats

Figure 23: SWOT/TOWS Analysis- Strategy Generation

(Source: Information gathered from Smithson N, (2020) Apple Inc. SWOT Analysis & Recommendations and lecture notes from Professor Peter Fong.)

🍏 8.2 SO Strategies (Strength-Opportunities)

Both internal and external factors discussed in the above SWOT (Figure 19 & 20) and SWOT/TOWS (Figure 23) analysis illustrate that Apple has major strengths /advantages to address organizational weaknesses. (Smithson, 2020) The company should adopt the **SO strategies** and can use these strengths to exploit further opportunities, such as the expansion of its product offerings and distribution network. Moreover, the company can use its strong brand image, solid innovation & R&D processes, design thinking and creativity to successfully develop and launch new technology product lines and expand in new market area in China. This strategy can assist Apple to fence off the threats of intense competition and technological changes from other competitors.

🍏 8.3 China Strategy:

Based on the strategic issues highlighted in the above analysis, Apple should also continue the aggressive and rapid innovation in developing the company's line of products especially in areas like **services & wearables**. **Technological innovation** reduces the adverse effects of competition. Another possible consideration is for Apple to establish **partnerships** with more local distributors in China to improve the overall market reach of the company's consumer electronic products. Last but not least, Apple can also consider more **friendly acquisitions** in China to establish **alliances and allies** in the market. This can equip Apple to overcome the cross cultural challenges. For example, Apple has already established several R& D centres in China and this strategic move is a good start and they should continue this SO Strategies more proactively in order to sustain its competitive advantage and long term business growth.

🍏 8.4 SPACE (Strategic Position and Action Evaluation) Matrix

This management report will also leverage another analytical tool to generate the strategic option for Apple in China. We have utilised the SWOT analysis of Apple and developed a **SPACE Matrix** Axes for Apple. The SPACE matrix has incorporated four key dimensions in its analysis; namely, Financial Position (**FP**) and Competitive Position (**CP**) which are the internal dimensions whereas Stability Position (**SP**) and Industry Position (**IP**) are the external dimensions. These four factors are the most important determinants to define the strategic position of the company. Both X & Y axes scores are positive (3.42 & 2.14 respectively). This score confirms its market development strategy.

Apple's SPACE Matrix Axes (as at Mar 2021)

Internal Strategic Position

External Strategic Position

Axis Y	Financial Position (FP) (+1 Worst to +7 Best) - ROI +6 - Liquidity +5 - Working Capital +6 - Cash Flow +7 - Inventory Turnover +7 - Earnings per share +5 - Price Earning Ratio +5 Average: +5.85 Total axis Y Score: + 2.14	Stability/Environment Position (SP) (-1 Best to -7 Worst) - Technological changes -2 - Rate of Inflation -3 - Price Range of competing product -1 - Barriers to entry into market -5 - Competitive Pressure -6 - Ease of Exit from Market -4 - Risk involved in business -5 Average: -3.71
	Competitive Position (CP) (-1 Best to -8 Worst) - Market Share -3 - Product Quality -1 - Product Life Cycle -3 - Consumer Loyalty -1 - Capacity Utilization -3 - Technological Know-How -1 - Control over Suppliers and Distributors -1 Average: -1.85 Total axis X Score: + 3.42	Industry Position (IP) (+1 Worst to +7 Best) - Growth Potential +7 - Profit Potential +6 - Financial Stability +7 - Extent Leveraged +5 - Resource Utilization +4 - Ease of Entry into Market +4 - Productivity, Capacity Utilisation +4 Average: -1.85

Figure 24: Apple SPACE Matrix Axes

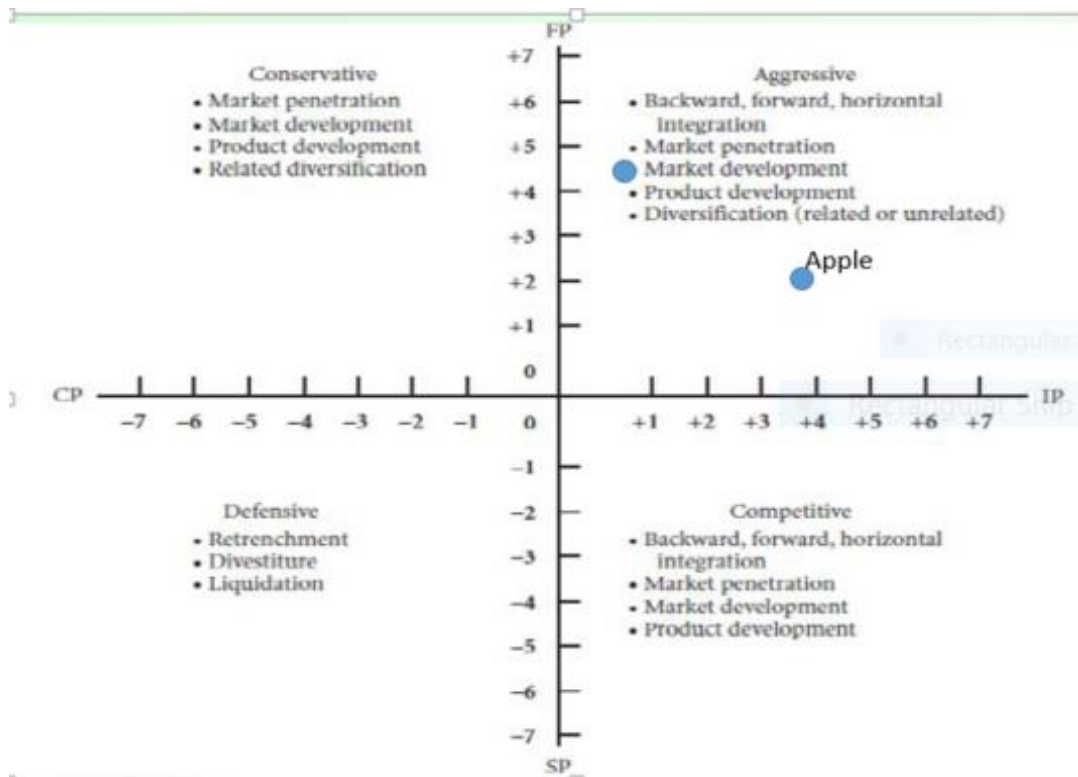


Figure 25: The SPACE Matrix for Apple (Based on Figure 24: Axis X : 3.42 and Axis Y: 2.14)

🍏 (9) Recommendations- Apple's China Strategy

This report has taken a deep dive into Apple's business strategy and conduct an in depth **strategic internal and external audit** for the company. We have leveraged three analytical tools, namely, **PESTEL, SWOT and Porter's Five Forces Analysis** to conduct a detailed strategic diagnosis for Apple. We have also conducted a detailed **SWOT/ TWOS and SPACE Matrix** analysis to generate a **SO (Strength-Opportunities)** and **market development strategy** for Apple. These findings have all confirmed that business development in China is an optimal strategic option for Apple. This market development strategy will help sustain their business success and competitive advantages.

China is the best strategic location for Apple in the long term. It is recommended that Apple has to realign their business focus and put more resources and investment into Mainland China in order to capture the untapped potential markets for their long term business growth and maximise the shareholders' value for their stakeholders. The current geopolitical situation and US/China trade tension might cause some uncertainties for the company especially its shareholders or even the US government. However, for every crisis, there is always an opportunity. This is actually the **best** time for Apple to further expand into China. (See **Exhibit 7: Apple Surges despite US-China Trade tensions**)

🍏 9.1 Apple and China: A Match Made in Heaven

The relationship has always been good for both Apple and China. No American Company makes as much money in China as Apple.²⁶ (The Economist, 2020). And 2019 had been a tough year for many companies and only a few can make money at all. However, Apple raked in \$44 billion of revenues in Greater China during 2019, mostly from selling iPhones. "That is more than the global sales of United Airlines and Nike and about as much as Tencent. And few countries have as much power as China to shape Apple's fortunes."²⁷ Apple just announced a record quarter in China with the highest ever number of iPhone upgrades in January earlier this year. Tim Cook said that its success was "more than an iPhone story."²⁸ But China, undeniably, is the largest smartphone market in the world. (See

²⁶ The Economist, (22 Feb 2020), Red plateau- Apple's Chinese troubles -The coronavirus is just the start.

