

BUSINESS STUDIES

Apple case study

Operations

Cost leadership	<p>Forming partnerships with Foxconn in China, etc, to minimise costs as cost of production such as labour and materials are significantly lower in china</p> <p>Economies of scale – achieved by Foxconn as it is the largest contracts manufacturer of electronics and produces on a large scale</p> <p>Developing low cost models such as 5C and SE</p>
Good/service differentiation	<p>Product features – iOS, touch screen, apps, iTunes, Siri – innovative features of earlier models of iPhone + Apple Pay in 2014 as an online platform for banking</p> <p>However – Apple was overtaken by Samsung as the highest selling smartphone – lack of innovation/rising competition</p> <p>Quality – marketed as premium product and priced accordingly – focus on innovation and quality</p> <p>Add ons – Apple Watch – create brand loyalty and are expensive to replace if customer chooses to switch brands – effect of product differentiation</p> <p>However – quality issues iPhone 5, replacement with 5C with plastic casing → low sales indicate failure of strategy</p>
Goods and services in different industries	Standardised good
Interdependence	<p>M – identifies target market, consumer behaviour, selling methods</p> <p>Market research identifies valuable information regarding preferences – information shared with operations in design and development of new products – operations determines if options are possible and technology is available</p> <p>F – managing financial activities – allocate budget for iPhone which would limit expenditure; negotiate with finance if costs of production increased</p> <p>HR – matters relating to employees – Foxconn reported 100 000 extra factory staff employed to ensure they could meet production targets for the models</p> <p>iPhone 5 product quality caused media attention – aluminium frame scratched in production process → disputes between workers/management</p> <p>Employees not provided with adequate training, abused by supervisors for scratching phones</p> <p>Dispute and loss of productivity could be avoided by better cohesion between departments</p> <p>Loss of productivity/delays in production and profitability affected by replacing defective iPhones</p>
Globalisation	Opportunity to source components from multiple suppliers around the world → reduces cost of production and helps achieve cost leadership

	<p>Foxconn can achieve economies of scale as it also produces for HP, Nokia, Dell, Sony etc + technical expertise due to the innovation and technical know-how of a number of companies</p> <p>Access to global web of suppliers</p> <p>Threats – all products manufactured by outsourcing partners mainly in China which ensure that production targets/deadlines are reached and quality is maintained – reliance on a limited pool of suppliers/quality control can be a threat to production efficiency/reputation</p>
Technology	<p>Opportunity – market is competitive and subject to technological change – successful competition depends heavily on timely release of innovative products</p> <p>Threats – lack of innovation and ability to differentiate → loss of market share + new technology can lead to flaws and defects with components/software especially in introduction (product life cycle)</p> <p>Failure to detect and fix defects in hardware/software/services may result in lost revenue, significant warranty/other expenses and harm to reputation</p> <p>Must make significant investments in R&D and lodge payments and copyrights to protect innovation from imitation</p>
Quality expectations	<p>iPhone marketed as premium product, priced accordingly</p> <p>iPhone 5 replaced with 5C as a cheaper option – lower sales due to not meeting quality expectations of customers; 5S sales were far greater – customers value quality above price, price had less influence on purchase on contract rather than outright</p>
Legal regulations	<p>Outsourcing partners in China subject to legal regulations (labour laws to protect the workers/environmental protection laws) – subject to investigation by Chinese authorities</p> <p>Changes in regulations → potential restrictions on production, manufacture, distribution and use of devices, locking devices to carrier network, mandating use of devices on more than one network</p> <p>New models subject to certification and regulation by governments/cellular network carriers – can be extensive and time consuming, may require additional testing/product modification</p> <p>Ongoing legal battle with Samsung – claiming infringements on intellectual property (patents, trademarks, user interface, style)</p> <p>May result in issues with design and production of new models</p>
Environmental sustainability	<p>Apple has allegedly taken advantage of loopholes in environmental management in developing countries → suppliers that are known to cause serious pollution in Chinese water bodies – toxic heavy metals into nearby rivers – increasing concern about pollutants in soil, air and water</p> <p>High levels of heavy metals detected in areas near recycling centres</p>
Corporate social responsibility	<p>Ethical smartphone – two of the minerals in the phone – tin and tantalum – come from conflict-free validated mines (producing a totally fair phone would be extremely difficult, production has to be incrementally adjusted to change supply chain)</p> <p>Foxconn – Legal vs CSR – breaches of Chinese environmental protection laws due to heavy metals being dumped in rivers beyond the maximum stipulated</p>

