

## **Apple's Innovation Strategy**

Learn how Apple innovates and creates such game changing innovations as the iPod, iMac, iTunes, iPhone, iPad and more through product and business model innovation... How does Apple strategize and create these breakthrough innovations? How did Apple become the world's #1 innovator?

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**[www.InnovationMain.com](http://www.InnovationMain.com)**

Creativity And Innovation Driving Business

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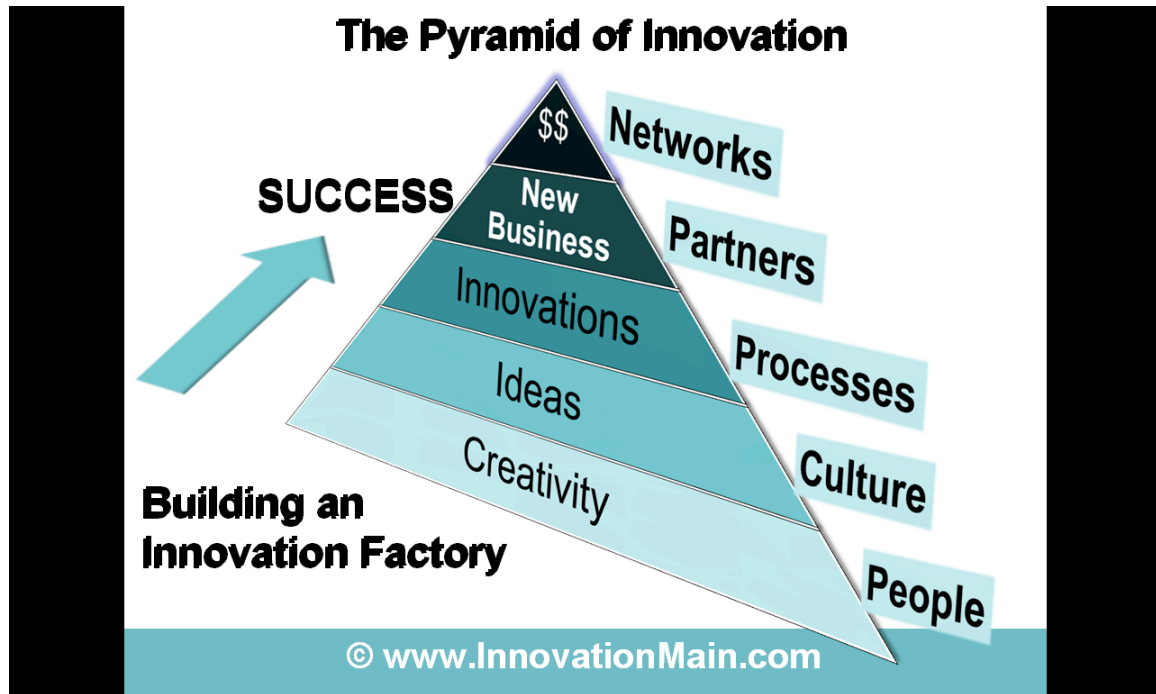
## What drives Apple forward? Passion!

*“We don't get a chance to do that many things, and every one should be really excellent. Because this is our life. Life is brief, and then you die, you know? **So this is what we've chosen to do with our life.** We could be sitting in a monastery somewhere in Japan. We could be out sailing. Some of the [executive team] could be playing golf. They could be running other companies. And we've all chosen to do this with our lives. **So it better be damn good. It better be worth it. And we think it is.**” – Steve Jobs, CEO & Co-Founder, Apple Inc. \**

Source: Fortune Interview

\* Steve Jobs resigned as Apple CEO in August 2011

## Apple's Innovation Factory



Apple has built an enduring Innovation Factory – one that harnesses creativity in its people, stimulating new ideas, and launching successful, profitable new innovations... Apple leverages its diverse culture, innovation processes, partners and networks to seize the new opportunities in the marketplace...

Apple's Innovation Factory is built with:

- With group of seasoned innovators led by CEO Steve Jobs
- Who share a common vision and passion toward create amazing products that spread happiness
- Entering new markets and even creating new playing fields
- Not afraid to push the boundaries of human creativity
- Unwavering in their belief that real innovation will drive real business, today and tomorrow!

## Apple in 2000

- **October 2000:** Quarterly Results
- Apple posted a net profit of \$170 million.
- Apple quarterly revenues were \$1.87 billion
- Gross margins were 25.0%, down from 28.7% in the year ago quarter.
- 1,122,000 units shipped including over 570,000 iMac™ systems.

## Apple in 2000

- **October 2000:**
- “We have identified several factors which we believe contributed to our sales shortfall last quarter, and we are taking strong steps to remedy them going forward,” said Steve Jobs, Apple’s CEO. “ ....  
**Our plan is to be back on track for the January quarter, and we remain very excited about our products and programs for 2001.”**

## **Apple in 2000**

- **October 2000:**
- Apple stock was around \$10
- Apple market cap was less than a thirtieth of today's market cap
- Apple was considered “dead alley” by most industry observers and analysts

## **Apple in 2001**

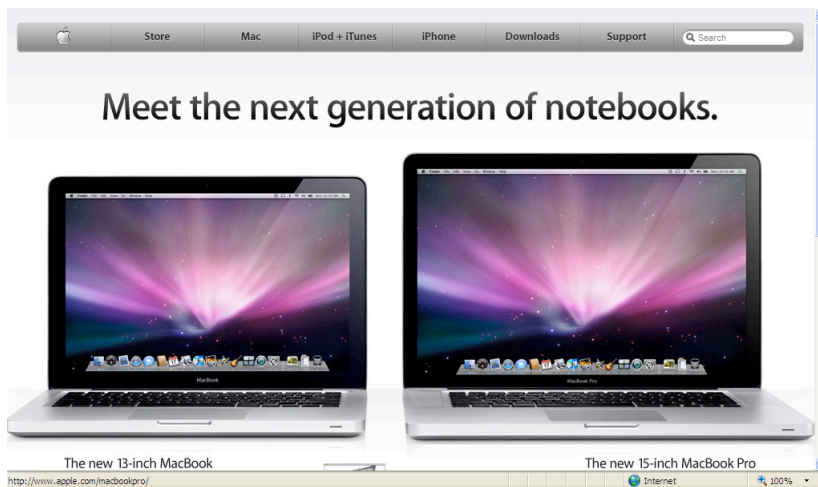
- Why was Steve Jobs excited about 2001?
- Apple introduced iPod and iTunes in 2001 and changed the way people buy, hear and organize music
- Apple created an industry first business model of purchasing songs from iTunes store for only 99 cents



## **Apple in 2001**

- January 2001: “Apple® introduced iTunes, the world’s best and easiest to use “jukebox” software that lets users create and manage their own music library on their Mac®.”
- iTunes “lets Mac users import songs from their favorite CDs; compress them into the popular MP3 format and store them on their computer’s hard drive; organize their music using powerful searching, browsing and play list features; and burn their own audio CDs.”
- The rest is history!

# Apple Fast Forward



Source: Apple.com

## **Apple Today**

- Apple Computer, Inc.
- or
- Apple, Inc.
- Question:
- What is Apple today?
- Apple changes name from Apple Computer Inc. to simply Apple Inc.

## Apple in 2008

- “We’re armed with the strongest product line in our history, the most talented employees and the best customers in our industry. And \$25 billion of cash safely in the bank with zero debt,” **Steve Jobs, CEO of Apple, October, 2008 Earnings**

## **Apple in 2008**

- October 2008 Quarter:
- Quarterly revenue of \$7.9 billion and profit of \$1.14 billion. Revenue up 27%, Profits up 26% year over year
- Gross margin 34.7 percent, up from 33.6 percent in the year-ago quarter.
- International sales growing: 41 percent

## Apple in 2008

- October 2008 Quarter:
- Apple shipped **2,611,000 Macintosh® computers** up **21% unit growth and 17% revenue growth**,
- Sold 11,052,000 iPods up 8% unit growth and 3% percent revenue growth, and
- Sold **6,892,000 iPhones** compared to 1,119,000 in the year-ago-quarter, up over **500%**.

Late 2008. Source: Apple.com

## Apple Today – April 2011

- “With quarterly revenue growth of 83 percent and profit growth of 95 percent, we’re firing on all cylinders,” said Steve Jobs, Apple’s CEO. “We will continue to innovate on all fronts throughout the remainder of the year.” April, 2011 Earnings
- March 2011 quarter:
- Quarterly record revenue of \$24.67 billion and profit of \$5.99 billion. Revenue up 83%, Profits up 95% year over year
- Gross margin 41.4 percent
- International sales growing to more than half of U.S. sales: 59 percent
- Apple shipped 3.76 million Macintosh® computers up 28% from year ago quarter
- 9.02 million iPods down 17% from year ago
- **18.65 million iPhones up 113% from previous year**
- 4.69 million iPads up 12% from prior quarter

April 2011. Source: Apple.com

## **How did Apple do it?**

- Increase revenue more than 1,200% in less than 11 years...
- Increase net profit more than 3,000% in less than 11 years...
- Increase market cap more than thirty five times to over \$300 billion and counting...



