



# The Consumer Products Industry



# Executive Summary

- ▶ **Computer Hardware Industry**
  - ▶ **Computers & Media Are Converging**
  - ▶ **To thrive, companies must diversify their product lines and continually innovate to remain competitive**
- ▶ **Apple**
  - ▶ **Apple is making a comeback**
  - ▶ **The iPod is a runaway success**

**Can Apple Capitalize & Overcome Their Own Demons?**





# The Consumer Products Industry



# Consumer Products



A Broad Topic



# Consumer Products – Three Categories

## Cyclical Goods

Apparel/Accessories  
Appliance & Tool  
Audio & Video Equip.  
Auto & Truck Parts  
Footwear  
Furniture & Fixtures  
Jewelry & Silverware  
Photography  
Recreational Products  
Textiles - Non Apparel  
Tires

## Non-Cyclical Goods

Beverages (Alcoholic)  
Beverages (Non-Alcoholic)  
Crops  
Fish/Livestock  
Food Processing  
Office Supplies  
Personal & Household  
Products  
Tobacco

## Technology

Computer Hardware  
Computer Peripherals  
Computer Services  
Computer Storage  
Devices  
Software & Programming

**Area of  
Focus**

**WIDE VARIETY OF PRODUCTS CROSSING  
MULTIPLE INDUSTRY SECTORS**



# Computer Hardware Industry

## The Products

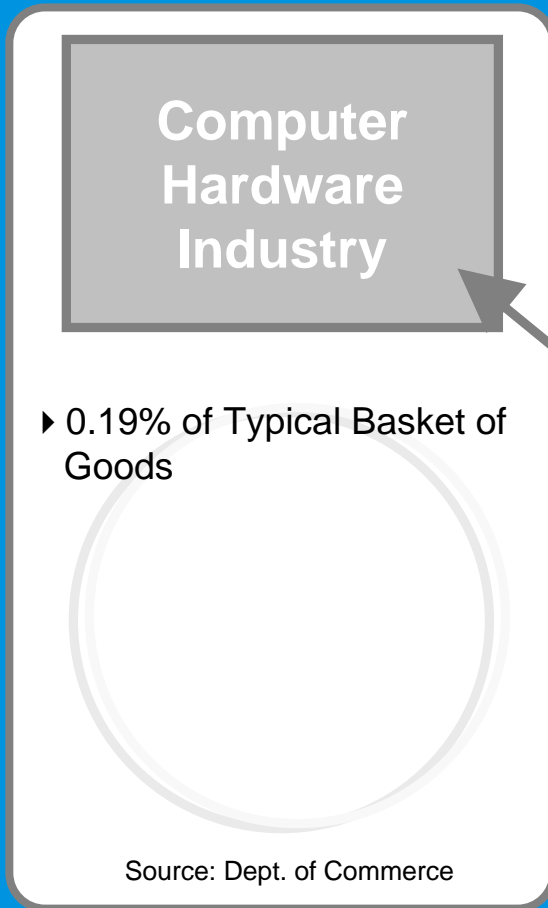
- ▶ Notebooks
- ▶ Desktops
- ▶ PDAs
- ▶ MP3 Players
- ▶ Routers
- ▶ Servers
- ▶ Storage Devices