	<p>Overtime – 60% of monthly income of one employee from working overtime; 136 hours – 100 more than maximum legal amount in a month</p> <p>12 employees jumped from buildings from Jan-May 2009 in less than 6 months</p> <p>72.5% worked overtime and exceeded limit (28.01 more hours)</p> <p>Underage labour – audits of 127 facilities revealed 10 factories with workers under 16; 1 had 42 underage workers – terminated business with facility</p> <p>Vocational school involved in hiring workers had falsified IDs and threatened retaliation against those who revealed ages</p>
Inputs	<p>Materials – components – touch screens, memory chips, circuitry, speakers, audio chips</p> <p>Information – new and existing technology contribute to design and development; sourcing of materials and processes adopted influenced by information</p> <p>Customers – tastes and preferences influence production – in-cell display eliminates glass layer between touch pad and LCD – thinner phone and longer battery life</p> <p>Human resources – effective management to minimise delays, industrial disputes, costs, wastage, bad publicity</p> <p>Facilities – achieving economies of scale and cost leadership through large scale factories with approx. 200 000 factory workers</p>
4 V's	<p>Volume – predicting what is needed – over ordering can lead to certain risks and costs; under ordering may lead to delays in production or not meeting customer orders</p> <p>Variation in demand – forecasting level – 5S and 5C were outperformed by sales of 4 and 4S</p> <p>Variety – requires ongoing monitoring/control in operations</p> <p>Visibility – customer feedback helped to create ideal phone – thin, larger screen, powerful OS, better camera, longer battery life – may be problematic due to impractical features (eg 6+ bending)</p>
Sequencing and scheduling	<p>Sequencing – certain components and circuitry need to be assembled before being installed</p> <p>Scheduling – time required</p>
Technology, task design and process layout	<p>Technology – changes in operations process (leads to greater efficiency, quality, reduced costs), certain challenges posed (expense of investments/upgrades), technical expertise required, impact on HR</p> <p>Task design – iPhone employees require certain knowledge/skills so components are in the correct order, and circuitry/processors are functioning/high quality</p> <p>Plant layout – influenced by level of customisation and quantity; large scale factories – machinery/equipment is arranged in sequence of phone's assembly – may lead to low motivation of HR due to repetitiveness</p>
Outputs	<p>Customer service – prompt delivery, gift wrapping, engraving, refunds/replacement, after sales help/support, free software upgrades</p> <p>Warranties – promise to repair/replace defective iPhone – within a year for iPhone</p>
Performance objectives	<p>Quality – point of differentiation for iPhones – may face certain challenges in maintaining strategy of quality due to competition – no longer significantly different from competitors (follower rather</p>

