

**Czech University of Life Sciences Prague**

**Faculty of Economics and Management**

**Department of Economics**



**Diploma Thesis**

**Company analysis.  
The case study of Apple Inc.**

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# CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

## DIPLOMA THESIS ASSIGNMENT

Raushan Kulmagambetova

Economics and Management

Economics and Management

Thesis title

Company analysis: The case study of Apple Inc.

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### Objectives of thesis

The main aim of the thesis is to identify main factors which affect the financial stability and competitiveness of the company on market. There were stated sub-objectives to be able to achieve the main goals. They are:

Analyze the internal and external factors which effect the company.

Based on these analyses the SWOT analysis will be prepared and determine the main characteristics of Apple Inc.

### Methodology

The methodological tools, which were used to write thesis might be divided into two groups:

- 1) Tools used for theoretical research: qualitative analysis.
- 2) Tools used for analytical research: the method of comparison, SWOT-analysis and regression analysis.

For the qualitative analysis was chosen method of literature review was conducted using methods of analysis and synthesis. In the second, analytical part, were used methods:

- SWOT-analysis – a method of strategic planning, which consists in identifying the factors of the internal and external environment of the organization and dividing them into four categories: Strengths, Weaknesses, Opportunities, Threats.

The proposed extent of the thesis

60-80

Keywords

Portfolio, shares, financial market, capital market, investment

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Recommended information sources

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### **Declaration**

I declare that I have worked on my diploma thesis titled "Company analysis. The case study of Apple Inc. " by myself and I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break copyrights of any their person.

In Prague, 2020

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### **Acknowledgement**

I would like to thank to my supervisor Ing. Karel Malec, Ph.D for his advice and support during my work on this thesis.

# **Company analysis.**

## **The case study of Apple Inc.**

### **Abstract**

The theme of this diploma thesis is Company Analysis of Apple INC., which is one of the leading multinational corporations in technology industry and ranked first by market capitalization in the world. My thesis is focused on the internal and external analysis of Apple INC, which can help me to identify Strengths and Weaknesses, Opportunities and Threats (SWOT analysis).

Work is logically divided into two sections: theoretical and practical. Theoretical part is focused on an overview of internal and external factors analysis and basic theories and concept from literature. Later it consists of some popular methods of these analysis such as analysis of financial ratios, PEST analysis and Porter's five forces analysis. It helps to have in detail analysis and create SWOT analysis of Apple INC. In internal analysis we consider value system, corporate mission statement, organization structure, organizational culture & its Characteristics, Strategic Human Resource Management and Financial Ratios. The external factors can be analyzed using PEST and Porter's five forces.

In-depth analysis of the company makes it possible to better understand the internal state, financial statement of the company and its role in the market.

**Keywords:** internal factors, external factors, profitability, PEST, SWOT, liquidity, business potential.

# **Analýza společnosti.**

## **Případová studie společnosti Apple Inc.**

### **Abstraktní**

Tématem této diplomové práce je Analýza společnosti Apple INC., která je zaměřena na mnohonárodnostní podniky v průmyslovém odvětví a nejprve je možné nejprve získat. Moje bakalářská práce se zabývá interní a externí analýzou Apple INC, která mi může pomoci identifikovat silné a slabé stránky, příležitosti a hrozby (SWOT analýza).

Work je rozdělena do dvou různých kategorií: theoretical a practical. Tato část je zaměřena na přehled analýzy interních a externích faktorů a základních teorií a konceptů z literatury. Později se skládá z některých populárních metod této analýzy, jako je analýza finančních poměrů, PEST analýza a Porterova analýza pěti sil. Pomáhá podrobně analyzovat a vytvářet SWOT analýzu společnosti Apple INC. V interní analýze zvažujeme hodnotový systém, firemní poslání, organizační strukturu, organizační kulturu a její charakteristiky, strategické řízení lidských zdrojů a finanční ukazatele. Vnější faktory lze analyzovat pomocí PEST a Porterových pěti sil.

Hlubková analýza společnosti umožňuje lépe porozumět vnitřnímu stavu, finančním výkazům společnosti a její roli na trhu.

**Klíčová slova:** interní faktory, externí faktory, ziskovost, PEST, SWOT, likvidita, obchodní potenciál.

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## List of abbreviations

ROE  
ROA  
PEST  
SWOT

## 1. Introduction

*“If you know the enemy and know yourself, then you will not lose. If you also know the right time and battlefield, your victory will be complete. ”*

*Sun Tzu, The Art of War*

What does a good general do before a fight? He examines the field of the upcoming battle, looking for all the winning positions and dangerous places, evaluates his forces and the forces of the enemy. If he doesn't, he will doom his army to defeat. The same principles work in business. Business is an endless series of small and enormous battles. If the leader does not assess the strengths and weaknesses of his enterprise before the battle, does not determine market opportunities and threats, his chances of success are sharply reduced.

In order to successfully manage threats and effectively use opportunities, just knowledge of them is not enough. You can know about the threat, but not be able to confront it and because of this to fail. You can also know about new opportunities that are opening up, but do not have the potential to use them and, as a result, not be able to get returns from them.

Any organization is located and operates within the external and internal environments. They predetermine the success of the company's functioning, impose certain restrictions on operational actions, and to some extent, each company's action is possible only if the environment allows its implementation.

## 2. Objectives and Methodology

### 2.1. Objectives

The aim of thesis is to study the theoretical basis for conducting a practical study of the external and internal environment of the organization and to create SWOT analysis of Apple INC. Objectives:

- Analysis of the external environment of the enterprise;
- Analysis of the internal environment of the enterprise;
- Identify strengths and weaknesses, opportunities and threats.