²⁷ Ditto

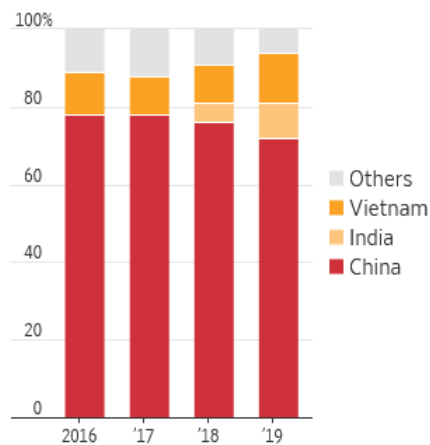
²⁸ Kharpal Arjun, (28 Jan 2021). CNBC: Apple had a record quarter in China with the highest ever number of iPhone upgrades

Figure 15 – The Size of Apple’s China Business). The following graphs and figures will further demonstrate the importance of China to Apple. It is a **mutually beneficial relationship** for these two couples to tie the knot as this is indeed a match made in heaven.

Made in China

China still manufactures the overwhelming majority of the world’s smartphones even as Vietnam and India gain ground.

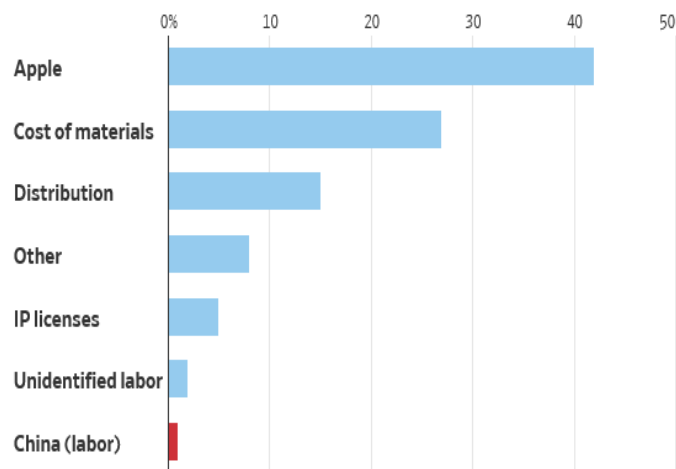
Global smartphone manufacturing by country



Where the Money Is

Though iPhones are largely assembled in China, the country keeps little of the value of each device sold.

Value captured for \$649 iPhone 7 sold in 2016



Source: World Intellectual Property Report, 2017

Figure 26: Majority of smartphone are produced in China (2016-2019) ²⁹

Figure 27: Value captured for an iphone and labour cost is low (2017) ³⁰



Source: Bloomberg

The Economist



Data compiled Dec. 28, 2020.

Sources: Company filings; S&P Global Market Intelligence

Figure 28 – Apple’s revenue & Figure 29- Apple’s net sales in Greater China ³¹

²⁹Chao L, (23 July 2008) WSJ and Mickle Tripp and Yoko Kubota (3 March 2020) WSJ.

³⁰ Ditto

³¹ Figure 27- Economist (22 Feb 2020) & Figure 28- Akins A (2021)

🍏 9.2 China and Cook –2Cs

Steve Jobs met Tim Cook in 1998 while he was desperately looking for a reliable executive to run Apple's operations. He wanted someone who could build just-in-time factories and supply chains. As Jobs said, "Tim Cook had the same vision I did, and we could interact at a high strategic level, and I could just forget about a lot of things unless he came and pinged me." (Isaacson, 2011) Since then, Cook would grow into an indispensable partner for Jobs and Apple. Most important of all, Cook knows China and he sees the value in working closely with China. As mentioned earlier, he visits China regularly while his predecessor had never set foot on the Chinese soil. We have captured a few key quotes made by Tim Cook and we could understand more about his own vision in Apple's China strategy. Below are some of the best known quotes:

- 🍏 "This is really bad. Someone should be in China driving this." Cook was the operations head when his job was to wring costs out of Apple's supply chains. (Isaacson, 2011).
- 🍏 "Cook, who is both courtly and deeply private, plugged away behind the scenes to cement a relationship crucial to Apple's soaring success with China." (Economist, 30 May 2019)
- 🍏 "The competition is more fierce in China- not only in this industry, but in many industries... I think that's a credit to a number of **local companies** that put their energies into making good products." (Farhoomand, 2017)
- 🍏 "China is currently our second-largest market. I believe it will become our **first**. I believe strongly that it will," Cook said while visiting Beijing in January 2013. (Xinhua, 2013)
- 🍏 "We are aware that due to insufficient communication, the public holds the idea that Apple is arrogant, disregards or pays little attention to feedback of consumers. Therefore, we want to express our **sincere apology** for any concern of misunderstandings arising from the process." A Statement to consumers signed by Tim Cook. (China Daily, 2013) (Also See **Exhibit 8**- CEO's apology email)
- 🍏 "Despite these challenges, we believe that our business in **China has a bright future**. The iOS developer community in China is among the **most innovative, creative and vibrant** in the world. Our products enjoy a strong following among customers, with a very high level of engagement and satisfaction. Our results in China include a new

record for Services revenue, and our installed base of devices grew over the last year. We are **proud** to participate in the Chinese marketplace.” (Tim Cook’s Letter to Investors, Jan 2019)

- 🍏 Cook said China is already "**incredibly innovative**" in the software industry and so many applications and ideas can only be created in China. China also has a large pool of computer science professionals with skills that are very rare to find anywhere. He also said "**skills, rather than low labor costs**", are what lure foreign companies to China. "The products we do require advanced tooling. In the United States, I am not sure our tooling engineers can fill a room. In China, you can fill multiple football fields," Cook said. Apple now has around 2 million developers using its platform in China. (Cook attended 2017 Fortune Global Forum in Guangzhou- Xinhua, 2018)
- 🍏 Tim Cook joins Board at **Tsinghua University** School of Economics and Management (SEM) in 2019 and said that he “will work with other member in the next three years to make the SEM one of the best of its kind in the world.” (CRI Online, Oct 2019)
- 🍏 “We had **double-digit growth** for iPhone in Mainland China. We also had double-digit growth in services. ... We had three of the top four selling smartphones in urban China, according to Kantar.” (Tim Cook, Press briefing on 2020 Q1 earnings, 28 Jan 2020)
- 🍏 “I think you've seen that our performance has been particularly **strong** in China, where we've seen phenomenal customer response that probably. There was also some level of pent-up demand for 5G iPhones, given that the market is moving very quickly to 5G.
- 🍏 “Yes. **China was more than an iPhone story**. iPhone did do very well there. And sort of like the world, if you look at both **switchers and upgraders**, we were up year-over-year, and China also had a record number of upgraders during the quarter, the most we've ever seen in a quarter. I think probably some portion of this was that people probably delayed purchasing in the previous quarter as rumors started appearing about an iPhone.” (Tim Cook, Press briefing on Q1 2021 Results, 27 Jan 2021)

🍏 **9.3 Market Development Strategy in China**

China is more than a iPhone story. Based on the market penetration strategy identified in the previous analysis, there are a few areas of strategic initiatives which can be pursued and developed by Apple in the next decade; namely **Services** areas expanded into areas

such **education, health tech , environment and AR**. They are nothing new for Apple but extremely important development areas for the Chinese market. Hence, Apple can increase its R&D investment and leverage the market potential and demand in China.