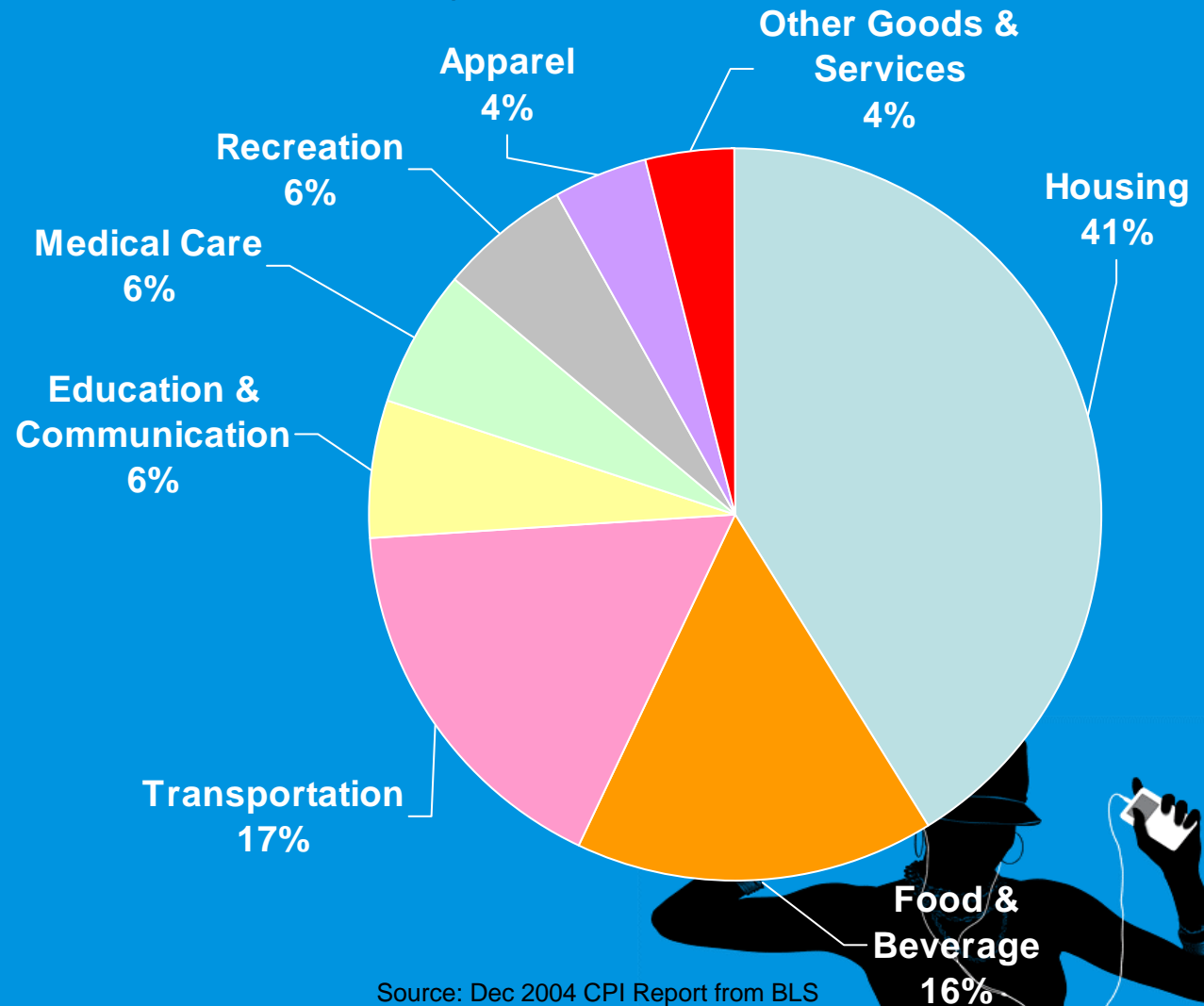
## The Players



# Computer Hardware Industry - Size



## Typical Basket of Goods



Source: Dec 2004 CPI Report from BLS

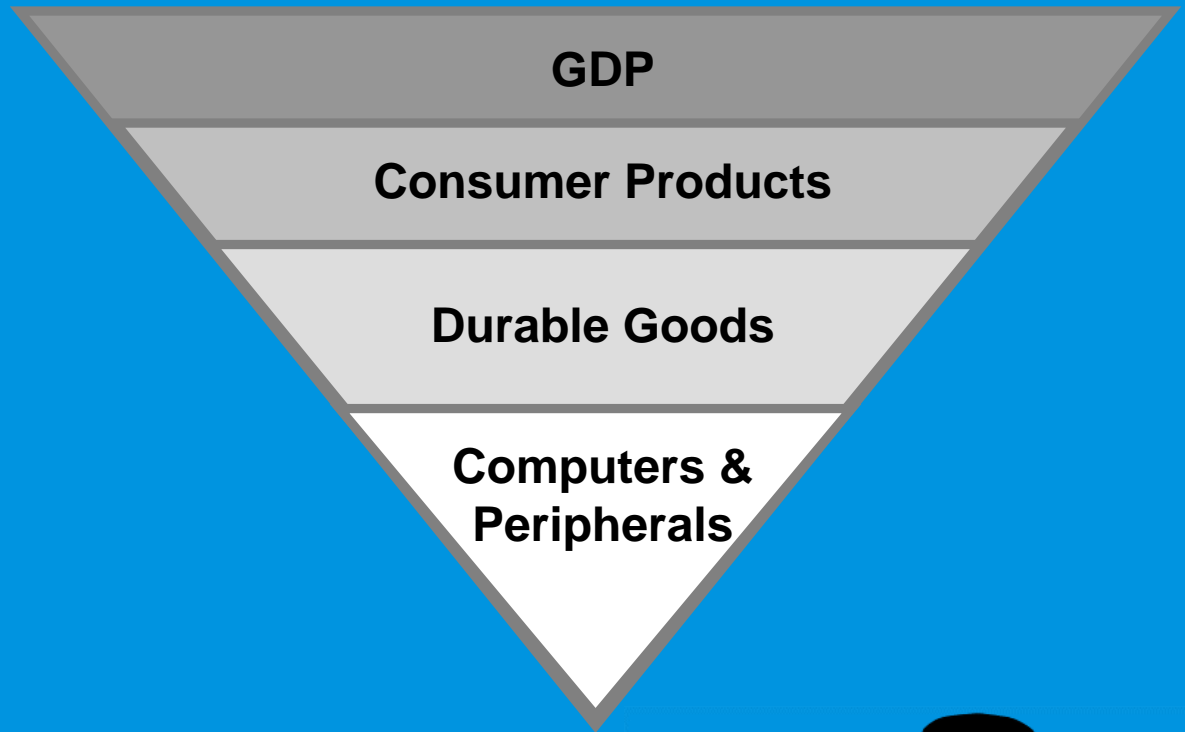


# Computer Hardware Industry - Size

## Computer Hardware Industry

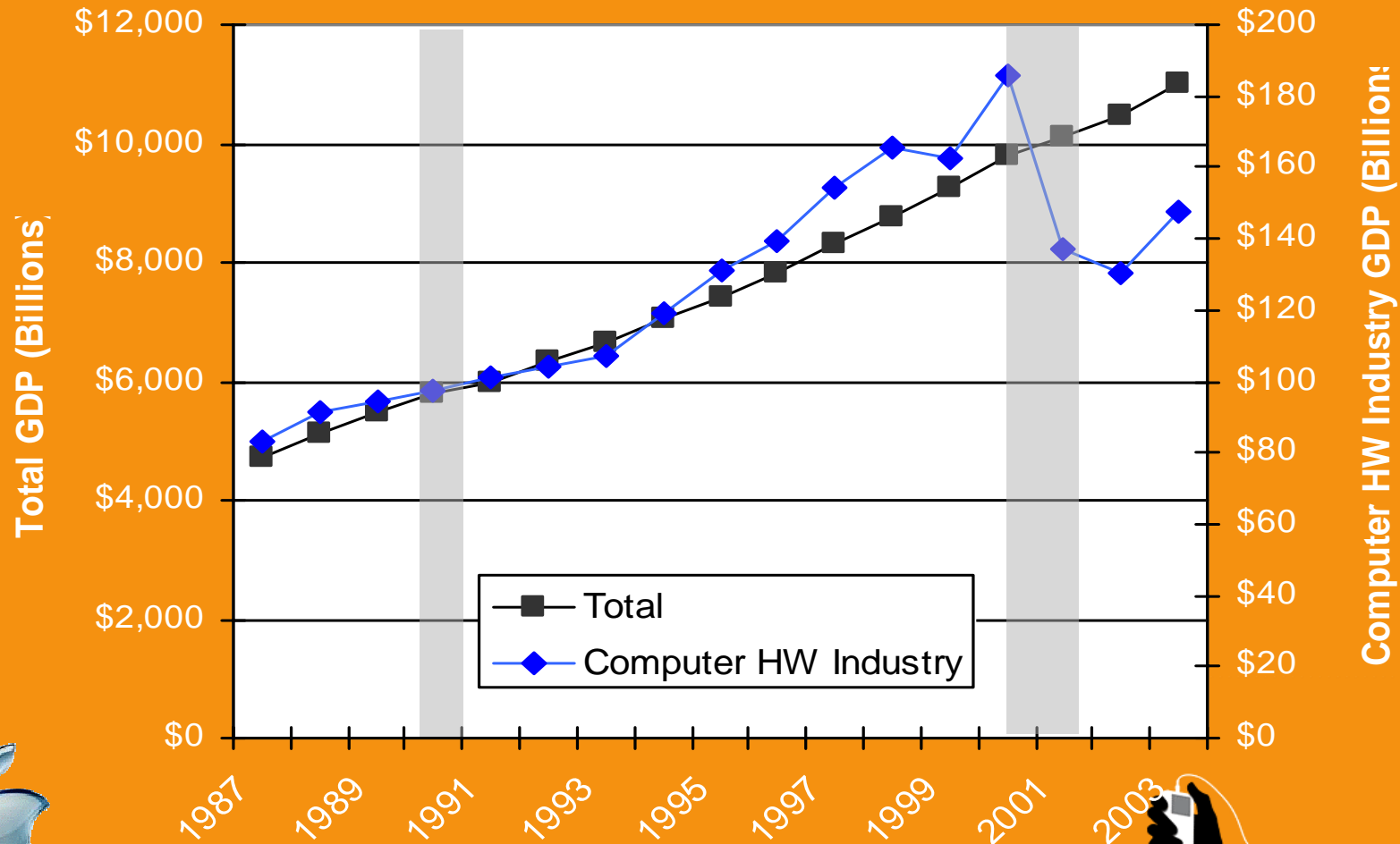
- ▶ \$147.6 Billion in 2004
- ▶ 1.3% of GDP

Source: Dept. of Commerce



# Industry Size & Growth

## GDP

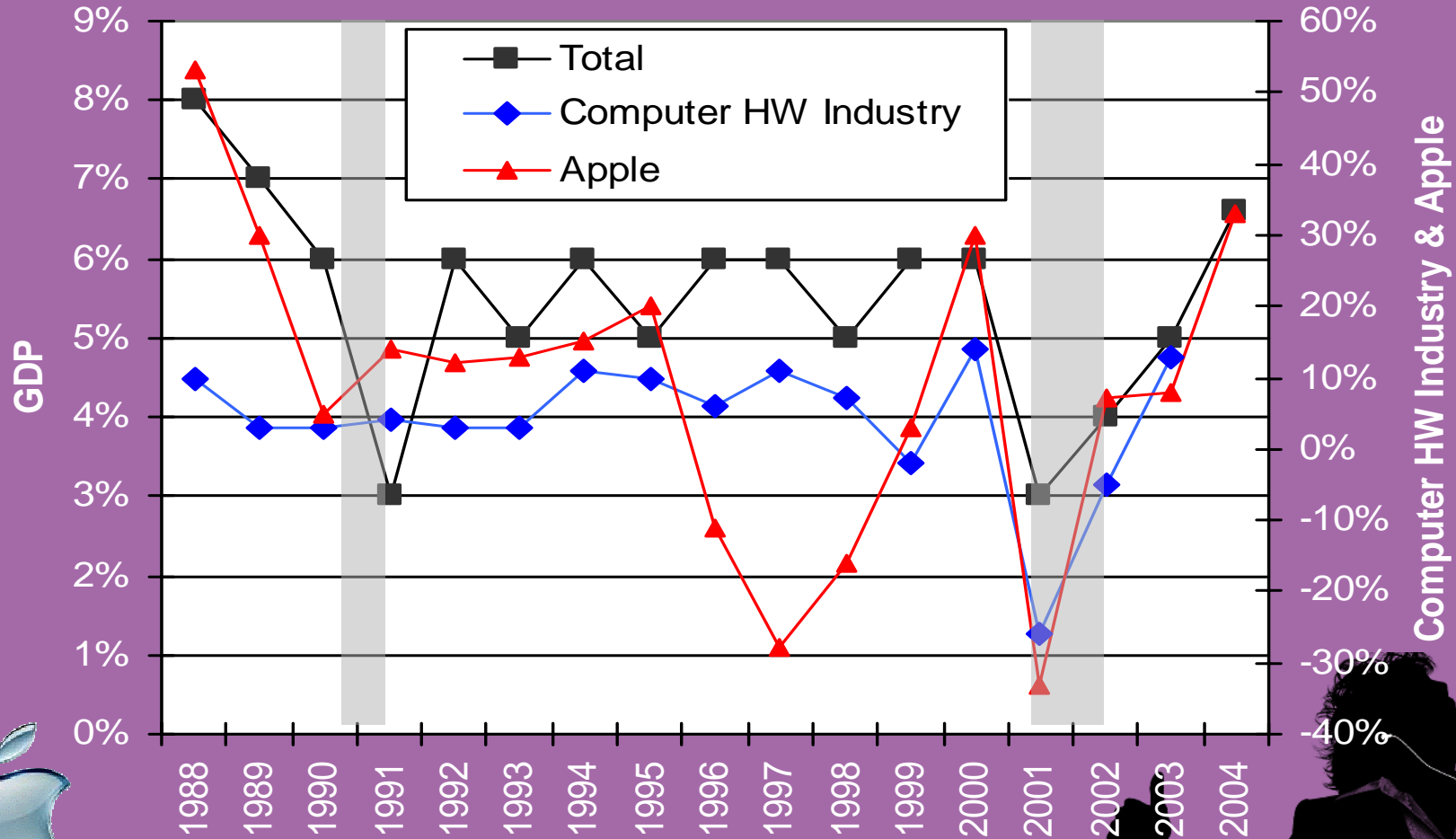


Source: Dept. of Commerce



# Industry Size & Growth

% Growth: GDP vs. Revenue

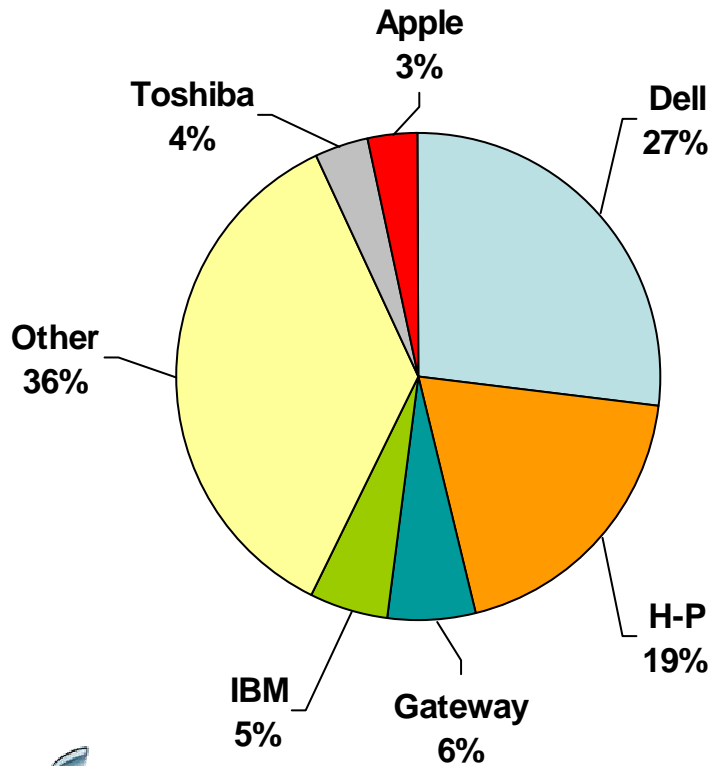


Source: Dept. of Commerce & Apple, Inc.