### 2.2. Methodology

Methodology is the most important aspect. For the aim of the study, data was collected from secondary sources. This study heavily banked on secondary data and Secondary data were collected using various published and unpublished sources, different case studies on Apple. For achieving the objectives, i research the external also as internal environment of Apple Inc. with the supporting of financial analysis, PEST analysis, Michael Porter's Five Competitive Power Analysis. Below i will describe the list of the ratios that i will use in my thesis:

#### 2.2.1 Profitability Ratio

Profit is the main backbone of any business unit. Profitability ratio shows company's efficiency to generate profits from the amount that it possesses. Profitability ratios consider better higher as any business unit can achieve. For example, in 2018 Standard & Poor's 500 index had an average net profit margin of 10.7% so all companies with net profit margin more than 10.7% considered outperformer than normal market.

- Gross profit=
$$\frac{\text{Gross Profit}}{\text{Total revenue}}$$
 (1)

Gross profit ratio shows the gross profit earning capacity of a firm. Gross profit is the profit without deducting company's operating expenses. I will describe more in detail in the chapter theoretical part.

- Net Profit =  $\frac{\text{Net profit}}{\text{Total revenue}}$  (2)

After calculating gross profit if we deduct all the operating expenses in that case we can have net profit ratio. It shows how much financial obligations can be take care after deducting the financial obligations.

- Return on assets =  $\frac{\text{EBIT}}{\text{Total assets}}$  (3)

It indicates all the accessible resources of the organization which are utilized to produce benefit out of them it shows in general profit for capital. The higher the ROA indicates the better profit earning capacity.

- Return on equity =  $\frac{\text{Net Income}}{\text{Shareholder's equity}}$  (4)

It shows the profit earning capacity on the capital invested by the shareholders. It is the very important ratio because it covers various ratios all together. I will describe in detail to my following chapter

- Return on capital employed =  $\frac{\text{EBIT}}{\text{Long term liabilities + Equity}}$  (5)

Unlike the ROE this one focus on capital invested for a longer period of time. It shows the shareholders' capital as well as the creditor's capital.

### 2.2.2 Leverage Ratio

We can examine the capital structure of a company with the help of a leverage ratio. It shows the amount of debt is involved in order to create an assets. Usually firms with

relatively higher leverage ratios may have higher expected returns but when the economy has some changes or in the times of recession the risk of loss can be more.

- Debt to asset ratio:  $\frac{\text{Total Debts}}{\text{Total Assets}}$  (6)

This ratio represents total assets financed by total liabilities. Unlike many of the ratios this one targets the lower the better rule. More description will be in following chapters.

- Debt to Equity Ratio:  $\frac{\text{Total Liabilities}}{\text{Shareholder's equities}}$  (7)

This ratio show case the liabilities covered by the shareholder's equities. This ratio will be discussed more deeply in the following chapter.

- Debt to capital:  $\frac{\text{Total Debt}}{\text{Total debt+Shareholder's equity}}$  (8)

This ratio is little bit different from the previous ratio because it considers total debt in the calculations. It shows how much risk is involved and how much weaker is solvency.

### 2.2.3. Coverage ratios

Coverage ratios analyze how efficiently company's income can cover interest expenses and lease payments. Interest expenses and lease payments are part of a company's debt. Ideally company's coverage ratio should be minimum 2.

- Interest Coverage =  $\frac{\text{EBIT}}{\text{Interest Payments}}$  (9)

This ratio shows case a company's ability to cover its interest liability by earnings before tax. The higher the ratio indicates the stronger solvency in terms of payments of lease payments. This ratio will be discussed more deeply in the following chapter.

- Fixed Charge Coverage =  $\frac{(\text{EBIT} - \text{Lease payments})}{(\text{Interest payments} + \text{Lease payments})}$  (10)

This ratio indicates the effect by including long term liabilities as well. The higher the ratio indicates the stronger solvency in terms of payments of lease payments. This ratio will be discussed more deeply in the following chapter.

#### 2.2.4 Liquidity ratio

Liquidity ratio shows weather a company's current assets will be sufficient to meet its short term obligations or not. Creditors use this ratio to understand company's liquid capacity. Ideal liquidity ratio should be from 1 to 1.5.

- Current ratio : 
$$\frac{\text{Current assets}}{\text{Current liabilities}} \quad (11)$$

This ratio shows the capacity of a company to handle its short-term obligations. Usually it is better to have 1 or more than that because otherwise it indicates company's weaker situation in terms short term obligations.

- Quick ratio : 
$$\frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}} \quad (12)$$

Quick ratio makes it little more different by adding inventory in it. This ratio if more than 1 it indicates greater liquidity.

- Cash ratio: 
$$\frac{\text{Cash \& Cash equivalent}}{\text{current liabilities}} \quad (13)$$

### **3. Literature Review**

The first part of this master thesis will be devoted to the theoretical part. I will focus on the internal and external analysis, structure and methods of these analysis. and I will pay attention on SWOT analyze, its objectives and factors.

#### **3.1. Analysis of the internal environment of the organization**

Analysis of the internal environment of the organization has the subsequent significance for the organization (Chernyshev, 2006):

- information on the interior environment of the corporate is important for the manager to work out the interior capabilities, potential that the corporate can calculate within the competition to realize its goals;
- analysis of the internal environment allows you to understand the goals and objectives of the organization;
- Indicates that additionally to manufacturing products and providing services, the organization provides the chance for its employees to exist, creates certain social conditions for their life.

