PROJECT REPORT ON

MARKET SEGMENTATION OF APPLE

INTRODUCTION

Ever wondered why marketers only target certain markets or how these markets are identified? Think about universities for a moment: how do they identify which students to communicate with about degree schemes? What criteria do they use? Do they base it on where you live, your age, your gender, or is it just about your entrance scores? Do they market to postgraduate and undergraduate audiences differently, what about international and domestic student groups—is this difference important for the effective marketing of higher education services to prospective students?

In this chapter, we consider the way organizations determine the markets in which they need to concentrate their commercial efforts. This process is referred to as market segmentation and is an integral part of marketing strategy, discussed in Chapter 5. After defining the principles of market segmentation this chapter commences with an exploration of the differences between market segmentation and product differentiation, as this helps clarify the underlying principles of segmentation. Consideration is also given to the techniques and issues concerning market segmentation within consumer and business-to-business markets.

The method by which whole markets are subdivided into different segments is referred to as the STP process. STP refers to the three activities that should be undertaken, usually sequentially, if segmentation is to be successful. These are segmentation, targeting, and positioning, and this chapter is structured around these key elements.

THE STP PROCESS

The growing use of the STP process has occurred as a direct result of the prevalence of mature markets, the greater diversity in customer needs, and the ability to reach specialized or niche segments. As such marketers are increasingly segmenting markets and identifying attractive segments (i.e. who to focus on and why?), in order to identify new product opportunities, develop suitable positioning and communications strategies (i.e. what message to communicate), and effectively allocate resources to key marketing activities (i.e. how much should we spend and where?). Organizations will often commission segmentation research when they want to re-scope their marketing strategy, investigate a declining brand, launch a new product, or restructure their pricing policy. Organizations operating in highly dynamic environments seek to conduct segmentation research at regular intervals, to keep in touch with changes in the marketplace.

STP refers to the three activities segmentation, targeting, and positioning (Figure 6.1).

Key benefits of the STP process include:

• Enhancing a company's competitive position by providing direction and focus for marketing strategies such as targeted advertising, new product development, and brand differentiation. For example, Coca-Cola identified through market

research that its Diet Coke brand (also marketed as Coca-Cola Lite) was regarded as 'girly' and 'feminine' by male consumers. As a direct result the company developed a new product, branded Coke Zero, which is targeted at the health-conscious male segment of the soft drinks market.

• Examining and identifying growth opportunities in the market through the identification of new customers, growth segments, or new product uses. For example Arm & Hammer was able to attract new customers when existing consumers identified new uses for their baking soda (Christensen, Cook, and Hall, 2005). Lucozade also changed the positioning and targeting from its original marketing strategy positioned for sick children and rebranded to target athletes as an energy drink.

• More effective and efficient matching of company resources to targeted market segments promises the greatest return on marketing investment (ROMI). For example, financial institutions like HSBC and Barclays and large retailing multinationals such as Tesco and ASDA Wal-Mart are utilizing data-informed segmentation strategies to effectively target direct marketing messages and rewards to customers they have classified as offering long-term value to the company, i.e. they are profitable customers.

THE CONCEPT OF MARKET SEGMENTATION

Market segmentation is the division of a market into different groups of customers with distinctly similar needs and product/service requirements. Or to put it another way, market segmentation is the division of a mass market into identifiable and distinct groups or segments, each of which have common characteristics and needs and display similar responses to marketing actions.

Market segmentation was first defined as ‘a condition of growth when core markets have already been developed on a generalised basis to the point where additional promotional expenditures are yielding diminishing returns’ (Smith, 1956). There is now widespread agreement that they form an important foundation for successful marketing strategies and activities (Wind, 1978; Hooley and Saunders, 1993).

The purpose of market segmentation is to leverage scarce resources; in other words, to ensure that the elements of the marketing mix, price, distribution, products and promotion, are designed to meet particular needs of different customer groups. Since companies have finite resources it is not possible to produce all possible products for all the people, all of the time. The best that can be aimed for is to provide selected offerings for selected groups of people, most of the time. This process allows organizations to focus on specific customers’ needs, in the most efficient and effective way. As Beane and Ennis (1987) eloquently commented, ‘a company with limited resources needs to pick only the best opportunities to pursue’.

The market segmentation concept is related to product differentiation. If you aim at different market segments, you might adapt different variations of your offering to satisfy those segments, and equally if you adapt different versions of your offering, this may appeal to different market segments. Since there is less competition, your approach is less likely to be copied and so either approach will do.

An example in the area of fashion retailing might be if you adapt your clothing range so that your skirts are more colourful, use lighter fabrics, and a very short hemline, for instance, this styling is more likely to appeal more to younger women. If alternatively, you decide to target older women, then you might need to change the styling of your skirts to suit them by using darker, heavier fabrics, with a longer hemline. This is exactly what Marks and Spencer (M&S) did to attract a younger female shopper into their M&S stores and compete more directly with Next and Debenhams for share of this market. The company launched a range of female clothing called Per Una, and three years on the fashion range has been a huge success reportedly generating annual sales of nearly £230 m—more than 10 per cent of the total womenswear sales at M&S. If you start by adapting new product variants, you are using a product differentiation approach. If you start with the customer's needs, you are using a market segmentation approach. This is illustrated more clearly in Figure 6.2 using offering rather than product to indicate that the same concept may apply to a service.

A relational marketing perspective would replace the marketing mix—the 4Ps —either with the 7Ps or with a discussion of the need to design, develop, and deliver the customer experience.

The concept of market segmentation was first proposed as an alternative market development technique in imperfectly competitive markets, that is, in markets where there are relatively few competitors selling an identical product. Where there are lots of competitors selling identical products, market segmentation and product differentiation produce similar results as competitors imitate your strategic approach more quickly and product differentiation approaches meet market segment needs more closely.

With an increasing proliferation of tastes in modern society, consumers have increased disposable incomes. As a result, marketers have sought to design product and service offerings around consumer demand (market segmentation) more than around their own production needs (product differentiation) and they use market research to inform this process.