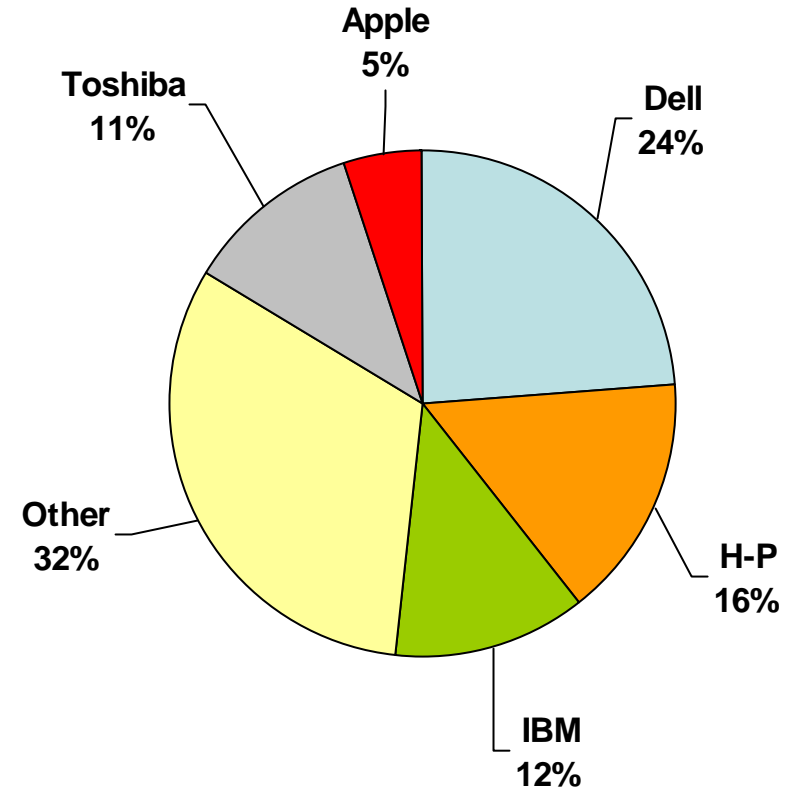


# Market Structure - Oligopoly

## Desktop Market 2002



## Notebook Market 2002

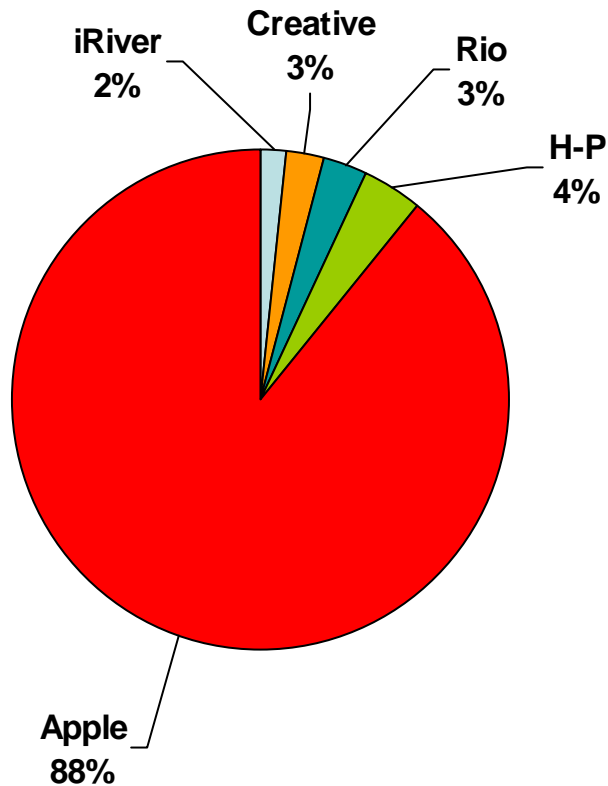


Source: U.S. Business Reporter



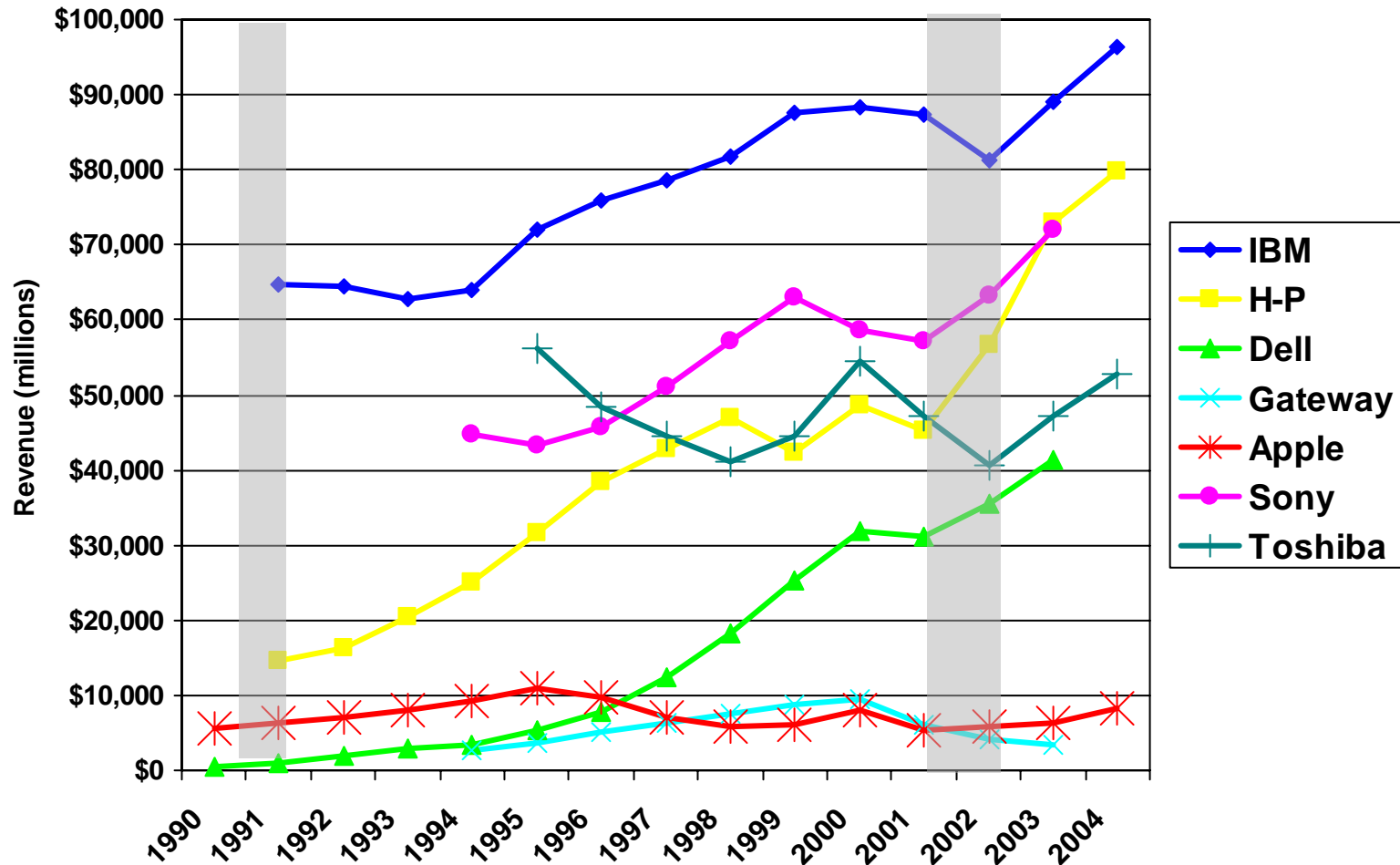
# Market Structure – Oligopoly or Monopoly?