The internal environment of the organization - a group of processes as a results of which the organization converts available resources into goods offered to the market. the interior environment are often divided into two parts: the resource part, the operational part. The resource a part of a corporation is that the totality of resources that a corporation has for completing its activities. The resource part includes management as a resource that determines the organization of management processes (managers and their qualifications, management methods and technology, information necessary for creating managerial decisions, etc.), finances as a resource that determines the power to accumulate the required resources for his or her development, personnel as a labor resource. The operational a part of the organization may be a set of processes related to the conversion of source resources into finished goods. The operational part includes processes regarding the analysis of the status of target markets, processes for conducting research and development of latest goods (works, services), processes for the availability of production resources, production and marketing of products (Merculova, 2017).

Such a structure of the internal environment makes it possible to single out the composition of control objects, but doesn't provide a solution to the question about control technology. For this, a special definition of the internal environment are often used. The internal environment is situational factors within the organization that are suffering from management decisions. the subsequent elements of the interior environment are distinguished: production, personnel, management organization, marketing, finance and accounting.

**Production:** volume, structure, pace of production; product range of the enterprise; supply of raw materials and supplies, stock levels, speed of use, stock control system; available fleet of kit and therefore the degree of its use, reserve capacities, technical efficiency of capacities; location of production and availability of infrastructure; production ecology; internal control, costs and quality of theriology; patents, trademarks, etc.

**Personnel:** structure, potential, qualifications; the quantitative composition of workers; labor productivity; staff turnover; labor cost; interests and needs of employees.

**Management Organization:** organizational structure; control system; management level; qualification; Abilities and interests of senior management; company culture; prestige and image of the company; organization of a communication system.

**Marketing:** goods produced by the company; market share;the power to gather the required information about the markets; distribution and distribution channels; marketing budget and its implementation; marketing plans and programs; innovations; image, reputation and quality of goods; sales promotion, advertising, pricing.

**Finance and accounting:** financial stability and solvency; profitability and profitability (for goods, regions, distribution channels, intermediaries); own and borrowed funds and their ratio; effective accounting system, including cost accounting, budgeting, profit planning.

For successful development, the organization must constantly identify existing and potential opportunities regarding the foremost efficient use of its resources (intellectual, informational, labor, material, financial, etc.). it's these resources that structure the market potential of the organization. they're always limited, unevenly developed both quantitatively and qualitatively. the event of 1 sort of resource are often powerful in reference to the prospect that has opened from the environment (high scientific and



technical potential within the high-tech products market), and, conversely, the shortage of any of the resources can pose a threat to the existence of the organization (lack of reliable supplies of fabric resources results in interruptions in production and failure to satisfy the deadlines for the execution of orders, the loss of potential customers and market positions).

The main objective of the organization is to realize the opportunities (opportunities) that open in the external environment by highlighting their strengths and limiting external threats to the existence and development of the organization by neutralizing weaknesses. Its effective solution determines the content of the organization's management (Markova, 2006).

### **3.1.1 Methods of internal analysis**

Environmental analysis is an assessment of the state and development prospects of the foremost important, from the purpose of view of the organization, subjects and environmental factors: industry, markets, suppliers and therefore the totality of worldwide environmental factors, which the organization cannot directly influence. After analyzing the external environment and obtaining data on factors that are dangerous or open up new opportunities, management should assess whether the corporate has the interior strength to require advantage of the opportunities and what internal weaknesses can complicate future problems related to external hazards.

The method that's wont to diagnose internal problems is named management examination. Management survey may be a methodical assessment of the functional areas of the organization, designed to spot its strategic strengths and weaknesses (Kotler, 2005). The management survey includes five functions — marketing, finance, (operations) production, human resources, and therefore the culture and image of corporations. There are an outsized number of methods for analyzing the internal environment of the organization, we'll consider one of them: analysis of financial ratios.

#### **Analysis of financial ratios.**

Analysis of financial indicators is one of the methods for assessing the state of the enterprise and its capabilities in the future. It acts as the basis of strategic planning, helps managers identify opportunities for further development, find the strengths and weaknesses

of the company. Analysis of financial ratios is carried out to find the best ways to achieve increased profitability of the company.

In financial analysis, more than 200 coefficients are used. All of them characterize the 4 main aspects of the company:

- Profitability Ratios;
- Leverage Ratio;
- Coverage Ratio;
- Liquidity analysis.

### **Profitability Ratio**

Profitability ratio shows the ability to generate a profit on the capital invested in it. Many equity analysts would consider profitability as one of the major indicators which attract investors. Profitability reflects a company's competitive position in the market, and Profitability ratio helps to measure the profitability position of the business concern. It has several semi ratios as we can see below. ([www.cfainstitute.org](http://www.cfainstitute.org))

**Gross profit ratio:** Higher gross profit margin indicates some combination of higher product pricing and lower product costs. The ability to charge a higher price is constrained by competition, so gross profits are affected by competition. Operating profit eliminates the effect of operating cost from the gross profit margin by deducting it from gross profit. It is important in the matter of controlling operating expenses and administrative overheads. Net income includes both recurring and non-recurring items, to offer a better view of a company's potential future profitability. (Formula: 1)

**Net profit ratio:** Net profit is calculated by deducting all expenses from revenue. Interestingly this ratio includes recurring as well as non-recurring components. Generally, the net profit ratio is an ideal index to show case company's profitability after full filling all other financial obligations. It show case the amount of net profit from the each dollar of money gain in the company (Formula: 2)

**Return on Assets:** After that ROA measures the return earned by a company on its assets, a higher ratio indicates the more income generated by a given level of assets. The higher the ROA is better for the company because it means the company has more money less investment, it shows at all the available for assets of the company which are used to generate profit out of them it shows overall return on capital. (Formula: 3)

**Return on equity:** Return on equity shows the profitability of capital invested by shareholders of the company. This ratio shows whether an investor having proper returns on their investment or not. ROE measures the return earned by a corporation on its equity capital it also can include minority equity, preferred equity, and customary equity also. As a matter of fact, interest on debt capital is not included in the return on equity capital. Changes in the results of ROE may be relatable with return on common equity.