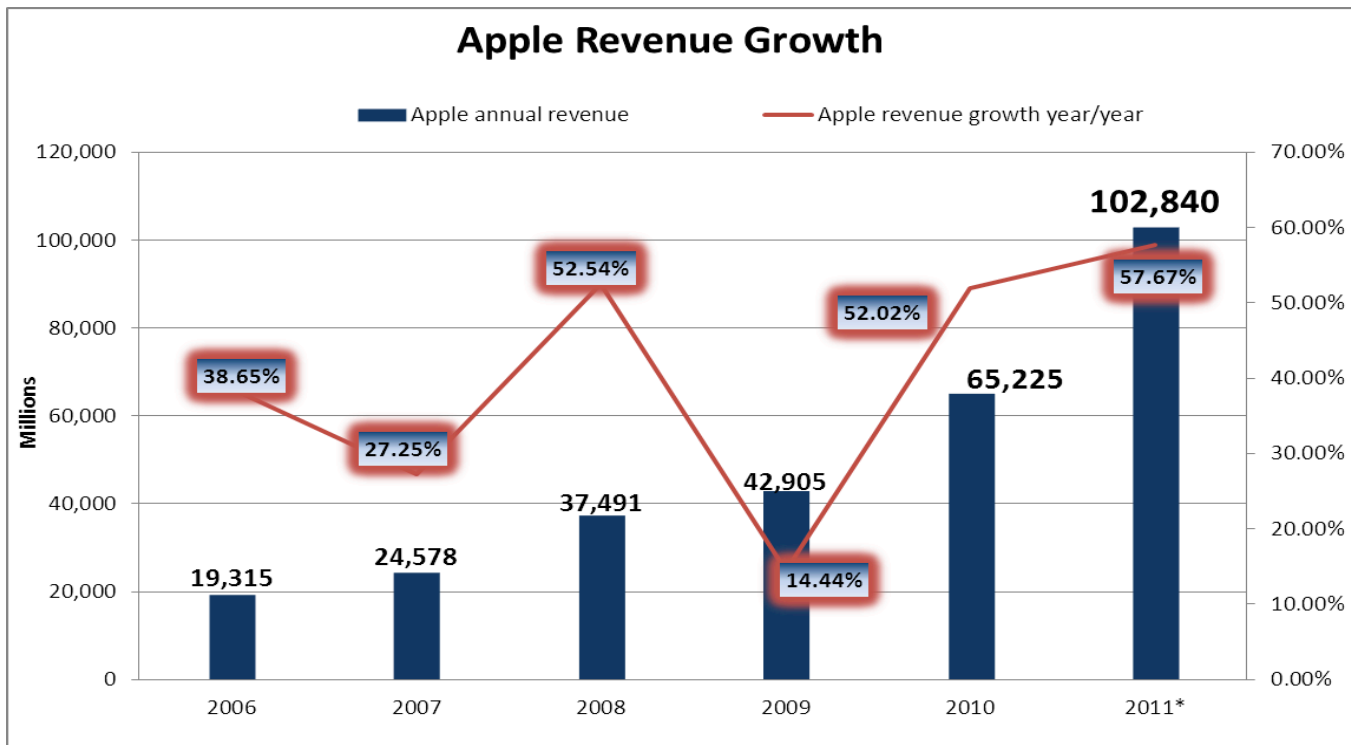
## Apple Explosion in Stock Price



Source: Yahoo Finance

- Apple stock exploded and peaked over \$400 in August 2011
- Apple easily beats S&P 500 returns by more than thirty times from 2000

## Apple Explosion in Revenue



Source: Apple.com

- Apple revenue growth is spectacular! As a large cap company, Apple is still growing over 50% annually. Apple will eclipse \$100 billion in annual sales in 2011, at a time when competitors such as HP and Dell are struggling.

## Apple Key Milestones – Credit Accounts



- Apple has over 200 million registered credit card accounts worldwide

Apple.com – Feb 2011

## Apple Milestones – Blockbuster Hits



- Apple introduced iPod in 2001, iPhone in 2007 and iPad in 2010 – each product is a gargantuan success!

## Apple 100 million milestones



100 Million books downloaded



100 Million iPhones

- Over 100 million eBooks downloaded
- Over 100 million iPhones sold

## Apple Developers – Made \$2 Billion Dollars



- Apple paid over \$2 Billion to App Developers for the App store! A phenomenal milestone!
- Apple has made many technology entrepreneurs overnight millionaires by launching the App Store, and providing an e-commerce platform to sell application software for the iPhone, iPad and Mac!

## How did Apple do it?

*“There's an old Wayne Gretzky quote that I love. 'I skate to where the puck is going to be, not where it has been.' And we've always tried to do that at Apple. Since the very very beginning. And we always will.”* —Steve Jobs, Apple CEO & Co-Founder

Source: Apple.com

Answer:

- Software driven Product Innovation
- Ideas, Creativity and Innovation
- Innovation in Products
- Innovation in Business Model
- Innovation in Customer Experience
- Innovative Leadership
- Steve Jobs Legendary Leadership

## **Software driven Product Innovation**

- When Steve Jobs rejoined Apple in 1996, he brought with him NeXT Object Oriented Operating System, NeXTStep and OpenStep which formed the basis of Mac OS X; and WebObjects, a platform for building large scale dynamic web applications – still being used in iTunes Store and Apple website.



## **Ideas, Creativity and Innovation**

- Apple created a thriving culture that pronounces creative expression, encourages new ideas, and converts ideas into the most innovative products. Apple is not afraid to fail. Rather, Apple is bent on taking new risks by entering new markets or creating new markets altogether.

## Innovative Ideas and Focus

*“People think focus means saying yes to the thing you've got to focus on. But that's not what it means at all. **It means saying no to the hundred other good ideas that there are.** You have to pick carefully.*

*The clearest example was when we were pressured for years to do a PDA, and I realized one day that 90% of the people who use a PDA only take information out of it on the road. They don't put information into it. Pretty soon cellphones are going to do that.” –*  
**Steve Jobs, CEO**

Source: Fortune Interview Feb 2008

## **Innovation in Products**

- Starting with the new iMac when Steve Jobs became the CEO again, the “Think Different” marketing campaign, and then designing and launching the iPod, Apple mastered product innovation. Apple continues to deliver hits such as the iPhone and iPad.

## Innovation in User Experience

- “Apple's the only company that has everything under one roof.
- "There's no other company that could make a MacBook Air and the reason is that not only do we control the hardware, but we control the operating system. And it is **the intimate interaction between the operating system and the hardware** that allows us to do that. There is no intimate interaction between Windows and a Dell notebook.
- "**Our DNA is as a consumer company -- for that individual customer who's voting thumbs up or thumbs down.** That's who we think about. And we think that our job is to take responsibility for the **complete user experience**. And if it's not up to par, it's our fault, plain and simply.” – Steve Jobs, Apple CEO

Source: Fortune Interview Feb 2008

## **Innovation in Business Model**

- Great products are not enough to create great markets and great business. Apple created new business models for marketing, procuring, packaging, positioning, selling and servicing music, videos, movies, TV shows and applications by creating new global partnerships. e.g. iTunes & App store

## **Innovation in Customer Experience**

- Apple retail stores, online store, iTunes store, marketing, customer support, and more are all built on delivering outstanding customer experience! Making customers always happy!

## **Innovative Leadership**

- Apple has assembled some of the best innovators and leaders under one roof, from industrial engineering to retail, software engineering to mobile, all working in synch to create the breakthrough products. Most of these leaders have been with Apple since late nineties, and have created a core group that could rival the top CEOs of most companies.

## **Steve Jobs Legendary Leadership**

- The legendary leader of Apple who revived Apple and brought it back in the limelight. Without him, Apple would perhaps have never become the new Apple. The co-founder who was forced to resign in 1985 after his own hired CEO ousted him from the exec team, and then came back to guide a ship wreck in 1996 (when Apple acquired Next).



## Innovation in Products

- Redefined **Macintosh** line of desktops and laptops beginning with **iMac** in 1998 and **iBook** in 1999
- Launched the **iTunes** store and **iPod** player in 2001 and leveled the playing field in the MP3 market.
- Innovative Macintosh desktops and laptops with new line of **MacBook**, **Mac Pro** and **Mac Mini** in 2006
- Smartphone revolution with the **iPhone** in 2007 and **iPhone 3G** in 2008
- Software innovation with **OS X** and **Leopard**, and internet, design and productivity applications
- Platform innovation with the new App store for iPhone and iPod touch – over 300,000 applications and counting
- iTunes Platform innovation with the new App store for iPhone, iPod touch, iPad, and now the latest Mac store – over 300,000 applications and counting!

Source: Apple.com

## **Innovation in Business Model**

- Apple created industry first business model on iTunes store by offering music downloads to consumers for only 99 cents a song
- Apple created strategic partnerships with major music labels to get royalty per sale
- Apple expanded these partnerships to movie studios and TV networks to offer movie rentals, new movies and TV shows

## Innovation in Business Model

- Apple has better margins today on better designed and higher quality products. How?
- “..Obtain stellar products and services within **tight timeframes**, at a cost that represents the **best possible value** to our customers and shareholders. If that sounds like a daunting task, it’s the same one we assign ourselves.”
- Suppliers – meet highest standards for goods and services, quality, social responsibility, agility, solutions

## **Innovation in Business Model**

- Apple created an exclusive relationship with AT&T in U.S. for the iPhone launch – a first!
- Apple obtained subscription payment from AT&T from the monthly data plans, besides one time payment – a first!
- Apple significantly expanded iPhone 3G distribution by establishing carrier relationships in over 70 countries – still exclusive with AT&T
- Apple started offering iPad and iPhone 4 through Verizon in late 2010 and early 2011
- Verizon partnership led to a huge increase in iPhone 4 sales in Q1, 2011

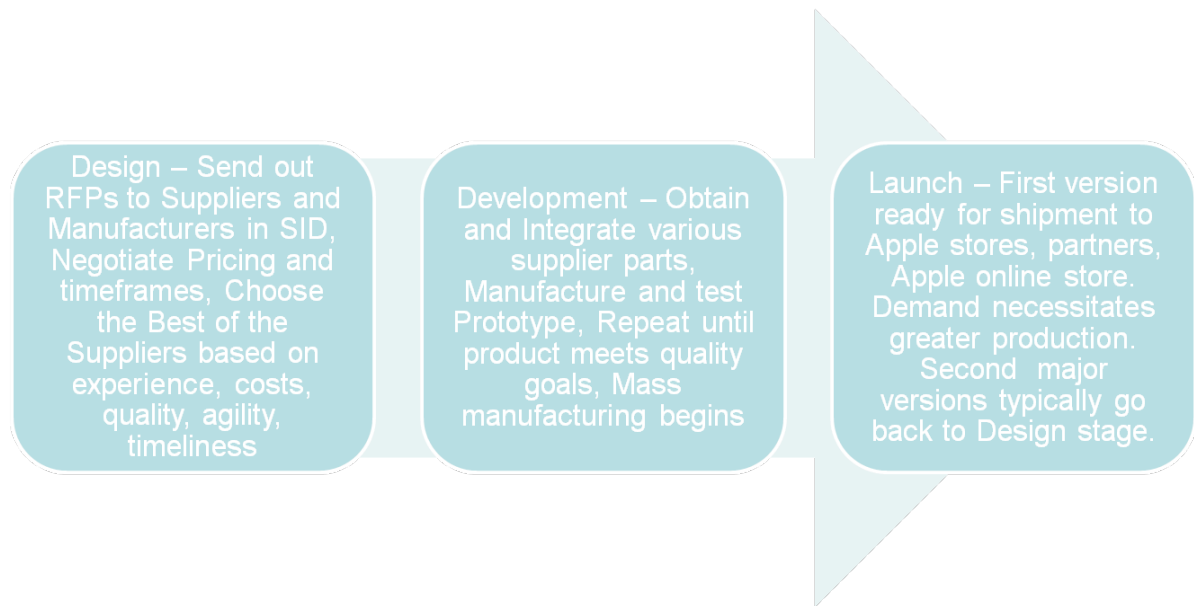
## **Innovation in Business Model**

- With the iPad, Apple is creating yet another business model innovation by partnering with the book publishers for distributing their ebooks
- Apple furthers partnership with the game developers to create exclusive games for the iPad
- App developers are creating specific applications for the iPad

