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# Apple SWOT analysis

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Apple SWOT analysis reveals the company's internal strengths and weaknesses as well as external opportunities and threats. Apple's key SWOT factors are:

- Advertising capabilities
- Vertical integration
- Overdependence on iPhone sales
- Incompatibility with other OS
- Health-related wearable gadgets
- Intensifying competition

Please find more Apple Inc. strengths, weaknesses, opportunities and threats below. For more information on [how to do a SWOT analysis](#) please refer to our article.

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# Company Background

Key Facts	
Name	Apple Inc.
Founded	April 1, 1976
Logo	
Industries served	Computer hardware (Mac, iMac, Mac Pro, MacBook, MacBook Air) Computer software (iOS, OS X, Safari, iLife, iWork, iMovie, iPhoto) Consumer electronics (iPod, iPhone, iPad, Apple TV and Mac products) Digital distribution (iTunes store, iCloud, App Store, Mac App Store)
Geographic areas served	Worldwide (retail stores in 18 countries and online stores in 120 countries)
Headquarters	Cupertino, California, United States
Current CEO	Tim Cook



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Revenue	US\$233.715 billion (2015) 27.85% increase over US\$182.795 billion (2014)
Profit	US\$53.394 billion (2015) 35.14% increase over US\$39.510 billion (2014)
Employees	110,000 (2015)
Main Competitors	Samsung Electronics Co., Ltd., Amazon.com, Inc., International Business Machines Corporation, Cisco Systems, Inc., Google Inc., Microsoft Corporation, Dell Inc., LG Electronics, Lenovo Group Limited, Hewlett-Packard Company, Sony Corporation and many other computer hardware, computer software, consumer electronics and Internet companies.

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Apple Inc. is an American multinational corporation, which designs, manufactures and sells personal computers, consumer electronics and software, and provides related services. Apple's most successful products and service include include iPhone, iPad, Mac and iTunes. iPhone alone generates more than 50% of all copmany's sales.

The company has experienced a tremendous growth since it introduced an iPhone smartphone in 2007. Apple Inc. brand is the most valuable in the world worth over \$170 billion. Apple is considered to be the most successful electronics company in the world.

You can find more information about the business in [Apple's official website](#) or [Wikipedia's article](#).

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## Strengths

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### 1. Advertising capabilities, which increase brand awareness and create stronger demand for the company's products

Apple's annual advertising budget reached US\$1.8 billion<sup>[1]</sup> in 2015, almost doubling from US\$933 million in 2011. The company's advertising budget is certainly not the largest when compared to its competitors' budgets, but Apple uses it the most effectively.

Apple's advertising expenses started to climb in 2010 when its new iPhone and iPad products were launched. However, overall spending on advertising never climbed higher than 1% of total company sales. In 2015, Apple spent only 0.77% of its total sales on advertising, compared to [Samsung Electronics'](#) (Samsung) 1.86%.<sup>[2]</sup>

Figure 1. Yearly advertising budget spending by Apple and Samsung (in US\$ billions)

Company	2012	2013	2014	2015
Apple	933	1000	1200	1800
Samsung	1000	1200	1500	1800

Company	2012	2013	2014	2015
Apple	1	1.1	1.2	1.8
Samsung Electronics	4.3	3.8	3.6	3.4

Source: The respective companies' financial reports<sup>[1][2]</sup>

Even though Apple spends less on advertising, it still achieves greater brand recognition and more revenue for the money spent than Samsung.

## 2. Strong and extensive U.S. distribution channels

Apple's strength in the U.S. is its extensive distribution channels. Apple is well-known for employing multiple channels to deliver its products to customers. The company uses direct distribution channels such as its online stores, direct sales force, and most notably, retail stores. Few of its rivals have their own physical retail stores and none have such a vast network of them.

Apple also has an extensive indirect distribution network, which includes third-party cellular network carriers (AT&T, Verizon, Sprint, T-Mobile), wholesalers, retailers (Best Buy, [Amazon Marketplace](#), Walmart, Target, Staples), and value-added resellers. In the smartphone and tablet markets, only Samsung can match Apple's indirect distribution network size.

## 3. Vertical integration

Apple is a [vertically integrated](#) company that manages four separate businesses as one. The company has a hardware business, a software business and it is also a service-provider and a retailer as well – all integrated into one entity. Apple controls almost the entire supply chain for its devices. No other competitor manages, or is capable of managing, all four areas of the supply chain.