If ROE is calculated as 1 means every dollar of shareholder's equity can generate 1 dollar of net income of an investment of a single dollar. Which can be an easy indicator to check how much efficiency a company have to generate income or in the other words their efficiency of equity financial management to fund company's operation and growth.

In order to achieve the results, I will use formula mentioned as before. (Formula: 4)

**Return on Capital Employed:** Return on Capital Employed abbreviated as ROCE measures profitability of a capital which is invested for a longer maturity term. This ratio measures returns for shareholder's capital also as creditor's capital. In this ratio effects of current capital have been excluded because of its limited applicability in order to understand overall sustainable profitability of a company

This ratio concludes two important calculations first is operating profit and then capital employed. Net operating profit also know as EBIT or earnings before interest and taxes. EBIT stands for an income from operations of a company.

Return on capital employed formula can be calculated by dividing net operating profit by the employed capital as per formula mentioned before (Formula 5)

### **Leverage Ratio**

The leverage ratios indicate how much of foreign resources are being used to cover the company assets. Generally, foreign capital is cheaper than their domestic capital. It is

an important measure for risk regarding the business. It shows where the business unit can pay off their debt or not and how effectively. It shows the amount of Debt has been generated along with income. It includes a detailed analysis of the components of its financial structure.

The analyst is focused to study the company's utilization of liabilities for a few fundamental reasons. One reason is that the sum of liabilities in a company's capital structure is important for evaluating the company's risk and return characteristics, particularly its financial leverage. Below we can see the overall structure of total leverage ratio. (Mike Piper, 2010)

**Debt to assets:** This ratio represents the number of total assets that are financed and supported by total liabilities. Lower ratio constructs the meaning that the company can pay off all its debt. The lower ratio shows the company can pay off all its debts. If the ratio is higher it means the company is unable to pay all its debts. It can be calculated as formula mentioned before. (Formula : 6)

**Debt to Equity Ratio:** The equity ratio can be also called as an investment ratio because it measures the number of assets that are financed by owners' investments by comparing the total equity in the company to the total liabilities. It can be calculated as formula mentioned before. (Formula : 7)

**Debt-to-Capital Ratio:** This ratio indicates the percentage of a company's capital (debt plus equity) represented by debt. As we have seen in the previous ratio, a higher ratio generally means higher financial risk and it can be also described as weaker solvency. It can be calculated as formula mentioned before. (Formula : 8)

### **Coverage Ratios**

**Interest Coverage:** This ratio measures how many times a company's income before interest and taxes could cover its interest payments. Sometimes it is also called as "times interest earned." A higher interest coverage ratio indicates a stronger image of a company to pay its debts from operating earnings. It can be calculated as formula mentioned before.(Formula : 9)

**Fixed Charge Coverage:** This ratio is slightly different than previous ratios because It measures the number of times a company's earnings (before interest, taxes, and lease payments) can cover the company's interest and lease payments. Similar to the interest coverage ratio, a higher fixed charge coverage ratio indicates stronger solvency in terms of payment of expenses here it includes lease payments as well, this ratio is used to understand the quality of the preferred dividend, with a higher ratio indicating a more secure preferred dividend. (Gary Koop, 2008) (Formula : 10)

### **Liquidity analysis**

Liquidity analysis, which measures on cash flows, a company's capacity to meet its short-term Liabilities. Liquidity measures how rapidly resources are changed over into cash. Liquidity proportions too degree the capacity to pay off short-term Liabilities In day-to-day operations, liquidity administration is ordinarily accomplished through productive utilization of assets. Within the medium term, liquidity within the non-financial segment is additionally tended to by managing the structure of liabilities. The level of liquidity required varies from one industry to another. A particular company's liquidity position may change concurring to the expected require for reserves at any given time. The level of liquidity requirement changes from one industry to another. A specific company's liquidity position may alter concurring to the anticipated requirements for saves at any given time. (Gary Koop, 2008)

**Current ratio:** This ratio measures current assets in comparison to current liabilities whether companies current assets can cover all current liabilities or not. The current ratio of 1.0 indicates that the company has the same amount of current assets to pay its short term liabilities. If the ratio is less than 1.0 it indicates the company has a problem to pay its short term obligations. (Formula : 11)

**Quick Ratio:** Quick ratio makes little change in the previous ratio and transforms in a better view because it only includes only the more liquid current assets, by because inventory is not that much cash liquidity. The ratio is with a higher result than 1.0 represent great liquidity. (Formula : 12)

**Cash ratio:** It measures specifically the ratio of a company's total cash and cash equivalents to its current liabilities. This ratio indicates the company's ability to pay its short-term debt with cash and cash equivalents, it can also include easily marketable securities. Creditors use this ratio to decide the company's short term payment ability by cash. (Formula : 13)

As the nature of a business this company does not involve in the activity of preparing merchandise for the sales purpose or the credit sales. It creates a phenomena where limited amount of data is available which makes me not to involve the activity ratio. This work is dedicated to do financial analysis of a company which also refrain me to conduct market ratios.