	<p>than leader) – loss of market share (diminished competitive advantage)</p> <p>Speed – level of demand must be accounted for and responded to by operations</p> <p>Dependability – consistent output of standardised product meeting specifications of design and functionality – 5S criticised for lack of dependability (security of fingerprint sensor + technical issues with maps app threat to consumer confidence)</p> <p>Flexibility – responding to change in market for iPhones – release of iPhone 6/6S required; Foxconn’s flexibility – basis for securing contracts with Apple/other multinational electronics companies – production lines/HR/logistics have to meet changes in design/demand for various products – Foxconn would have needed to reorganise factory layout to produce two separate phones (5 colours and 3 colours) – retraining/new components to prepare for production</p> <p>Costs – in outsourcing operations to partners in China, switching outsourcing partners to reduce costs, cheaper components eg 5C, targeting developing countries with older iPhones</p>
Product/service design and development	<p>Innovation – most prominent message in iPhone promotion</p> <p>R&D expenses growing significantly – but competitive edge being lost due to lack of innovation</p> <p>Steps: R&D → concept testing → pre-launch → launch → quarterly review</p>
Supply chain management	<p>Inputs sourced from global web of suppliers such as Foxconn – iPhones supplied directly from manufacturers + inventory housed at warehouses for distribution to mobile network providers/other retailers</p> <p>Supply competition and if components are delayed/constrained, operational objectives may not be met – pre-payments made to ensure supply of certain components</p> <p>New features require new components/technology/manufacturing capability/suppliers → change in SCM</p> <p>GTAT – potential supplier of sapphire screens for iPhone 6 declared bankruptcy</p> <p>Components often obtained from a single supplier – risk of shortages/pricing fluctuations – adversely affects objectives</p> <p>Variety in models → slightly different specifications (battery, screen size) – requires planning, monitoring and control – interdependent with inventory management as unforeseen demand may lead to excess/shortage of inventory for certain models</p>
Outsourcing	<p>+Lower cost of production, technical expertise, economies of scale, focus on design/development/marketing, access/proximity to Asian market for iPhone distribution</p> <p>-Loss of quality control, security risks of intellectual property, dependent on partners to meet deadlines, communication/cultural barriers, reputation affected by partners, who may undermine efforts to demonstrate CSR</p> <p>230 000 assembly line workers, each line with 72 000 back plates per day</p>
Technology	<p>Leading edge – adoption of fingerprint sensor technology to provide competitive advantage to business</p>

	May be more prone to flaws/create delays or wastage in operations process; risk of hackers remotely wiping stolen/lost phones
Inventory management	Holding stock – in advance of new product launches – acquired through a combination of purchase orders, supplier contracts, open orders or prepaid orders Forecast and purchase of inventory to meet requirements up to 150 days; market is competitive and subject to rapid technology and price changes – risk of incorrect forecast – may lead to excess/insufficient levels of inventory and may affect ability to meet production schedules/orders
Quality management	Control – overly strict demands on product quality without providing training – turned products out that were not under standards; inspectors fell into conflicts with workers → led to violence; widespread work stoppage 5 million iPhones returned to Foxconn due to unnamed defect – up to \$1.6b hit to cover cost of replacements – major blow to manufacturer – 19% drop in year over year revenue attributed to disappointing recent sales
Global factors	Global sourcing – sourcing of components include cost savings from outsourcing, proximity to suppliers and overseas markets, access to leading technologies China and Mongolia sources – reduces costs of transportation/storage due to proximity to assembly factories Operations/performance depend significantly on worldwide economic conditions – uncertainty poses risk as businesses postpone spending in response to tighter credit, unemployment, negative financial news or declines in come/asset values; demand is also influenced by increases in fuel/other energy costs, conditions in real estate and mortgage market, unemployment, labour and healthcare costs Economies of scale – using skilled labour of mega factories (such as Foxconn), technical expertise shared by Foxconn, global branding reduces costs of marketing Scanning and learning – influences on design, manufacturing, delivery of smart phones to remain competitive Research and development – investment is a crucial strategy in maintaining advantage; growing budget attributable to development of robots in Foxconn factories – increased by 32% then 35% in 2012-2014

Marketing

Strategic role	Brand awareness/customer loyalty – key contributors to Apple's success
Interdependence	Operations – discontinuing of product launch of iPhone 5 for the 5S/5C would result in changes in process layout, components, quality control systems for new models; market research enables sales forecasts used by operations to prepare schedules – need to collaborate in design and development of new product, combining marketing data on customer preferences with operational knowhow HR – need for staff training and development, training in assembly of new models of iPhone, develop quality control methods to ensure standards are met, employees/customer service teams in