## **Innovation in Business Model**

- Apple created the Application development platform and the new App store, providing a place for iOS application developers to sell Apps
- Apple made key applications available on iTunes for users of iPhone and iPod touch, the iPad, and now the Macs
- Software publishers post their Apps for free, 99 cents or more on the App store powered by iTunes. Apple and Software publishers share profits
- What Google did for Search, Adwords and AdSense, Apple is doing it with the Apple devices, PCs, Apps and iTunes
- iPad, iPhone, iPod touch and the new MacBooks usher in a **new era of App computing**

## Innovation in Production Model



←=====Compressed Time=====→

Source: Apple.com

Design – Send out RFPs to Suppliers and Manufacturers in SID, Negotiate Pricing and timeframes, Choose the Best of the Suppliers based on experience, costs, quality, agility, and timeliness

Development – Obtain and Integrate various supplier parts, Manufacture and test Prototype, Repeat until product meets quality goals, Mass manufacturing begins

Launch – First version ready for shipment to Apple stores, partners, Apple online store. Demand necessitates greater production. Second major versions typically go back to Design stage.

Apple has perfected the production pipeline to exceed the needs of Apple buyers, and create products that customers line up for at every launch.

## Innovation in Customer Experience

- Apple introduced Apple Retail Stores in 2001
  - Over 300 stores worldwide including more than 10 countries outside the U.S.
  - Theme: *“Come to shop. Return to learn”*
  - All things Apple. Great experience.
- Apple sells Apple products and accessories through Apple Online Store
- iTunes store: Music, Movies, TV, Apps



- **Apple Retail Stores**
  - Highest sales per square foot
  - Innovative storefront design
  - Open, customer-friendly atmosphere with highly knowledgeable sales reps
  - Playful, fun, café like experience
  - Great customer experience
  - **Apple Online Store**
- **iTunes store - #1 Music Store + Movies, TV, Apps**



## Innovation in Retail Stores



- Latest Apple Retail Store! Attractive, Inviting, Great Location (in China!)

## Steve Jobs Management Style

- *“My job is to not be easy on people. My job is to make them better. My job is to pull things together from different parts of the company and clear the ways and get the resources for the key projects. And to take these great people we have and to push them and make them even better, coming up with more aggressive visions of how it could be.”* – Steve Jobs, Apple CEO

source: Fortune interview

## **Apple's Innovative Leadership**

- Steve Jobs, Chairman and CEO, Visionary, Innovator, Co-founder. Left CEO role in August 2011.
- Timothy D. Cook, New CEO & Chief Operating Officer - since 1998.
- Peter Oppenheimer, Senior VP & CFO – since 1996
- Bruce Sewell, Senior VP, General Counsel – since 2009
- Scott Forstall, Senior VP, iPhone Software – since 1997
- Jonathan Ive, Senior VP, Industrial Design – since 1996
- Ron Johnson, Senior VP, Retail – since 2000
- Bob Mansfield, Senior VP, Mac Hardware Engineering – since 1999
- Philip W. Schiller, Senior VP, Product Marketing – since 1997
- Jeff Williams, Senior VP, Operations – since 1998
- Bertrand Serlet, Senior VP, Software Engineering (left in 2011)

Apple has assembled a seasoned team of innovators and leaders across various market categories – from industrial design to retail, hardware to mobile and beyond.

Source: Apple.com

## Steve Jobs – CEO, Chairman, Co-Founder



- Chairman and CEO (Co-founder in 1976)
- Resigned from Apple in 1985 to form NeXT
- Rejoined Apple in 1996, acting CEO in 1997
- Demanding Leader. Winning Attitude
- Made Apple the #1 Innovative Company
- Member of Board of Directors at Disney
- Largest shareholder of Disney
- Co-founder of Pixar Animation Studios

“Innovation distinguishes between a leader and follower!” – Steve Jobs

## Steve Jobs Innovation Strategy

- *"We do NO market research. We don't hire consultants. The only consultants I've ever hired in my 10 years is one firm to analyze Gateway's retail strategy so I would not make some of the same mistakes they made [when launching Apple's retail stores]. But we never hire consultants, per se. We just want to make great products.*
- *"When we created the iTunes Music Store, we did that because we thought it would be great to be able to buy music electronically, not because we had plans to redefine the music industry. .. I mean, it just seemed like writing on the wall, that eventually all music would be distributed electronically. That seemed obvious because why have the cost? The music industry has huge returns. Why have all this [overhead] when you can just send electrons around easily?"* **Steve Jobs, Apple CEO**

Source: Fortune Interview

## **Apple iMac – The “i” begins**

- iMac was introduced in 1998
- iMac re-created the Apple personal computer magic
- Apple declared the 'i' in iMac to stand for "Internet"; it also represented the product's focus as a personal device - 'i' for "individual"
- iMac provided complete experience out of the box – no wires, no third step!
- iMac began Apple's revival

## iMac Design



“The iMac design has continuously improved generation after generation, resulting in increased material efficiency, decreased packaging mass and volume, and decreased energy consumption “

## **Environmental friendly design**

- MacBook packaging uses 41% less volume resulting in 25% more units per shipping container.
- Packaging for the current generation 20-inch iMac uses 66% less plastic and 42% less paper than the 20-inch iMac G4 flat panel, while taking up 41% less space.
- iPod classic packaging consumes 35% less weight and 82% less volume than the first generation iPod.

Late 2008. Source: Apple.com



# Apple iPod



## iPod made Apple #1

- iPod, introduced in 2001, combines outstanding design, easy-to-use intuitive interface, superb performance, and an experience like no other.
- Apple assumed the world's number one innovative company position in large part due to the exponential growth of iPod – aptly called the iPod Phenomenon.
- Over 300 million iPods are in use today (early 2011).
- iPod fans are walking, driving, jogging, exercising, chatting, playing, humming, relaxing, singing, rocking, screaming, and above all enjoying their daily iPod experience
- What began as a new product quickly became a revolution!
- Apple's Hardware engineer Jon Rubinstein assembled a team of engineers to design and build the first iPod in less than 12 months.
- Over 25 versions of iPod since launch
- Latest: iPod touch hand held console market
- “In the years since (2001), the iPod's market share has grown tremendously, iPods have shrunk in size, Apple's iTunes Music Store has taken the lion's share of legal digital music downloads, and the iPod accessory market has exploded and taken on a life of its own. *All this has made the iPod as synonymous with "MP3 player" as Kleenex is with facial tissues.*” – PC Magazine

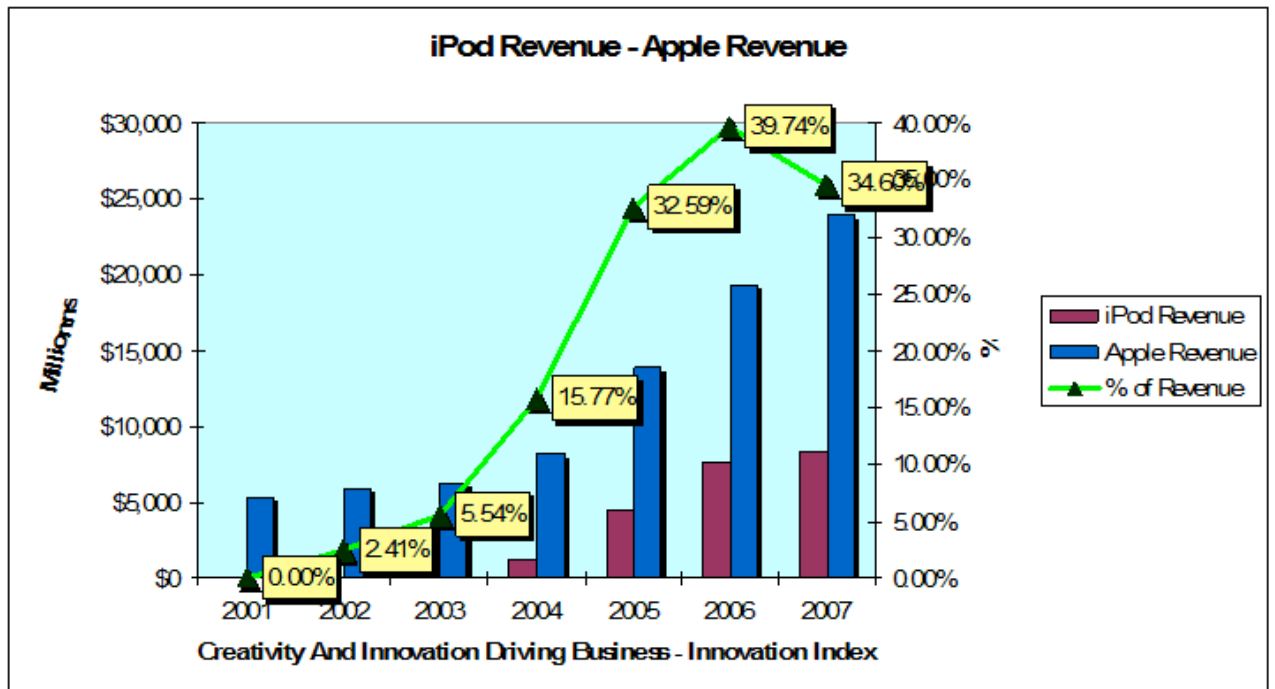
## Why do people love iPod?