A TALE OF TWO APPROACHES

Tale 1 is about Amway, a global company that manufactures and distributes over 450 different consumer products and invests heavily in research and development in order to remain competitive and meet customer needs. For example, after several years of research and development, Amway produced a new range of products called Satinique, which used the 'Ceramide Infusion System'. The core attribute is that Satinique contains a moisturizing agent, which can restore the nutrients in hair. Once Amway had developed the product they then undertook market research to determine which group of consumers they should target. Having identified a segment made up of professional women, who always want to look their best and who want professional, salon- quality products and who rely on recommendations from friends when making haircare purchase decisions, they then developed a marketing strategy and implemented a successful marketing plan.

There are three main usage segments in the sun care market: protection (from harmful rays), after sun (for relief and moisturizing after being in the sun), and self-tan (for those who want an all year round 'cosmetic' tan). Beiersdorf have developed their portfolio of NIVEA Sun brands around these usage segments, but unlike Amway have used innovation to develop products to meet customer needs identified through market research and segmentation analysis. For example, market research has shown that awareness of the need for protection from the sun does not necessarily lead to product purchase and usage. It was also found that women enjoy the luxurious nature of sun care products, men prefer convenience, and children don't enjoy the sun cream application process. As a result NIVEA Sun developed and introduced a spray application device, designed specifically to appeal to men and their preference for convenience. They also introduced a coloured formulation for children's sun products in order to make the application process more fun.

1 Which of these two companies use a product differentiation approach and which uses a market segmentation approach? Justify your selection.
2 Choose a beauty, fragrance, or grooming product that you like to use and determine likely segments. 3 Do you believe Amway should change their approach? Justify your decision.

Market segmentation which put forward the idea that because neither supply nor demand sides of marketing were homogeneous (i.e. different groups wanted to produce and consume different things), a product differentiation approach which was concerned with the bending of demand to the will of supply must also be accompanied by an alternative mechanism of the bending of supply to the will of demand. This alternative marketing strategy was termed market segmentation.

THE PROCESS OF MARKET SEGMENTATION

The intricacies involved in market segmentation are said to make it an exacting activity. Griffith and Pol (1994) argue this point on the basis of multiple product applications, greater customer variability, and problems associated with the identification of the key differences between groups of customers. However, there have been numerous attempts to define and describe business segmentation, using a variety of variables and ranging from the severely product-based to customer needs-based orientation.

There are two main approaches to segmenting markets. The first adopts the view that the market is considered to consist of customers which are essentially the same, so the task is to identify groups which share particular differences. This is referred to as the breakdown method. The second approach considers a market to consist of customers that are all different, so here the task is to find similarities. This is known as the build-up method. The breakdown approach is perhaps the most established and well recognized and is the main method used for segmenting consumer markets. The build-up approach seeks to move from the individual level where all customers are different, to a more general level of analysis based on the identification of similarities. The build-up method is customer oriented as it seeks to determine common customer needs. The aim of both methods is to identify segments in the market where identifiable differences exist between segments (segment heterogeneity) and similarities exist between members within each segment (member homogeneity).

Other segmentation researchers have distinguished between a priori or post hoc segmentation methods (Green, 1979). In the former, segments are predetermined using the judgement of the researchers beforehand (i.e. a priori). This approach typically progresses along seven stages encompassing the following steps (Wind, 1978) including:

1 Selection of the base (a priori) for segmentation (e.g. demographics, socio-economics).

2 Selection of segment descriptors (including hypotheses on the possible link between these descriptors and the basis for segmentation).

3 Sample design—mostly using stratified sampling approaches and

occasionally a quota sample (see Chapter 4).

4 Data collection.

5 Formation of the segments based on a sorting of respondents into categories.

6 Establishment of the profile of the segments using multivariate statistical methods (e.g. multiple discriminate analysis, multiple regression analysis).

7 Translation of the findings about the segments' estimated size and profile into specific marketing strategies, including the selection of target segments and the design or modification of specific marketing strategy.

With the post hoc approach, the segments are deduced from the research and instead pursue the following process:

1 Sample design—mostly using quota or random sampling approaches

2 Identification of suitable statistical methods of analysis. 3 Data collection.

4 Data analysis—formation of distinct segments using multivariate statistical methods .

5 Establishment of the profile of the segments using multivariate statistical methods (e.g. factor analysis) and selection of segment descriptors (based on the key aspects of the profile for each segment).

6 Translation of the findings about the segments' estimated size and profile into specific marketing strategies, including the selection of target segments and the design or modification of specific marketing strategy.

Segmentation in business markets should reflect the relationship needs of the parties involved and should not be based solely on the traditional consumer market approach, which is primarily the breakdown method. Through use of both the breakdown and the build-up approaches, a more accurate, in-depth, and potentially more profitable view of industrial markets can be achieved (Crittenden, Crittenden, and Muzyka, 2002). However, problems remain concerning the practical application and implementation of B2B segmentation. Managers report that the analysis processes are reasonably clear, but it is not clear how they should 'choose and evaluate between the market segments' which have been determined (Naudé and Cheng, 2003).

Much segmentation theory has been developed during the period when transactional marketing was the principal approach to marketing, rather than the more relational approaches adopted in today's service-dominated environment. Under these circumstances, the allocation of resources to achieve the designated marketing mix goals was of key importance. Freytag and Clarke (2001) have quite rightly identified that market segmentation is not a static concept. In other words, those customers who make up the various segments have needs which may change, and consequently, those customers may no longer remain members of the particular segment to which they originally belonged. Market segmentation programmes must therefore use customer data which are current.

The segmentation process will therefore vary according to the prevailing conditions in the marketplace and the changing needs of the parties involved, not simply the needs of the selling organization.

To segment consumer goods and service markets, we use market information we have collected based on certain key customer-, product-, or situation-related criteria (variables). These are classified as segmentation bases and include profile (e.g. who are my market and where are they?); behavioural (e.g. where, when, and how does my market behave?); and psychological criteria (e.g. why does my market behave that way?). These differing types of segmentation bases are depicted in Figure 6.4. A fourth segmentation criterion that can be added is contact data, a customer's name and full contact details beyond just their postcode (e.g. postal address, email, mobile and home telephone number). The data are useful for tactical-level marketing activities such as addressable direct marketing.