#### 4. Brand awareness and reputation

Forbes<sup>[3]</sup> and Interbrand<sup>[4]</sup> have both listed Apple's brand as the most valuable in the world in 2015. They valued the brand at US\$145.3 billion and US\$170.3 billion respectively, and recognized it as a significantly growing brand in terms of value.

This means that the company's brand is the most reputable and recognizable in the world. Apple's leading position in the smartphone marketplace, its excellent advertising and marketing capabilities, and the wide ecosystem of its products has led to a brand awareness that cannot be matched by any other technology company in the world.

#### 5. Sound financial performance with one of the strongest cash flows

Apple's revenue grew on average by 16.44% from 2012 to 2015!<sup>[1]</sup> During the same period, the company's profit grew by 27.94%. This is a very successful growth, considering the company's huge size and its total revenues, which reached US\$233 billion in 2015. The company was also able to maintain a high profit margin of 22.84% in 2015, which is unusual for a company experiencing such a fast growth period. Both its revenue growth and high profit margin indicate Apple's ability to efficiently manage its operations.

Apple's robust cash flow and huge cash reserves are additional financial strengths. The company had US\$205.6 billion in cash reserves and only US\$56 billion in long-term debt in 2015.

Figure 2. Apple's cash growth (in US\$ billions)

	2012	2013	2014	2015
Cash	121.251	146.761	155.239	205.666

Source: Apple financial report<sup>[1][2]</sup>

The company's growth, net income, cash reserves and low debt provide it with enough resources to invest in acquisitions, R&D, marketing and other cash-draining activities without significantly threatening its financial situation.

## Weaknesses

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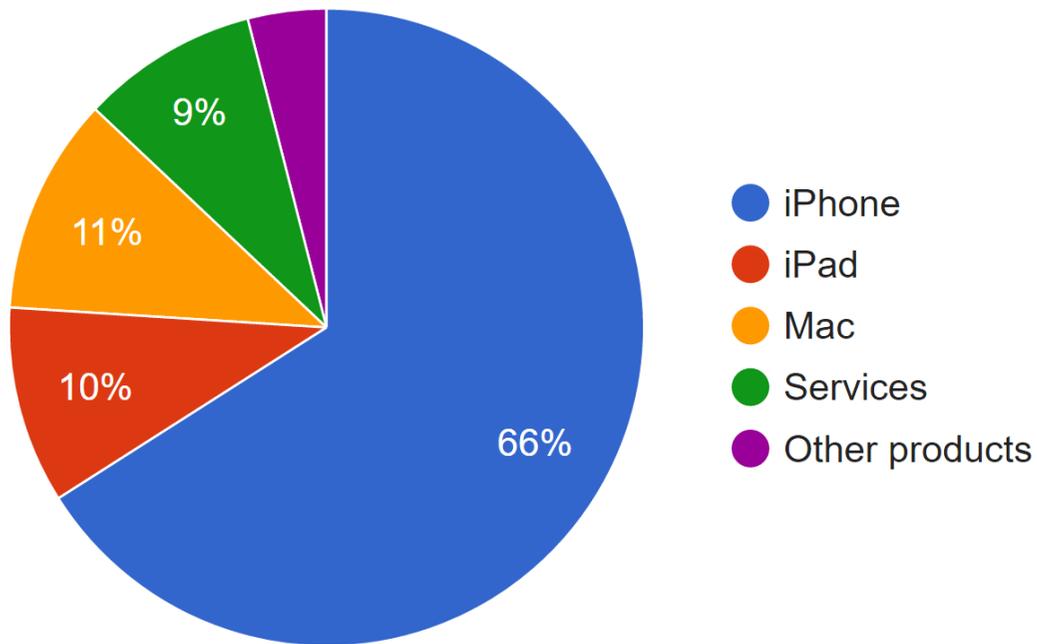
### 1. Overdependence on iPhone sales

In 2015, iPhone sales grew by 52% over the previous year and generated US\$155.041 billion in revenue. It is the most important revenue source for Apple, accounting for 66% of the company's total sales.

This makes Apple very vulnerable to changes in the smartphone market. Apple's smartphones are targeting wealthier consumers and its biggest sales come from developed regions where the smartphones' markets are already saturated.

For the next few years, Apple will be able to grow its sales due to the fast growth of the smartphone markets in emerging economies around the world and by the introduction of new products. However, in the long run, the company will face serious challenges in growing its revenues.