- iPod innovation: Simple yet elegant design that makes it extremely easy-to-use, exceptional sound, video and imagery, and the amazing experience. iPod touch adds YouTube, Internet, and games and cool applications from the new App Store.
- Endless customization and personalization with available accessories from Apple.
- Retail research firm NPD Group says: “Apple's iPods still **maintain a lock** on the top spot in U.S. sales of digital music and media players, with as much as **75% of the market**.”
- Apple created innovation with another Top 20 Innovator of the Innovation Index, Nike: Nike Plus. “Ultimate synthesis of sport and music: a pair of Nike+ shoes, an iPod nano, and the Nike + iPod Sport Kit.”

## Apple iPod

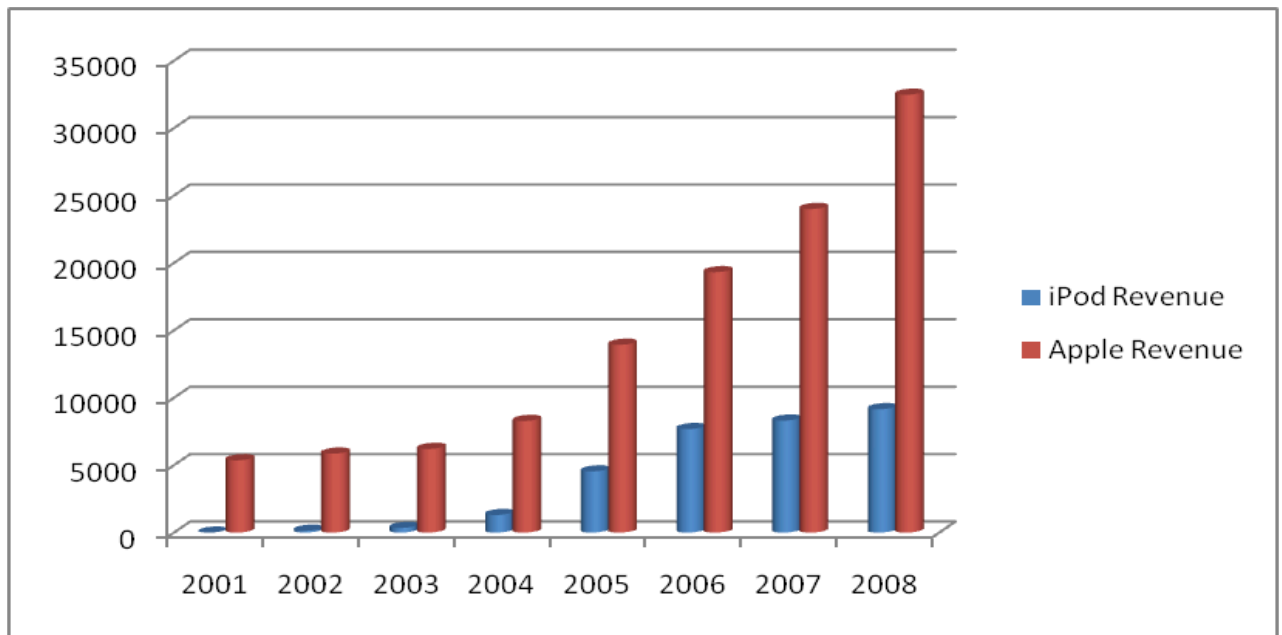
## Disruptive Innovation

## Successful Innovation



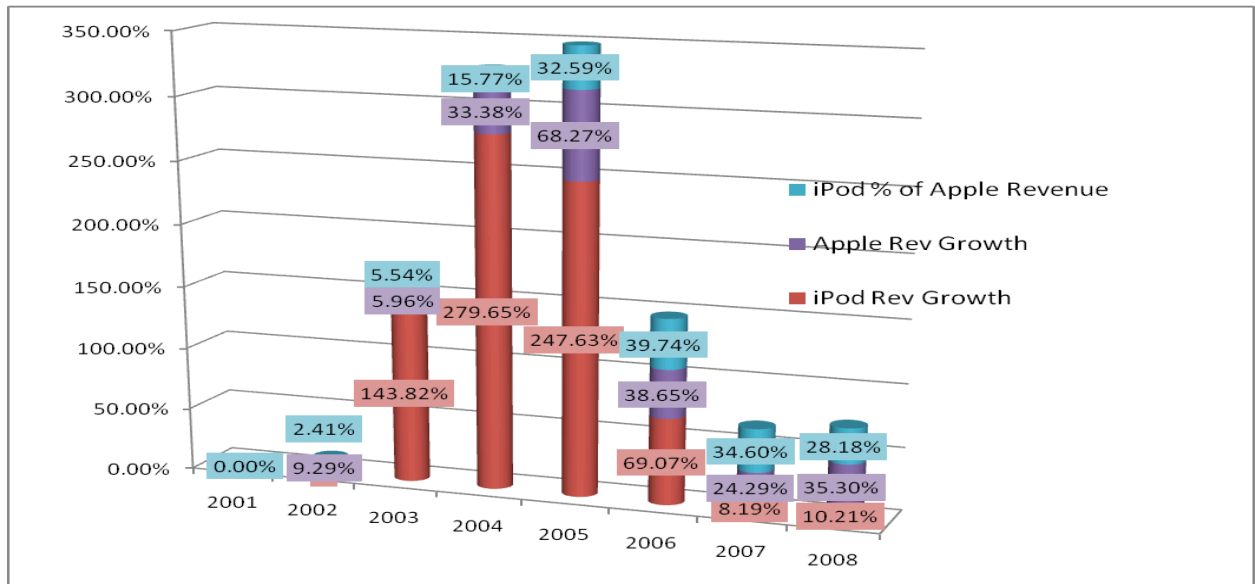
- iPod sales exceeded 30% of Apple sales within five years of launch!
- About 75% market share of MP3 music players
- Disrupted established players in MP3 market.
- Disrupted Sony Walkman music player
- Who is the #2 player? (most people don't know)
- Zen, Sony, Archos, Zune, S3, O2 and host of others

## iPod and Apple Revenue



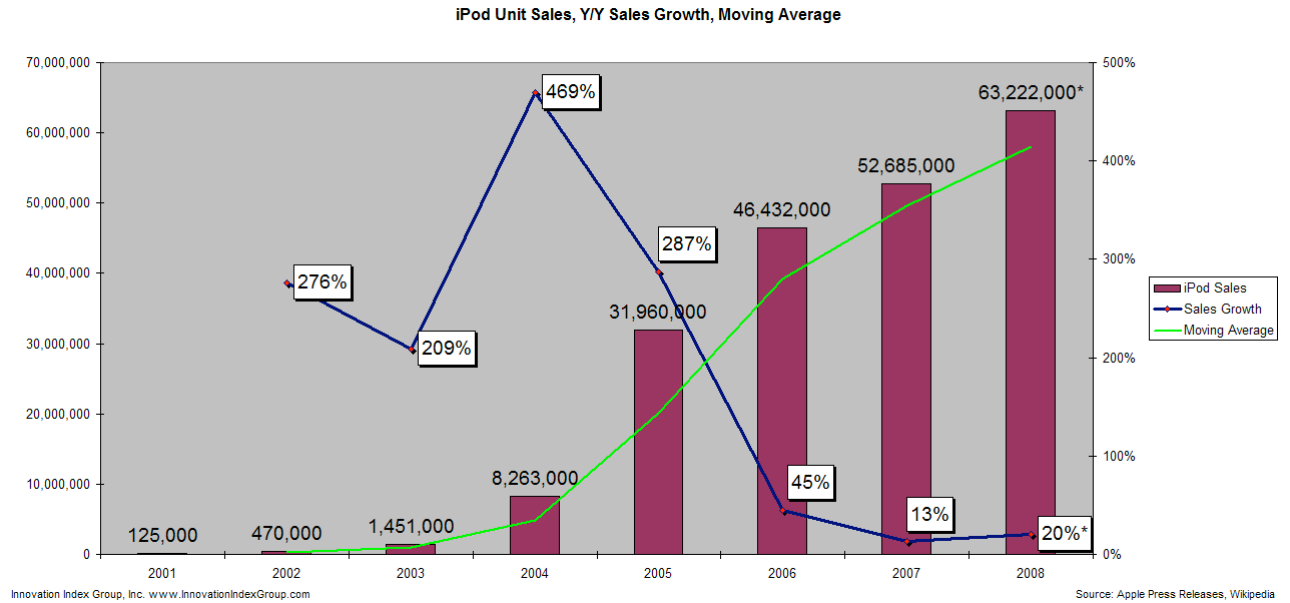
- iPod product line contributes about a third of Apple's sales revenue (late 2008).
- Since the introduction of iPhone and iPad, the iPod contribution to Apple revenue has declined

## iPod Growth Challenges



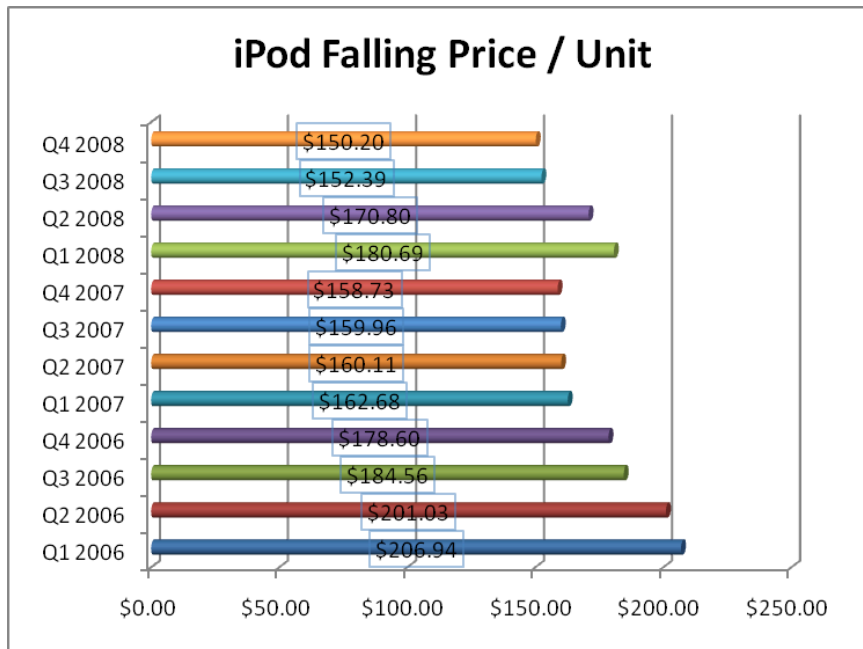
- iPod year over year revenue growth peaked in 2004, then began declining starting in 2007 after the iPhone was introduced

# iPod Growth Challenges



- iPod year over year unit sales growth as volume peaked, and iPhone is launched!