APPLE MARKETING STRATEGY

As with all Apple marketing, the iPhone marketing strategy is very clear, simple and clever. With the plain and simple apple icon, Apple focuses on the pure innovative style of their products without all the "fluff". The iPhone was released by Apple in June, 2007. The ground-breaking style of the iPhone was touted for months before the initial release and has remained the best of the best when it comes to cell phones over the past several years. Before the iPhone's official release, Apple ran four television commercials promoting the new cell phone.

The first of the commercials portrays the new iPhone as the next step up from the popular iPod. The iPod was all the rage up until this point, and the iPhone was supposed to be the next-generation iPod, oh, and it's also a phone! The advertisement displays all of the enhanced features available in the iPod, and more, the point being "There's never been an iPod that can do this."

The first four iPhone commercials flaunted the convenience, innovation, and usefulness of a single product with the functionality of not only a phone, or a music device, but a product that can, among other things, listen to music, watch videos, view photos, make conference calls, check e-mail, browse the web, and view maps.

Not only does Apple utilize television for their marketing strategy, but they make use of their website by posting videos, they also published a handful of press releases that could have been released in one single document. Apple often uses this tactic to build up hype and leave the consumer wanting more.

With Apple's brief press releases, giving the audience little to go off, "Apple leveraged a law of social physics - news, like nature, abhors a vacuum. In the absence of real information, those who care about a product will grasp at any rumor that comes their way. Apple may publicly disavow the rumor Web sites that scramble for scraps about the companies plans, but secretly their marketing department must be delighted. It would cost a lot to buy that kind of Web advertising." (Silverman, 2007)

The official iPhone website does more than just provide information about the product. The website provides top tips and tricks for the use of an iPhone, as well as a huge focus on apps. Almost the entire iPhone page displays images of apps, provides the "App of the Week," the website also contains sections titled "Apps for Everything," and the "Top Apps." Apple's website is a great marketing tool for current iPhone users and consumers that have an interest in purchasing the iPhone. The promotion of the apps will create a stronger source of revenue for Apple. As customers see top rated applications, they are more likely to download the app, rather than searching through 25,000+ apps to find one that may be of any value to the consumer.

Successful younger men were the target audience that Apple had originally focused on. Apple had hoped that with this target audience, and the fact that 48% of this audience did not already own an Apple iPod, would allow them to reach their forecast of 10 million sales by the end of 2008.

One month prior to the release of the iPhone, Solutions Research Group profiled a cross-section of those aware of the phone. The forecast of potential buyers for the day of the release ranked a majority of T-Mobile customers, AT&T's only GSM-based product competitor, at 15%. The second largest group expected to purchase the new iPhone was AT&T's existing customer base, at 12%. The Solutions Research Group also found that 72% of males, versus 28% of women were most likely to investigate the phone at its minimum price of $499. (Malley, 2007)

The obvious current target audiences for the Apple iPhone include young people between the ages of 20 and 35, affluent teenagers, "jet-setters", and "mobile" employees who work outside of the office.

Apple is known for their simplistic, but catchy commercials. In recent television commercials for the Apple iPhone, "There's an App for that" is the new catch phrase that places a strong focus on the apps available from the App Store. Apps, or applications, are in "every category, from games to business, education to entertainment, finance to health and fitness, productivity to social networking. These applications have been designed to take advantage of iPhone features such as Multi-Touch, the accelerometer, wireless, and GPS" (Apple, 2009). Apple currently claims to have 25,000+ apps available, and counting.

The focus on the variation of apps offered opens up the target audience greatly. There is essentially an app for everyone. As a few of the iPhone commercials advertise, you can find the snow conditions on the mountain, track calories in your lunch, find exactly where you parked your car. You can find a cab in a strange city, find your share of the bill for a table of 5, or learn to fix a wobbly bookshelf. You can read a restaurant review, read an MRI, or just read a regular old book. These are just a few of the features that Apple has promoted through television commercials. iPhone apps provide every functionality that one can imagine.

When the iPhone was initially released, it was priced at a hefty $599. Still, hundreds of thousands of people rushed out to get the new phone, forking over a third as much as they would have had they waited an extra 3 months. 3 months after the initial release, Apple reduced the price of the iPhone to $399. This enraged Apple's loyal customers and consumers who purchased the new phone just months earlier. One year later, Apple again reduced the price of the iPhone to $199, 66% less than the original price.

In July, 2007, the Apple iPhone was all the hype. I believe that Apple's decision to release the phone at $599 was slightly based on greed. However, their product was the most innovative out in the market place, giving Apple the freedom to price the iPhone at whatever they wanted. Many believed that Apple had cut the price after discovering lower than expected iPhone sales. Apple, however, states that the price cut was made "to spur holiday sales and predicted that Apple would meet its stated goal of selling its 1 millionth iPhone by the end of September." (Dalrymple, 2007)

As with the product life cycle of any cell phone or Apple product, including Apple's iPod, prices are often reduced drastically months after the initially release. Tech products are always competing against "the latest and greatest" while maintaining a relevant price in the market place. Had Apple not reduced the price of the iPhone, the customer base would have dwindled quickly as many consumers are unwilling to spend $599 on a cell phone, no matter how many useful features the phone may carry.

As the iPhone remains to be the number one smart phone around, the product continues to grow, increasing size capabilities, increasing the number of applications available, and providing new features that are released through new iterations of the phone, continue to provide a greater value to the iPhone while the pricing remains relevant.

At this time in the product life cycle, Apple continues to release enhanced iterations of the iPhone. With most iPhone users un-willing to purchase a newer version of the iPhone because of price, the target audience for the newer generation phones is new iPhone customers. With Apple's installed base continuing to grow, they have found a way bring in reoccurring revenue from their existing customers through the sales of their application downloads. As more and more people purchase the iPhone, Apple's audience for new customers continues to dwindle. Fortunately for Apple, they have built in another source for revenue that continues throughout the life of the product.

APPLE'S BRANDING STRATEGY

Apple Inc. uses the Apple brand to compete across several highly competitive markets, including the personal computer industry with its Macintosh line of computers and related software, the consumer electronics industry with products such as the iPod, digital music distribution through its iTunes Music Store, the smart phone market with the Apple iPhone, magazine, book, games and applications publishing via the AppsStore for iPhone and the iPad tablet computing device, and movie and TV content distribution with Apple TV. For marketers, the company is also establishing a very strong presence to rival Google in the advertising market, via its Apps business and iAd network.