**Hard Drive-Based Music Player Market 2004**



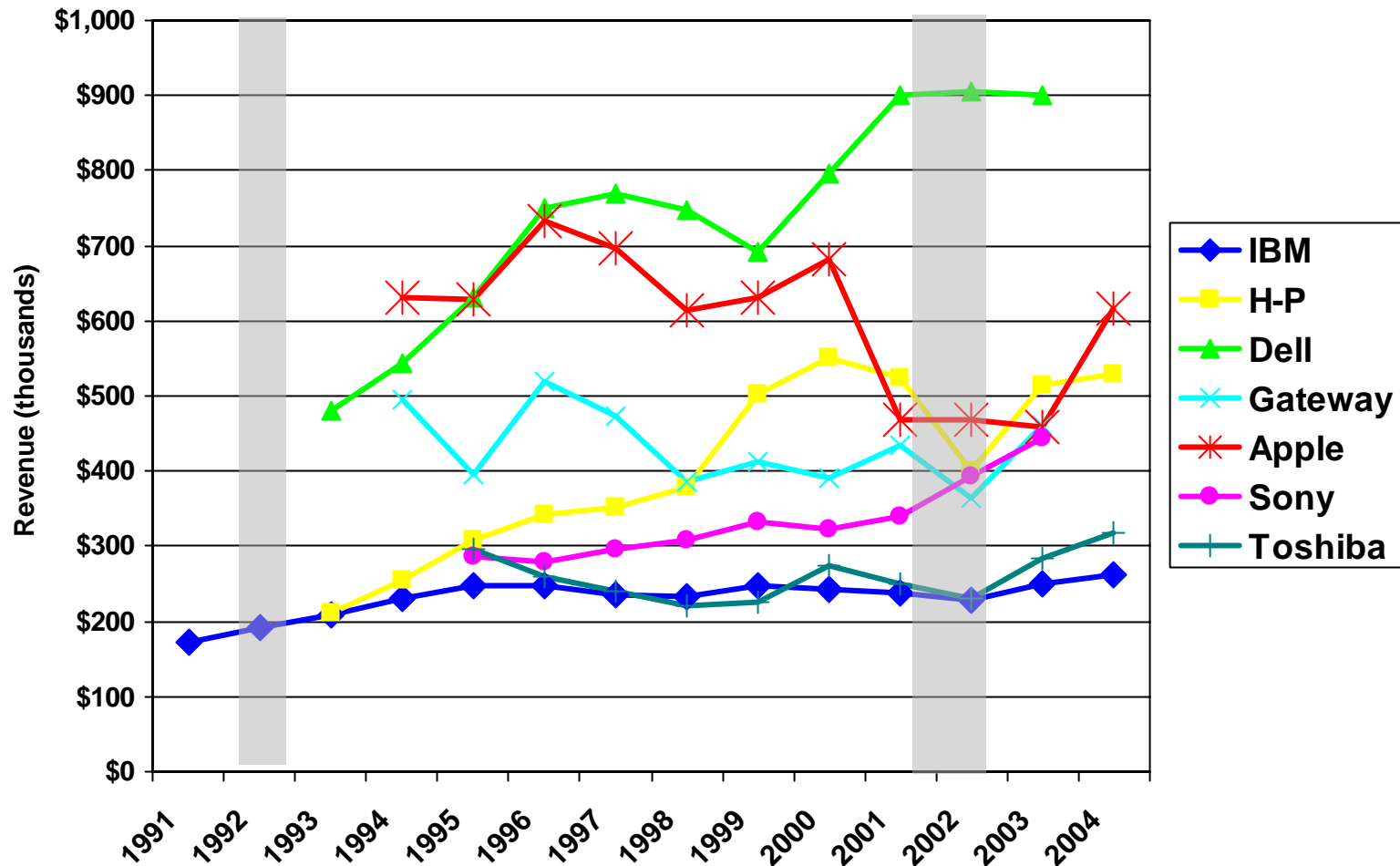
# Production & Cost Issues

## Revenues



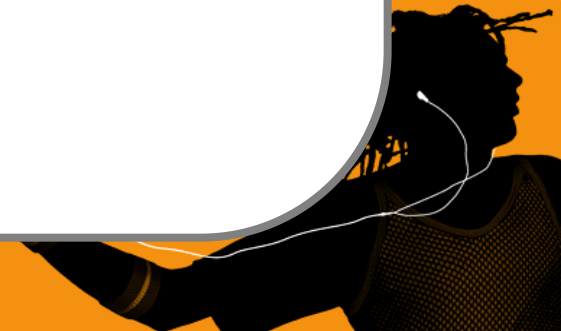
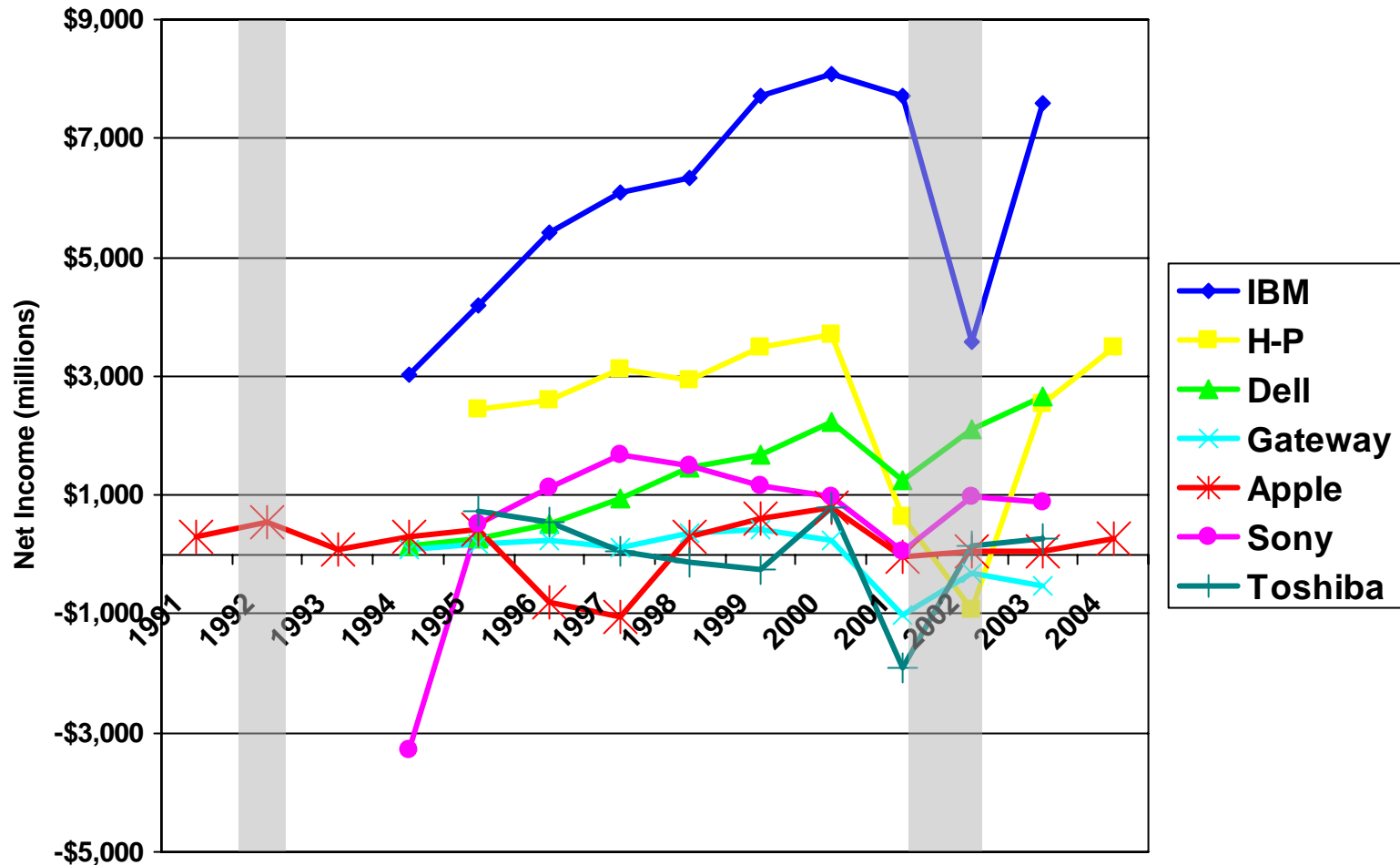
# Production & Cost Issues

## Revenues per Employee



# Production & Cost Issues

## Net Income



# Economic Factors for the Industry

- ▶ **Economic**

- ▶ **Consumer Income**
- ▶ **Consumer Confidence**
- ▶ **Government Spending**

- ▶ **Non-Economic**

- ▶ **Brand Image & Brand Loyalty**
- ▶ **New Technologies/Obsolescence**
- ▶ **Referral Marketing**
- ▶ **Natural Disasters, War & Terrorism**





# Apple's Background

"So we went to Atari and said, 'Hey, we've got this amazing thing, even built with some of your parts, and what do you think about funding us? Or we'll give it to you. We just want to do it. Pay our salary, we'll come work for you.' And they said, 'No.'

So then we went to Hewlett-Packard, and they said, 'Hey, we don't need you. You haven't got through college yet.'"

--Apple Computer Inc. founder Steve Jobs on attempts to get Atari and H-P interested in his and Steve Wozniak's personal computer.



# Apple's Background

## 1976 The Beginning

- ▶ Steve Wozniak creates Apple I
- ▶ Steve Jobs sees potential and insists they sell it together -- Apple is born
- ▶ Apple I is sold without monitor or keyboard (mini mac concept not new)

## 1985 -1997 The Missteps

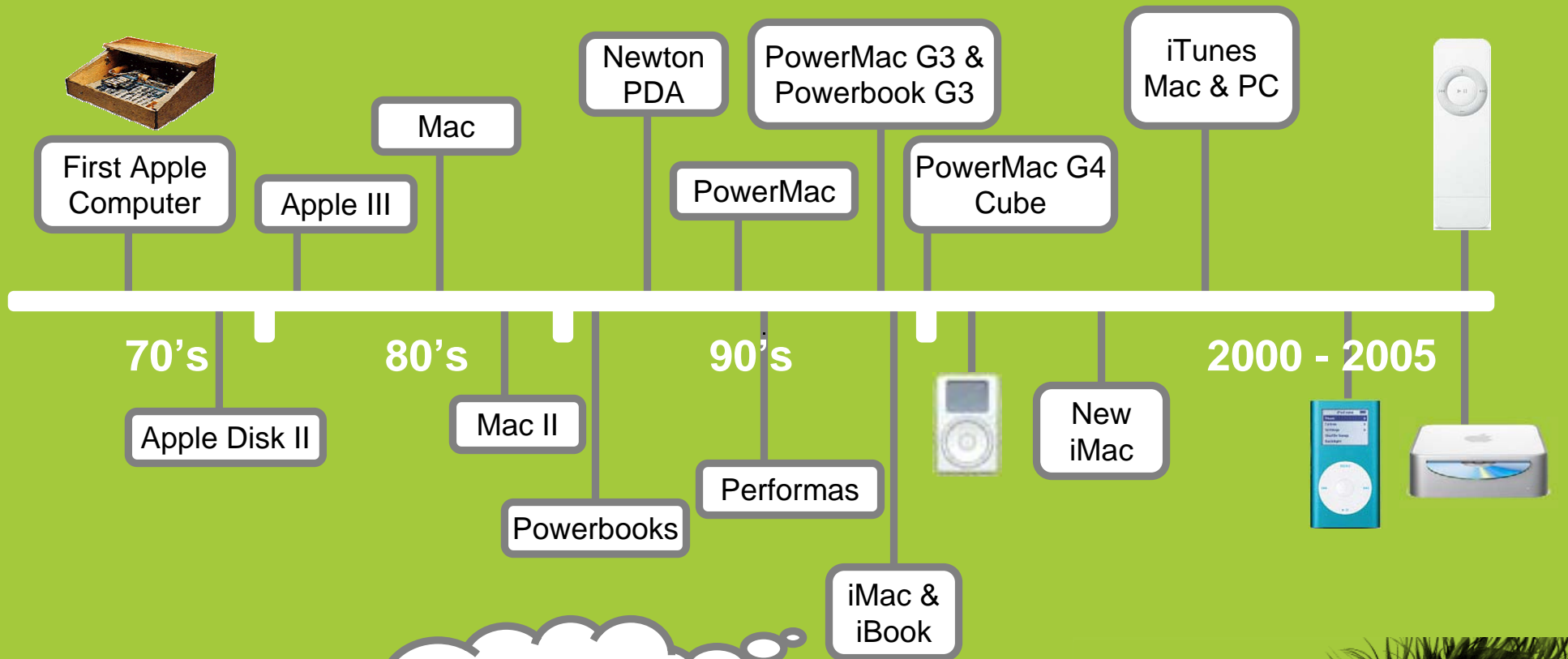
- ▶ The GUI wars and the decision not to license the Mac OS
- ▶ Leadership issues
- ▶ Supplier issues
- ▶ Left in the dust because of incompatibility
- ▶ Failed products (Performa, Lisa, Newton)

## 1997 - Present The Rebound

- ▶ Steve Jobs the CEO, take 2
- ▶ A succession of hits
  - iMac
  - iBook
  - iPod
  - iPod Mini
- ▶ Revolutionizes the Music Industry with iTunes



# Apple's History of Innovation



5 consecutive quarters of profits. Turnaround is in full swing



Source: [www.apple-history.com](http://www.apple-history.com)



# The iPod's Success Factors

## PC and MAC Compatible



## Design



## Accessories

ALTEC LANSING  
NORTH AMERICA



GRIFFIN TECHNOLOGY

MONSTER

BOSE

BELKIN.

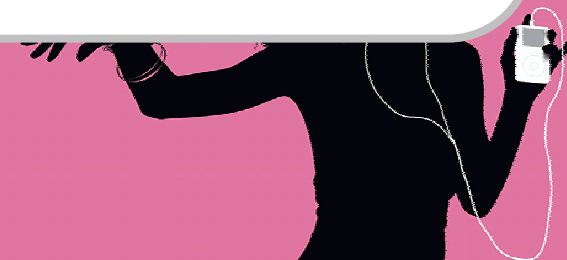
## iTunes Music Store



## Auto Integration



VOLVO



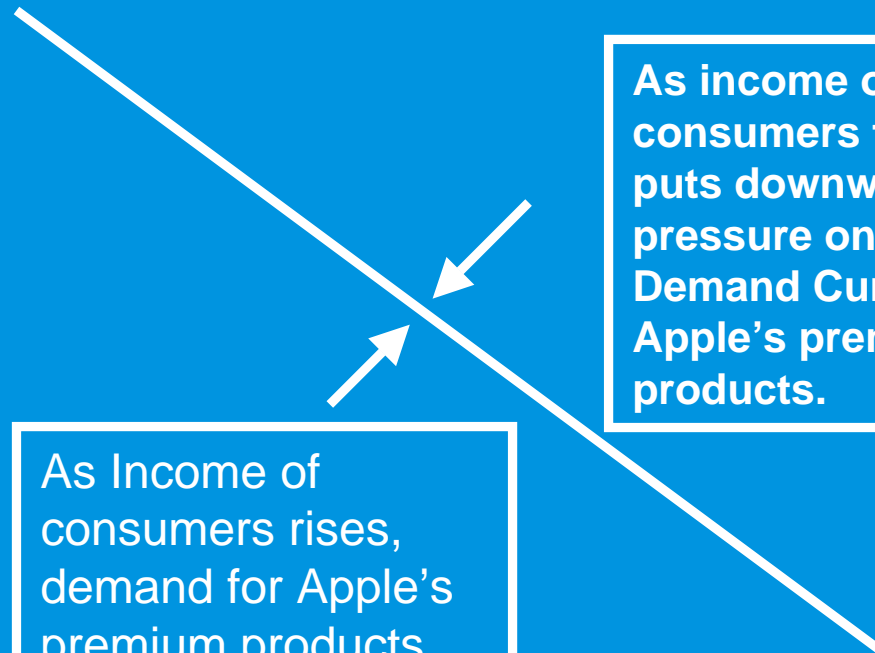
# Apple's Demand Factors - Income

## Income

- ▶ Apple's products are normal goods
- ▶ When income rises, demand for their products increases



Income



As income of consumers fall, it puts downward pressure on Demand Curve for Apple's premium products.

As Income of consumers rises, demand for Apple's premium products increases.