## iPod Falling Price / Unit



- iPod average unit price has dropped more than 33 percent since 2006
- New lower priced iPod models were introduced to fight competition

Chart Source: Wikipedia



## iPod touch



“Millions of songs. Thousands of movies. Hundreds of games. The new iPod touch”

### **Apple iPod Touch (second generation, 8GB) – CNET review**

Apple has delivered the iPod Touch we've been waiting for, at a price that makes sense. The second-generation iPod Touch is miles away from the device we first saw in September 2007--the hardware is sexier, the features run rings around the competition, and the open-ended development of the App Store can bring nothing but improvements.

## iPod Opportunity

### Battle of the Hand-Helds

Device	Introduced	Price	Units sold	Bestselling game	Price
Nintendo DS	2004	\$130	84 million	FIFA '09	\$29.99
Sony PlayStation Portable	2004	\$145	41 million	Grand Theft Auto	\$19.99
Apple iPod touch	2007	\$230	11 million	Enigmo	\$1.99

Chart: Forbes

- iTunes App Store potentially redefines iPod touch into a hand-held gaming console and can significantly expand Apple's footprint into the gaming market! Games are available cheap!

## **iPod Turnaround**

- Quarter Results – Jan, 2009
- Record 22,727,000 iPod units shipped
- Only 3% Unit Growth (22.7 million)
- iPod revenue falls to \$3,371 billion from \$3,997 billion year over year, a drop of 15.7%
- iPod price / unit drops to \$148

## **iPod Business 2011**

- Quarter Results – March 2011
- Only 9.02 million units shipped
- 17% unit decline year / year
- 14% revenue decline year / year

## **iPod Business**

- Apple is shipping fewer iPods and earning less revenue per iPod sold
- However, Apple is maintaining the MP3 market share leadership
- Is iPhone cannibalizing the iPod market? Yes!
- Is Apple trying to maintain market share by lowering the price of the iPod? Yes
- Are worldwide customers buying smartphones to listen to music? Yes
- Add to that the new iPad business which impacts the high end iPod sales
- iTunes store shows increasing revenue growth

## **Can Apple create iPod turnaround?**

1. Apple has introduced the new iPod touch at lower prices. Existing iPod owners will upgrade, and lower prices will find new buyers.
2. Apple has lowered the starting price of iPod Shuffle to only \$49 to lure first-time iPod buyers.
3. Apple is experimenting with newer business models for the iTunes store to provide better value, cheaper songs and DRM free music.
4. New App Store adds games & apps to iPod Touch.
5. Apple has introduced the new pink model of iPod nano, and also expanded the partnership with Nike for the gym.
6. Apple reduced the iPod prices further in Summer 2008.
7. Apple promoted free iPod to new buyer of MAC for Fall 2008 school.
8. Apple maintains the free iPod promotions for each school year.

# Apple iTunes



- **The world's #1 music store — and more.**
- **Over 14 million songs. Now 69¢ and \$1.29**
- **Over 10 billion songs sold (2010)**
- Special Recommendations from the Genius sidebar. iTunes Exclusives. Share songs by creating an iMix.
- Rent or buy blockbuster movies, get HD episodes of favorite TV shows, download applications for iPhone or iPod touch using the App Store.
- Subscribe to free podcasts, and shop for audiobooks.

## **iTunes Innovation in Business Model**

- Industry first Partnerships with major music labels, TV networks, movie publishers preceded by partnerships with key CD music software makers
- 99 cents music downloads, \$2.99+ movie rentals, \$1.99+ TV shows and \$9.99+ new movie downloads

## **iTunes Innovation in Customer Experience**

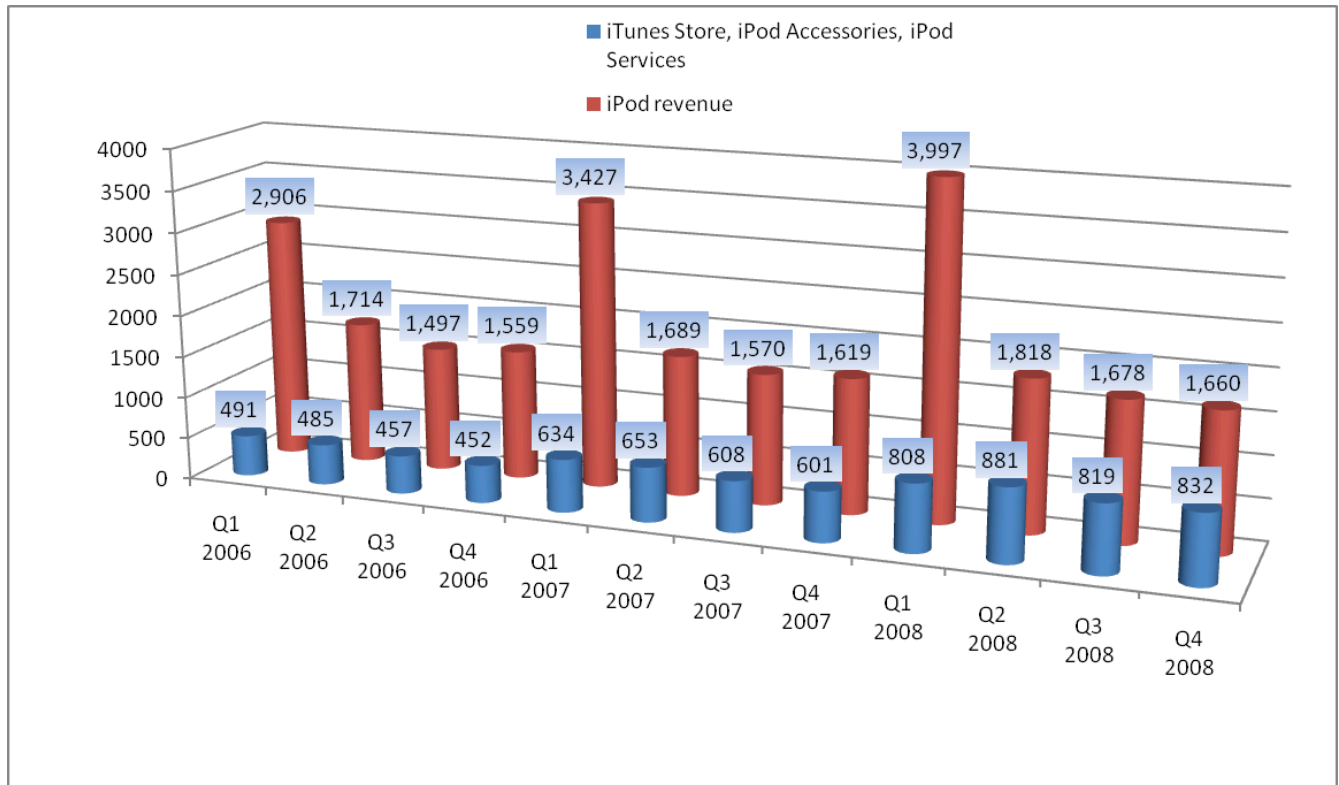
- Intuitive, Easy-to-use, User-friendly interface
- Social networking through sharing of music – now DRM free
- Personalization & Customization
- Free downloads including music, podcasts, applications and more
- Customers use it every day!



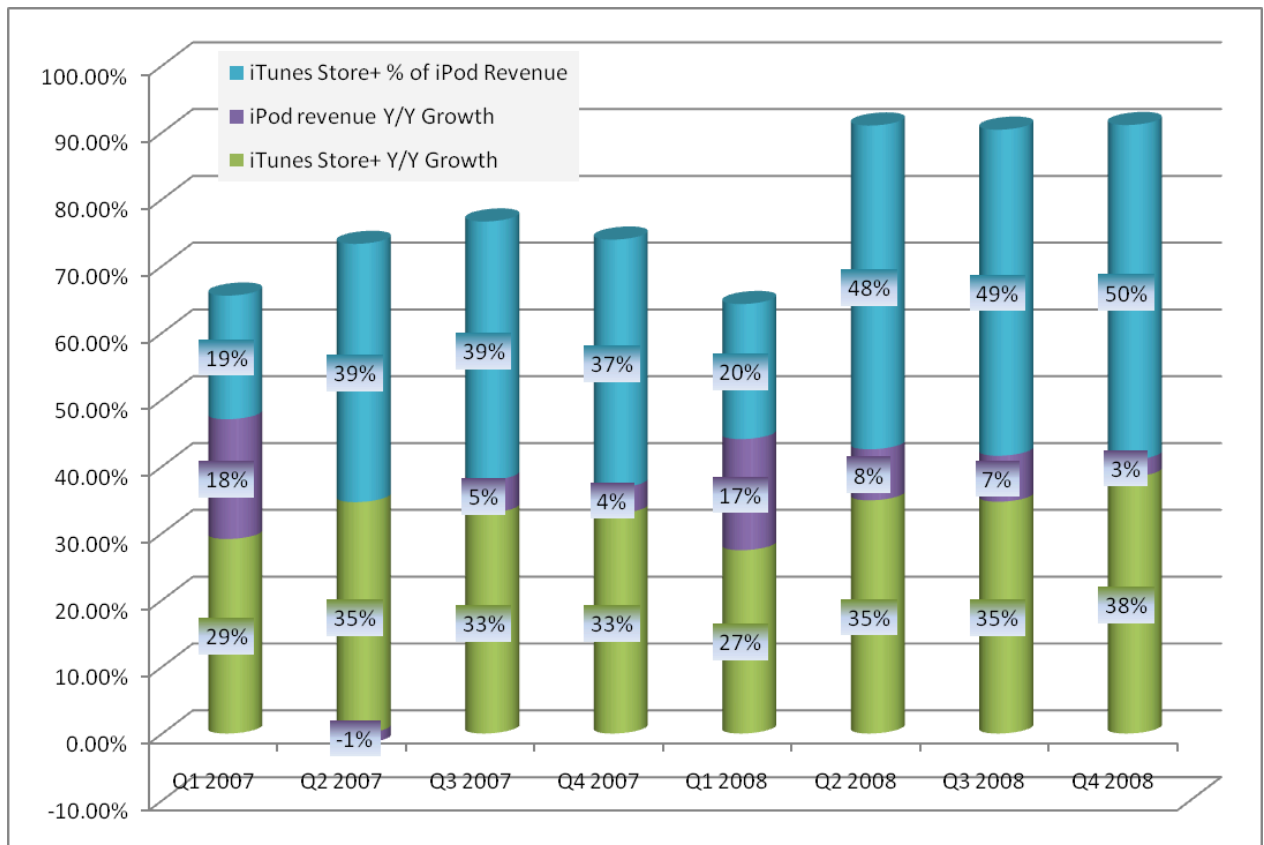
## **Disruptive Innovation**

- Disrupted CD industry and overtook Wal-Mart (#1 Music Store)
- Disrupted MP3 download industry (>70% market) by making it legal
- Potentially disrupts Movie Rental and New Movie Download markets
- Creates new paid TV Show download industry
- Another new market with App Store

## iTunes Store Revenue



iTunes store revenue is becoming a major contributor to iPod success, and becoming a significant percent of total Apple sales.