Steve Jobs, Apple's co-Founder, described Apple as a "mobile devices company" - the largest one in the world (Apple's revenues are bigger than Nokia, Samsung, or Sony's mobility business).

For several years Apple's product strategy involved creating innovative products and services aligned with a "digital hub" strategy, whereby Apple Macintosh computer products function as the digital hub for digital devices, including the Apple iPod, personal digital assistants, cellular phones, digital video and still cameras, and other electronic devices. More recently, the full impact of a very well throught out brand strategy has come into focus - and one in which customer experience is central, and the Mac is no longer the hub of all things Apple. The company now offers a harmonised, synchronised, and integrated user experience across all of its main devices (iPad, iPhone, and Mac), using iCloud as the hub.

Apple's core competence is delivering exceptional experience through superb user interfaces. The company's product strategy is based around this, with iTunes, the iPhone with it's touch screen "gestures" that are re-used on the iPad, and the Apple Apps store all playing key roles.

THE APPLE BRAND PERSONALITY

Apple has a branding strategy that focuses on the emotions. The Apple brand personality is about lifestyle; imagination; liberty regained; innovation; passion; hopes, dreams and aspirations; and power-to-the-people through technology. The Apple brand personality is also about simplicity and the removal of complexity from people's lives; people-driven product design; and about being a really humanistic company with a heartfelt connection with its customers.

APPLE BRAND EQUITY AND APPLE'S CUSTOMER FRANCHISE

The Apple brand is not just intimate with its customers, it's loved, and there is a real sense of community among users of its main product lines.

The brand equity and customer franchise which Apple embodies is extremely strong. The preference for Apple products amongst the "Mac community", for instance, not only kept the company alive for much of the 90's (when from a rational economic perspective it looked like a dead duck) but it even enables the company to sustain pricing that is at a premium to its competitors.

It is arguable that without the price-premium which the Apple brand sustains in many product areas, the company would have exited the personal computer business several years ago. Small market share PC vendors with weaker brand equity have struggled to compete with the supply chain and manufacturing economics of Dell. However, Apple has made big advances in becoming more efficient with its manufacturing supply chain,logistics and operations, and it can be assumed that as far as like-for-like hardware manufacturing comparisons are comcerned, Apple's product costs are very similar to those of Dell. In terms of price to the consumer, Apple's computer products have an additional cost advantage: the company does not have to pay another company for operating system licences..

THE APPLE CUSTOMER EXPERIENCE

The huge promise of the Apple brand, of course presents Apple with an enormous challenge to live up to. The innovative, beautifully-designed, highly ergonomic, and technology-leading products which Apple delivers are not only designed to match the brand promise, but are fundamental to keeping it.

Apple fully understands that all aspects of the customer experience are important and that all brand touch-points must reinforce the Apple brand.

Apple has expanded and improved its distribution capabilities by opening its own retail stores in key cities around the world in up-market, quality shopping venues. Apple provides Apple Mac-expert retail floor staff staff to selected resellers' stores (such as Australian department store David Jones); it has entered into strategic alliances with other companies to co-brand or distribute Apple's products and services (for example, HP who was selling a co-branded form of iPod and pre-loading iTunes onto consumer PCs and laptops in the mid-2000s - though in retrospect this may now just have been a stepping-stone). Apple has also increased the accessibility of iPods through various resellers that do not currently carry Apple Macintosh systems, and has increased the reach of its online stores.

The very successful Apple retail stores give prospective customers direct experience of Apple's brand values. Apple Store visitors experience a stimulating, no-pressure environment where they can discover more about the Apple family, try out the company's products, and get practical help on Apple products at the shops' Guru Bars. Apple retail staff are helpful, informative, and let their enthusiasm show without being brash or pushy.

The overall feeling is one of inclusiveness by a community that really understands what good technology should look and feel like - and how it should fit into people's lives.

APPLE BRAND ARCHITECTURE

From a brand architecture viewpoint, the company maintains a "monolithic" brand identity - everything being associated with the Apple name, even when investing strongly in the Apple iPod and Apple iTunes products.

Apple's current line-up of product families includes not just the iPod and iTunes, but iMac, iBook, iLife, iWork, iPhone, iPad, and now iCloud. However, even though marketing investments around iPod are substantial, Apple has not established an "i" brand. While the "i" prefix is used only for consumer products, it is not used for a large number of Apple's consumer products (eg Mac mini, MacBook, Apple TV, Airport Extreme, Safari, QuickTime, and Mighty Mouse).

The list of Apple's Trademarks reflects something of a jumbled past. The predominant sub-brand since the introduction of the Apple Macintosh in January 1984 has always been the Apple Mac. Products whose market includes Microsoft computer users (for example MobileMe, QuickTime, Bonjour, and Safari) have been named so they are somewhat neutral, and therefore more acceptable to Windows users. Yet other product have been developed more for a professional market (eg Aperture, the Final Cut family, and Xserve).

THE IPOD HALO EFFECT

Though Apple's iPhone and iTunes music business is profitable in its own right, Apple's venture into these product areas was based on a strategy of using the music business to help boost the appeal of Apple's computing business.

Apple is using iPod, iTunes, iPhone, and now iPad to reinforce and re-invigorate the Apple brand personality. At the same time, these product initiatives are growing a highly relevant, appealing brand image in the minds of consumer segments that Apple has not previously reached.

In a so-called iPod halo effect, Apple hoped that the popularity of iPod and iTunes among these new groups of customers would cause these segments to be interested in Apple's computer products. This does seem to have happened. Since the take-off of the iPod there has been a dramatic rise in Apple's computer sales and market share.

A couple of years ago, Apple's aspirations for the iPod halo effect was was highlighted most strongly when it used the slogan "from the creators of iPod" in its promotion of iMac G5 computers. In this instance, the Apple brand came full-circle - having been built into a branding system that originates in the personal computer market, then leveraged into the consumer electronics market, and then back into the consumer personal computer market.

This halo effect is extended with the hugely successful Apple iPad tablet computer. Great customer experience with iPhone (and familiarity with Apple's touch screen gesture controls), combined with a great product in its own right, has made iPod a huge success that in turn is drawing even more people to Apple's Mac computer products. In a move which brings matters full circle, the 2011 Lion version of Mac OSX brought to the Mac the same touch screen gesture controls which iPad and iPod users have learned.