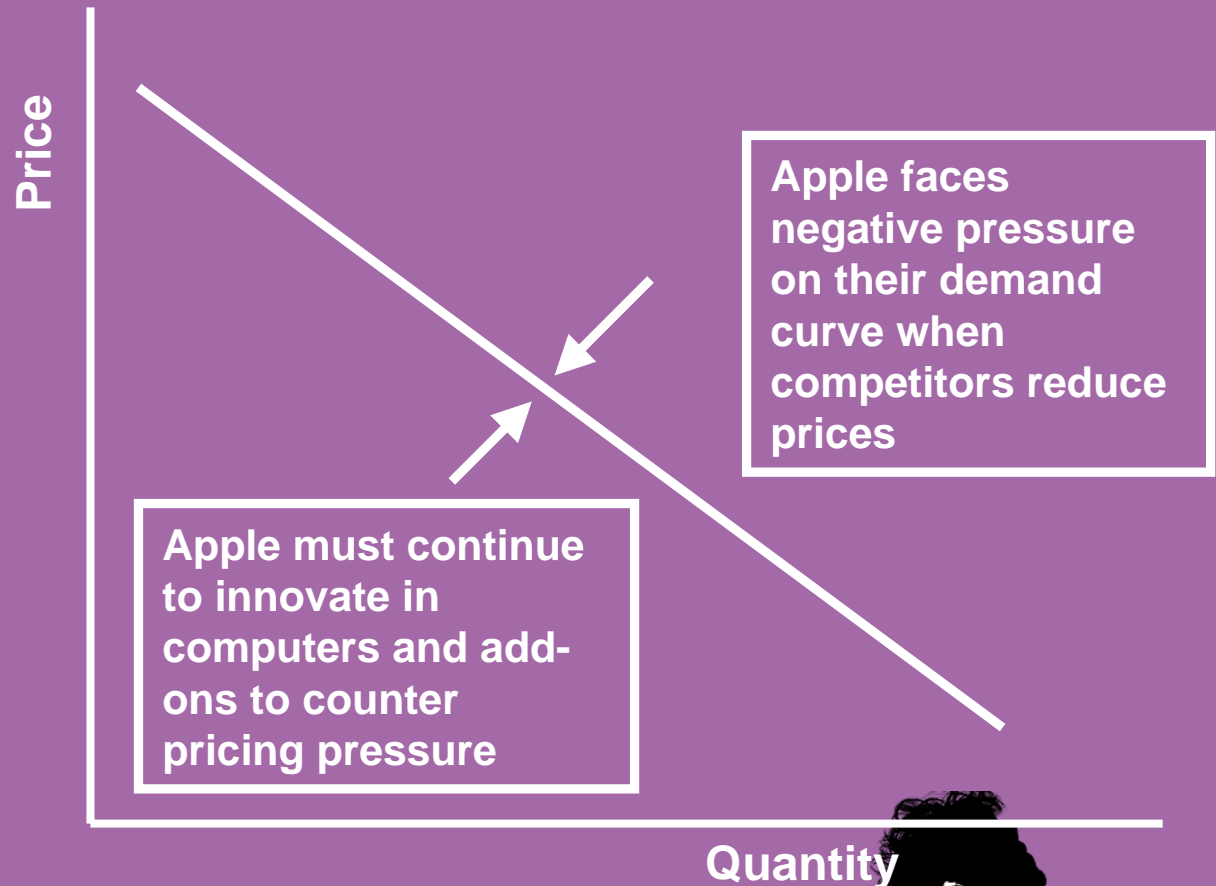
Quantity



# Apple's Demand Factors – Prices of Related Goods

## Prices of Related Goods

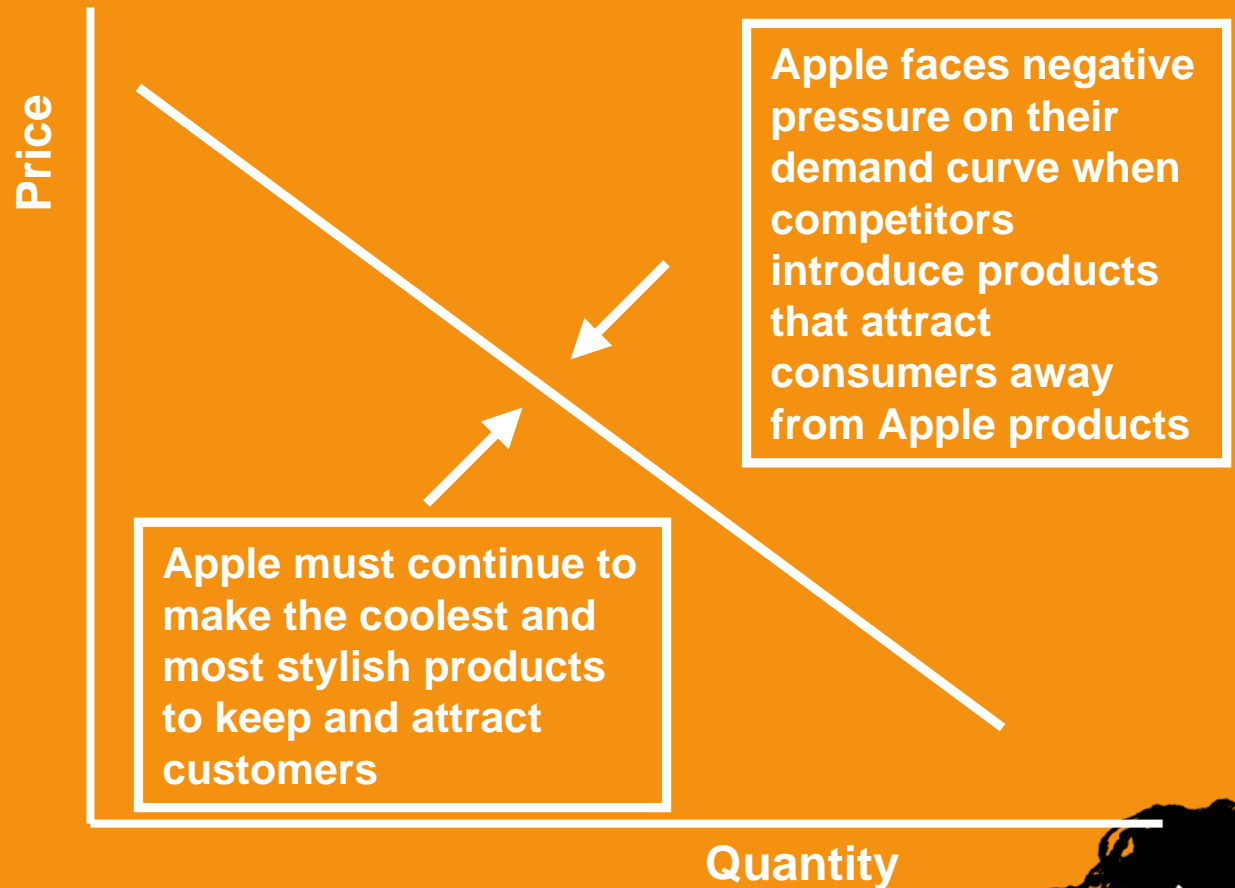
- ▶ Substitutes
  - ▶ Computers made by other manufacturers
- ▶ Complements
  - ▶ Software
  - ▶ Peripherals
  - ▶ Internet service



# Apple's Demand Factors – Taste

## Taste

- ▶ Industry leader in design and quality
- ▶ Brand image
- ▶ “Cool” factor
- ▶ “Must have” gadgets



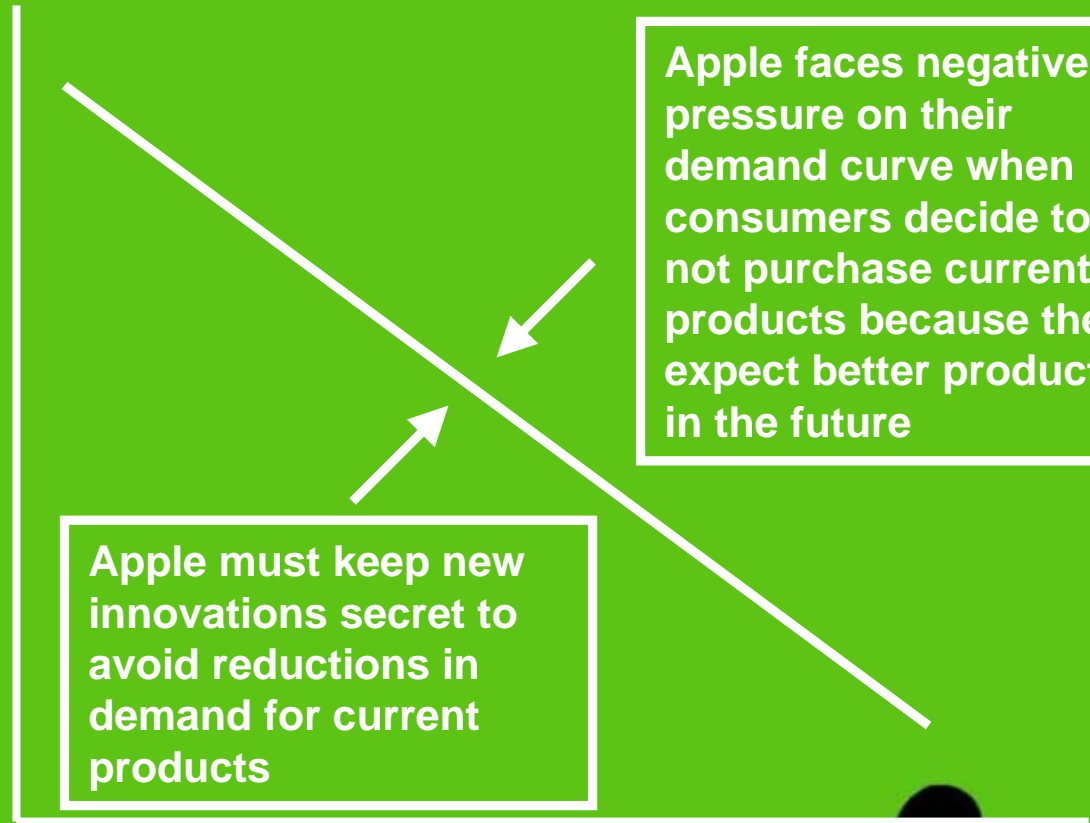
# Apple's Demand Factors – Expectations

## Expectations

- ▶ Consumers expect the coolest products from Apple
- ▶ Consumers expect to pay premiums for these products



Price



Apple faces negative pressure on their demand curve when consumers decide to not purchase current products because they expect better products in the future

Apple must keep new innovations secret to avoid reductions in demand for current products