While iPod year over year sales growth is stalling or shrinking, iTunes store year over year sales growth is exploding, and iTunes sales is now 50% of total iPod sales.

## iTunes Challenges

- Challenges
  - High Performance, Quality and Availability for hundreds of millions of end users worldwide
  - Confused Identity – Music store, Movie store, Game store, Media store, or Application store?
  - Keeping it simple and intuitive for the majority of users
  - Win-win partnerships with Music labels, Movie studios, TV networks, Application vendors
  - Increase the flat year/year growth rate

## **iTunes Opportunities**

- Opportunities – Sky is the limit!
  - Become #1 Music Store in the World
  - Become #1 Movie Download Store
  - Become #1 Movie Rental Store
  - Become #1 TV Shows Store
  - Become #1 Gaming Store
  - Become #1 Application Store
  - Become the King of online Media and Entertainment market
  - Become a \$1 billion quarterly business

## Steve Jobs on creating iTunes

- "We did iTunes because we all love music. We made what we thought was the best jukebox in iTunes. Then we all wanted to carry our whole music libraries around with us. The team worked really hard. And the reason that they worked so hard is because we all wanted one. You know? I mean, the first few hundred customers were us.
- "It's not about pop culture, and it's not about fooling people, and it's not about convincing people that they want something they don't. We figure out what we want. And I think we're pretty good at having the right discipline to think through whether a lot of other people are going to want it, too. That's what we get paid to do.
- "So you can't go out and ask people, you know, what the next big [thing.] There's a great quote by Henry Ford, right? He said, 'If I'd have asked my customers what they wanted, they would have told me "A faster horse."'

Source: Fortune Interview

## **Apple Strategic Innovation Shifts**

- Apple introduces new iPod models in 2007 and 2008 - iPod touch, iPod nano, iPod shuffle
- Apple lowers iPod pricing in 2008 across the board to grow iPod business
- Apple introduces new iPhone in 2007, iPhone 2.0 in early 2008, iPhone 3G in summer 2008, iPhone 3GS in 2009, and iPhone 4 in 2010
- Apple expands the iTunes Store to sell iPhone applications - iPhone App Store in summer 2008\*
- Apple introduces iPad in 2010
- Apple launches Mac App Store in 2011
- Apple introduces the new iPad 2 in 2011

## Apple iPhone

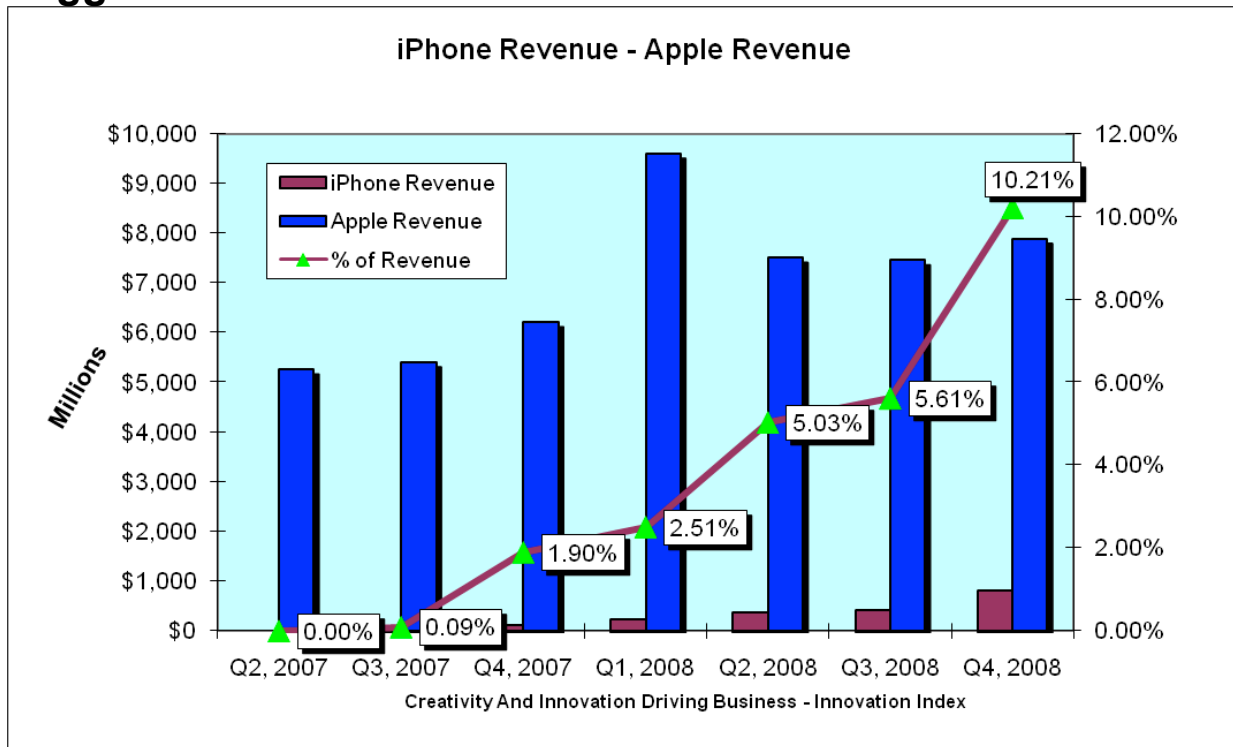


- Apple introduces new iPhone in 2007, and starts a smartphone revolution!
- iPhone combined smartphone, iPod music player, web browser and a touch screen that became a big hit for gaming & applications
- In July 2008, Apple began selling iPhone 3G, the second-generation iPhone.
- Vastly superior iPhone with 3G networking, built-in GPS, increased capacity, faster performance, app store, corporate email, calendar and contacts, and lower ownership cost!
- Significantly expanded distribution by establishing carrier relationships in over 70 countries
- “iPhone 3G had a stunning opening weekend,” said Steve Jobs, Apple’s CEO. “It took 74 days to sell the first one million original iPhones, so the new iPhone 3G is clearly off to a great start around the world.”
- Over 1 million units of iPhone 3G sold in just 3 days
- Over 10 million iPhone apps downloaded in 1st weekend of launch
- Apple announced the iPhone 3GS on June 8, 2009 and began selling it the same month
- S = Speedier, Sexier, Smarter, Smaller
- Apple introduced the iPhone 4 in June 2010, the best iPhone to date



- On March 2, 2011, at the iPad 2 event, Apple announced that over 100 million iPhones have been sold!
- Apple iPhone quickly became the gold standard for smartphones, overtaking established smartphone maker Blackberry

## Apple iPhone Juggernaut



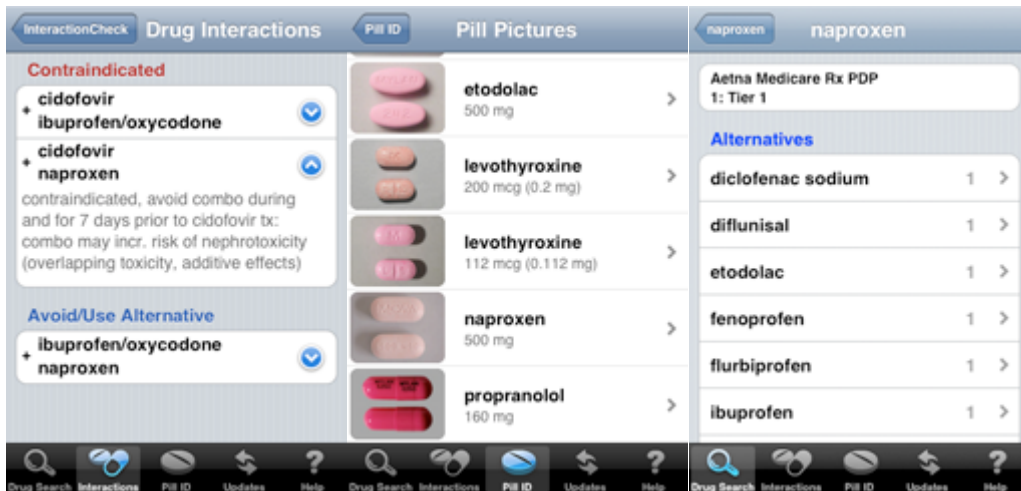
Apple iPhone sales contributed 10% of Apple revenue in last quarter of 2008, within 7 quarters of launch, and grew to over 30% of total Apple revenue in the latest quarter in 2009. Apple iPhone is clearly a huge part of Apple revenue at this stage, and will continue to gain traction as Apple expands the iPhone market globally.