	<p>overseas locations trained in specifications and promotional offers for product range</p> <p>Finance – budgets allocated by finance used to effectively control costs and minimise expenses in activities</p> <p>Conflict of interest – marketing deadlines for launch to increase revenue, operations require more time, HR pressure to meet deadlines – leads to ineffective practices such as inadequate training/excessive overtime</p>
Marketing approaches	<p>Sales – introductory stage of life cycle includes sales approach – developing products with capacities beyond consumer expectations – focus on design and development of new technologies – marketing strategies aimed at educating customers on features of earlier iPhones</p> <p>Marketing – focus of marketing more persuasive than informative – general knowledge about product in target market, expectations developed regarding capacity of current/future designed – greater focus on market research/making products that meet needs/wants of consumers + regular surveys of existing iPhone customers to assess response to apps and design features – info that becomes input in production; expectations emerged from design features of competitor phones in competitive market – to maintain position seen in release of larger screen size of iPhones</p>
Factors influencing consumer choice	<p>Psychological – colourful casing of 5C to help “represent feeling, make statement” etc but quality expectations were stronger due to low quality plastic casing</p> <p>5S colours of silver, gold and grey were metallic and associated with quality/refinement – air of quality, leading technology and innovation</p> <p>Sociocultural – influence of viewers’ environment – viewers who don’t have an iPhone were pressured/persuaded to purchase products; social trends in design of iPhone such as improved camera capacity and larger screen – focus in the promotion of iPhones influenced by sociocultural factors</p> <p>Economic – inflation/unemployment – GFC and downturn led to development of low cost 5C and sell older models to continue competitiveness</p> <p>Government – laws regulate concerns such as nature of products, pricing strategies, availability and ethical considerations in promotion</p>
Consumer laws	<p>Ensuring they are compliant in all countries</p> <p>Deceptive and misleading advertising – must ensure promotional information doesn’t convey false impression of iPhone or suggest misleading qualities – practices deceiving customers such as limited time sales which are ongoing are prohibited</p> <p>Price discrimination – Apple must sell iPhone at the same price for all Australians; doesn’t prevent other retailers</p> <p>Implied conditions – smartphones fit for purpose correspond with description, make available spare parts, repairs and comply with express warranties</p> <p>Warranties – 1 year warranty states entitlement to replacement or refund for major failure/compensation for reasonable foreseeable loss/damage – replaced to acceptable quality</p>
Ethical influences	<p>Product placement in Captain America: Winter Soldier</p>

SWOT analysis	<p>Strengths Strong global brand/loyalty Ecosystem (integration of products) Operating system (iOS) Apps/App Store History as leading innovator of quality smartphones etc High profitability of iPhone Low production costs – outsourcing Broad range of distribution – stores, online, mobile retailers, phone carriers, network contracts Large budget for marketing + R&D</p>	<p>Weaknesses High price relative to competitors (particularly Asia) Incompatibility with other OS Criticised for lack of innovation since death of Jobs Quality concerns with outsourcing Bad publicity due to outsourcing partners (CSR) Expensive accessories need to be upgraded for newer models Dependence on limited overseas suppliers – increased risk of lead times/delays</p>
	<p>Opportunities Development of products for high growth markets (China, India etc) Partnerships with mobile network companies – new distribution channels Design and development of models to differentiate phones → competitive advantage Expansion of retail stores in global market Apple Pay in international market Development of digital SIM – greater control over network providers (in progress)</p>	<p>Threats Increased competition, particularly in Asia Technological change – shorter product life cycles, expensive R&D and changes in marketing strategies to maintain competitive position Company tax reforms → may reduce profitability (US) Ireland as tax haven → significant back payments → reduced profitability Rising pay levels/greater regulation of labour in China → higher costs of producing iPhone Breaches in patents → legal restrictions on future designs Appreciation of USD → affect demand for iPhones overseas Growth in Android OS Online music competition Technical faults/exposure to hacking → compromising security of data stored on phones</p>
	<p>Maturity stage of product life cycle – sales relying on replacement purchases rather than first-time buyers → need for new and innovative products or increasing production of cheaper models → differentiating continuation through innovation or targeting money conscious consumers who want older models (eg large number of iPhone 4 sales particularly in Asia)</p>	
Market research	<p>Sales data Unit sales 2011-2014 +73% +2% +13% Net sales 2011-2014 +71% +16% +12% As a result of increased demand for iPhones especially due to iPhone 5</p>	