### 3.2. Analysis of external environment of the organization

The organization is influenced by many factors, managers must take into account only those of them, on which the success of the organization depends decisively. In order to determine the environment and facilitate the consideration of its influence on the organization, external factors are divided into two main groups: direct impact and indirect impact.

Factors of direct impact directly affect the organization and experience the direct impact of the results of the organization. Indirect impact factors may not have a direct immediate effect on the organization, but, nevertheless, affect them. Indirect impact factors are usually more complex than direct impact factors, since it is difficult to obtain complete and reliable information, to predict the possible consequences of these factors on the organization.

Table 1: External Micro Environment

External Micro Environment:			
Suppliers	Laws and government	Consumers	Competitors

Source: Barinov, 2005

Suppliers relate to the environment of direct impact, as they provide input into the organization of materials, equipment, energy, capital and labor, which the organization then converts from the point of view of a systematic approach into outputs.

Laws and government bodies. The laws of the organization are influenced by various laws, primarily those that govern its legal status. In addition, legislation in the field of taxation, customs regulation, urban planning and land use, foreign economic activity, certification and licensing, in the field of labor relations, etc. It should be borne in mind that the legislation is quite complex and often changing.

Consumers. In accordance with the point of view of well-known management specialist Peter F. Drucker, the only true goal of a business is to create a consumer, since the survival and justification of the existence of an organization depends on its ability to find a consumer the results of its activities and satisfy its needs. It depends on consumers whether the organization can recover its costs, make a profit and develop further.

Competitors. In many cases, not consumers, but competitors, determine which product or service and at what price can be sold. If the organization cannot satisfy the needs of consumers as effectively as competitors do, the enterprise cannot survive. Organizations can compete in the struggle not only for consumers, but also for labor, materials, capital, the right to use certain technical innovations. Such internal factors as conditions and remuneration of labor, the nature of relations between managers and subordinates depend on competition.

Table 2: External Macro Environment

<b>External Macro Environment:</b>				
Technology	Economic conditions	Sociocultural factors	Political factors	International factors

Source: Barinov, 2005

Technology is both an internal variable and an external factor. Technological innovations affect the efficiency with which products can be manufactured and sold, the speed of obsolescence of a product, how information can be collected, stored and distributed, as well as what kind of services and new products consumers expect from an organization. To maintain competitiveness, each organization must use the achievements of scientific and technological progress, at least of those developments on which the effectiveness of its activities depends.

Economic conditions affect the value of goods and the demand for goods and services. In the context of inflation, organizations are interested in increasing the reserves of resources supplied to the organization and freezing wages in order to keep costs up in the near future; obtaining borrowed funds, because when the payment is due, the money will be cheaper and thereby partially compensate for the loss from interest payments. If an economic downturn is predicted, then the organization can reduce the stock of finished products due to possible difficulties in marketing them, reduce the proportion of employees, and postpone plans to expand production until better times (Kotler, 1998) .

The state of the economy affects the organization's ability to obtain financial resources, for example, in connection with the deterioration of the conditions for obtaining borrowed funds (increased requirements for collateral and cost of loans). It is important to keep in mind that one and the same change in the state of the economy can have a different effect on organizations: on some - positive, and on others - negative.

Sociocultural factors affecting the organization are life values and traditions that affect the formation of population demand, labor relations, wages and working conditions. These factors also include the demographic situation and the organization's interaction with the local community.

**Political factors.** The political goals and objectives of the government in power have an impact on decisions made in the field of economic regulation. In particular, the tax system, the establishment of tax benefits or preferential customs duties, consumer protection laws, safety standards, environmental standards, price and wage controls, and the promotion of small and medium-sized businesses. In addition, special interest groups and lobbyists influence decision-making in the interests of individual sectors of the economy. Of great importance to companies conducting operations or having sales markets in other countries is the factor of political stability. Establishing diplomatic relations can open the way to new markets (Mescon, 2009).

**International factors** influence international organizations and include a unique set of factors that characterize each country: economy, culture, quantity and quality of labor and material resources, laws, government agencies, political stability, level of technological development.



### **3.2.1 Methods of external environment**

The methods of studying and analyzing the external environment can be considered as a kind of filter of information about the external environment. When analyzing the external environment of the enterprise, the following methods are possible:

- analysis of environmental factors of indirect effects (PEST analysis);
- analysis of the dominant economic characteristics of the industry and assessment of the incomplete attractiveness of the industry;
- analysis of the driving forces of the industry;
- competitive analysis according to the method of M. Porter;
- analysis of competitors' strategies;
- building a map of strategic groups;
- identification of key success factors (KFU) of the industry;
- assessment of the complex attractiveness of the industry.