## **Apple iPhone Sales**

- In fiscal Q4, 08, iPhone revenue was \$806 million representing 10.2% of Apple's total revenue of \$7.9 billion.
- iPhone deferred annual revenue totaled \$4.7 billion making Apple the 3rd largest player in the cell phone market
- Over 12 million iPhones sold in 2008

## Apple iPhone Apps

- iPhone App Store hosted by iTunes
- Dozens of categories ranging from games to business, fitness to healthcare, strategy to finance and many more...
- Over 300,000 applications on the iPhone App store
- e.g. Epocrates Rx application
- Tests side effects of various medicines. Used by doctors all over the U.S.
- Healthcare
- Over 125K downloads in a very short time
- Application developers are making a killing



## **Apple iPhone Innovation**

- Disruptive Innovation
  - Disrupted Smartphone market category in the worldwide mobile phone market share
  - Overtook Blackberry, the established leader, in new unit sales in the U.S.
  - Can potentially expand and accelerate the market of Smartphones further with entry iPhone
  - App Store provides new \$\$ opportunities beyond mobile applications into the realm of gaming, enterprise, entertainment & more

## **Apple iPhone 4**

- New Design Innovations
- Only 9.3 millimeters thin, making iPhone 4 the world's thinnest smartphone.
- Engineered glass – ultra-durable shield; looks
- Retina display – highest resolution phone screen, 326 pixels per inch, 960 x 640 LCD
- Stainless steel band – five times stronger than steel, components, mount, iPhone 4 antennas
- Apple A4 chip – very powerful microprocessor
- Gyro + Accelerometer – greater interactivity
- Camera + LED – Facetime video calling
- Multi-touch – Immersive touch experience

## **Why People Love their iPhone?**

- Looks
- Quite possibly the sexiest looking smartphone
- Apps
- “There’s an app for that” – For any type of user, be it for business, leisure, entertainment or education, iPhone App Store provides great apps
- Ease of Use
- iPhone touch interface, single home button and menus make it really intuitive and easy to use
- Experience
- iPhone engages the user with immersive experience – music, videos, internet, books, games
- Communications
- Facetime video calling, texting, visual voice mail, voice recording, voice commands – enjoy calling!

## Steve Jobs on iPhone

- “**Need:** We just hated them, they were so awful to use (cellphones).
- The software was terrible.
- The hardware wasn't very good.
- We talked to our friends, and they all hated their cellphones too.
- Everybody seemed to hate their phones.
- **Market:** We saw that (cellphones) really could become much more powerful and interesting to license. Huge market!
- A billion phones get shipped every year, and that's almost an order of magnitude greater than the number of music players.
- It's four times the number of PCs that ship every year.
- **Challenge:** It was a great challenge.
- Let's make a great phone that we fall in love with.
- And we've got the technology. (innovation)
- We've got the miniaturization from the iPod. (knowhow)
- We've got the sophisticated operating system from Mac. (experience)
- **Real Question:** Nobody thought about putting operating systems as sophisticated as OS X inside a phone
- A big debate inside the company whether we could do that
- And that was one where I had to adjudicate it and just say, 'We're going to do it. Let's try.'
- The smartest software guys were saying they can do it, so let's give them a shot.
- And they did!” – Steve Jobs, Apple CEO

Source: Fortune Interview



## **Apple Innovation Leadership**

- Steve Jobs – CEO of Apple
- *Apple's innovation and growth is first and foremost driven by inner conviction about the outer world* – a conviction that is manifested by Steve Jobs and largely led by him and people around him.
- This conviction is about changing how consumers live around music or entertainment. – Erich Joachimsthaler, Hidden in Plain Sight  
Author

## How does Apple innovate?

- “**Apple develops a notion of the changing consumer landscape.**
- Around 2000, there were already some consumers who downloaded songs from Napster and Kazaa
- Apple sees how the **demand landscape is changing** and the product leaders develop their own thinking, “**structured thinking**”, around **how to create a transformative experience for consumers**
- Don’t rely **solely** on consumer input and focus groups
- In the process, Steve Jobs reframes the entire opportunity space for Apple – from a computer company, to a music company, to be an entertainment company.
- Apple seems to have followed little of the standard advice from marketers or advertising professionals.
- Apple’s program of connecting with consumers is about the 2,000 accessories that they have licensed to Bose and others so that we can absorb and assimilate the iPod into our 1,440 minutes we all live every day.” - Hidden in Plain Sight Interview

## MacBook innovation

- Precision aluminum unibody enclosure.
- Ultrathin 13.3-inch LED-backlit display.
- Up to 5x faster NVIDIA graphics performance.
- All-new, smooth glass Multi-Touch trackpad.
- New design. New features. New technologies.
- All engineered to standards that don't exist yet!
- **GO GREEN**
- “Advanced chemistry, intelligent monitoring of the system and battery, and Adaptive Charging technology to create a revolutionary new notebook battery that delivers up to eight hours of wireless productivity on a single charge and up to 1,000 recharges without adding thickness, weight or cost to the MacBook Pro's incredible design.”\*
- *The longer battery lifespan equals fewer depleted batteries and less waste, which is better for the environment.*

Source: Apple.com

## New MacBook



## Latest Apple innovation... the NEW iPad

The screenshot shows the top of the Apple website with the 'iPad' header. Navigation links include 'Features', 'Design', 'iOS 4', 'Apps for iPad', 'Gallery', 'Guided Tours', and 'Tech Specs'. A 'Buy Now' button is in the top right. The main visual is a collection of four iPads: one showing a child's face, one showing a web browser with 'The New York Times', one showing a virtual keyboard, and one showing a grid of app icons. A hand is shown touching the screen of the iPad displaying the newspaper. Below the iPads, the word 'iPad' is written in large font, followed by the text: 'A magical and revolutionary product at an unbelievable price. Starting at \$499.' On the right side, there are three video thumbnails with links: 'Watch the new TV ad', 'Watch the iPad video', and 'Watch the...'. A vertical scrollbar is visible on the right edge of the browser window.

- Apple launches the new iPad in 2010
- High-resolution LED-backlit Large IPS display – Easy to browse and read
- Multi-Touch screen – Extremely Responsive
- Apple chip – Powerful Performance
- Thin and light – only 1.5 lb.
- Apple changes the way people read, play games, browse online, watch video and listen to music – AGAIN!
- "Bob Iger, chief executive of Walt Disney, delivered a ringing endorsement of Apple's iPad and said that the media company was developing content and special features for the new device as it released flat first-quarter earnings that nevertheless beat expectations"  
- February, 2010

- Mr. Iger said the Apple iPad could be a "game changer" and would enable Disney to create new forms of content from ESPN, its sports cable network, and ABC, its broadcast network that is home to programs such as Lost.
- "The interactivity that it will allow as a portable device with such a high-quality screen will enable us to develop product that's different to what we see on internet connected computers and TVs," he said.

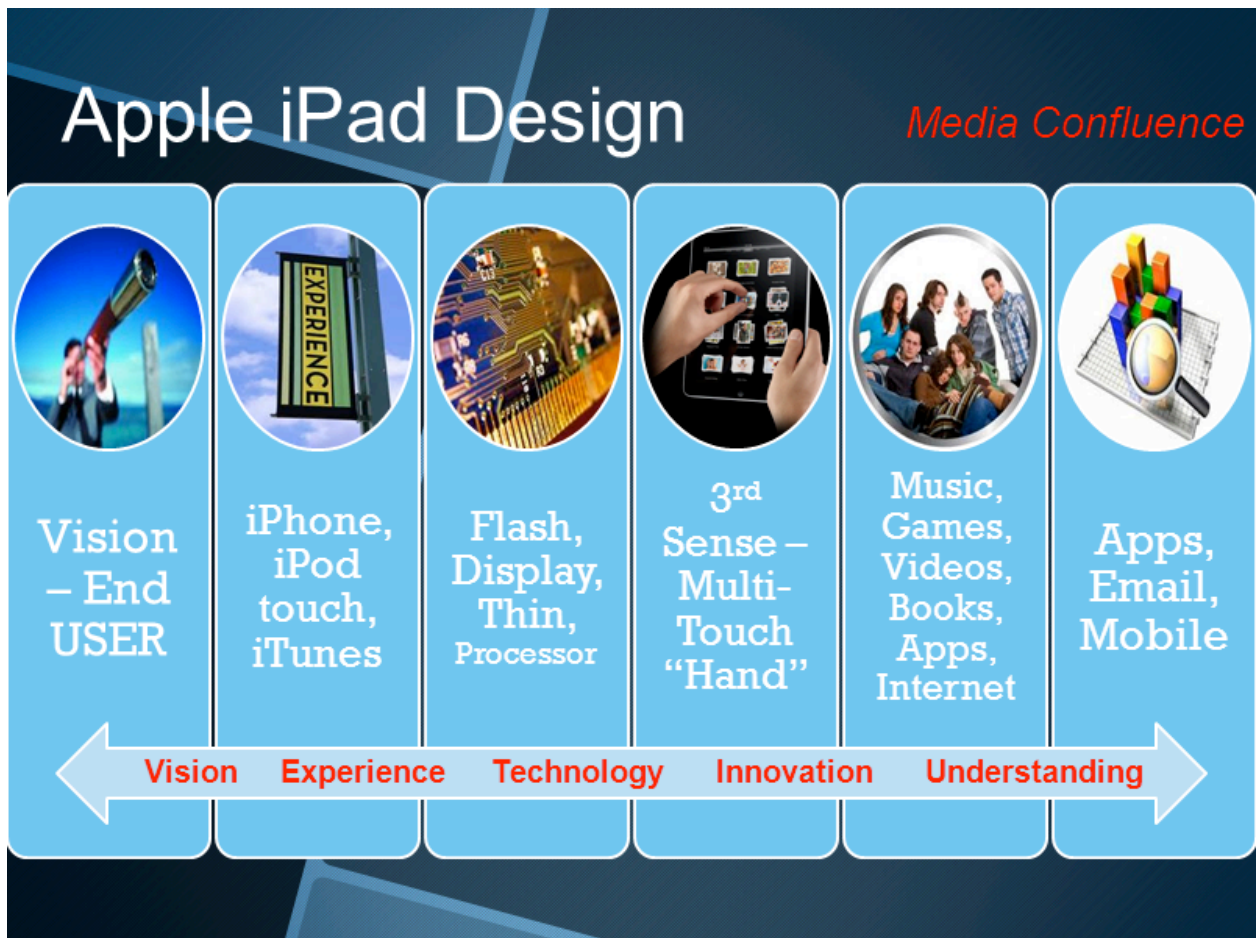
\*FT.com

## What makes the iPad WOW!



- Sexy Looks!
- VERY EASY to use! Use it daily
  - Even a baby can use it!
- Fun, Engaging, Addictive!
- Endless Content –
  - Apps, Music, Games, Books, Videos, Internet!
- Over 65,000 Apps
- Great Price – starting at \$499

## Apple iPad Design





## Apple iPad Business 2010



**15 million iPads sold in 2010**  
9 months (April-December)

**More than every Tablet PC ever sold**

**\$9.5 billion in 2010**

**>> 90% market share**

- Apple sold more than 15 million iPads
- \$9.5 billion in sales, 90% market share

## Apple iPad 2 Launch



- Apple launched the iPad 2 in Feb 2011
- White and Black iPad 2 with Video
- Faster A5 chip
- New Apps
- Smart Cover

## Apple TV



- On failing, so far, with Apple TV
- "Here's how I look at it. Everybody's tried to make a great product for the living room. Microsoft's tried, we've tried -- everybody's tried. And everybody's failed. We failed, so far.
- It's not a business yet, it's a hobby...
- **Apple TV Take 1**
- View the content of whatever you had in iTunes on your Mac or PC
- Wirelessly send content to your widescreen TV
- That's Not what people really wanted to do
- Nice to see your photos up on the big screen
- Frosting on the cake, but it's not the cake
- **Apple TV, Take 2 – Late 2008**
- What everybody really wanted, it turned out, was movies
- **Content -**
- Began the process of talking to Hollywood studios to license their movies for rental
- 600 movies on iTunes to thousands of movies later
- \$299 lower price! Download movies!
- **Apple TV Take 3 – Mid 2010**
- Only \$99!
- Streaming movies
- Netflix partnership

- Over 1 million units sold!” – Steve Jobs, Apple CEO
- Third time was a charm! WOW!