	<p>Unit sales in 2013 partially offset by 3% decline in iPhone average selling prices (due to shift in product mix towards lower-priced iPhones)</p> <p>Growth in iPhone sales in 2012 – ongoing demand for 4 and 3GS during launches of 4S and 5</p> <p>Every month Apple surveys iPhone buyers country-by-country to determine motive to buy iPhones as compared to Androids, features they most use, demographics and level of satisfaction with iPhone</p>
Establishing marketing objectives	<p>May relate to market share, market leadership, positioning, new markets, product development, innovation, customer service</p> <p>Examples – increase market share in Asia in next 12 months by securing more distribution contracts with Chinese and Japanese mobile carriers, increase online sales by 15% in the next quarter by offering discounts</p>
Identifying target markets	<p>Economic data will indicate opportunities for businesses – generally would show growth of markets such as China and India</p> <p>Markets include:</p> <p>Executives – ads in business newspapers/magazines</p> <p>Teenagers – product placement/celebrity endorsement in music videos, movies, TV shows</p> <p>Young children – product placement in Toy Story 3 and Lego Movie</p> <p>Mass market – billboards, website, social media, digital and print media, TV commercials (5C – for the colourful)</p>
Developing marketing strategies	<p>Product mix and related strategies consist of positions – latest handsets (6S, 6S+), previous handset (6, 6+), previous low cost handset (5S)</p>
Implementation, monitoring and control	<p>Monitor sales data for iPhone to identify market situation (plateau)</p> <p>Control – action required to improve performance, meet objectives such as through launch of new iPhone or new channels to increase sales/market share</p>
Market segmentation	<p>Demographic – high price aimed at high income consumers in developed country → limited success of 5C due to low quality</p> <p>Geographic – segments consist of Americas, Greater China, Japan, Europe (+India, Middle East, Africa), Asia (including Australia)</p> <p>Economic growth influences demand in different segments, requires appropriate marketing response</p> <p>5C – developed as low cost for developing economies such as in China and India – showed a contrary response in China with 5S having greater use (5% vs 2%)</p> <p>Psychographic – consideration of emotional influences and lifestyle – eg identifying interests of consumers from success of iPod to integrate iTunes into iPhone</p> <p>Behavioural – cheaper plan covers less phone and data usage – plans tend to be segmented according to usage and value of phone provided</p>
Differentiation	<p>Branding and marketing focused on design, innovation and quality for differentiation; difficulty when products are no longer seen as significantly different – must continue developing future smartphones differentiated from competitors to maintain reputation as market leader</p>