🍏 9.4 China Consumers' trend

The consumers' confidence in China remains robust amid Covid and US/China tension. China consumers are proving to be 'remarkably resilient and remain a powerful, transformative force not just in China but also across the globe.'" (McKinsey, Dec 2019)

Although retail sales growth has slowed, the Consumer Confidence Index has bounced back since the start of the China-US trade dispute

Retail sales growth vs. Consumer Confidence Index (Jan. 2012 through Sep. 2019)

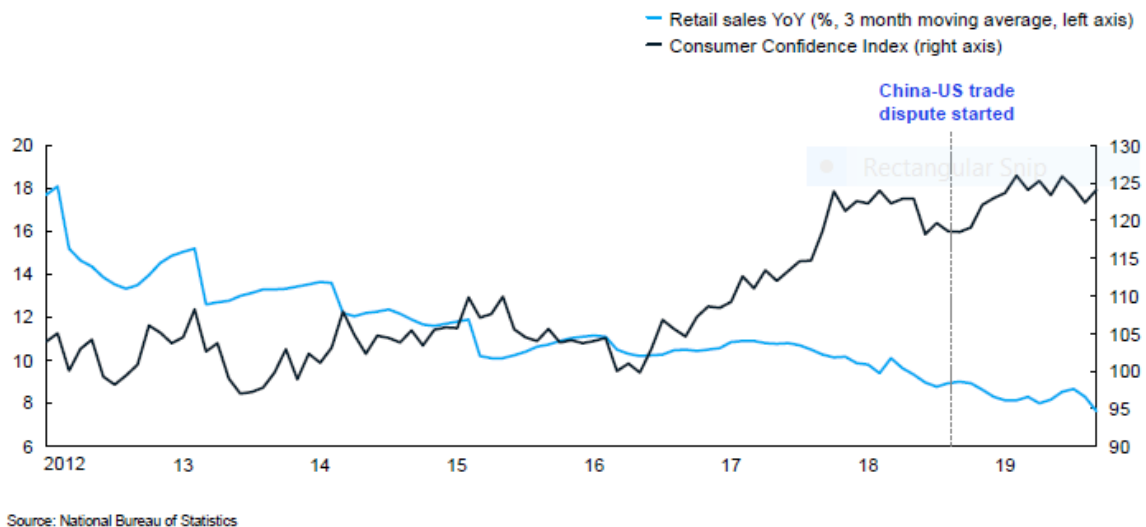
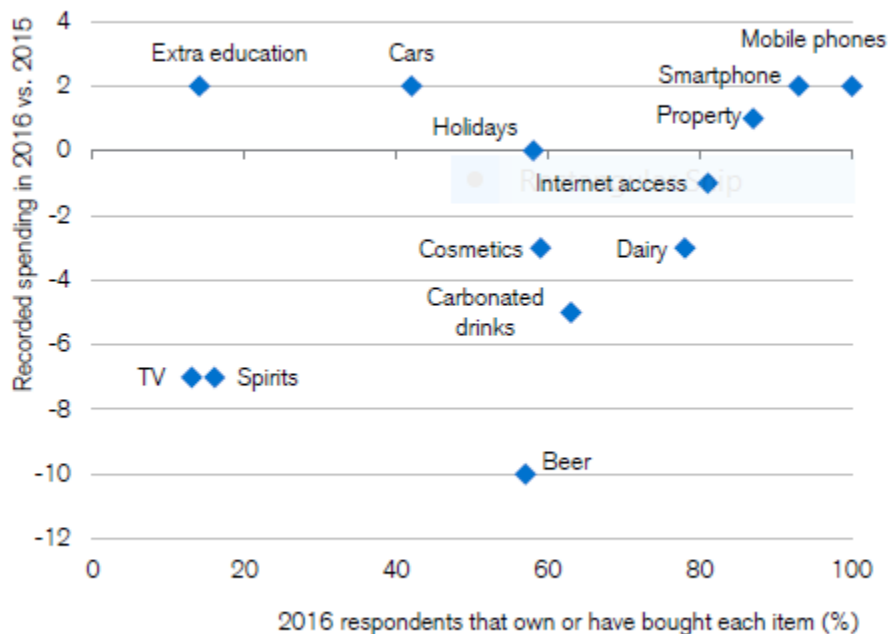


Figure 30: China Consumer Confidence Index (Source: McKinsey China Consumer Report 2020)

Based on McKinsey's report, the middle class population in China is rising continuously whereas its consumer spending represented **31%** of global household consumption growth from 2010-2017. They have also established five key consumer trends in China which are relevant for Apple's future market expansion strategy. The most relevant finding for Apple is that the **young, free-spending** consumers in **lower tier cities** are today's growth engine. And the **health conscious movement** in China is here to stay for a long time. And **high-end Chinese brands** are increasingly appealing. (McKinsey, 2019)

Another Consumer report published by *Credit Suisse* can also shed some lights for Apple. The key observation is that **lifestyle upgrade** is still relevant and important in China but foreign brand like Apple need to differentiate from high-end local brand such as Huawei. As previously discussed, Apple should explore **local alliances and allies formation** with local Chinese partners. We will recommend a **friendly acquisition** or formation of local partnership or alliances in addition to its robust manufacturing base. Further M&A analysis should be conducted by Apple due to the limited time and resources available for this report.

Spending momentum and market penetration



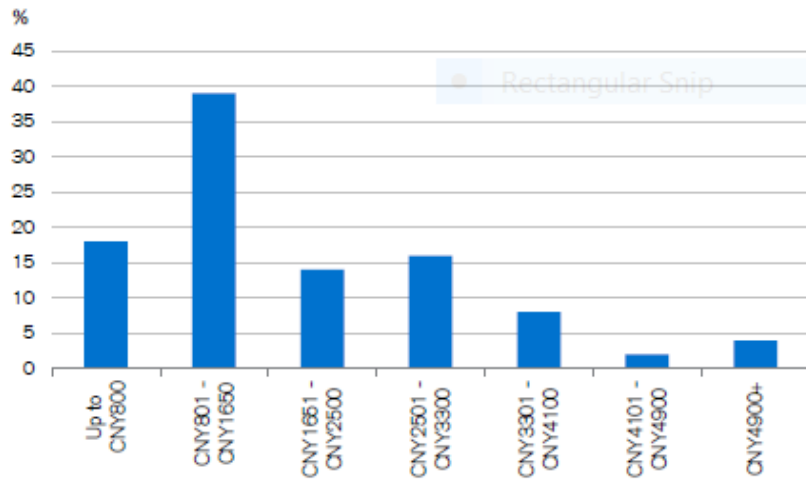
Source: Emerging Consumer Survey 2017

Figure 31: Spending Momentum and Market Penetration (Credit Suisse Consumer Report 2017)

Last but not least, their survey also suggests that Chinese consumers are more likley to buy more expensive versions of products rather than mass-produced products, but smart phone is the only exception. This is a very important finding and we have to conduct more research in this area to explore the consumers' preferences and further justified the importance of product differentiation and development for Apple. All in all, Apple's

strength in its R&D, creativity, design, customers' focus and innovation expertise will still earn the trust and loyalty of the Chinese consumers.

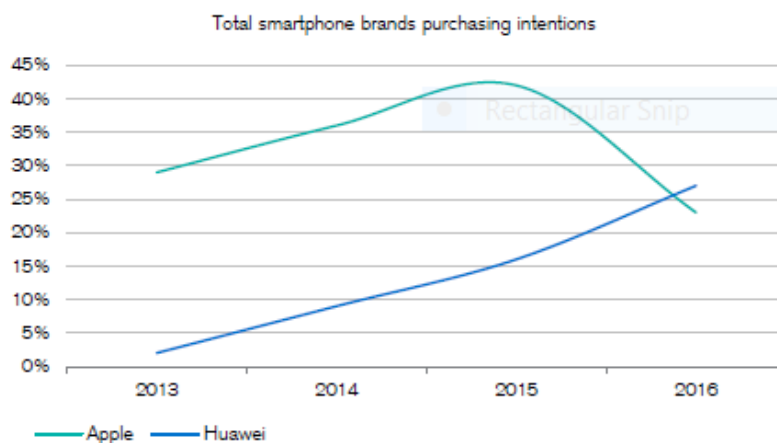
71% of respondents would like to buy smartphones under RMB 2,500 in the future



