

New Product Markets...create and dominate them Apple style!

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SUMMARY

This paper describes several aspects of Apple's marketing strategy including how it makes key management decisions in new product development, new markets, customer loyalty and others. Read this to gain an understanding of Apple's truly unique competitive strategy...how it leverages its strengths and compensates for weaknesses. A highlight of the paper is how Apple took on consumer electronics giant Sony to create a market cap that is now ten times that of Sony's.

Applying Lessons From Apple

When it comes to creating and dominating new markets you can learn a lot from how Apple took on Sony...and won. Here's the Apple story, told from a strategic marketing viewpoint.

Apple's Turning Point



In 1997 Apple was in a shambles. That was the year Michael Dell, riding the coattails of a brilliant distribution strategy and booming laptop sales, stated that if ran Apple he'd shut it down and return the money to the shareholders.

In 1997 Sony owned, by far, the best reputation for consumer electronics innovations. Sony had the product, marketing and engineering talent as evidenced by a legacy of runaway consumer electronics successes. It was already in the PC market as well as the entertainment and content markets via Sony Entertainment. Sony had second-to-none global distribution and its marketing and advertising were simply brilliant.

In 1997 two entirely unrelated events were taking place. The Asian financial crisis was in full bloom and Steve Jobs was returning to lead Apple, via Apple's NeXT acquisition, following a 12-year absence from the company he had co-founded and was now floundering. Apple noticed the strategic implications of the downward spiraling Japanese economy and how they would affect the darling of the branded consumer products world: Sony.

SONY

In Jobs-esque fashion he flung Apple's corporate doors wide open to innovative strategic thinking and brilliant execution. He rewarded it with programs like Apple Fellows. In addition Jobs did what few CEOs are able to do...nurture innovation toward a clear stretch goal. In Apple's case the goal was creating and dominating a profitable segment of consumer

electronics products and related businesses while consigning the rest to hopelessly entrenched competitors like Sony.

Since Jobs' return, Apple has broken through conventional thinking time and again, creating and sustaining eye-popping value for consumers around the globe. Here's just a smattering of brilliant marketing moves, which any company can replicate in any industry. These moves transformed Apple into what Fortune magazine tells us was the world's most admired company in 2010. Just like it was in 2009 and 2008.

iPad 2



Apple's Product Strategy

From a strategy standpoint, Apple noticed that Sony could not decouple its innovation engine from its freight train of legacy products because it was forced to deliver incremental innovations to continue selling money losing products like TVs, CD players and others just to retain distribution and manufacturing volume. Sound familiar?

At that time, the big box retailers mandated that consumer electronics manufacturers carry a wide and varied product line for retail differentiation plus step-up and add-on sales. The ensuing product line complexity was like a cancer, constantly eating away profits from volume-addicted manufacturers like Sony, Philips, Thompson and others. All of these publicly traded companies were hugely volume dependent and any loss of significant distribution would cause those business models to collapse. Jack Welch recognized these money-losing handcuffs early on and exited consumer electronics.

In addition, as the Japanese economy continued to spiral downward, Sony was becoming more entrenched and bureaucratic, which put it at a competitive disadvantage for addressing any new trends.

The iMac: Visualizing The Implication of New Trends

Recognizing the trends, even when your competitors don't, is just the first step. With few exceptions it takes creativity to visualize what the trends



imply for an industry or a target market. After that it takes concentration and carefully applied effort to create profits from those implications. Apple's secret sauce was its ability to think through the implications of trends that anyone could have seen at the time.

Specifically, Apple noticed that no other competitor was addressing the product reliability problems created from mashing up hardware, software and operating systems

from separate companies to create a PC or laptop.

With a keen view toward making creativity simpler for innovative users Apple built a moat around its new iMac by becoming the only PC manufacturer with homegrown hardware, software and operating systems. The iMac was introduced in 1998 and the OS X platform in 2001. Then Apple went to work on profitable product line extensions and profitable satellite businesses that orbited around the iMac.

A key trend that Apple noticed was a growing preference for personalization and that the microchip, data storage and entertainment industries were running parallel with it. The company responded by introducing the i-brand strategy. Apple introduced the iPod and the Apple Store in 2001. iTunes followed in 2003. The Apple Store ushered in a whole new build-to-order manufacturing strategy and other profit improvement platforms. At the center, still, was the iMac.

Addressing New Trends in Media Creation

After introducing the iMac Apple noticed a growing trend in consumer do-it-yourself audio and video production. The company introduced iMovie in 1999, followed by Garage Band and iPhoto in 2002. All three were optimized by the iMac.

Apple also noticed that technology trends were mashing up PCs, laptops, and mobile and consumer electronics. The iPhone and Apple TV were introduced in 2007. Apple also noticed the potential for mobile computing and introduced the App Store in 2008 and the iPad in 2010. Again, all orbited around the iMac.

Customer Loyalty: Creating The Apple Tribe

At a time when Sony was making missteps in marketing and advertising, Apple began hitting home runs. On top of one product success after another Apple continuously grew its tribe by:

- Partnering with archenemy and brand powerhouse Microsoft to introduce Microsoft Office for Macintosh and to allow Microsoft to invest \$150 million in non-voting Apple stock.

- Partnering with global chip brand powerhouse Intel. By 2006 the entire Mac product line had transitioned to Intel microprocessors.
- Partnering with major peripheral, photography, entertainment and software companies to make products iMac compatible.
- Nurturing the Mac tribe's fanaticism with conferences, Mac User Groups and other ways to bond the ever-growing group of loyalists with each other and the company.
- Creating clever advertising that continuously positions the company as anti-mainstream, appealing to Apple's target market of early adopters, innovators and mainstream defectors.



Fortune Names Apple World's Most Admired Company

It would seem that Sony should have invented the iMac, the iPod and the juggernaut of innovative products and distribution. Since that time Sony has reinvented itself and had several

successes. However it still plays a distant second fiddle to Apple. Apple's market cap is ten times that of Sony's.

Sony is a great example of a hugely popular company that had it all but was either handcuffed by product strategy or was too distracted by the noise to pay attention to the trends and the trend drivers.

Today, even though Apple's revenue is less, its market cap is larger than Walmart's and Microsoft's. This tells us that investors are pouring big money into innovation, not size.

Apple keeps on hitting the long ball. Apple employees thrive in the company's rare culture of trends driven strategy and brilliant innovation in products and distribution.

The result is that Apple has an innovative, focused business model that eagerly seeks out trends, understands them and responds to them rapidly. For the near future this will practically guarantee a continual new stream of innovative new products, markets, partnerships, distribution and more.

Investors see this and are betting money on Apple's ability to continue to create new markets. The return has been healthy.

About the author:

[Mike Harris](#) is the founder of [Harris Consulting LLC](#) and is an expert in resolving challenging marketing situations. He has served as the top marketing and business development executive for companies or divisions in consumer electronics, software, data storage/networking and others with revenues up to \$120 million. He has also served as a corporate officer and head of investor relations for NASDAQ:NM companies. He is a former management consultant with PriceWaterhouse Coopers.

Mike holds a B.S. from the University of Tennessee and an MBA in Marketing and Finance from Vanderbilt University. He is a frequent guest lecturer at the Rady School of Management at UCSD, where he is also a student mentor.

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