Positioning	<p>Different positioning within marker – style/design vs features vs performance/specifications/customisation vs durability</p> <p>Offering distinguished hardware and interface design as well as strong features – leading global brands</p> <p>Meanwhile Chinese brands often concentrate on durable customisable phones – mass consumers and power users rather than fashion forward youngsters</p>
Product	<p>Focus on innovation and design</p> <p>Unique OS</p> <p>Multiple apples</p> <p>Camera quality/capacity</p> <p>Location/voice recognition eg Maps and Siri</p> <p>High memory capacity</p> <p>Compatibility with other Apple products</p> <p>Strong brand image, visible placement of logo</p> <p>Packing suggestive of quality</p> <p>3-tiered product mix</p> <p>Apple Pay</p> <p>“Bigger and better” – 6 and 6+; 6S has minor upgrades than 6, improvements to camera, 3D Touch, rose gold colour, upgraded processor, strong aluminium casing, continuation of 16GB got criticism due to high storage requirements especially with higher resolution camera</p> <p>6S+ - first phablet with larger screen, longer battery life, high performance video capabilities</p>
Price	<p>Price skimming when new phone is released, leading edge quality positioning</p> <p>Older model reduced in price when new model released (competition-based pricing, usually based on price of Samsung phones)</p> <p>Bundling plans offered by providers allow payment over two years, making high price less significant</p> <p>Buyback program and discounted prices on older models in Asia</p> <p>Significant price increase for 6S due to depreciation of AUD relative to USD</p>
Promotion	<p>Use of media create highly publicised event of new product launches</p> <p>TV and mass media focusing on innovation, quality and design as well as connection with others (FaceTime)</p> <p>Product placement (eg The Office, FaceTime)</p> <p>Use of website for launches/information</p> <p>Extensive use of social media</p> <p>Magazines and journals to target executives</p> <p>Publicity and secrecy to keep media guessing</p> <p>Celebrity endorsement (U2 at 2014 releases)</p> <p>6S – new touch screen capabilities and camera upgrades</p> <p>6S+ – video and gaming experience – eg OneRepublic Ryan Tedder endorsing 6S</p>
Place	<p>Online sales, Apple stores, mobile carriers, retail mobile stores</p> <p>415 stores in 13 countries in 2014</p> <p>Contracts with Mobile China Inc and others in Japan/India</p> <p>30% of sales made through direct distribution channels (online/Apple stores), 70% indirect (network carriers/retailers)</p> <p>Sales to educational institutions/government through direct selling</p>

	<p>Apple/Samsung collaborating to produce digital SIM card aiming to reduce profit shared with network providers</p> <p>6S/6S+ originally launched in US, AU, CA, CH, FR, GE, HK, JP, NZ, PR, SG – only preorder available from Apple, 3-4 week delay for non-Apple retailers</p>
People	<p>Focus on sales/customer service</p> <p>Genius and Specialists to raise employee status</p> <p>In-store, online and phone support for after sales, repairs, complaints and warranties</p>
Process	<p>Online ordering system</p> <p>Free iOS upgrades</p> <p>Preordering available when purchasing from apple</p> <p>Roaming payment system so customers don't need to wait at a checkout</p>
Physical evidence	<p>Stores design to reflect importance of innovation and quality</p> <p>Hands on approach to test-drive products</p> <p>Elaborate building entrances in most stores in prime city locations</p>
E-marketing	<p>Product – detailed information about product and specifications, cheap without brochures etc; products displayed alongside accessories and compatible devices increasing customer awareness; FAQ can be provided</p> <p>Price – price transparency – comparison to competitors, allowing shoppers to identify lower price; increasing profit margins by selling online and reducing retail store costs</p> <p>Promotion – images, audio and video clips, detailed information – launches published on website and digitally issues for publicity, online ads used on social media sites, business journals, newspapers etc; extensive database used to promote products via social media</p> <p>Place – website provide platform for global market – no costs from retail store establishment; intermediary costs reduced by selling directly; can tailor to different languages and cultural preferences; flexibility of accessing products online; but some do not trust security of online banking</p>
Global marketing	<p>Global branding – only 3 changes in Apple logo since 1976 – simple and recognisable; competitive advantage through brand recognition helps to use the same strategies and reduce costs by creating marketing economies of scale – US\$246b worth in 2015</p> <p>Standardisation – 5C advertisements, billboard and TV advertisement speaking different languages – reduced costs through use of same promotional material</p> <p>Customisation – 6S+ suggested to be designed for Asian market due to interest in phablets; India-specific TV ad based around great Indian wedding used to promote iPhone 6 which connects the bride and groom through iMessage, etc – specifically tailored for the market</p> <p>Global pricing – pricing strategies to suit individual markets, influenced by currency exchange rates – all have higher prices than USA other than Japan (CA +1.6%, AU +3.5%, UK +8.6%, HK/SG +11.9%+, China +24.6%)</p> <p>Competitive positioning – positioned in high end of market in terms of quality and design, market in developing countries have been saturated so Apple has turned to high growth in economies such</p>