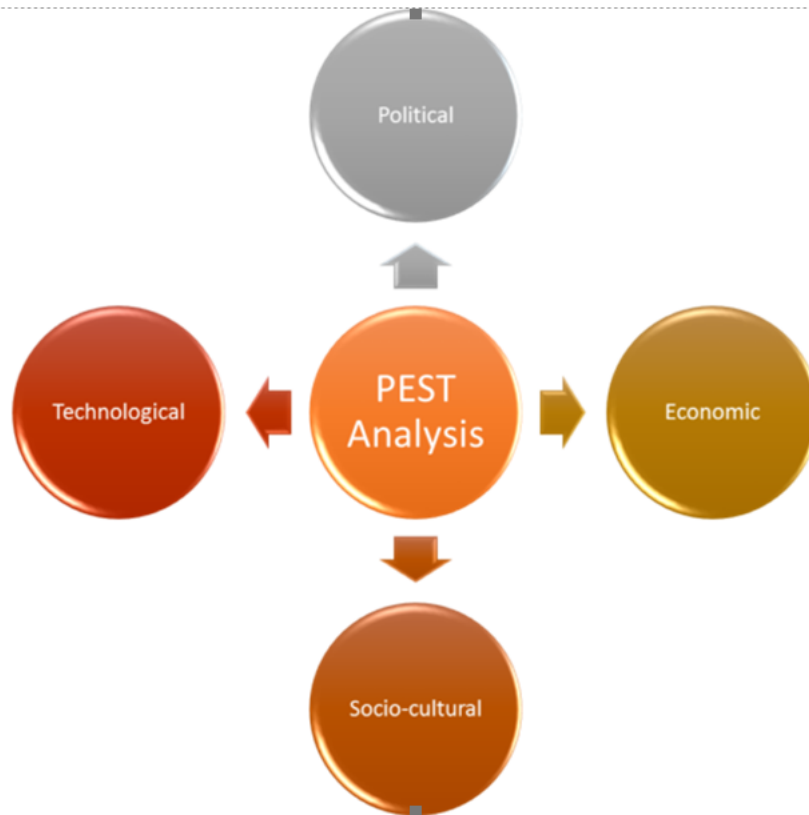
Let us consider in more detail some of the listed analysis methods:

- PEST analysis;
- Michael Porter's Five Competitive Power Analysis Model.

#### **PEST analysis**

PEST analysis may be a simple and convenient method for analyzing the macro environment (external environment) of an enterprise. The PEST analysis technique is usually used to assess key market trends within the industry, and therefore the results of the PEST analysis are often used to determine the list of threats and opportunities when compiling a corporation SWOT analysis. PEST analysis could also be a tool for long-term strategic planning and is compiled for 3-5 years beforehand, with annual data updates.

Figure 1: PEST analysis



Source: <http://askinyathelo.org.za/>

PEST analysis is an abbreviation of the subsequent industry indicators: political (P), economic (E), socio-cultural (S) and technological (T). Let's analyze each group of indicators in additional detail.

### **P (Political)**

P (Political) - factors of the political and legal environment of the corporate. When analyzing the political and legal environment of an industry, market or country, it's recommended to answer questions regarding key changes within the field of political stability and legal regulation. First, will the legislative base of the country, market, industry during which the corporate operates within the near future change? Will changes within the legislative framework affect the company's activities (primarily within the field of business profitability)? Secondly, it's necessary to concentrate to the extent of state intervention within the company's business. Is it significant? Will it change within the near future?

Thirdly, is that the level of corruption of the industry and its impact on the activities of the corporate also important? And, fourthly, the country's relationship with other countries or international organizations. Will such relationships change, simplify, or become more complex?

### **E (Economic)**

E (Economic) - factors of the economic state of the market. During the analysis of this group of things, it's necessary to work out 6 key parameters characterizing the state of the economy of the country / market during which the corporate operates.

- The dynamics of economic development - recession, growth, stagnation;
- Change in exchange rates, cost of capital;
- Unemployment Change;
- Change in inflation;
- Change in income per capita;
- Banking Trends.

### **S (Socio - cultural)**

S (Socio - cultural) - factors of the social and cultural state of the market. During the analysis of this group of things, it's necessary to explain 5 key parameters:

- Change in demographic status: population movement (decrease or growth), sex and age structure of the market, change in race;
- The level of education of the population, including the extent of qualification of personnel;
- Features of mentality, important cultural values;
- Change in social strata of the population;
- Changing tastes and preferences of the audience, established myths and prejudices.

## **T (Technological)**

T (Technological) - factors characterizing technological progress in the industry. This group of things requires an in depth analysis, since within the era of the technological process it's a change in technology which will dramatically change the established state of the market. During the analysis of technological factors, it's necessary to concentrate to 4 parameters:

- Possible changes in key technologies utilized in the market (innovations in equipment, materials, in business models and methods of doing business);
- The influence of the Internet on market development;
- The impact of mobile technology on market development;
- Innovation in information technology to compete more effectively in the market.

## **Michael Porter's Five Competitive Power Analysis Model**

The strategic analysis model of the 5 forces of competition was described by Michael Porter in 1979. Using five structural units' specific to every industry, Michael Porter described the way to create a competitive advantage and long-term profitability of a product, also as ways during which a corporation can maintain its profitability and remain competitive within the end of the day. The purpose of developing a technique is to adapt to a competitive environment. However, there's still too narrow a view of competition. At an equivalent time, intense competition within the industry can't be regarded either as an accidental combination of circumstances or as failure.

Figure 2: Porter's model



Source: <http://nayeems.com>

Michael Porter, 2008 Michael Porter's theory of competition suggests that there are five driving forces within the market that determine the possible level of profit within the market. Each power within the Michael Porter model represents a separate level of product competitiveness:

- Competitive rivalry;
- Bargaining power of suppliers;
- Bargaining power of customers;
- Threat of new entrants;
- Threat of substitute products or services.

Michael Porter believed that these market elements were the driving force behind market competition, which was called the model - the model of the five forces of competition for Porter. An analysis of industry competition, compatible with Michael Porter, helps determine the intensity and severity of the competitive forces in the industry, find the advantage in which corporate companies are protected from the influence of competitive forces and can be ready for influence them.

The golden rule of Michael Porter's theory of the five forces of competition is this: the weaker the influence of the competitive forces, the more opportunities a company has to make high profits in the industry. Conversely, the higher the influence of competitive forces, the higher the likelihood that no company will be able to provide a high return on investment. And the industry's average profitability is determined by the most influential competitive forces.