Source: Emerging Consumer Survey 2017

Figure 32: 71% of respondents would buy a smartphone cost less than RMB 2500 (Credit Suisse Consumer Report,, 2017)

Smartphone brand purchasing intentions in China



Source: Emerging Consumer Survey 2017

Figure 33: Smartphone brand purchasing intentions in China (Source: Credit Suisse Consumer Report 2017)

🍏 **9.5 Business Area 1: Education and Learning Experiences for Chinese Consumers**

This is a great potential business development area for Apple in China. China is more than an iPhone story and value-added **services (eg subscription-based)** will open a new business segment for Chinese consumers. Apple can leverage its existing projects such as *Propel Centre and Apple Developer Academy* and share their learning and experiences with consumers in China. (Apple Q1 2021 earnings results). It is notorious that Chinese parents are most ready to spend a high portion of their disposable income on children's education, especially from innovators like Apple. On the other hand, Apple's *accelerator initiative* has been very successful in India which invites selected developers for tutoring and modules on fast-track app development every week. "In rooms painted Apple's signature all-white, professionals share the latest technology in sessions ranging from a day to two weeks. This is a clever move by Apple to lock developers into its iOS systems and also sought to build life-long ties to designers by pitching high –schoolers and community college students to work with its streamlined app-coding language, Swift."³² (Muskus, 2018). It is always a good strategic move to expand in the educational services esp in country like China.

🍏 **9.6 Business Area 2: Health tech in local R&D centres**

For the health-conscious Chinese population, this potential service area has great market potential. The local R&D centres in China such as the ones opened in Beijing, Shenzhen, Suzhou and Shanghai can help leverage the local expertise to develop locally designed products, apps and platforms for Chinese consumers. "It was thought that R&D centres in China would allow Apple to strengthen government relations and source new talent, while keeping a close eye on the competition. " (Farhoomand, 2017) In addition, lifestyle, health and safety become an increasingly important aspect of life. A growing segment of Chinese consumers had the time and money to concern themselves with these issues. This is a big potential development area for Apple especially with their strong brand loyalty and product quality in all aspects. (Also See Chapter 4 on p.16- Apple Fitness+SM)

🍏 **9.7 Business Area 3: Environment**

Apple is an industry leader in environmental protection and climate change and she also takes pride in this sustainability goal. Apple announced a first of its kind investment

³² Muskus J & Alnwick J (ed) (30 April 2018). Businessweek: Apple's India Strategy: Think of the Children. URL: www.Businessweek.com

fund in China to connect suppliers with renewable energy in 2018.³³ Apple and 10 suppliers will jointly invest nearly US \$100 million into the China Clean energy Fund. This fund will invest in and develop clean energy projects totally 1 gigawatt of renewable energy in China, the equivalent of powering nearly 1 million homes. This is a baby step for a population of 1.3 billion people, but an essential and respectable one for Apple. In addition, Apple also unveiled its plan to become carbon neutral across its entire business, manufacturing supply chain, and product life cycle by 2030. The company is already carbon neutral for its global corporate operations now, and this new commitment means that by 2030, every Apple device sold will have net zero climate impact. This is an important strategic goal for Apple and will make a difference to our future and humanity in general. Apple can explore environmental collaboration with China as both of them have a common objective and target to minimise its climate impact.

9.8 Business Area 4: Technology Transfer

By offering a large marketplace, tax exemptions and other incentives, the Chinese Government attracted many Western companies to set up joint ventures businesses. **Technology transfer** was often a pre-condition of the process. (Farhoomand, 2017, p.10) On the business front, Apple also invests in Goldwin, which succeeded in the process of technology transfer and has great potential to tap into the enormous ‘eco-driven’ market. Apple is able to profit from Goldwin’s success. Last but not least, like Tesla, the introduction of **Apple Cars** in China is a potential market. The Chinese Didi Chuxing acquired Uber China in August 2016. **Mergers and Acquisitions (M&A)** like Lenovo’s investment in IBM and Motorola, were one of the strategies always used by strong Chinese companies to expand overseas. (Farhoomand, 2017).

To succeed in China, partnership with local entities and development local relationships with the government (**guanxi**) are essential. Apple has a very good start as we discussed before. Apple should leverage its competitive advantage to excel further and expand *deeper and wider* inside China. This market development may attract some criticisms in the short term or expose to certain degree of risks, but the upside potential is huge. And there is no other company which is more better-positioned than Apple. As a matter of fact, Apple stock surges despite US-China trade tensions. (See **Exhibit 7**)

³³ Apple Press release (13 July 2018) Apple launches new clean energy fund in China

🍏 (10) Limitations and Barriers

We have discussed in details that doing business in China is never easy for any foreign companies. Eg. South Korea's tech giant LG Electronics just announced on 5 April that it will withdraw from the mobile phone business in China. The unfamiliar legal system, government policies changes, intellectual property rights, privacy issues, competition with local companies (just to name a few) could be barriers faced by foreign companies. However, China has many strengths and advantages that no other country can offer. This report also argues that Apple and China has a mutually beneficial relationship. Chinese firms may rely on Apple's sizeable orders, but Apple also sees benefits from the country's high cost efficiency and growing innovation and many other market advantages.³⁴ (Sheehan, 2020) China has over 380 suppliers which are currently manufacturing for Apple (See Figure 2 on p.12) and China is Apple's biggest market after the U.S.

🍏 (11) Conclusion

This analysis (Axon, 2020) has summarised the China Apple relationship best. "Like many other US companies, the question for Apple can't possibly be whether or not to engage with China at all. Rather, it must be how to best weather the storms that inevitably come with that engagement. And it's a question that sits at the very heart of much of the world's current debates and upheaval about globalisation, openness, trade, labour, the environment and multiculturalism."³⁵(Axon, 2020)

As Tim Cook had stated in his open apology to his 'Chinese Consumers' in 2013, "we recognize that we have **much to learn** about operating and communicating in China, but we want to assure everyone that we bring the same deep **commitment and passion** to China as we do to any other part of the world. This commitment, a **desire to delight** all of our customers and provide them with an extremely high-quality experience, is deeply rooted in the culture of our company. And we will not rest until we achieve this goal." (Tim Cook, 2013)

***Apple and China- is indeed a match in heaven
and a mutually beneficial relationship.***

³⁴ Sheehan Luke (ed), Kan B &, Platonov I (24 Aug 2020) Apple and China: A Mutually Beneficial Relationship (Online). URL: <https://equalocean.com/analysis/2020082414616>

³⁵ Axon Samuel, (3 April 2020), Apple can't break up with China, Wall Street Journal report argues. Sources say it's not possible to replicate Chinese supply lines elsewhere

🍏 **(12) Summary of Exhibits**

Exhibit 1: Tim Cook's Bio (see p.7)

Tim Cook

Chief Executive Officer



Tim Cook is the CEO of Apple and serves on its board of directors.

Before being named CEO in August 2011, Tim was Apple's chief operating officer and was responsible for all of the company's worldwide sales and operations, including end-to-end management of Apple's supply chain, sales activities, and service and support in all markets and countries. He also headed Apple's Macintosh division and played a key role in the continued development of strategic reseller and supplier relationships, ensuring flexibility in response to an increasingly demanding marketplace.

Prior to joining Apple, Tim was vice president of Corporate Materials for Compaq and was responsible for procuring and managing all of Compaq's product inventory.

Previous to his work at Compaq, Tim was the chief operating officer of the Reseller Division at Intelligent Electronics.

Tim also spent 12 years with IBM, most recently as director of North American Fulfillment where he led manufacturing and distribution functions for IBM's Personal Computer Company in North and Latin America.

Tim earned an MBA from Duke University, where he was a Fuqua Scholar, and a Bachelor of Science degree in Industrial Engineering from Auburn University.

(Source: Apple's Website - <https://www.apple.com/hk/leadership/tim-cook/>)

Exhibit 2: A Brief History of Apple Inc. (see p.10)

1971 Steve Jobs (DOB 24 Feb 1955) and Steve Wozniak became friends when Jobs was 16 years old and Wozniak was 21. Jobs quitted Reed College in Oregon and he originally wanted to study 'Eastern mysticism' and became a vegetarian. Wozniak studied Engineering at UC-Berkeley. They were introduced by a mutual friend named Bill Fernandez.