This is extension of a common user experience across Apple products was further strengthened by the introduction of the Apps Store to Mac OSX in mid-2011. Mac users can now buy their OSX applications with the same convenience as iPad or iPhone users can buy iOS Apps. Apple has announced that in mid-2012 it will further harmonise the user experience of Mac and iPad users by introducing even more features from iPad into the new Mountain Lion version of the Mac operating system. With the introduction of Mountain Lion, Apple will drop the Mac part of the name from the operating system, so that it will be called just "OS X", rather than "Mac OS X". This small but important branding change opens the way for Apple to consolidate, perhaps into a single Operating System, the software used across its multiple devices.

Expect the Halo to Speak - Siri and Beyond

Speech will be the next dimension in which Apple will gaining synery across its product lines. Expect the natural language speech processing and interactivity capabilities introduced in October 2011 on the iPhone 4S to be introduced first on the iPad (which uses the same operating system and A5 processor as the iPhone 4S).

Apple is giving substance to speech interactivity by giving it a character - a personal assistant called "Siri". Siri can be somewhat customised by using different languages and idioms (for example, there are three versions of English speech available with country-specific accents and pronunciation - US, UK and Australian). Presumably other customisation or personalization features will also be introduced (perhaps user choice of name and other "identity" characteristics).

Siri highlights the marketing genius of Apple: speech control and interactivity are not new features on computers or phones. For example, smartphones running Microsoft's Windows Mobile operating system have had very similar functionality to Siri for some time. When Apple created the Siri "personal assistant" which gives these otherwise rather hard to describe features a character, consumers were given a hook around which they could finally understand what voice interactivity was all about.

Having taught customers to use touch gestures, Apple is now going to teach us how to speak to computers (almost unavoidably, in a specific Apple dialect of speech interaction).

APPLE BRAND STRENGTH NOW CREATING FINANCIAL SUCCESS

So far, Apples' branding strategy is bearing fruit. For example, Apple reports that half of all computer sales through its retail channel are to people new to Macintosh, the company's sales and margins have been growing strongly since 2006, and Apple has achieved several "best ever" quarterly financial results in recent years, and in early 2012 when Apple's share price passed $500 per share for the first time, the company was the most valuable business in the world with a market capitalization which exceeded oil company Exxon, the previous top business.

Leveraging the success of the iPod, Apple launched the iPhone (released in July 07) to extend the brand even further. Apple's buzz marketing efforts in the first half of 2007 were truly superb, culminating in the release of one of the most highly anticipated products for many years - and launching apple into a completely new market: mobile handsets. By July 2008 the buzz about the 3G iPhone resulted in over 1 million units being sold in the first 3 days of its release in over 20 countries around the world. This success was repeated in 2010 with the introduction of the iPad tablet computer, and in March 2011 with the launch of the iPad 2 which sold 1 million units within 24 hours.

APPLE RE-ENTERING THE CORPORATE MARKET VIA THE IPHONE AND IPAD HALO EFFECT

Though no-one at Apple would say so today, the next phase of Apple's strategy seems focused on the Corporate marketplace.

A long time ago, Apple had a fairly strong market share in large companies.

A long, long time ago (at the end of the 1970's) the first spreadsheet program (VisiCalc) was launched on the Apple II. The first PC (the IBM PC) to run a Microsoft operating system (PC DOS) did not appear until 1981. When Microsoft launched its Excel spreadsheet in 1984 it appeared first on the just-released Apple Mac, such was Apple's presence among accounting and finance departments.

Even though Apple effectively stopped competing for corporate business during the 1990s, the Apple Mac is still used in corporate environments. Microsoft still has a vigorous applications development team totally dedicated to writing business software for the Apple Mac. New versions of Microsoft Office for Apple Mac still come out approximately 2 years before similar functionality is placed in the next version of Microsoft Office for the Windows operating system.

Over the next few years it seems likely that Apple will re-focus on the Corporate marketplace: The company provides regular updates on the proportion of Fortune 500 companies which are either trialing or deploying iPhone (currently over 90%), and the iPad. In 2009, when Apple announced "Snow Leopard" (the then-latest version of the Apple Mac operating system) it included features allowing Mac computers to fully support Microsoft Exchange. This enables corporate IT departments to support business users who wish to use Apple Macs for their main email clients. Apple's latest version, Mac OSX Lion (released in Summer 2011) includes all the functionality needed to use a Mac as a business server.

Also, Microsoft continues to bring out advanced versions of Microsoft Office for Apple Mac, and - very significantly - in mid-2008 Apple announced a software upgrade for the iPhone which allows iPhones to be fully supported by Microsoft Exchange email servers. Corporate IT departments can now include iPhones as email clients.

One aspect of Apple's strategy seems clear: to use the popularity of the iPhone and iPad to break back into large corporations, sell lots of those devices, and have Apple Mac back on the desks of large businesses (or more probably - in the *laptop bags* of middle and senior managers in most large businesses).

The Macbook Air and iPad are clearly designed for business markets as well as for consumers, and Apple continues to display its mastery in smoothly morphing customer experience and brand preference from one product category to another.

As we say; no one in Apple will currently admit to such ambitions, but Apple's branding strategy is clearly expanding to include business and corporate markets once again.

AFTER HALOS - CLOUDS

The next step in Apple's marketing strategy is the Apple iCloud, which delivers a seamless experience for using and sharing content across all your Apple devices (iPhone, iPod, iPad, or Mac). iCloud enables a common "it just works" experience for using content across all of Apple's mainstream products. iCloud positions the company for a future where customers experiences and their digtal lives transcend the hardware devices which they use, and enables Apple to extend the brand experience well beyond individual products.

Apple has invested in a 500,000 (soon to be one million) square foot Apple data center in rural North Carolina. This data centre this will be used as the core of a data repository for Apple's iCloud services, which will enable Apple to leverage it's customer franchise into an even broader market space. Apple iCloud is one of many ways in which Apple and Google are fast becoming arch rivals.

Once Apple hand-held device users have become acustomed to this style of interactivity, presumably natural language speech interaction will also be extended to the Mac - in whatever form-factor Apple's full-function computers have evolved into by then. Perhaps longer-term, it can also be assumed that a user's Siri personal assistant will be used to embody and create a feeling of continuous experience across different devices, with Siri seemingly moving with us from device to device.