The five forces model is most often used in strategic management, and in marketing it is convenient for the following areas of work:

Threats to the growth of the company, detected using the Porter competition analysis model, help in conducting the company SWOT analysis.

Michael Porter's Five Competitive Forces model provides a detailed analysis of competition and the market.

**Competitive rivalry.** This force explores how intense competition is currently on the market, which is determined by the number of existing competitors and the abilities of each of them. Competition between competitors is high when only a few enterprises sell a product or service equally, when an industry develops, and when consumers can easily switch to competitors offering for a small fee. When competition is high, advertising and price wars can begin that can damage business profits. Rivalry is quantified by the concentration coefficient (CR), which is a percentage of the market share owned by the four largest firms in the industry.

**Bargaining power of suppliers.** This force analyzes how much power a business supplier has and how much it controls the potential for price increases, which, in turn, will lead to a decrease in business profitability. In addition, the number of available suppliers is considered: the smaller they are, the more power they have. Businesses are in a better position when there are many suppliers. Supplier power supplies also include switching costs for firms in the industry, the availability of substitutes available, and the cost of purchasing supplies relative to substitutes.

**Bargaining power of customers.** This power looks at the consumer's ability to influence prices and quality. Consumers have power when there are not many, but many sellers, and when it is easy to switch from the products or services of one business to another. Purchasing power is low when consumers buy products in small quantities, and the seller's product is very different from any of its competitors.

**Threat of new entrants.** This power tests how easy or difficult it is for competitors to enter the market in the industry in question. The easier it is for a competitor to join the market, the higher the risk of depletion of business market share. Barriers to entry include absolute cost advantages, access to resources, economies of scale and well-known brands.

**Threat of substitute products or services.** This power is exploring how easy it is for consumers to switch from a business product or service to a competitor's product. It shows how many competitors exist, how their prices and quality are compared with the business under study, and what kind of profit these competitors make, and this will determine whether they can reduce their costs even more. The threat of substitutes is determined by changes in costs, both direct and long-term, as well as the buyer's tendency to change.

Once your analysis is complete, it's time to implement a strategy to expand your competitive advantage. To do this, Porter has identified three "common strategies" that can be implemented in any industry and in companies of any size:

**Cost leadership:** In this strategy, your goal is to increase profits by lowering costs when setting standard industry prices or to increase market share by lowering the selling price while maintaining profits.

**Differentiation:** this strategy aims to ensure that the company's products are significantly different from competitors, increasing their competitiveness and value to the public. This strategy requires both good research and development, and effective sales and marketing departments.

**Focus:** in a focus strategy, companies choose niche markets to sell their products. This strategy requires a deep understanding of the market, its sellers, buyers and competitors.

Using this strategy often requires companies to also exercise cost leadership or a differentiation position.

Porter said that the new strategy should be implemented at the corporate level, the level of departments and units. Of these, Porter considered the business unit to be the most significant.

### **3.3. SWOT analysis**

A rather old, but effective tool for business analysis, which, it would seem, has lost its popularity, is back in operation and has been widely used in the business world. However, it has changed - today it is no longer a boring 500-page report for the board of directors. Modern SWOT is a model of flexible thinking that helps you make effective decisions in a rapidly changing market.

SWOT - these are the advantages and disadvantages of your company, its potential opportunities and threats to which it may be exposed.

SWOT analysis is a system and methodology for the objective evaluation of a new project, the prospects of a new idea, and also of the business as a whole. This is a kind of roadmap that tells you the right direction in business, indicates growth opportunities and helps in solving current problems.

The purpose of the SWOT analysis is as follows:

- Studying the internal and external environment of the company by analyzing and identifying strengths and weaknesses;
- Identification of the development opportunities of the company, as well as the threats that it may be exposed to in the conditions of fierce competition and the macro environment;
- Identification of factors that affect or may affect the functioning of the organization, which is of great importance when developing a strategy for entering the market and in the framework of strategic management.

Conventionally, a SWOT analysis can be divided into two components:

- Analysis of the internal environment (strengths and weaknesses of the company);



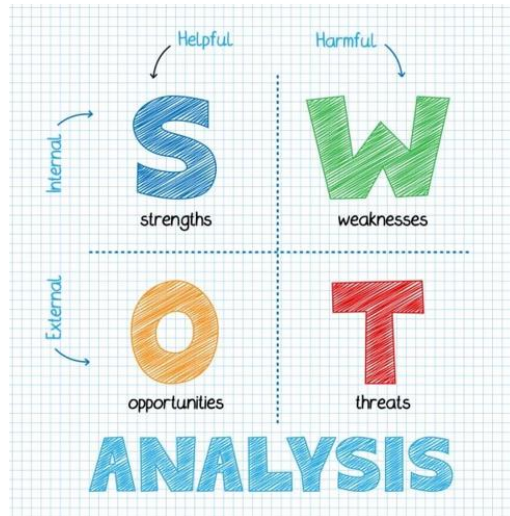
- Analysis of the external environment (opportunities and threats).

**The main objectives of the SWOT analysis:**

- Summary analysis of external and internal factors.
- Identification of key points in company management, prioritization.
- Development of strategic issues: risks and problems that need to be addressed.
- The company's "diagnosis" is to strengthen its strengths, identify aspects that need improvement, growth prospects, ways to expand opportunities and more.
- Predicting sales taking into account market conditions, as well as exploring the capabilities of the company as a whole.
- Optimization of the internal environment of the company (it is also strengths and weaknesses) - the integration and standardization of work and management processes, the elimination of factors affecting efficiency.
- Optimization of the external environment (these are opportunities and potential threats) - is to create a database that you can really rely on, which is reliable and tested.
- Quick collection of information that is necessary for top management to make strategically important decisions. And, of course, to reduce the level of errors and the number of errors.