Figure 3. Apple revenue breakdown by product in 2015

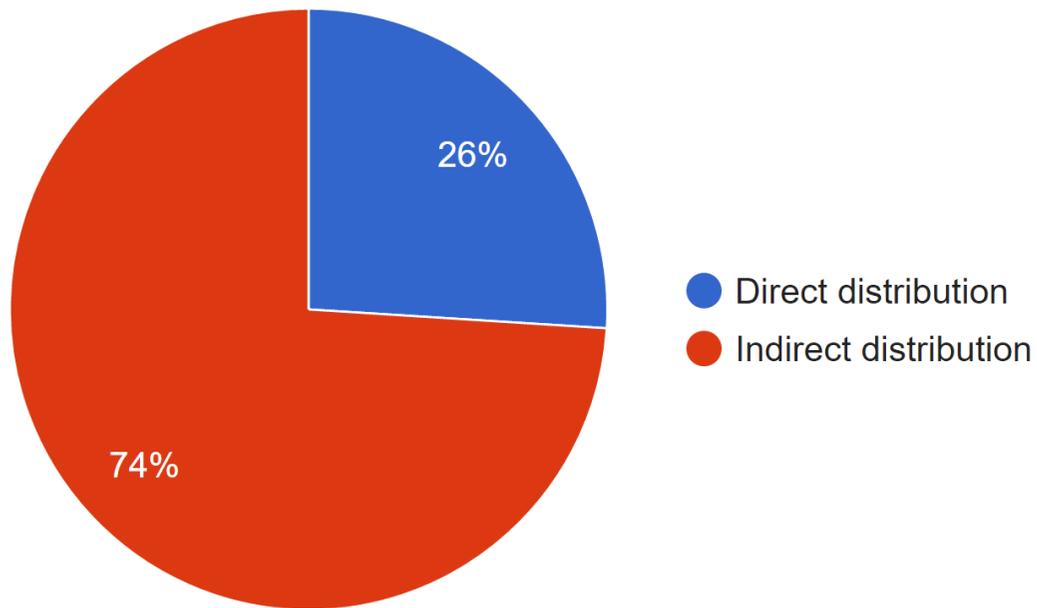


Source: Apple financial report<sup>[1]</sup>

Overdependence on iPhone sales weakens the company as shifts in technology, component prices or consumer tastes may severely decrease Apple's revenue.

## 2. Weak direct distribution channels in India

During 2015, 26% and 74% of Apple's total sales came from direct and indirect distribution channels respectively. Direct distribution channels include Apple's retail and online stores. Indirect distribution channels that Apple uses are third-party cellular network carriers, wholesalers and retailers. The company's weakness lies in its direct distribution channels. India, which is the 3rd largest smartphone market at the moment, has no official Apple stores.



### **3. Low expenditure on research and development compared to other companies leads to fewer innovations and products introduced to the market**

In the past, Apple has been recognized as one of the most innovative companies in the world due to the introduction of new product types into the market and the breakthrough technology used in those products. Yet, for the last few years, Apple hasn't introduced anything completely new that would disrupt the market and allow the company to grow significantly.

Apple's R&D spending accounted for 3.4% of the company's total revenue, one of the lowest rates among its competitors.

R&D spending strongly correlates with a company's revenue growth and expansion into new product markets. Therefore, Apple should invest much more into its R&D activities than its competitors do in order to gain a competitive advantage.

### **4. Incompatibility with other OS**

Apple's proprietary operating systems iOS and OS X are quite different from the OS of both their Android and Windows rivals. In addition, Apple uses its own design hardware that is often incompatible with the other manufacturers' hardware. Sometimes, this difference in software and hardware adversely affects Apple. Users who are accustomed to using the Microsoft OS may find it hard to get used to the completely different OS X. Android users face the same problem when an app that is only available on Google 'Play' is not available in the iTunes store.

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### Opportunities

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#### 1. The Internet of Things (IoT) market is expected to grow significantly over the next decade

Currently, more than 20 billion devices are connected to the Internet and this number is expected to grow by 50% to 30 billion by 2020.<sup>[5]</sup> International Data Corporation (IDC) forecasts that the worldwide market for the IoT will grow from US\$655.8 billion in 2014 to US\$1.7 trillion by 2020.<sup>[6]</sup>

Apple has a unique position to take advantage of the growing IoT market. The company has its own software platform that is the key to managing information from connected devices. Apple also offers smartphones, wearable gadgets, tablets,

computers and many other hardware products that can be integrated into one ecosystem and controlled via an Internet connection. Apple could introduce a new OS system, like [Google's Brillo](#), designed specifically for the IoT.