This continuity across devices will be possible because Apple is using iCloud to offer customers device-independence and multi-device synchronisation - so that whichever Apple device you move to the experience continues because the new one will "know" what you were doing on the last one and can pick up dialogues such as chat messages where you left off.

APPLE'S ORIGINAL APPLE MACINTOSH MARKETING STRATEGY

Stanford University has published contemporary records and original documents of the marketing strategy for the Apple Macintosh launch in 1984, including the original Apple marketing strategy and the Apple Macintosh product introduction plan written by Regis McKenna.

It is now nearly 3 decades since the launch of the Apple Macintosh (on January 24, 1984). Having proven itself and already gained considerable popularity with the Apple II, Apple chose to announce the Apple Mac in one of the most famous-ever commercials, aired during the third quarter of Super Bowl XVIII on 22 January 1984.

The formal product release came a couple of days later on January 24th, 1984. In addition to the innovative Apple Mac graphical user interface (based on concepts from Xerox PARC), the Mac's industrial design - shown below - was revolutionary for the time. Interestingly, it share's the same screen size (9 inch) as a relatively new PC format: NetBooks, and had a just slightly smaller screen size than Apple's 10 inch iPad and Macbook Air products.

The first Mac (above) had just 128KB of RAM and a 400KB 3.5-inch floppy disk drive, and a 9

The original Mac graphical user interface was revolutionary in its day. It introduced the use of the mouse and features such as icons, fonts, folders, and audio to mainstream compu

APPLE'S SEGMENTATION STRATEGY, AND THE FOLLY OF CONVENTIONAL WISDOM

There is a myth, more of a meme actually, about the 'inevitability' of commoditization. It is a view of the world that sees things linearly, in terms of singularities, and the so-called "one right path."

In this realm, where commoditization is God, horizontal orientation (versus vertical integration) rules the roost. How else to define consumers, not in flesh and blood terms, not as spirits that aspire to specific outcomes, but rather, as a composite set of loosely-coupled attributes.

This mindset is compelling because it is simple and familiar, but it also leads to blind obsequiousness.

Historical edifices are held as indelible fact. "It's Microsoft v. Apple all over again." "There has to be one absolute, dominant leader." "Open will always prevail -- and should prevail -- over proprietary systems." "Market share matters above all else. Even profits."

There is one small fly in the ointment to this ethos, however, and its name is Apple. (For a historical perspective on tech industry architectural orientation, check out "Waves of Power" by David Moschella.)

APPLE'S GAUDY PERFORMANCE RELATIVE TO ITS INDUSTRY PEERS

The following inconvenient facts must be an affront to the horizontal, commoditized, open, market share zealots. Apple has launched three major new product lines since 2001: the iPod (October, 2001); the iPhone (July, 2007); and the iPad (April, 2010). The company's stock is up 3,000 percent since the launch of iPod, 125 percent since the launch of iPhone, and 20 percent since the launch of iPad.

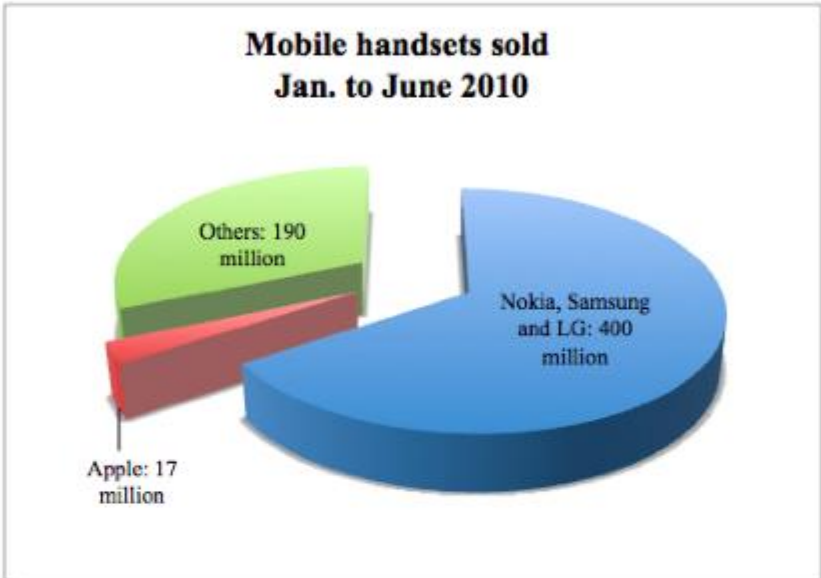
In that same time period, the major devotees of the loosely coupled model -- Microsoft, Google, Intel and Dell -- have been, **at best**, outpaced by Apple 6X (in the case of Google dating back to the launch of iPod) and at worst, either been wiped out (in the case of Dell) or treaded water (in the cases of Microsoft and Intel) in every comparison period.

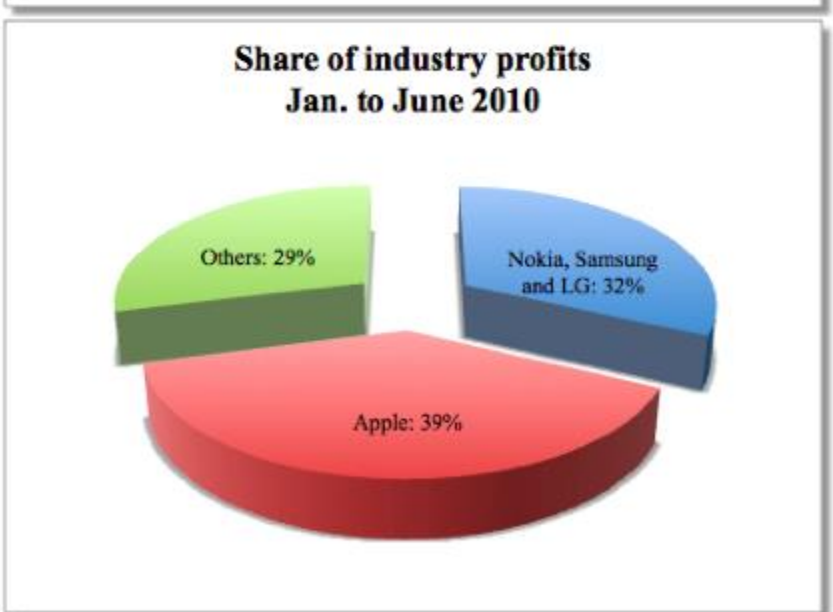
Let me go a step further and make the forceful assertion that in the red hot mobile computing segment (inclusive of smart phones, media players and tablet devices), anything that Nokia, RIM/Blackberry and even Google Android are doing is simply **orthogonal** to Apple's iOS-based device play (iPhone, iPod touch, iPad). Checkers to chess.