1976 Apple Computer Inc. was founded by Steve Jobs, Steve Wozniak and Ron Wayne. The first Apple computer was assembled in the garage of Jobs' family in Los Altos, San Francisco Bay Area.

After visiting a commune and apple farm in Oregon, Jobs suggested that they name the company Apple Computer. (*Another factor in their choice of the name "Apple": it would me before "Atari" in the phone book.*) To fund Apple, Jobs sold his old Volkswagen bus and Wozniak sold his beloved HP scientific calculator, each for US\$500. (Wasserman, 2011, p.3) Jobs took a job from Atari as its fortieth employee in 1976 after he dropped out from Reed. Atari was a fast growing video-game company. Wozniak and Jobs worked together and developed a computer game called 'Break-Out' for Atari and shared the earnings. It would remain a myth whether the payment was \$700 or \$5,000 for this job. Wozniak said that 'Steve paid me half the seven hundred bucks he said they paid him for it.' (Wassermann, 2011, p.2)

1977 Adding *Mike Markkula* was another milestone. Markkula was a successful executive at Intel and turned venture capitalist. He agreed to invest \$91,000 in Apple and provided a personal guarantee on a bank line of credit for another \$250,000. Markkula said "This is going to be a marketing company." The product is going to be driven in other words, by demands that the marketing department finds in customers." (Wassermann, 2011, p.4)
Apple Computer Inc. was incorporated. In the same year, Apple II microcomputer was introduced.

1980 Apple Computer Inc. went public and initiated **IPO** and earned over \$100 million.

1983 Apple produced the **Lisa**; it was the world's first personal computer that combined a graphical user interface with a mouse.

1984 **Apple Macintosh (Mac)** was released and this computer was equipped with a new and revolutionary operating system, which became the *first* key milestone in the development of the computer industry. But the Mac's slow processor speed and lack of compatible software limited sales. Apple's net income fell by 62% between 1981-1984, and the company was in crisis.

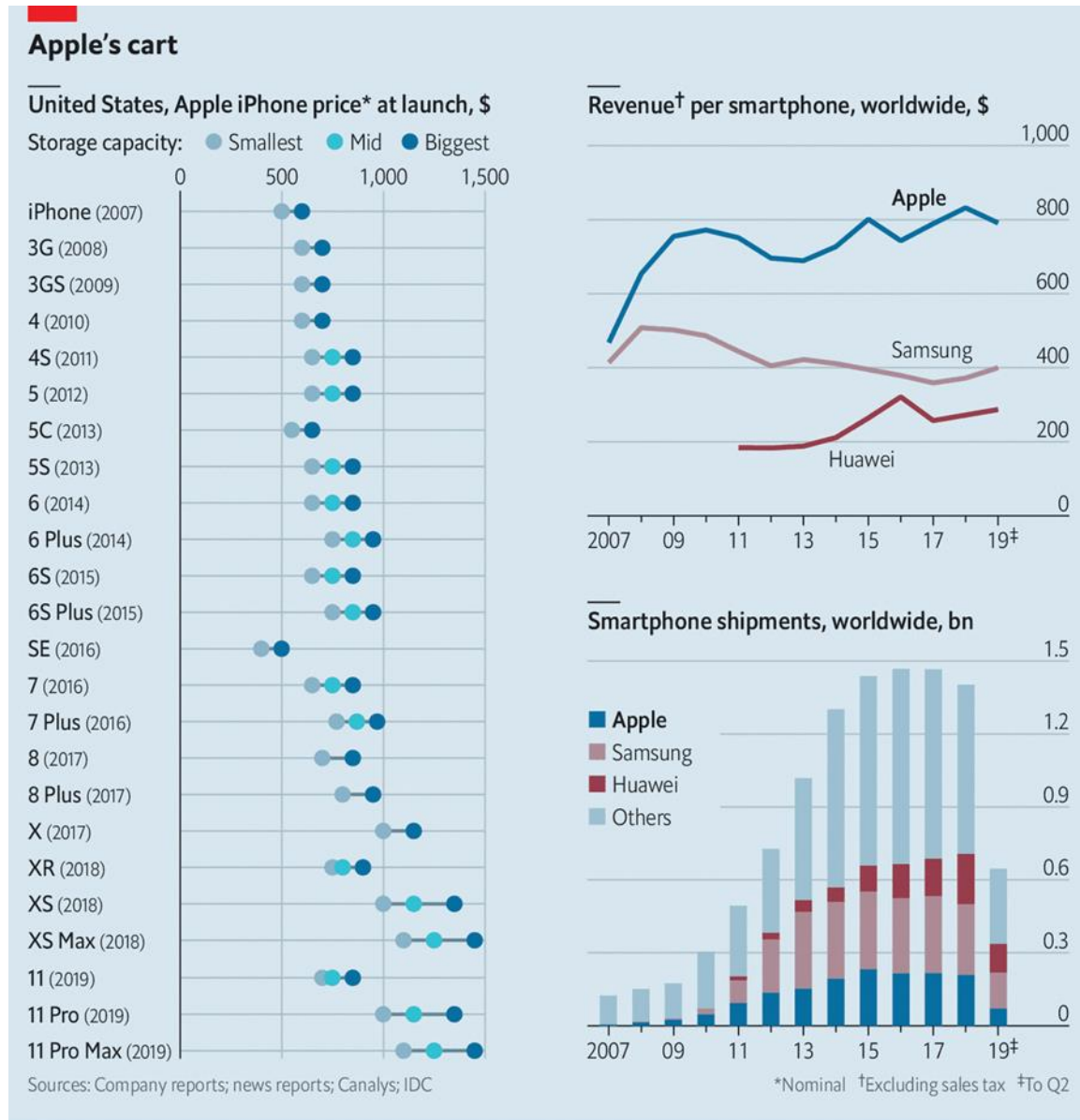
1985 Jobs resigned as the Chairman of Apple Computer Inc. *John Sculley*, the executive whom Jobs recruited from Pepsi, became ran the company from 1985 till 1993.

- 1993 Apple introduced the **Newton**, which created the Personal Digital Assistant. But in the 1990s, Microsoft's new users vastly outpaced Apple's, and Apple's market share fell from 20% to 5%. *Michael Spindler*, Apple's President, replaced Sculley as the CEO in June 1993.
- 1996 Following \$69million loss in Apple's first fiscal quarter of 1996, an Apple board member, *Gilbert Amelio*, replaced Spindler as the CEO. Amelio announced that Apple would return to its premium price differentiation strategy, but Mac sales continued to fall. In December 1996, Apple announced the acquisition of *NeXT* Software- founded by Steve Jobs after he left Apple. And Jobs returned to Apple as a part-time adviser. Despite all efforts, Apple lost another \$1.6 billion. The company was on the verge of bankruptcy.
- 1997 Jobs returned to Apple and became its interim CEO in September 1997. A position he held till his retirement in 2011. (*On 5 October 2011, Jobs tragically died of cancer.*) Jobs move quickly to reshape Apple. Jobs believed deeply in focus. Apple would soon have one of the "narrowest product lines of any company of comparable size." Apple's 15 product lines were slashed to just 4 categories- desktop and portable Macintoshes, for consumers and professionals.
- 1998 *Tim Cook*, hired by Jobs, joined Apple after a career in operations at Compaq and IBM. His key target was to streamline Apple's supply chain.
- 2001 Apple introduced Mac OS X. And in the same year, Apple launched **iPod** and iTunes, and iPod overtook SONY's Walkman and became the world's largest portable music player by market share. In May 2001, Apple announced the opening of Apple retail stores.
- 2002 Apple introduced iMac G4.
- 2004 Apple introduced iMac G5, it was the thinnest computer in the world at that time.
- 2005 iPod Nano and iPod Shuffle were introduced.
- 2006 iPod Classic and iPod Nano2 were introduced.
- 2007 **iPhone** was introduced.
- 2008 iPhone 3G and MacBook Air were introduced, and MacBook Air was the thinnest laptop in the world at the time.
- 2009 iPod Nano5 was released.
- 2010 iPad was introduced.

