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## An Analysis of Industry Forces Impacting Apple's Performance: A Study Using Porter's Five Forces Framework

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### ABSTRACT

The main objective of this study was to identify different electronic industry forces that impact the performance of Apple Inc. using Porter's five forces framework. The study adopted a desktop methodology. The buyers have moderate power as a result of customers' attraction to the brand. Still, also the availability of alternative products at lower prices gives the customers power to negotiate. There is a moderate power of supplies resulting from a wide industry demand and scarcity of the components. There is a low threat of new entrants in the electronic industry due to high capital investment, high research and development costs, economies of scale and strong brand loyalty. The availability of different products of similar functionalities makes the threat of substitutes to be high in the market like tablets and smartphones. The rivalry of existing competitors is high as the industry is characterized by aggressive price strategies. To maintain its strong position in the market, Apple highly invests in research and development to make its products differentiated and maintains its strong brand loyalty. Apple need to consider the consumers of low incomes as the products of Apple Inc. are regarded as expensive for this group and where the competitors are willing to offer substitute products and services at lower prices.

**Keywords:** Electronic industry, Threat of substitutes, Bargaining power of buyers, and Porter's five forces.

### INTRODUCTION:

Apple Inc. founded in 1976 in the United States, is a prominent global company in the electronics industry. The company creates and produces various electronic devices, including smartphones, laptops, tablets, wearables, and accessories. In addition, Apple Inc. provides different services such as payment solutions, cloud services, and advertising (Apple, 2022). Apple Inc. is globally recognized for its strong brand reputation and high customer loyalty. Since its

incorporation, the company has consistently seen revenue growth quadruple, reaching \$394.33 billion in 2022, when it was also ranked as the world's most valuable brand (David, 2023). According to David (2023), Brand Finance Global 500 reported that Apple Inc. set a new record of the highest brand value ever recorded in 2022 in its history. In the same report, Amazon and Google ranked second and third, respectively. However, in 2023, Amazon surpassed Apple to claim the top spot. The technology industry

is highly competitive, marked by intense price rivalry. It is dominated by the five major brands known collectively as GAFA (Google, Amazon, Facebook, Apple, and Microsoft). In Europe, the competition between Apple and Samsung is especially fierce. From May to June 2022, the market values of these two leading brands were nearly identical (Statcounter, 2022; Saha *et al.*, 2020).

Federica, (2023) reported that globally Samsung was the leading company in the global smartphone market in the third quarter of 2022 with a 20% market share, while Apple held 16%. In the fourth quarter of 2022, Apple overtook Samsung, achieving a 23% share compared to Samsung's 19%. As a result, Apple Inc.'s outstanding performance was a key factor in selecting it for this study.

### **Research Objectives**

This study aims to identify different industry forces that impact the performance of Apple Inc. in the lenses Porter's five forces framework.

### **Research Questions**

What are the major industry forces that impacted the performance of Apple Inc.?

### **METHODOLOGY:**

This study utilized a desktop research methodology to identify different industry forces that impact the performance of Apple Inc. in the lenses of Porter's five forces framework. Desktop research involves gathering secondary data, or information that can be obtained without fieldwork, making it more of a cost-effective method compared to field research. As such, this study relied on existing resources.

### **Limitations**

Time constraint was the main limitation of this study. This relates to the huge information required to be reviewed.

### **Ethical Issues**

Unauthentic work: This study was produced without cheating or colluding with other researchers and it is not the product of buying the service of other individuals to produce it on my behalf and claim to be mine.

## **Literature review**

### **Porter's Five Forces Framework**

This framework of Porter's five forces is a business model that explains how competitive advantage can be achieved by a company through understanding industry structures and dynamics (Porter, 2008).

### **Bargaining power of buyers**

The power of buyers refers to the power buyers exercise on a company. Suppliers are more powerful in a market where a small number of buyers purchase large volumes; goods are undifferentiated, low switching costs, backward integration, not quality sensitive, and where the buyers have full information about the cost structure and margins of the sellers. The best mechanisms to defend against the power of buyers include raising the switching costs for the buyer, increasing brand loyalty, and product differentiation (Kostetska, 2022).

### **Bargaining power of suppliers**

The Bargaining power of suppliers refers to the power suppliers exercise on a company. This power is exercised through charging high prices, limiting the quality of products/services, or shifting costs to industry players. Suppliers are more powerful in markets where there is a small number of suppliers, and differentiation of the suppliers' products/services is available. Some of the strategies to defend against the power of suppliers include acquiring or merging with the suppliers (Kumar & Nanda, 2022).

### **Threat of new entrants**

This threat relates to the situation where new competitors try to win share and power in a market. This threat is very high in a market where barriers to entry are relaxed. New entrants force the existing companies to cut prices. Cutting prices for the existing companies due to the entry of new competitors can negatively affect their profitability or in a worse situation, companies may ultimately fail and lose the market completely. The best mechanisms to defend against the entry of new competitors include aggressive marketing leading to an economy of scale and putting in place hard mechanisms for the companies entering the market to achieve supply chain efficiently (Kohnová & Salajová, 2023).