That is why it's laughable that the latest meme du jour, "The Apps Lifestyle" -- and believe me, it is a lifestyle -- is ridiculously framed as a trend of the multi-vendor "cell phones" segment. Why? The clear-cut truth is that Apple's iOS device platform is **the** staging ground of the Apps Lifestyle, something that ~90-percent of iOS device owners "get" to the point of it being intrinsic, assumed and embedded.

By contrast, maybe 15 percent of non-iOS device owners embrace The Apps Lifestyle, or even know what it means, and that's probably being generous. Yet, this composite translates to 29 percent of all users (according to Pew Research Center).

THE FOLLY OF CONVENTIONAL WISDOM





Source: Canaccord Genuity and IDC

Therein, lies the problem with conventional wisdom. Namely, that it's conventional. It doesn't think outside the box in terms of strategic imperatives, like building differentiation, growing margins or defensibility.

That explains why the top three mobile handset unit sales 'leaders' (Nokia, Samsung, LG) are outselling Apple in raw units an astounding 23.5 to 1, yet for all of that effort, **combined** they are garnering only 82 percent of Apple's profit level.

Is it surprising, then, that the reward for achieving such distinguished leadership was for the CEOs at two of those companies (i.e., Nokia and LG) to get fired?

ANALYZING APPLE MARKET SEGMENTATION STRATEGY

In the real world of building products and attacking market opportunities, market segmentation is the process of defining and sub-dividing the aggregate, homogeneous market into addressable, targeted needs and aspirations buckets. Buckets that are in turn, thresholded by demographic, psychographic and/or budgetary constraints.

Market segmentation strategy enables a company to drive complete, unified product solutions that are harmonious with messaging, customer outreach, and channel strategies for selling and supporting customers.

In this regard, Apple's product strategy is a study in market segmentation. Versus merely trying to stuff a product, burrito-style, with as many different features as possible, they target specific user experiences, and build the product around that accordingly.

Consider the recent iPod event in September, where Apple completely rebooted the iPod nano, rolled back the iPod shuffle to an earlier interaction model, and majorly forked the iPod Touch in a way that also speaks to iPhone positioning.

Mind you, each of these efforts represent major strategic iterations of **successful** products, not reboots of failed ones, so it speaks volumes about how the company thinks about its users, their workflows and corresponding segments.

Moreover, it underscores the integral-ness of continuously **re-calibrating** on the definition of the situation; not merely doing more for the sake of an added bullet point or to support a desired price point.

Does Apple have a perfect crystal ball on these things? The history of the nano and the degree of iteration of this generation's shuffle, suggests that no, in fact, they don't always have a perfect read. But make no mistake: While they may not always be right, they are *never* confused or haphazard in their approach, and that is the hallmark of sound market segmentation strategy.

APPLE SEGMENTATION FROM IPOD SHUFFLE TO MACBOOK

As such, the chart below is an attempt to logically organize Apple's product line so as to better understand the company's approach to market segmentation:

Apple Device	Name	Mobility	Input	Media Player	Apps	Phone	Camera	Video Capture
	iPod shuffle	Wearable	Buttons	Media Player	-	-	-	-
	iPod nano	Wearable	Touch	Media Player	Lite	-	-	-
	iPod touch	Pocket-able	Touch	Media Player	iOS	-	Crappy	Good
	iPhone	Pocket-able	Touch	Media Player	iOS	Phone	Good	Good
	iPad	Bag-able	Touch	Media Player	iOS	-	-	-
	MacBook	Portable	Keyboard, Mouse	Media Player	MacOS	-	-	-

So What Does It All Mean?

If (in football terms) we are now entering the second quarter of the age of mobile computing, it helps to see the continuum of connected devices from the perspective of their means of mobility; namely, whether they are wear-able, pocket-able, bag-able or portable.

Similarly, the diverse set of device input methods that Apple embraces -- from physical buttons, keyboards and mice to multi-touch and tilt -- provides a window into the types of use cases and workflows that they are optimizing around.

Further, when you see how Apple has used its vertical integration of the iPod media player and the iTunes marketplace across all of its devices to create a billing relationship with 160 million consumers vis-à-vis simplified discovery, purchase and distribution, it provides a window into how they've facilitated a market segmentation approach that is simultaneously harmonious and discrete.

In the harmonious bucket is the way that iOS-based Apps and their corresponding "ecosystem surround" directly overlay on top of iTunes and the iPod media player. This approach is no doubt a business school study of how companies can marry strategy and tactics across product lines and product lifecycles.

Ironically, it is the holistic approach that has given Apple the ability to be judicious in its implementation of differentiating hardware components at the display, phone, camera and video capture level.

Want the best build quality device that Apple makes? Get the iPhone 4. How do we know this? While the iPod Touch has recently received iPhone 4 pixie dust, in the form of a camera, HD video recording and a retina screen, the build quality is a step below the iPhone 4, which feels like a jewel box forged by a craftsman.

To be sure, the iPod Touch is beautiful and solid, but its screen is slightly diminished in effect, and the camera is intentionally hobbled. In other words, while Steve Jobs himself may refer to the iPod Touch as the "iPhone without the phone," in truth, the functional segmentation keeps it a step below the iPhone.

Now, this is completely logical when you consider how much more expensive the iPhone is. Pricing (and margins) that are hidden from the customer via carrier subsidies.

