

## Introduction

The first generation iPod was introduced by Apple in the fall of 2001. This newest portable music technology soon became the most popular and most talked about topic in our daily conversation. In less than four year's time, Apple's iPod became one of the most dominant products not only of its class, but to world as a whole. This new generation of hard drive MP3 portable player has taken over not only in the music industry, but has built a large network in other industries as well. The various business strategies that Apple has undertaken in promoting their iPods are highly successful; this can be proven by the dominating sales figures from the time iPod was first being launched. Even up until today, Apple's competitors have absolutely no match for iPods' popularity.

## Business Strategies

### - Consumers Expectations, First Mover's Advantage -

Consumer's demand is a driving factor behind Apple's latest innovations. When iPod first hit the market back in November 2001, the technological industry was stunned by this latest innovation. Back then, people couldn't have imagined that a device about the size of a cigarette box could of have the capability of storing 40 GB of information, let alone the other features! When Apple introduced all the other earth-shattering features that went

along with its new device, they have greatly exceeded what the consumers have originally expected. Not only they were able to create demand for their iPods, but they were able to create 'A thirst for iPod'. This superior technology was labeled to be the latest fashionable thing to have. Hence, Apple definitely was able to achieve the first mover's advantage with the introduction of the iPod.

#### Business Strategies – Product Differentiation

Apple's strategy is to use product differentiation rather than cost leadership in promoting the iPod. They knew right from the beginning that the development of hard drive players can easily be replicated and their competitors can easily enter the market and create their own hard drive players. Therefore, they went with the route of product differentiation. After all, this is also what Apple is known for; they have a stellar track record for coming up with products that have a superior design over their competitors. On top of this design, Apple has created the iPod in such way so that it can be a representation of YOU. They want you to be able to bring out your personality, fashion sense and status through the iPod. The idea behind that is, when we look at 'Your iPod', we know what kind of personality you possess. In other words, iPods can be viewed as an extension of one's image.

### Business Strategies – Switching Costs

The sales of iPod for the first three years since the introduction were considerably low compared to the explosive sales in the fourth year onwards. This is caused mainly by the high switching costs involved in the first few years of iPod's existence. At first iPods were only compatible with Mac. In other words, iPod users would have to have a Mac in order to upload songs on their iPods. Apple soon found out that this strategy that they were pursuing was not effective, so they quickly introduced iPods at later generations that were PC compatible. As anticipated, sales of iPods exploded after the PC compatible generation came out. This was largely due to the fact that switching costs has gotten considerably lower because a wide variety of PC users can now have access to easy uploading on iPods.

### Business Strategies – Complementary Service

Switching cost decreased not only due to the compatibility factor, but Apple has taken various steps to increase the benefits and the values for iPod users. Another product/service Apple released in parallel with its iPod is a music downloading and organizing software called iTunes. This complementary software allows iPod users to convert all the music they have on CD to MP3 format so that they will be able to store their entire CD collection on the iPod. At the same time, iTunes allows the user to organize

the music collection in every possible way. It functions just like a jukebox; you are your own DJ and you can organize your music library in which ever way you like. The purpose of this complementary service is to provide iPod users a convenient way of accessing, organizing and downloading songs in a very easy and organized fashion. Basically what Apple is saying is: "Whenever you buy an iPod, you don't have to worry about where to get good quality songs and how to organize your music library. Just sit back and relax, let the user friendly software take you wherever you want to go at the convenience of your fingertips!"

#### Business Strategies – Lock-in

Apple has attempted to lock-in their iPod consumer base by developing an MP3 song format called AAC (Advance Audio Coding). This audio format was meant to be only accessible on Mac products and is not compatible with other music software. This initial attempt of locking-in iPod users failed when, Microsoft, the other computer giant denied Apple's lock-in strategy by introducing software that allowed users to de-compress AAC format music files back to music files that are compatible with regular MP3 players.

### Business Strategies – Marketing

Marketing might just be the business strategy that separated Apple from the rest of its competitors. Since iPods are considered to be an experienced good, that is, consumers have to experience the product before being able to make an accurate judgment about quality; Apple has taken different courses of actions in order to assist potential buyers to 'jump over the hurdle' into purchasing the product.

1) Testimonials. Apple has hired 'iPod Professionals' to post positive and favorable comments in a large number of chat forums on the internet in attempt to answer any questions that potential buyers are having and to help clarify any concerns that they might have.

2) Giveaways. If you observe the prices that stores are giving out, you will soon realize 90% of them are iPods!

3) Celebrities. Apple is not only using giveaways to make iPod more known throughout the globe, but they are using celebrities as icons to further promote their product.

4) Alliance with Industry Leaders. This might just be the most intelligent and compelling course of action that Apple have undertaken to achieve the current level of success with their iPods. They have made alliance with car giants such as Mercedes and BMW, computer giants such as Hewitt Packard and countless numbers of other corporations in other industries. Apple is

certainly using its company's size and financial power to the fullest. Their competitors cannot even come close to the amount of money Apple is spending on marketing its iPods.

### Network Externalities

According to S.J. Liebowitz, Network Externalities is defined as "A change in the benefit, or surplus, that an agent derives from a good when the number of other agents consuming the same kind of good changes." In the case of the iPod, Network Effect is created when more iPod users are added onto the pool. Firstly, when Apple first fabricated this device, they had an individualized customization concept in mind. Apple is promoting that each iPod user should customize their iPod so that it can reflect their personalities. As a result, many accessories such as skin covers, headphones, carry cases, etc were created. Some of these accessories were created by Apples and many by third party manufacturers. As the number of iPod users increase, the demand for the accessories would naturally increase. Hence, more accessories producers would want to get into this market and sell them for a profit. According to the law of competitive industries, as the number of producers increase, the lower the prices will get. Therefore, each individual iPod user can benefit from the lower price created because of a large pool of iPod users.

Secondly, the capabilities of sharing music files also create a set of Network Effects. As the number of users increase, iTunes Music Store would also naturally increase its music collection and expand on the range of artists, varieties, languages, etc of the songs. Each individual user can benefit from a large music library created by iTunes because there are many different types of iPod users across the globe. Also, the cheap price of download (99 cents per song) is created because there were already many users on board before this program has been launched. Even though the first copy costs of acquiring the rights for the album might be high, but due to the large number of users downloading the songs, iTunes Music Store can afford to acquire many albums from different artists. In other words, each iPod user who downloads songs through iTunes Music Store can benefit by the large variety of good quality songs to choose from and cheap downloading prices.

### Conclusion

Even before the launch of iPod, Apple is fully aware of the kind of market that they are going into and the business strategies which they have to take in order to succeed. Right from the introduction of the first iPod, Apple was able to achieve a First Mover's Advantage by introducing a superior technology never seen before. Apple was slowly able to capture almost the entire market by reducing the switching costs for potential buyers. At the

same time, complementary services were introduced to give consumers added value and benefits. Throughout the years, many have attempted to develop 'iPod Killers'; some failed miserably and some succeed to a certain degree, Microsoft de-compressor software for instance. However, Apple was able to use its size and financial power to its full advantage. They made alliance with other industry leaders in order to expand their distribution network and also to solidify their stands in the market. We can conclude that Apple's iPod is not just a fad, but Apple has put enough work into designing its business strategies so that iPod can be everyone's next portable device.