### **Threat of substitutes**

Threat of substitutes refers to the situation where the buyers have a choice between products of the same functionalities. Hardly, the company is aware of all potential substitutes available for its products/services which makes it hard for the companies to deal with this threat. Substitutes are always available in the market, but they are easily underestimated simply because they are different from existing products/services. The main mechanism to defend against substitutes is to differentiate the product/services to the extent where the customers remain with no other option (Wellner & Lakotta, 2020).

### **Rivalry existing competitors**

The rivalry of existing competitors refers to the intensity of the competition in the market. The rivalry is more powerful in the market where companies are equally balanced. Rathore *et al.* (2023) argue that slow industry growth and little product differentiation are the contributing factors in making competition intense among the existing competitors. Porter, (2008) argues that due to constant competition, the profitability of the market grows at a very low rate or not growing at all.

### **Disadvantages and criticisms of Porter's Five Forces Framework**

Being outdated: Obu, (2022) criticizes the model as being developed in a business context named social era which is completely different from the digitalized business context of today which changes very quickly. Thus, the model needs to be revised to match the current business context.

Generalization: Customers need to be classified between intermediate from end customers where the manufacturer sells personally and distributors. Isabelle *et al.* (2020) criticize the framework for failing in prioritization of customers. This may lead to competition between wholesalers and manufacturers.

## **RESULTS AND DISCUSSION:**

### **Power of buyers: Moderate**

Apple customers are attracted by brand loyalty, user experience and innovative devices. However, there are alternative devices in the electronic market which are available at lower cost which gives the customers power to negotiate. To defend against the power of

buyers, Apple committed to consistently creating innovative products/services with outstanding user experiences adding value to customers (Apple, 2022).

### **Power of suppliers: Moderate**

The supplies of components of Apple are available from multiple sources, single sources or limited sources. The wide industry demand for these components makes them scarce though they are available from multiple suppliers. The suppliers are facing a big challenge of meeting the required wide market demand and Apple may face the challenge of getting the required demand to satisfy the production until the suppliers grow in number or at the required capacity. To defend against the power of suppliers, Apple has entered into agreements with suppliers of different components needed in production at commercially acceptable terms though these terms cannot be guaranteed to continue in the long-term (Apple, 2022).

### **Threat of new entrants: Low**

It is hard for new entrants to win a market share and market power in the electronic industry due to barriers such as high capital investments, high costs of research and development, economy of scale and strong brand loyalty. Apple's annual report, (2022) reveals that research and development expenses were more than 51% of total operating expenses in the year 2022. These expenses are 50% and 48% of net operating expenses in the year 2021 and 2020 consecutively. With these barriers together with strong brands in the market, it is hard for new entrants to enter into electronic market.

### **Threat of substitutes: High**

In the electronic industry, competitors produce products/services of similar functionality at different prices. Khalid and Vida, (2023) argue that the sales of laptops are influenced by tablets and smartphones. To defend against this threat of substitutes, Apple invests in differentiating its products/services through innovation. However, with the fierce competition in this electronic market, this differentiation needs to be at the level where the users feel that there are no other products of similar functionalities to make them remain loyal to the brand.

### **Rivalry of existing competitors: High**

Competition in the electronic industry is fierce and is characterized by aggressive price strategies. Giant brands in the market such as Samsung and Huawei are continuously introducing electronic devices at lower prices compared to Apple. Statcounter, (2022) reports that the two giant brands of Apple and Samsung shared almost the same market value during the period between May and June of 2022. Federica, (2023) reports that in the third quarter of 2023, Samsung outperformed Apple. To defend against this high rivalry of existing competitors, Apple invested in differentiating its products and services and maintaining its strong brand loyalty.

Overall, the results show that Apple is operating in a highly competitive market characterized by aggressive pricing strategies. There are different products of similar functionalities in the electronic market which places Apple at a high threat, but the buyers and customers of Apple have moderate bargaining power. There is a low threat of new companies entering the market because of different factors such as high capital investments, high costs of research and development, strong brand loyalty and economy of scale. The strong brand loyalty, differentiated products/services, and loyal base customers give Apple a strong position in this aggressive competitive market. To maintain its position, Apple invests in innovating to make its products/services differentiated and maintain its strong brand loyalty.

### **CONCLUSION AND RECOMMENDATIONS:**

In conclusion, it is hard for new companies to enter the electronic industry due to factors such as high capital investments, high research and development expenses, and economies of scale. However, the products and services of similar functionalities place a high threat to Apple Inc. and Apple opted to constantly invest in innovating and differentiating its products/services and maintain its strong brand loyalty to mitigate this threat. Apple Inc. needs to consider the consumers of low incomes as the products of Apple are considered to be expensive for this group and where the competitors are willing to offer substitute products at low costs.

### **AUTHOR CONTRIBUTIONS:**

J.C.U.; and S.N.: Confirm the collective responsibility in the preparation of this study.

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### **CONFLICTS OF INTEREST:**

We declared that no conflicts of interest related to this study.

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