	<p>as China and India – new marketing strategies required due to lower income levels and consumer choice differences</p> <p>Distribution channel establishment in new markets helps to increase sales and competitive advantages – eg Apple’s success in using larger screens – catering to phablet interest eg 41% penetration in Korea as compared to 7% in the rest of the world</p>
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Finance

Strategic role	<p>Expectation to spend about \$10b this fiscal year in capital expenditure</p> <p>Finance function responsible for sourcing/managing funds in efficient/effective way</p> <p>Working capital grown from \$34b in Sept 2009 to \$156b in Sept 2014 – 358% increase, driven by iPhones and iPads</p> <p>Efficient funding of expansion without interest repayments – allows immediate and effective implementation of capital expansion program – funds used to assist Apple to grow</p> <p>\$1b planned spending in retail stores, \$9b on purchasing capital for outsourcing partners and on support centre services</p>
Objectives	<p><i>Liquidity – free up working capital for future innovations</i></p> <p><i>Profitability – profit maximisation</i></p> <p><i>Efficiency – minimise costs and use resources effectively</i></p> <p><i>Growth – long term growth</i></p> <p><i>Solvency – improve ability to pay long term loans</i></p>
Interdependence	<p><i>O – design/development of products based on funds for R&D and production</i></p> <p><i>HR – costs of replacing staff considered – recruitment/training</i></p> <p><i>F – provide secondary market research data such as sales analysis, to determine future marketing strategies</i></p>
Internal sources of funds	<p>Retained profits – 75% of owner’s equity between 2014-16</p> <p>Share repurchase scheme in 2015 to downsize number of shareholders and increase return on owner’s equity in the future</p>
External sources of funds	<p>Gearing increased significantly between 2014-16 (1.07% to 150% in 2016)?????</p> <p>Debt increased by 42% in 2015 and 13% in 2016</p> <p>Equity increased 7% in 2015 and 7% in 2016</p>
Institutions	<p>Finance companies – Apple promotes “Apple Financing” for consumers to take advantage of GE CreditLine card when buying Apple products</p> <p><i>Banks – business customers can spread costs of equipment over 24, 36 or 48 month terms with fixed payments from finance from Bank of Queensland</i></p>
Government	<p>Apple is subject to taxes in the US and other countries – they have been criticised for using technicalities to pay little or no corporate taxes on at least \$US74b over the last 4 years</p> <p>They are being investigated for tax fraud and if guilty their profitability, liquidity and other objectives could be adversely affected due to back payments</p>
Global market influences	<p>Economic growth impacts sales and therefore profits, China and India are high growth areas</p> <p>Borrowing possible in the US due to low interest rates after GFC</p>
	<p><i>Financial needs – how much does it cost to evolve and innovate products</i></p>