- 2011 Steve Jobs retired and Tim Cook succeeded him as the CEO. On 5 October, Steve Jobs passed away.
- 2012 With a market value of more than \$520 billion, Apple holds the No. 1 spot in the world. And iPhone5 was introduced.
- 2014 iPhone6 and iPhone 6 plus were introduced.
- 2017 IDC released its global smartphone sales data for 2016, and Apple ranked second.
- 2018 Apple ranks fourth on the Fortune 500 List, and Apple reported third-quarter fiscal 2018 (Q2) results, with revenue of \$53.265 billion, up 17% from \$45.408 billion a year earlier. Net income was \$11.519 billion, up 32% from \$8.717 billion a year earlier.
- 2021 *Apple is now ranked as the *world's most admired* company by Fortune Magazine in 2021.
 *It earned an all-time record revenue of *US\$111.4 billion* for its fiscal Q1 2021 results in January 2021 during its first quarter (Oct-Dec 2020).
 *Apple broke past US\$110 billion in revenue of any quarter in the company's history.
 * Apple became the world's first trillion dollar market cap company.
 *It also surpassed *1 billion active users* for the first time in its history.
 *The company had a record number of iPhone "upgraders" during the quarter in China, "the most we've ever seen in a quarter."
It is now one of the largest and most profitable companies in the world.

Source: Summary complied by the writer based on information extracted / cited from –
 Li Boyang (2020), Thesis: Evaluation of Financial Risk in Apple Company. VSB-Technical University of Ostrava, Faculty of Economics, Dept of Finance.
 Wasserman Noah (4 Feb 2011), Harvard Business Review Case Study: Apple's Core.
 Yoffie David B & Rossano Penelope (14 August 2012), Harvard Business Review Case Study: Apple Inc. in 2012.
 Yoffie David B & Fisher D, (6 April 2020), Harvard Business Review Case Study: Apple Inc. in 2020.

Figure 3: Apple's iPhone Journey (2007-2019) (see p.10)



The Economist

Source: The Economist, (12 Sept 2019), Apple's cart: Tim Cook tries to reduce Apple's dependence on devices.

Exhibit 4: Apple's Core Values /Supplier Responsibility/ Ethics & Compliance
(see p.12-13)

Apple Core Values:

(1) Accessibility

Built-in features that work the way you do. Make them yours, and make something wonderful.

(2) Education

Apple and ConnectED: Giving products, support, and opportunities to schools that need them most.

Apple has been part of the ConnectED initiative since 2014, pledging \$100 million of teaching and learning solutions to 114 underserved schools across the country. We've donated an iPad to every student, a Mac and iPad to every teacher, and an Apple TV to every classroom. And we've implemented a process that provides planning, professional learning, and ongoing guidance so every school can experience the transformational power of technology.

(3) Environment

A planet-size plan. Apple is carbon neutral. And by 2030, all of our products will be too. We're designing the world's most innovative products from recycled materials. Soon we'll make them all with clean energy and no carbon footprint. Some say it's impossible. At Apple, we think different.

(4) Inclusion and Diversity

We're all in. Across Apple, we've strengthened our long-standing commitment to making our company more inclusive and the world more just. Where every great idea can be heard. And everybody belongs.

(5) Privacy

Privacy is a fundamental human right. At Apple, it's also one of our core values. Your devices are important to so many parts of your life. What you share from those experiences, and who you share it with, should be up to you. We design Apple products to protect your privacy and give you control over your information. It's not always easy. But that's the kind of innovation we believe in.

(6) Racial Equity and Justice Initiative

We continue to be reminded that certain uncomfortable truths about our society are ignored, silenced, and sidelined. Comfort can no longer come at the expense of change for communities of color.

As global leaders in technology and business, we have an urgent responsibility to dismantle systemic racism and grow opportunities for people confronting it every day.

Our Racial Equity and Justice Initiative (REJI) is a long-term effort to help ensure more positive outcomes for communities of color, particularly for the Black community. We're beginning with a \$100 million commitment. And our commitment will endure until there is enduring change.

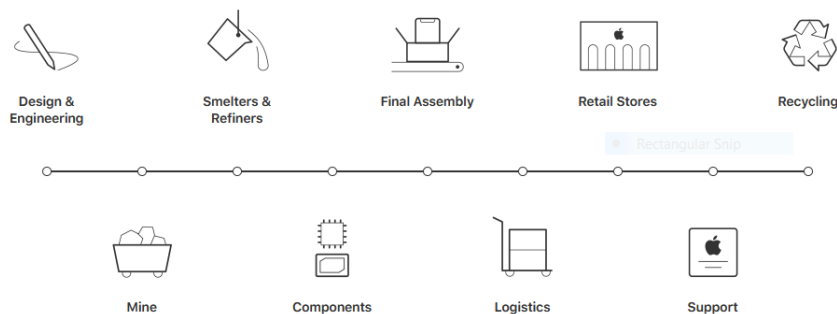
(Apple Core Values : Source- <https://www.apple.com>)

(7) Suppliers' Responsibility

People come first. In everything we do. The highest standards apply at every level.

*We know that how you create is as important as what you create,
so at Apple, people are at the heart of everything we do
and every product we make."* Tim Cook CEO

At Apple, people are at the heart of everything we do and everything we make. That means considering not only those who will use a product, but also those who help build it. So we hold ourselves and our suppliers to the highest standards to protect the people in our supply chain, and the planet we all call home. Our Supplier Code of Conduct is designed to uphold that commitment. From the sourcing of materials to the recycling of our products, we work with suppliers to ensure that our requirements are being met.



We enforce our policies by assessing and closely partnering with suppliers at every point in our supply chain. In 2019 we performed 1142 supplier assessments in 49 countries. Our commitment is more than a promise. It's action.

Living up to our highest ideals takes the same hard work and innovative spirit we devote to our products. Labor, human rights, and environmental protections are the foundation of our Supplier Code of Conduct. And we go further to empower the people in our supply chain and to leave the world better than we found it — all while working with partners to get us there faster.

A safe and respectful workplace for everyone.

Workplace rights are human rights. We require suppliers to provide fair working hours, a safe work site, and an environment free from discrimination. These protections apply across the supply chain, regardless of a person's job or location.

Educational programs built with the same passion as our products.

At Apple, we've always believed that education is a great equalizing force. We've provided education and training to more than four million supplier employees since 2008. These programs are designed to help people explore new opportunities and acquire in-demand skills — even people who are never directly involved in building an Apple product.

A global supply chain that works to protect the planet.

As we design, build, and recycle our products, we feel a profound responsibility to protect the earth. Every year, we deepen our partnerships with suppliers to conserve more energy