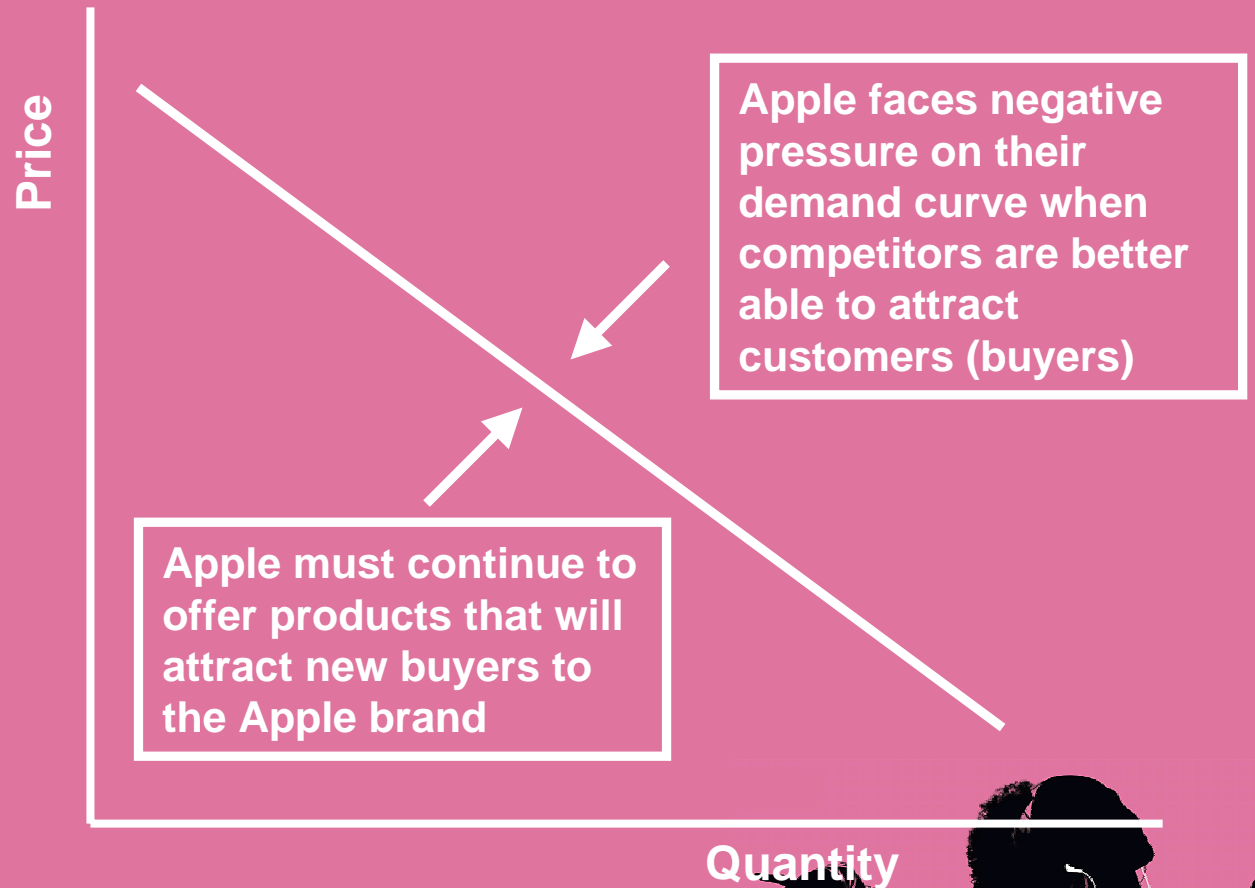
Quantity



# Apple's Demand Factors – Number of Buyers

## Number of Buyers

- ▶ Apple historically has catered to a niche market
- ▶ It now wishes to attract the mass consumer market



# Apple's Production & Cost Issues

**Quality**

**Defects in:  
Design or Manufacturing**

**=**

**Decreased Sales  
&  
Decreased Profits**

**Inventory**

**High or Low Levels of  
product components**

**=**

**Negative effects on  
Operating Results and  
Financial Condition**

**Third  
Parties**

**High reliability on third  
parties to manufacture  
and transport products**

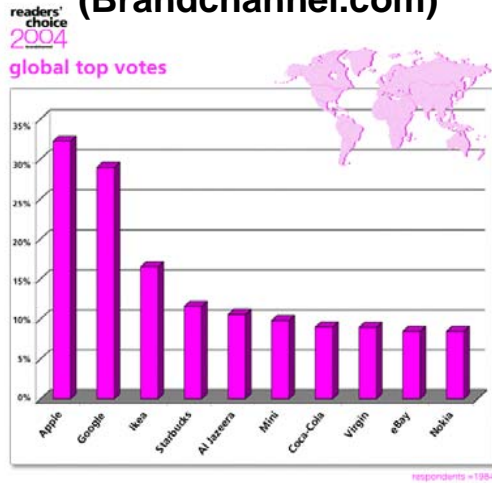
**=**

**Lots of headaches and  
potential negative  
effects on Operating  
Results and Financial  
Condition**

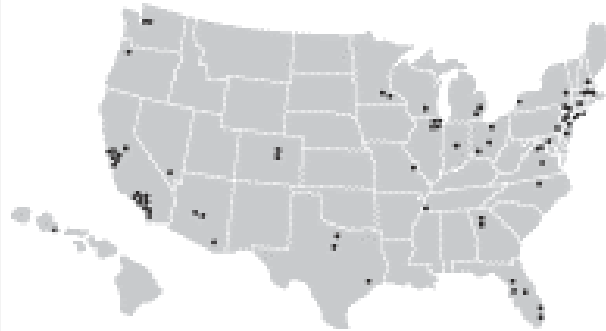


# Apple's Market Power

## Top Global Brand (Brandchannel.com)



## 98 U.S. and 4 International Retail Locations



## 21 Online stores around the world

- |                 |         |                              |
|-----------------|---------|------------------------------|
| Australia       | Austria | Belgium<br>French Flemish    |
| Canada          | Denmark | Finland                      |
| France          | Germany | Hong Kong                    |
| Ireland         | Italy   | Japan                        |
| The Netherlands | Norway  | Singapore                    |
| Spain           | Sweden  | Switzerland<br>French German |
| UK              | USA     | South Korea                  |

## Innovative Product Design



## Over 17 Strategic Partnerships

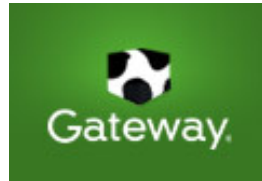


# Stiff Competition

## Computers



SONY



## Digital Music Players



ARCHOS™



SONY

## Music Download Services



# Strategies and Goals

Continue to Innovate

Maintain Digital Music Lead

Expand Distribution Network

Appeal to Mass Market

Keep Costs Low and Quality High

Leverage Designs of Hardware and Software

Invest in New Product Areas and R&D

*Apple is committed to bringing the best personal computing and music experience to students, educators, creative professionals, businesses and consumers around the world through its innovative hardware, software, peripherals and Internet offerings.*

Apple Inc., '04 Annual Report



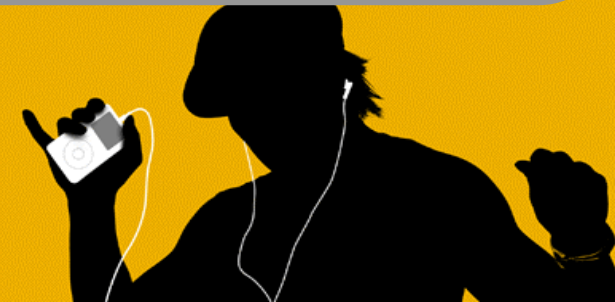


  
+  
**Economic  
Environment**

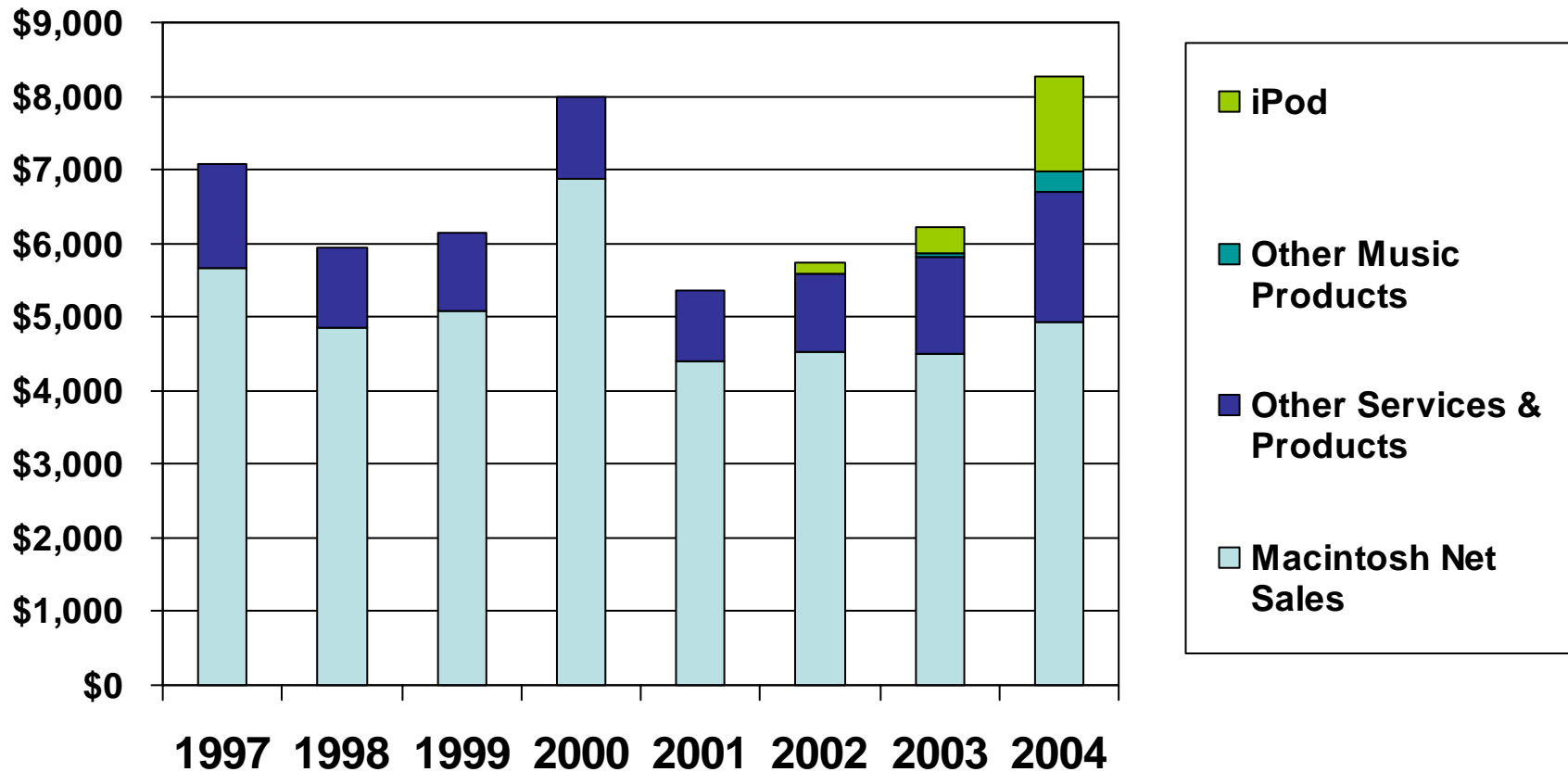


# Apple Revenues

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<b>Sales (millions)</b>								
Macintosh Net Sales	\$ 5,671	\$ 4,862	\$ 5,082	\$ 6,885	\$ 4,403	\$ 4,534	\$ 4,491	\$ 4,923
iPod	-	-	-	-	-	143	345	1,306
Other Music Products	-	-	-	-	-	4	36	278
Other Services & Products	1,410	1,079	1,052	1,098	960	1,061	1,335	1,772
<b>Total</b>	<b>\$ 7,081</b>	<b>\$ 5,941</b>	<b>\$ 6,134</b>	<b>\$ 7,983</b>	<b>\$ 5,363</b>	<b>\$ 5,742</b>	<b>\$ 6,207</b>	<b>\$ 8,279</b>
<b>Units (thousands)</b>								
Macintosh Net Sales	2,874	2,763	3,448	4,558	3,087	3,101	3,012	3,290
iPod	-	-	-	-	-	381	939	4,416
<b>Avg Sales Price</b>								
Macintosh Net Sales	\$ 1,973	\$ 1,760	\$ 1,474	\$ 1,511	\$ 1,426	\$ 1,462	\$ 1,491	\$ 1,496
iPod	n/a	n/a	n/a	n/a	n/a	\$ 375	\$ 367	\$ 296
<b>Gross Margin</b>	19%	25%	28%	27%	23%	28%	28%	27%