Planning and implementing	Financial risks – need to address changes to interest rates, exchange rates and access to retained profits
Debt and equity finance	At Sept 2016 – short term debt - \$32.6b; long term debt - \$121.2b Equity finance through shares on US stock market - \$12b in dividends in 2016 (vs \$11.1b in 2014) – higher dividend makes Apple more appealing to investors → easier to raise equity funds in the future Annual report – up to \$2.18 per share in 2016 vs \$1.82 in 2014
Financial statements	Required to list annual report (including financial statements) with the United States Securities and Exchange Commission (being a US based company)
Financial ratios	From 2014 to 2016 Liquidity: 1.08:1, 1.11:1, 1.35:1 Gearing: 1.07:1, 1.43:1, 1.5:1 Gross profit: 38.6%, 40%, 39.1% Net profit: 21.6%, 22.8%, 21.2% Return on owners' equity: 35.4%, 44.7%, 35.6% Expense: 9.9%, 9.6%, 11.2% Accounts receivable turnover: 63 days, 56 days, 50 days
Comparative ratio analysis	Over time – each quarter With similar businesses – comparing sales figures with competitors such as Microsoft and Samsung Against industry standards – cost of suppliers to industry standards and aims to be market leader
	Liquidity – steady increase Current assets +20% Cash and cash equivalents -\$636m Short term investments x2+ Accounts receivable -38% Inventories -\$217m Accounts payable +\$4.3m Other current liabilities -\$254m 1.11:1 → 1.35:1
	Solvency – increase Total liabilities +13% Owner's equity 7% 143% → 150%
	Profitability – increase in 2015, decrease in 2016 2015 – 52% increase in sales of iPhone (mainly in China) 2016 – lower sales growth in China, increase in value of \$US → fall in sales/profits Little change in GP/NP ratio due to proportionate changes in COGS/expenses Falling profit due to fall in return on owner's equity -10%
	Efficiency – increased expense (decreased efficiency), increased turnover (increased efficiency) Expense – 9.6% → 11.2% (E +\$1.8m, S -\$18m) Accounts receivable – 56 → 50 days (AR -\$6.5m, S -\$18m)
Limits to financial statements	Normalised earnings – costs/revenue in launching a new product, high statistics for quarters with product launches, hard to compare with others Capitalising expenses – consider Apple's R&D Valuing of assets – difficult to estimate market value of brand, logo and goodwill

Ethical issues	<p>Non syllabus ethical issues – fictitious revenues, hidden liabilities/expenses (excluded or amalgamated with others), fraudulent asset valuations</p> <p>Tax evasion in Australia - \$40m from revenues of \$6b in 2012; reporting higher COGS for tax minimisation – European profits recorded in Ireland and left largely untaxed (only 0.005%)</p>
Cash flow management	<p>Overall improvement from +52.6% 2015, -3% 2016</p> <p>Inflow from operating activities +36% 2015, -19% 2016 (due to sales fluctuations)</p> <p>Outflows related to investing activities +149% 2015, -18% 2016 (stocks, property, plant and equipment)</p> <p>Outflows related to financing activities -53% 2015 (undertaking long term debt), + 2016</p> <p>Distributing payments throughout each quarter and proactivity in setting prices with suppliers which allows forecasting of payments over financial year</p>
Working capital management	<p>Cash +45% from 2011-2013</p> <p>Accounts receivable – credit checks, issue of statements and reminders, charges for late payments, credit insurance</p> <p>Inventories – JIT – suppliers instructed to have 2 week turnaround on production</p> <p>Accounts payable – negotiates terms of sale with suppliers</p> <p>Leases retail stores</p>
Profitability management	<p>NP +35% 2015, -14% 2016</p> <p>Fixed and variable costs – new models with cheaper components (SE), source cheaper suppliers, changing outsourcing partners to reduce labour costs</p> <p>Cost centres – attributing supplier costs to cost centres</p> <p>Expense minimisation – waste/unnecessary costs being attributed to suppliers before negotiations confirmed</p> <p>Sales mix – marketing mix to focus on 6/6+</p> <p>Pricing policy – looks at costs and projected profit to price products</p>
Global financial management	<p>2016 appreciation of \$US made Apple products more expensive → less demand/revenue</p> <p>Customised global pricing strategies to combat fluctuations in exchange rates – 25% increase in price of phones when Russian Ruble appreciated in 2014</p> <p>Methods of payment and bills of exchange in supplier contracts – ruthless in approach due to large volumes required</p> <p>Forward/option contracts with financial institutions to protect against exchange risks</p>