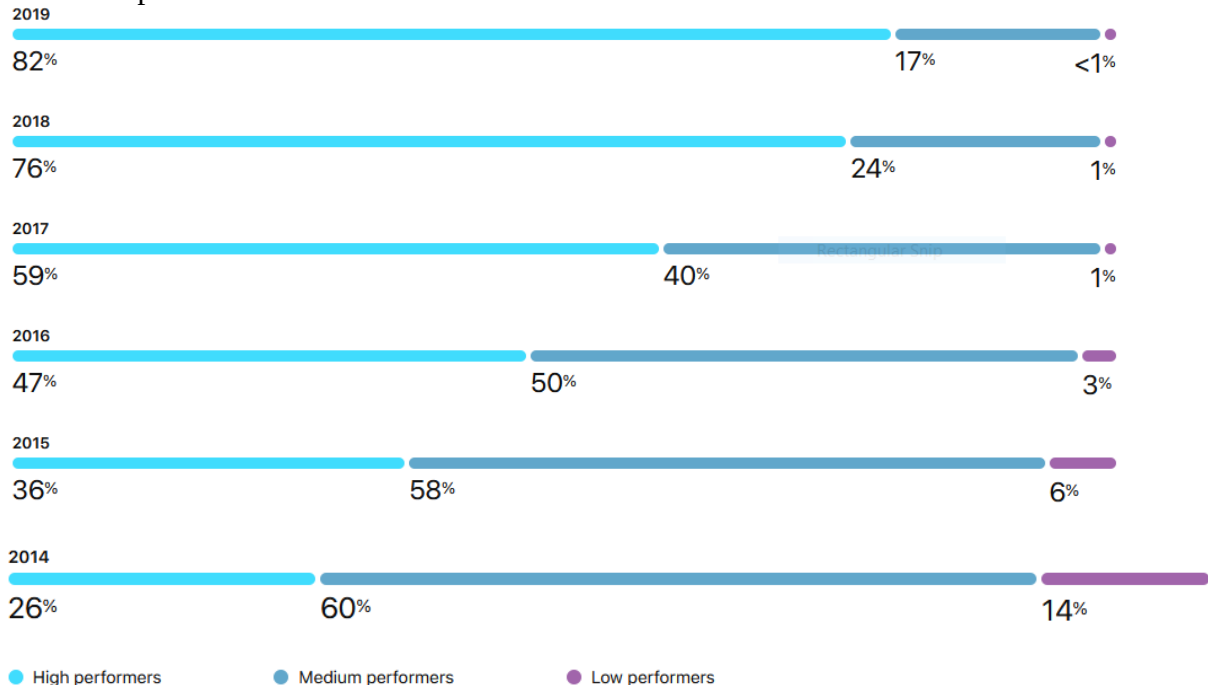
and water, eliminate waste, and become better stewards of natural resources. In 2019 alone, we helped suppliers prevent over one million metric tons of emissions through energy efficiency and emissions controls. And as we develop innovative ways to reduce our impact, we share them openly so others can reduce theirs.

The work we do is made for sharing.

The requirements we set and the programs we create have had a measurable impact on the people and communities touched by our supply chain. But we know our work will never be done. We're always listening, learning, and challenging ourselves to do better. And we'll continue to share our best thinking with others — forging solutions together so everyone can achieve progress more rapidly.

Progress by the numbers.

Supplier performance is scored according to a rigorous assessment process in the areas of labor and human rights, health and safety, and environment. In 2019 assessments were conducted at 801 manufacturing facilities and logistics, repair, and contact centres, along with 50 assessments in other parts of our services supply chain. An additional 291 assessments occurred at smelter- and refiner-level sites. And year after year, we see constant improvement.



(Supplier Responsibility: Source- <https://www.apple.com/supplier-responsibility/>)

Ethics and Compliance

Apple conducts business ethically, honestly, and in full compliance with the law. We believe that how we conduct ourselves is as critical to Apple's success as making the best products in the world. Our Business Conduct and Compliance policies are foundational to how we do business and how we put our values into practice every day.

We do the right thing, even when it's not easy. (Tim Cook, CEO)

Our Business Conduct Policy

Honesty, Respect, Confidentiality, and Compliance

Our Business Conduct Policy sets out our ethical requirements for our employees. Each of our employees must certify that they have read and understand the policy when they join Apple, and again each year. Violations of the policy are taken seriously and may result in disciplinary action, up to and including termination of employment.

Compliance at Apple

A number of compliance functions are deeply integrated into our business organization. Apple's Business Conduct and Global Compliance team focuses on Business Conduct, Political Compliance, Export and Sanctions Compliance, Health Compliance, Antitrust Compliance, and Anti-Corruption Compliance.

Bringing Policy to Life

Every Apple employee is required to complete mandatory annual Business Conduct training. We offer a range of additional resources for employees to address questions and concerns, including the Business Conduct Helpline and the Business Conduct website.

Being Accountable

We conduct internal and third-party independent assessments of our programs to ensure they are effective. We make changes to our policies and our training to reflect emerging trends. Apple's Chief Compliance Officer provides regular updates to the Audit and Finance Committee of the Board of Directors.

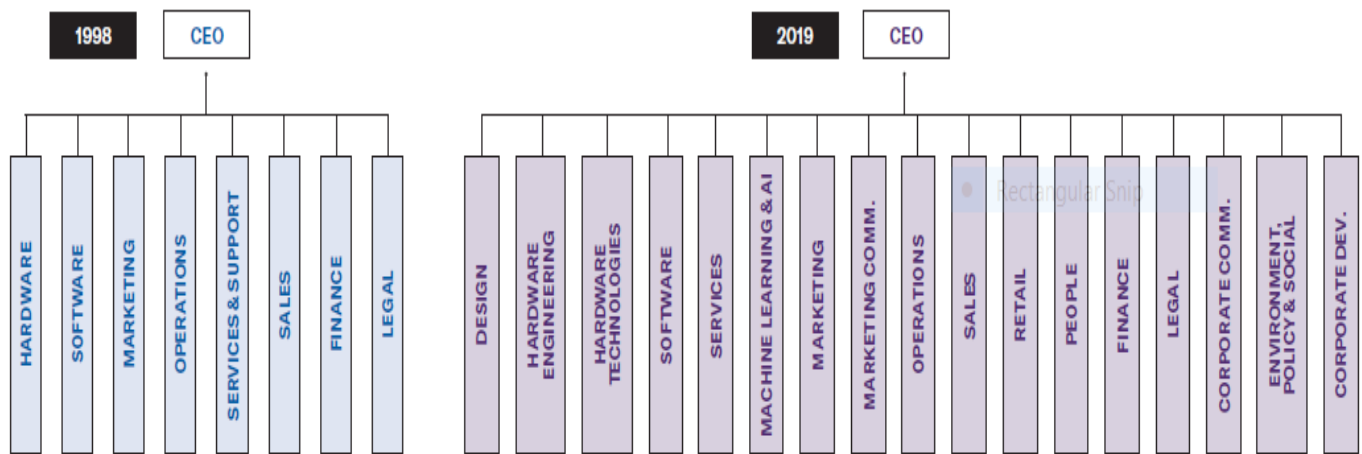
About Apple- Ethics and Compliance- Source: <https://www.apple.com/compliance/>



Supplier Responsibility 2020 Progress Report (Total: 115 pages)

(Source: https://www.apple.com/supplier-responsibility/pdf/Apple_SR_2020_Progress_Report.pdf)