That is also why recent analyst data that suggests that the iPad is "cannibalizing" low-end MacBook sales -- versus simply swallowing the low-end Windows PC and netbook segments for lunch -- is dubious at best. If you own an iPad and a Mac, you know two things:

1. The iPad targets a set of "jobs" that are not dependent upon keyboards and mice, but there are plenty of jobs for which a tablet is an unsatisfying replacement for a traditional computer;
2. Apple doesn't make low-end MacBooks, or similarly hobbled devices, for which an iPad would represent a practical alternative.

But then again, as I've stated before, Apple is a rare bird, pursuing non-linear, high-orchestration, high-leverage strategies. Exactly the type of complex storyline that is easily dismissed by simple-minded analysts, investors, competitors, media and the like.

Keep that in mind the next time you come across a story citing "Apple" and "inevitable" in the same context.

Steve Jobs and Steve Wozniak didn't realize they were developing today's multibillion-dollar PC industry when they invented the Apple I in a garage on April Fool's Day, 1976. Hobbyists, the initial target market, were not interested in the product. However, when the Apple II was displayed at a computer trade show in 1977, consumers loved it and Apple Computer was born. Typical of young companies, Apple focused on its products and had little concern for its markets. When IBM—"Big Blue"—entered the PC market in 1981, Apple was forced to become a "real company," much to the disappointment of its creative young engineers who were likened to "Boy Scouts without adult supervision."

Fast-forward to the twenty-first century. Jobs believed that the personal computer entered the Age of the Digital Lifestyle in 2001. In a keynote address, Jobs said that "the proliferation of digital devices—CD players, MP3 players, cell phones, handheld organizers, digital cameras, digital camcorders, and more—will never have enough processing power and memory to stand alone." Jobs enthusiastically proclaimed, "the Mac can become the digital hub of this new digital lifestyle." By repositioning Apple as the "digital hub" with "killer apps," such as iTunes, iMovie, iDVD, iPhoto, and GarageBand—now bundled as iLife—Jobs believes consumers can take full advantage of the new digital lifestyle era.

Critiques questioned, If Steve Jobs and these market-product strategies for his vision of the digital lifestyle era were on target. He was betting the company on it. *The rest is history.*

Nevertheless, the grid shows below suggests the market segmentation strategy Steve Jobs is using to compete in what he sees as the Age of the Digital Lifestyle.

MARKETS		HARDWARE PRODUCTS					
SECTOR	SEGMENT	Power Macintosh G5	PowerBook G4	iMac G5	iBook	eMac	iPod
CONSUMER	Individuals	✓	✓	✓	✓	✓	✓
	Small/home office	✓	✓	✓	✓	✓	
	Students			✓	✓	✓	✓
	Teachers	✓	✓	✓		✓	
PROFESSIONAL	Medium/large business	✓	✓	✓			
	Creative	✓	✓	✓			✓
	College faculty	✓	✓	✓			✓
	College staff			✓	✓	✓	

Companies can learn from this example, in most segmentation situations; a single product does not fit into an exclusive market niche. Rather, there is overlap among products in the product line and also among the markets to which they are directed. But a market segmentation strategy enabled Apple to offer different products to meet the needs of different market segments. However, marketing managers responsible for developing a company's product line must balance both product and marketing synergies as they try to increase the company's profits.

HOW APPLE SEGMENTS THE MARKET

Apple has done a fabulous job in recent years of asserting itself as a major player in the computer industry. One of their tools for accomplishing this has been a fanatical commitment to high-quality products. They strive to make every product they offer to be the best in its class, and they've largely succeeded at doing this. (And have used some very clever strategies to maintain this appearance when their products weren't quite measuring up.) This has given them an incredibly strong brand. But it also allows them to position themselves in an enviable place in terms of market positioning.

Apple products are expensive. Apple gets high margins on its hardware, allowing it to recoup large investments in NRE (non-recurring engineering) to design the hardware and its accompanying software. This is a great place to be from a competitive standpoint, because as a company they don't need to squabble over the cheapest parts to try to deliver the best prices to consumers. So long as they can maintain a sufficiently large customer base to support the practice, it is an **easy** place **to defend against competition** from. Certainly a lot easier than being Dell or HP, who struggle with operational efficiency to compete on price, and try to innovate within a very narrow window defined by their platform.

Apple's success at selling high-end products has secondary benefits for the rest of the ecosystem. **Because the products are expensive, they tend to be purchased by people with more disposable income.** So the segment of the computer market which buys Apple products self-selects to be **very attractive demographic for** many other reasons. **Advertisers** love to get their products in front of people who are more-willing-than-most to buy something expensive / unnecessary / fun.

Similarly, **app developers know that** if they write an app for iPhone / iPad, the **people** who **are** able to buy it are much more **likely to be willing to pay a couple bucks for something silly** than, say, somebody who bought the cheapest smartphone they could afford because they felt they really need that functionality. I had previously speculated that Apple's platform play required a very large distribution base to attract developers, which is not quite correct. The strategy is successful even with a relatively small market, provided that the market is segmented properly. Which in this case it clearly is.

The company has amassed more cash than the US government, earns more than two-thirds of the profits in the smart-phone industry, earns more than 50% of the profits in the entire PC industry, and has become the number-one valued company in the United States.

The basis of this business success is found in Apple's market segmentation strategies—they've segmented their products vertically (creating a product for each use case) and sold them at the right price for only the most profitable market segments. They also identified segments that are willing to pay "more" for the specifics that Apple provides: the user experience, the quality of their products and the often-seamless integration provided. In addition, which is very important, they simply ignore prospects who are not willing to pay their price.

In fact, on the question of when Apple would bring out a $300 NetBook computer, Steve Jobs famously replied "Never. I just don't know how to make a quality product at that price". In that short sentence he summed up Apple's whole business pricing strategy and positioning. Apple makes quality products for customers who are willing to pay more.

As a business strategy, market segmentation is one of the most powerful and under-utilized weapons in the executive's arsenal. But segmentation is not only for high tech manufacturers like Apple. It is just as important for companies as diverse as restaurant chains, software vendors, medical equipment manufacturers, business service vendors and stem cell companies. When companies look carefully at their buyers' use cases, document the outcomes they wish to achieve, and define the segments that represent the best business opportunities, they then orient their products and services to serve these market segments better than anyone else. They can then optimize their prices to capture the maximum of these buyers' willingness to pay, and create bundles, options, services, content and unbundles, to serve them better than anyone else in their market, and collect the rewards of superior execution.