## **2. Health-related wearable gadgets could be introduced to the market**

In April 2015, Apple introduced its first smartwatch called Apple Watch. This is the first company's step into the wearable gadgets market, which is expected to grow by 35% rate on average each year until 2019.<sup>[7]</sup> Business Intelligence (BI) analysts also forecast that the Apple Watch should be the dominant gadget taking a 47% share of the smartwatch market. With the US\$349 price tag, the Apple Watch would bring the company at least US\$14 billion in additional revenue by 2019.

Smartwatches are not the only opportunity for Apple in the wearable gadgets market. There is a trend toward health-related wearable gadgets. The company could introduce its own range of wearable health gadgets, which for example could monitor calorie intake, sugar and hydration levels, heart rate and blood pressure, as well as potentially diagnosing many illnesses or even infusing drugs through the skin.

## **3. Expanding mobile payments market**

In 2015, mobile payments facilitated transactions worth US\$8.7 billion in the U.S.<sup>[8]</sup> eMarketer predicts that the mobile payments market will grow by 210% in U.S. alone in 2016 and will reach a value of US\$27 billion. These figures show that the mobile payments market will experience huge growth in the future, making it a very attractive market in which to compete.

In 2015 Apple introduced Apple Pay, which allows iPhone and Apple Watch users to pay for their purchases through contactless terminals using near field communication (NFC) technology. Unfortunately, less than 10% of 12 million

terminals in the U.S. are capable of using NFC. Apple should encourage more businesses to upgrade their terminals, which in turn would encourage more Apple Pay users.

The mobile payments market provides an opportunity that would greatly benefit Apple in terms of additional revenue, strengthened ecosystem and better user experience.



#### **4. The mobile enterprise app market will gain traction as more businesses shift toward buying subscription-based software**

The mobile enterprise market is the next big transformation businesses face after cloud computing. Enterprises are becoming more cost-conscious when it comes to software purchases and are increasingly choosing subscription-based software in the cloud over buying licenses that have to be installed on proprietary hardware.

While this trend isn't new, many analysts predict that it will expand significantly. Apple is also betting on this and has already announced a few mobile enterprise applications. The company has partnered with IBM to develop highly usable, transactional and contextual mobile applications for businesses.<sup>[9]</sup>

# Threats

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## 1. Intensifying competition puts pressure on Apple's market share, revenue and profits

Apple has always faced strong competition from [Microsoft](#), [IBM](#), [HP](#) and [Dell](#) in the personal computing sector and since the launch of the iPhone and iPad, that competition has increased significantly. Now Apple's main rivals are Google and Samsung, both well-funded and experienced competitors which work together to provide the best possible offerings to compete with Apple's devices.

Apple with its high-end but overpriced devices is likely to lose the battle for emerging markets to cheaper Android devices.

The constantly growing Android market share also puts pressure on iOS, iTunes, Apple Music and the iBook Store. Android OS usage, with help from Samsung, Huawei, Lenovo and LG devices sales, is growing rapidly and is the main smartphone OS in emerging markets. As a result, app downloads and the associated revenue generated has increased significantly in Google Play. Google Play will soon become the most important app market to compete in and developers will favor it more than the iTunes market.

## 2. Strong U.S. dollar

Currency exchange rates affect every multinational company, including Apple. The company earns over 65% of its revenue outside of the U.S.

Current forecasts indicate that the U.S. dollar exchange rate is going to rise further against other currencies over the next few years. This therefore means that Apple's revenue and profits generated outside of the U.S. are likely to decrease when converted to U.S. dollars.

### 3. Lawsuits over patent infringements resulting in damaged brand reputation

Lawsuits over patent infringements happen often in the market, especially in the technology sector where devices are made of multiple parts and use software with thousands of lines of code that may have already been patented by another company.

Apple is not immune to infringement itself as well. Although not willingly, the company has infringed other companies' patents numerous times over the years and will likely continue to do so due to the complexity of its products and the fact that there are so many existing patents in hardware and software design.

According to Unified Patents, Apple is the most targeted company for patent infringements.<sup>[10]</sup>

### 4. Risk of data breaches

Apple's business requires it to collect, store and use customer, employee and its business partners' personally identifiable information ("PII"). PII information includes names, addresses, emails, phones, ID numbers, credit/debit card and other personal information that is safely stored and protected from outside parties. Nonetheless, data breaches occur and stakeholder data does get stolen and exposed from time to time.

Some of the biggest information thefts have affected Amazon.com, eBay and even Google. All of these companies have lost customers and sales because of it. With the growing number of data breaches, there is always a potential risk of Apple being breached in 2016.

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