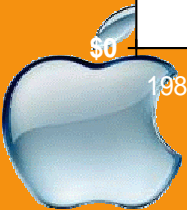
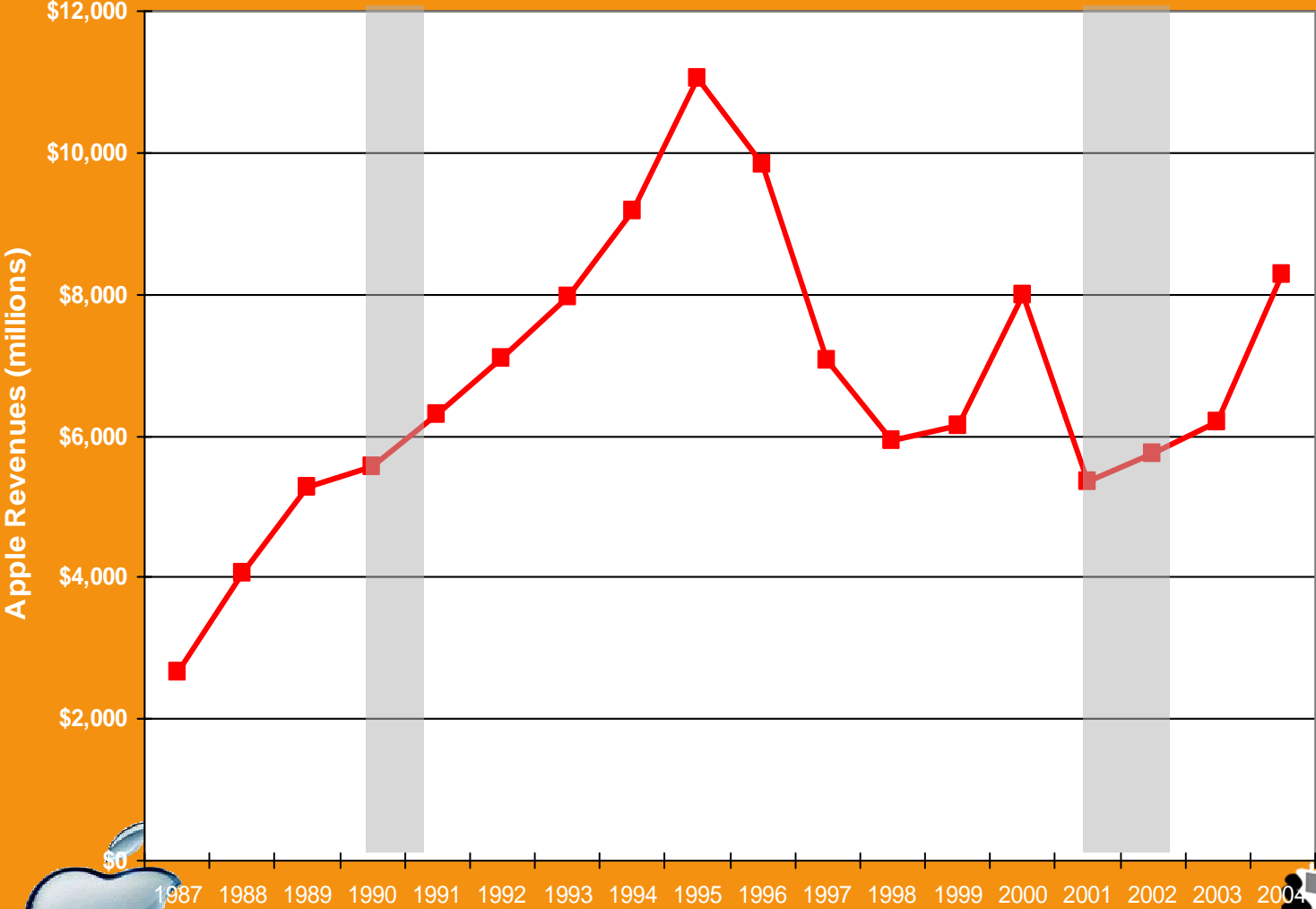
# Apple Revenues



Source: Apple, Inc.



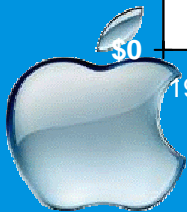
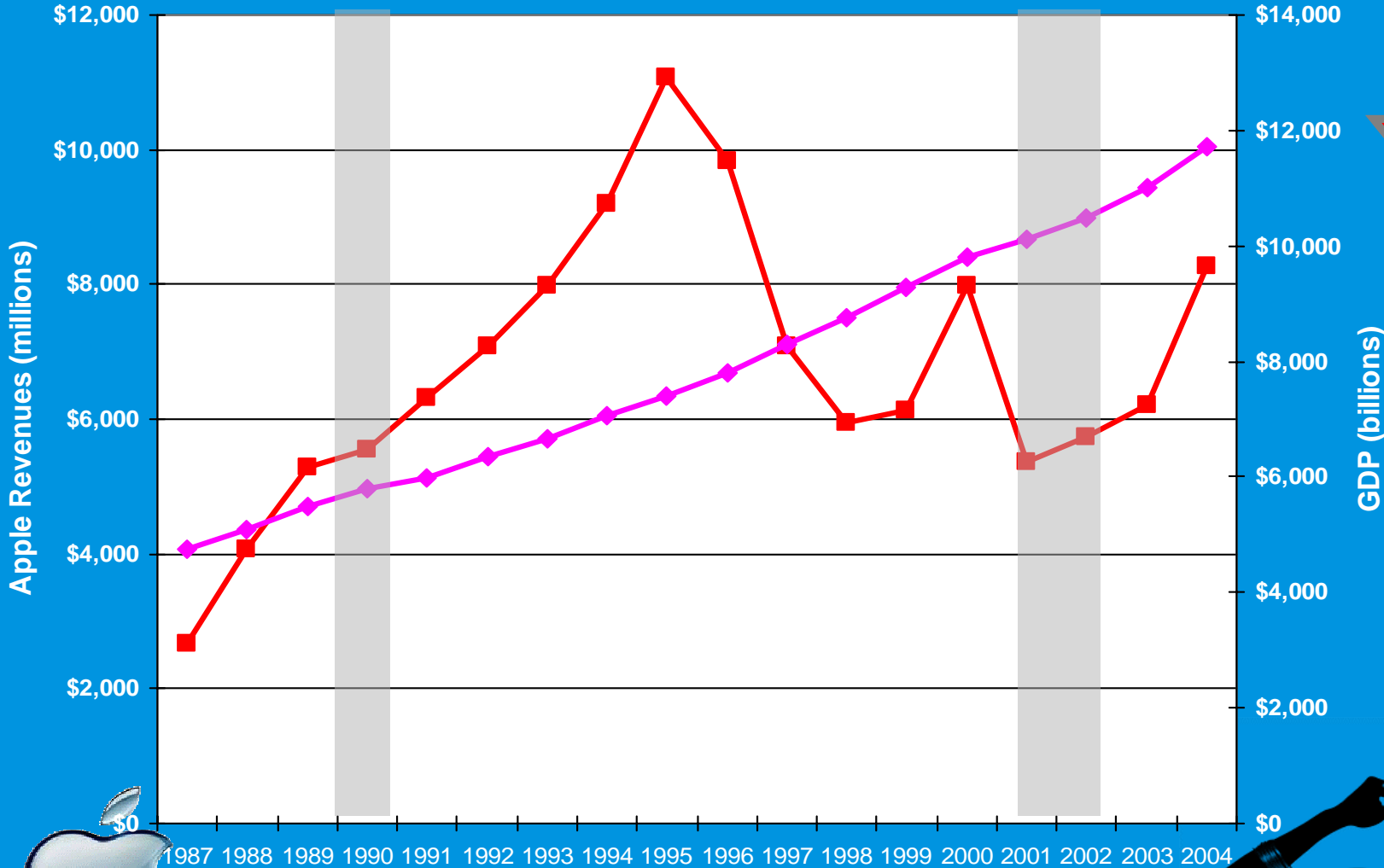
# Apple Revenues



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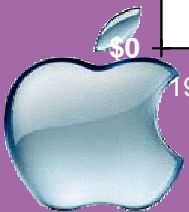
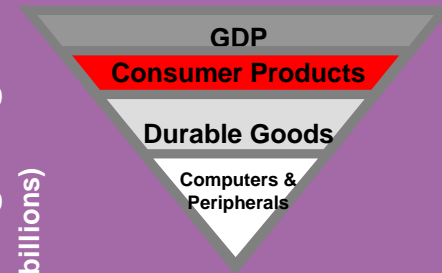
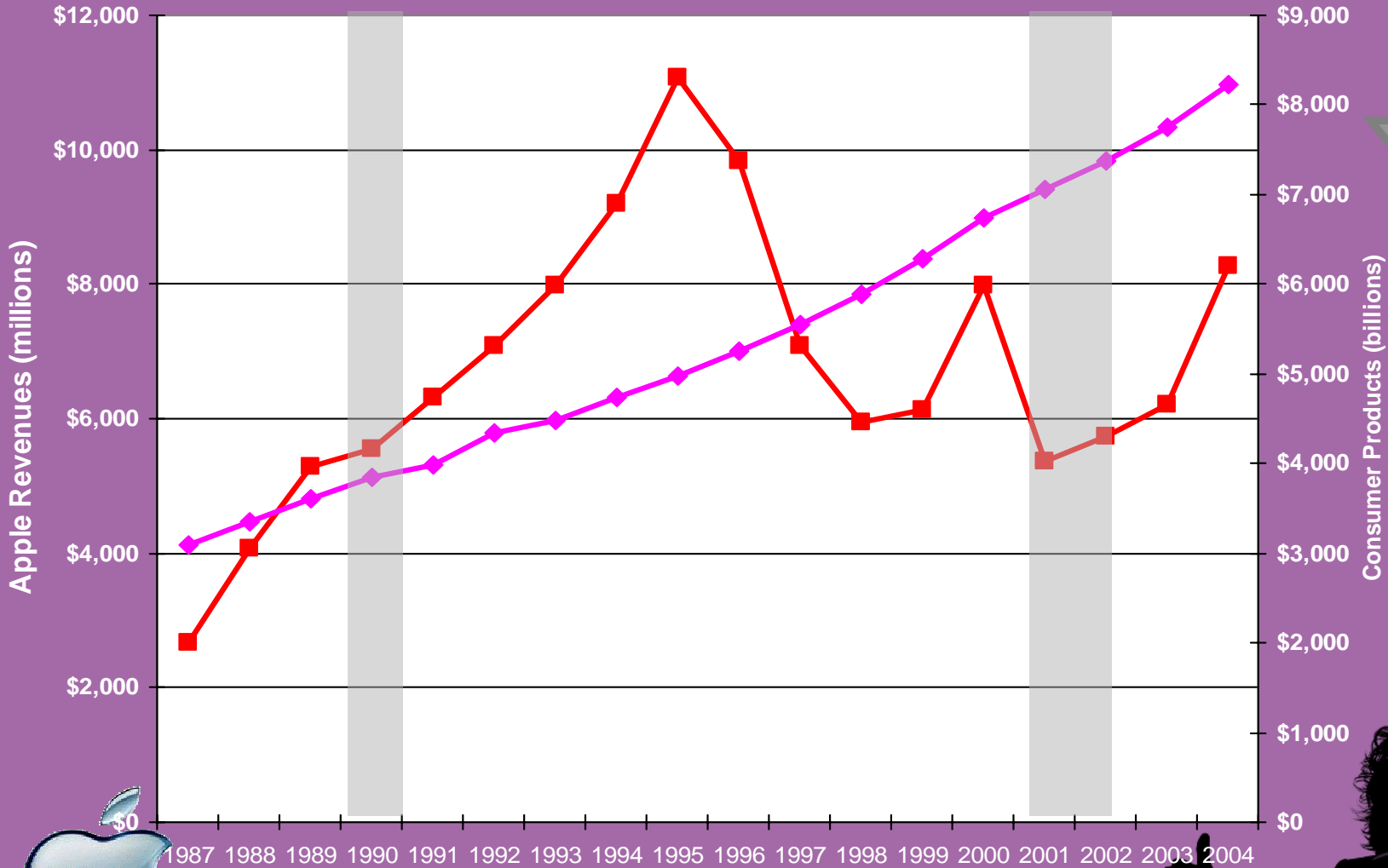
# Apple vs. GDP