Source: Fortune interview

## **How Apple Innovates?**

### **Establish Apple as the most amazing brand**

- Steve Jobs, Marketing, Website, Retail stores, Products – Everybody and Everything must radiate the “Amazing” Apple image!! This image permeates and resonates, and owners of Apple products begin to realize the same cool feeling.

## **Envision & Create the most AMAZING products**

- Apple creates the recipes for successful, innovative products. But they are not bred out of luck. A lot goes inside to create iPod, iPhone, MacBook, Air, Pro, iPad, Retail Stores... the best next generation products that make the customers happy!

## **Deliver highest quality products with service**

- Precision, Performance, Design, Technology, Experience – everything matters, but above all the products are set to the highest quality standards and create that aura. Once customers purchase these products, Apple provides outstanding customer service through Apple retail stores and online customer support.

## **Capture emerging market landscapes & trends**

- Apple has become really savvy in foreseeing the market trends, and capturing them with products & business models. Media & Entertainment confluence, Entertainment + Hand-held consoles, Business and Leisure, Movies and Music, Green Trends and Business, Mobile and Touch Applications, Software smartphones



## **Grow the ecosystem of global partners**

- Apple's big successes have happened because of the partnerships with the likes of music and movie studios, broadcasting companies, book publishers, app developers, global cell phone operators and wireless providers, highest quality suppliers and manufacturers

## **Take calculated risks**

- Going outside the comfort zone of established markets & boundaries
- Apple knows best to find and attack multi-billion dollar markets, and methodically penetrate them. Not just entering and winning in new markets such as what Apple did in the mobile market space with the iPhone; Apple creates new playing fields and even makes new markets evidenced by iPad's success in the tablet PC market space (which was long thought dead!); Apple created a new way of buying music for only 99 cents by introducing the iTunes Store , and upped the ante by introducing the App Store

## **How Apple Innovates?**

### **Build Amazing Products**

- Simplicity, Intuitive, Experience matters, Cool, “Must have”, Can’t live without it (aka use it every day!)
- “I LOVE IT!” – most common expression

### **Penetrate Key Markets**

- Teenagers, College Students, Young Professionals
- Parents of teenagers and college students
- Designers, Mobile workers, growing Corporate appeal!
- Schools
- International markets

### **Grow Customer Penetration**

- iPhone or iPod touch -> iTunes -> Music, Games, Videos, Movies, Apps -> Spend monthly on Apple -> buy MacBook
- MacBook or Mac -> Software -> iTunes -> Music, Games, Videos, Movies, Apps -> Buy iPod touch or iPhone
- iPad -> iTunes -> eBooks, Games, Apps, Photos, Videos, Movies, Music -> iPhone -> MacBook or Mac

## **Apple Innovation Takeaways**

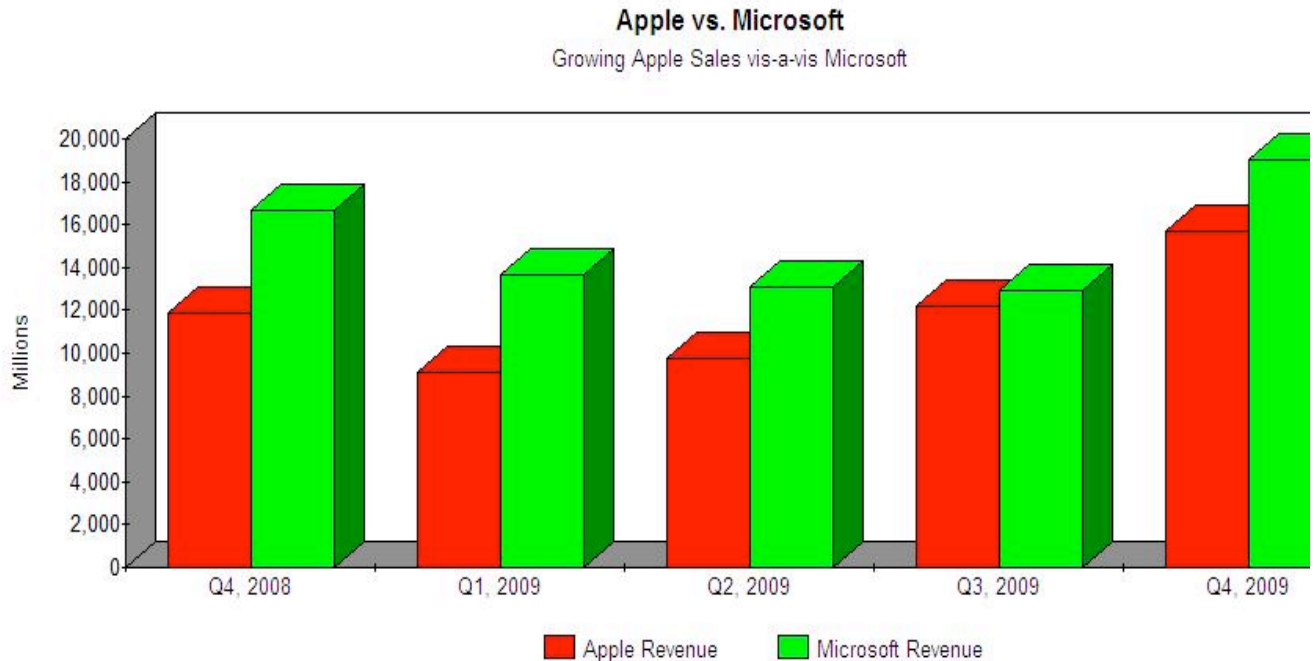
- Build Products that are cool, intuitive, simple to use and provide the most amazing experience
- Take calculated risks and boldly enter new markets. E.g. iPod, iPhone, iPad
- Change the playing field by creating new business models. e.g. iTunes, App Store, Mac App Store
- Capture the changing landscape and ecosystem of the markets and buyers
- Grow the market share with buyers as they grow and their needs grow
- Provide multiple products / touch points to buyers so they can buy and subscribe to more products all glued through iTunes and the App Store

## Top-Down and Bottom-Up innovation strategy

	<b>Top-Down Innovations</b>	<b>Bottom-Up Innovations</b>
<b>Source of ideas</b>	Management / Your Organization	Customers and users
<b>Drivers</b>	Internal resources, product, positioning	Deep understanding of customer needs
<b>Interaction</b>	Structured and managed	Spontaneous and non-linear
<b>Strategy</b>	Go to the customer	Invite customer to participate
<b>Processes</b>	Linear and strictly defined	Emergent and spontaneous
<b>Methods</b>	Market research, surveys, focus groups	Communities, crowdsourcing, peer-production, social media

Source: dicole.com

## Apple Most Valuable Technology Company



- The ultimate prize Steve Jobs had in sight was overtaking Microsoft. Apple's Q4 2009 quarterly sales were more than 80% of Microsoft's quarterly sales. Apple sales exceeded Microsoft's quarterly sales in second quarter of 2011. In 2011, Apple will have more sales revenue than Microsoft.
- Something that was one unthinkable happened... Apple, the #1 innovator in the world, also became the #1 technology company eclipsing Microsoft in market cap and sales.
- This is what kept Steve Jobs awake in the night. This is what kept Steve Jobs hungry for more. Steve Jobs keeps driving all of Apple into innovation and growth hyper drive.
- Steve Jobs legacy would not only be turning around Apple from the abyss, but also making Apple the #1 innovator, and bigger than Microsoft in sales and market cap.
- Apple also overtook Exxon Mobile as the world's most valuable company in August, 2011 (albeit the lead changes daily)

## **Where's Apple headed?**

- Apple revenue will grow over \$100 billion in 2011
- Apple will introduce next generation iPhone 5 in 2011 and announce the iPad 3
- Apple may enter the 3D TV and 3D Computing market with a new product

## **How will Apple grow?**

- Growth through Innovations. Killer innovations. Successful innovations.
- Innovations that go on to become category killers and market share leaders.
- Innovations that go on to become \$1 billion revenue machines. This is the only way Apple can do this. This is the only way Apple knows how to do this.
- Apple will innovate and grow organically... by creating new game changing products that everyone will want, everyone will crave for, and everyone will gladly pay for.



## Questions

- Creativity begins with asking questions...
- Innovation happens when you find answers...
- No questions, no answer
- More questions, better answer
- “The important thing is never to stop questioning.” - Albert Einstein

## About the Author



Sanjay Dalal is an innovator and entrepreneur with over fifteen years of leadership experience in Silicon Valley and High Tech companies. Dalal authored and launched the Innovation Faculty eBook and Definitive Guide on Creativity and Innovation in business in 2008, used by over 1000 leading organizations and professionals all over the world including HP, Hallmark, Cleveland Clinic, Pepsi, EDS, J&J, LG, TATA and major universities. Dalal is the CEO & founder of [Ogoing](#) :: Exclusive Social Network for Business Community, [India Business Network](#), and

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