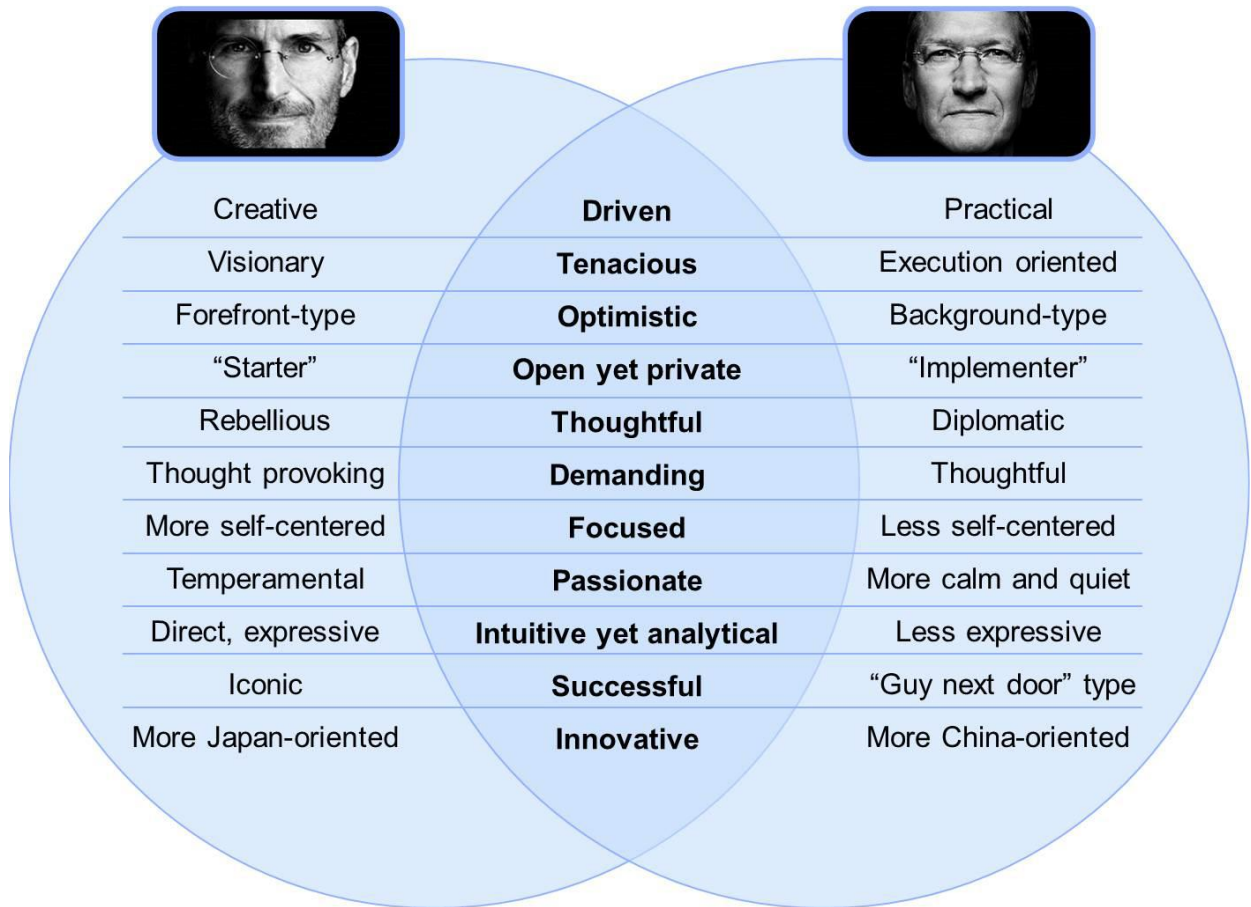
Exhibit 5: Apple Functional Organization (see p. 20)



Note: In 1997, when Steve Jobs returned to Apple, it had a conventional structure for its size and scope. It was divided into business units, each with its own P&L responsibilities. After retaking the helm, Jobs put the entire company under one P&L and combined the disparate departments of the business units into one functional organization that aligns expertise with decision rights—a structure Apple retains to this day.

(Source: Podolny Joel M & Hansen Morten T. (Nov- Dec 2020), Harvard Business Review: How Apple is organized for Innovation, p.86-96)

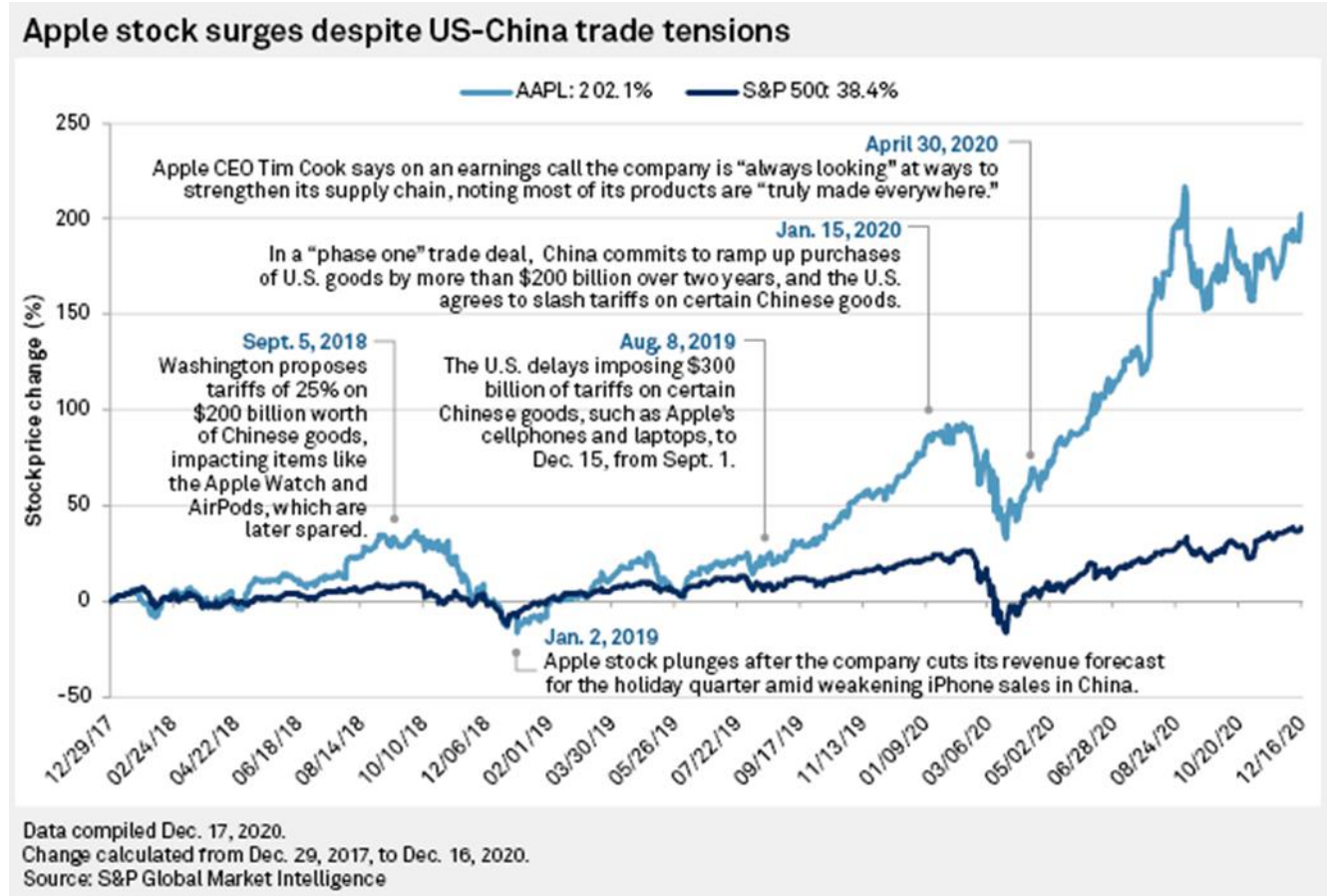
Exhibit 6: Comparison of Steve Jobs and Tim Cook's Leadership Styles (see p.20)



This exhibit summarized a Venn Diagram that showed typical "Jobs" characteristics on the left and "Cook" characteristics on the right and their overlapping characteristics in bold in the middle. This diagram is extracted from a thesis and is very helpful for our basic understanding of the character traits of both leaders- their similarities and differences.

(Source: Kirsten Spahr van der Hoek (2014), INSEAD Executive Master Thesis: Apple & China.) URL https://flora.insead.edu/fichiersti_wp/InseadEMCCCtheseswave13/80399.pdf

Exhibit 7: Apple Stock Surges despite US-China Trade tensions (see p.38)



(Source: Akins Anna, (6 Jan 2021) *Apple to face continued pressure to curb reliance on China under Biden – experts*. URL:<https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/apple-to-face-continued-pressure-to-curb-reliance-on-china-under-biden-8211-experts-61817634>)

Exhibit 8: Apple CEO Tim Cook apologizes for warranty issues in China (see p.40)



Apple published an open letter on 1 April 2013 from Chief Executive Tim Cook in which he formally apologized for what were described as "misunderstandings" over the company's warranty policies, and revealed new changes that aim to better serve iPhone customers. The letter posted to the company's official website in China revealed that officials are reviewing their warranty policies. He said he's aware that Apple's lack of public communication could lead to "misunderstandings," for which he offered Apple's "sincere apologies."

(Source: Apple's CEO Tim Cook apologizes for warranty issues in China, announces changes (1 April 2013) (Online). URL: <https://appleinsider.com/articles/13/04/01/apple-ceo-tim-cook-apologizes-for-warranty-issues-in-china-announces-changes>)

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