Source: Dept. of Commerce & Apple, Inc.

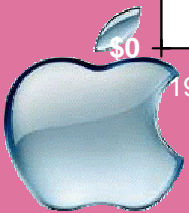
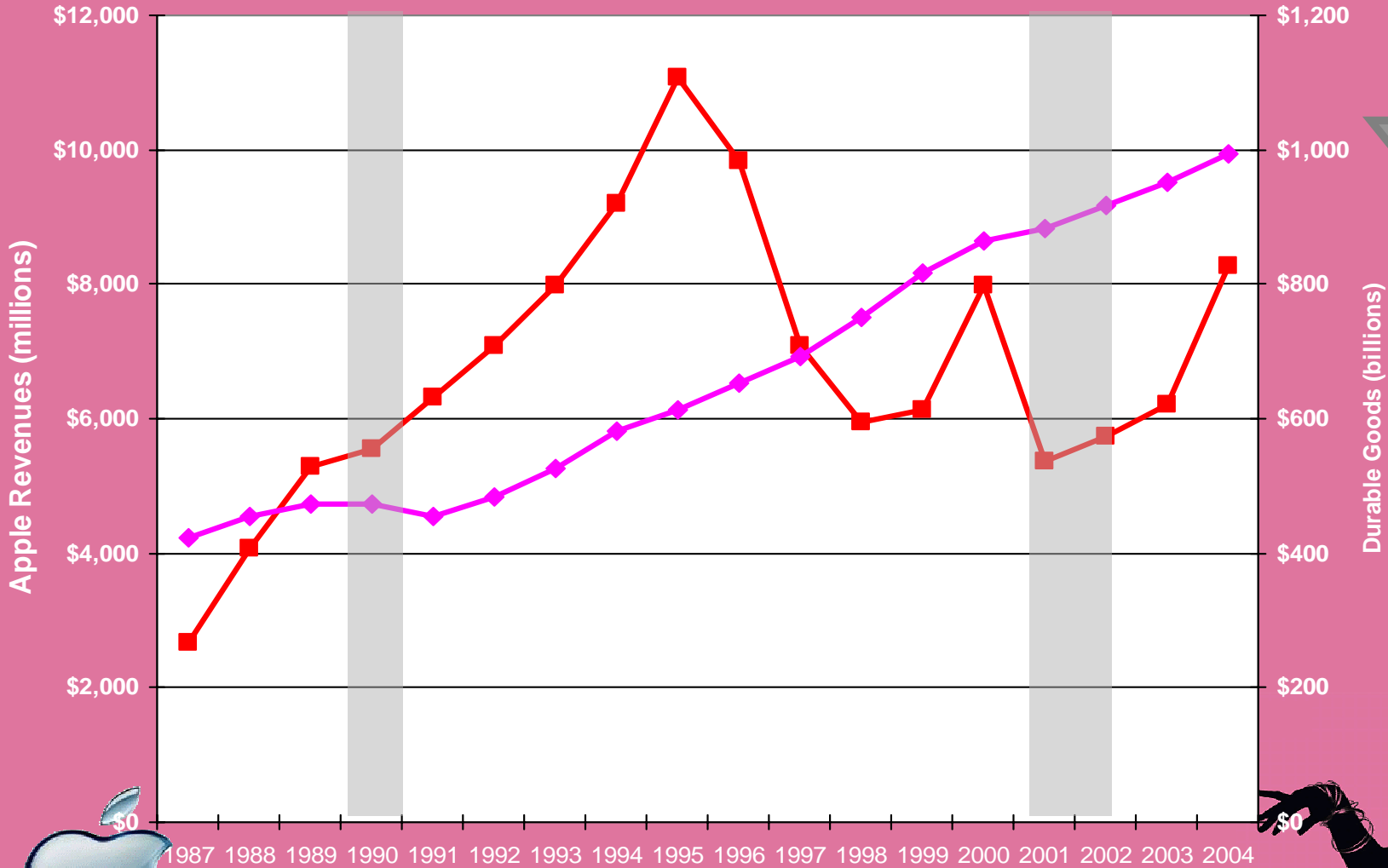


# Apple vs. Consumer Products



Source: Dept. of Commerce & Apple, Inc.

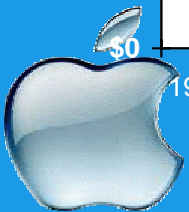
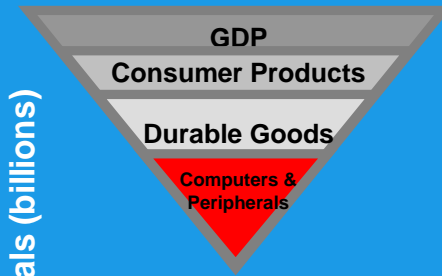
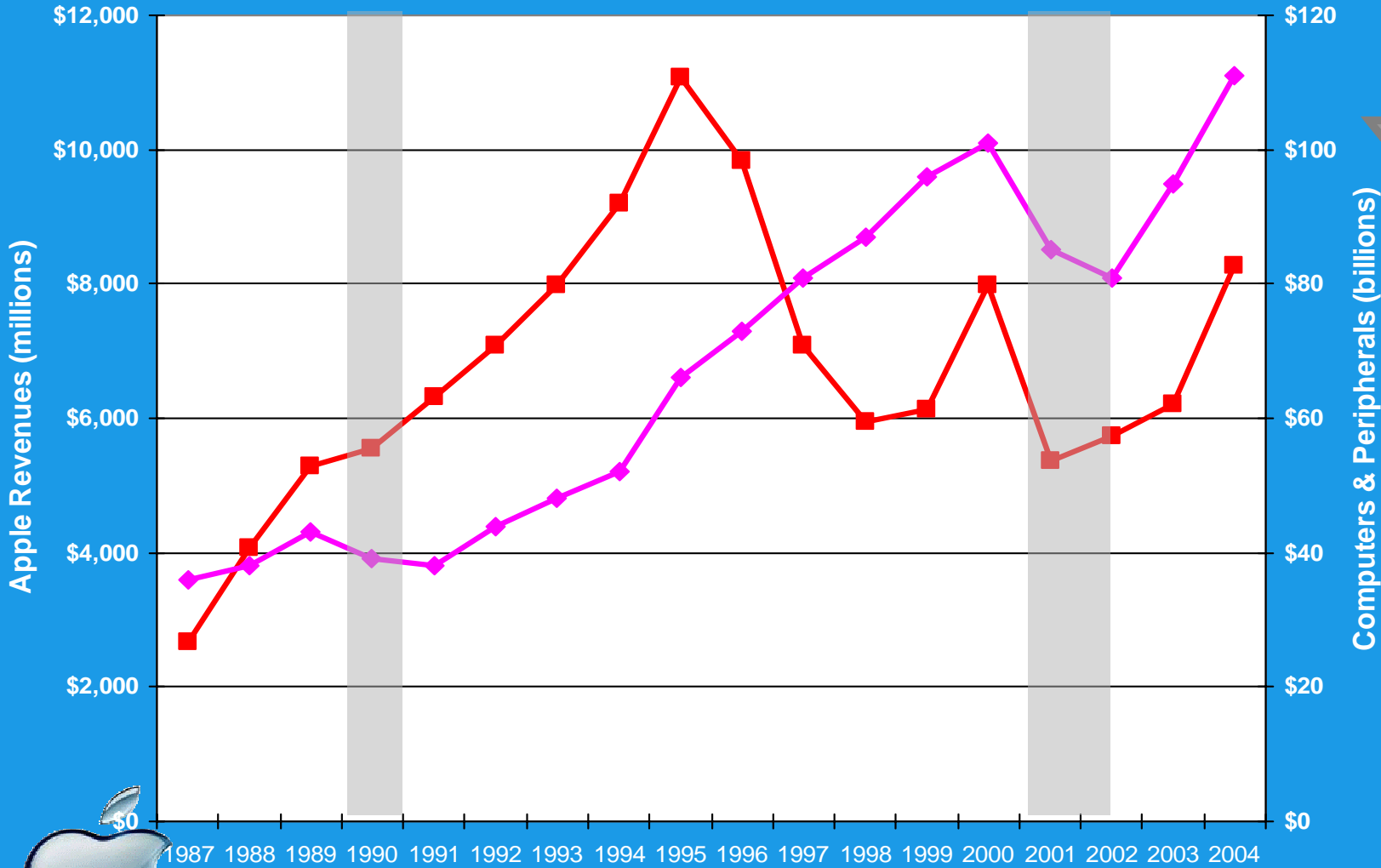
# Apple vs. Durable Goods



Source: Dept. of Commerce & Apple, Inc.



# Apple vs. Computer & Peripherals



Source: Dept. of Commerce & Apple, Inc.

# Apple's Focus on R&D

	R&D \$ (millions)	% of Net Sales
Apple	\$489	6.0%
Dell	\$464	1.1%
HP	\$3,506	5.0%
IBM	\$5,673	5.9%

“It took us three years to build the NeXT computer. If we'd given customers what they said they wanted, we'd have built a computer they'd have been happy with a year after we spoke to them - not something they'd want now. “

Steve Jobs





# Forecasts & Projections



# Forecasts & Projections

Computer

Media

The Computer  
Hardware  
Industry

&



# Recommendations for Apple

- ▶ **Continue making “must have” products**
- ▶ **Leverage the power of the iPod**
- ▶ **Stay ahead of the competition**
- ▶ **Partner with companies that complement the Apple brand**
- ▶ **Expand retail footprint**
- ▶ **Keep costs low and quality high**
- ▶ **Increase market share in the education, business and government sectors**