SWOT is an acronym for Strengths, Weaknesses, Opportunities, and Threats. The internal environment of the company is reflected in S and W, and the external - in O and T.

Table 3 Components of a SWOT Analysis



### **Strengths**

As you probably guessed, this element implies what your company or a particular project is particularly strong at. It can be anything - chips of your brand or a unique selling proposition for a certain line of products. Also, your cadre may turn out to be a strong side - a strong leader or a pumped team of engineers.

### **Weaknesses**

Having found out all about your advantages, you will have to look in the eyes and your disadvantages. What really holds back your business or project? This can be problems with the organization of the work process, and a lack of qualified personnel, and, of course, problems with financing or a limited budget. Your weaknesses can also be identified in a comparative analysis with competing companies. What are you inferior to them? Perhaps, in a crowded market, you have a very weak UTP (a unique selling proposition)?

### **Opportunities**

Does your team generate so many leads that you can't literally keep up? This is an opportunity. Does your company promote an innovative idea that in the future will open new markets and even affect the demographic picture of the world? This is also an opportunity. In a nutshell, this component of the SWOT analysis covers absolutely

everything that you can do to increase sales, strengthen the company and convey its mission to people.

### Threats

Potential or quite real, they pose a risk to your company, cast doubt on its success and development. The threat may be new competitors, as well as changes in the current legislation or financial risks. In general, anything that could put your company or project in jeopardy can be qualified as a threat.

In the Table 4 presents the main factors that should be taken into account in the SWOT analysis of the company.

Table 4: SWOT Analysis Factors

	<b>HELPFUL FACTORS</b>	<b>NEGATIVE FACTORS</b>
<b>INTERNAL FACTORS</b>	<p><b>STRENGTHS:</b></p> <p>What does the business do well. e.g. Knowledge of market Excellent reputation Good Staff Fantastic suppliers/distributers</p>	<p><b>WEAKNESSES:</b></p> <p>What the business does not have e.g. Experience What it does not do as well as competitors e.g. warranty Out of date technology Out of date products Time it takes to deliver</p>
<b>EXTERNAL FACTORS</b>	<p><b>OPPORTUNITIES:</b></p> <p>There is any number of these. e.g. New customers New technology Government Grants New products New marketing strategies</p>	<p><b>THREATS:</b></p> <p>Customers moving Interest in product declining New technology Government Grants ending New competitors Environmental factors e.g. weather</p>

#### **4. Practical Part**

The practical part is focused on analysis of internal and external environment of Apple Company. In internal analysis we consider value system, corporate mission statement, organization structure, organizational culture & its Characteristics, Strategic Human Resource Management and Financial Statement. The external factors can be analyze: PEST-test and Porter's five forces. All these information can help to create SWOT analysis.

Company: Apple Inc.

CEO: Tim Cook

Year founded: 1976

Headquarter: Cupertino, California, USA

Number of Employees (FY2019): 137,000

Type: Public

Ticker Symbol: AAPL

Market Cap (Feb, 2020): \$1.19 Trillion

Annual Revenue (FY2019): \$ 260.17 Billion

Profit | Net income (FY2019): \$ 55.25 Billion

##### **4.1. Internal analysis of Apple INC.**

The internal environment is a part of the marketing environment that resides inside and is controlled by a tourist company. It includes the totality of funds that enable the company to act, and therefore function and survive in a certain time interval.

In internal analysis we consider value system, corporate mission statement, organization structure, organizational culture & its Characteristics, Strategic Human Resource Management and Financial Statement.

##### **4.1.1. History of the company**

Apple is a giant in the field of computer hardware, software and other products. Thanks to Steve Jobs, Apple was able to survive difficult times and become one of the leaders in her field.

The story of Apple (Apple) began in the garage, like many other American startups. Its founders are two friends: Steve Jobs and Steve Wozniak. Friends began to collect computers and sell them. After a few dozen of them were sold, they formalized their business officially by creating Apple Computer, Inc. This happened on April 1, 1976.

Until 2007, the company had its original name. Since 2007, Computer has been removed, as the company began to work not only in the field of computers and software, but also household appliances.

### **"First Personal"**

The advantage of Apple's computer was that it actually was "the first personal one" for real. The older brother "Altair" was able to cope only with the simplest functions. Jobs and Wozniak managed to create a more advanced machine.

### Apple II

After the first success, Apple quickly began to gain popularity. Released in 1977, the Apple II has become truly massive. First, it was released with an 8-bit operating system, and a little later - with a 16-bit one. In the late 70s - early 80s of the XX century, Apple II and their modifications were the most common personal computers in the world (PC). It has sold over 5 million Apple II computers around the world.

### NASDAQ Stock Exchange

In 1980, one of the largest in the history of the stock market (precisely at that time) the company's initial IPO — Apple Computer Inc. — took place. Began selling its shares. Shares of the company are traded on one of the world's largest stock exchanges - NASDAQ.

### The Hard Apple

In the spring of 1981, Steve Wozniak got into a plane crash, and for a time was forced to retire. In addition, there were problems with sales of "Apple III". All this led to the fact that Jobs was simply forced to dismiss about 40 employees Apple. Journalists and all media have already sentenced Apple's business to death. The history of the company was about to end ...

### New company president

In early 1983, Steve Jobs invited for the position of president of Apple Inc. John Sculley, who at that time held a similar position in PepsiCo. Jobs was hard to handle the affairs of the company. As the founder, Jobs was deeply worried about the company's

failures. He perceived them as his own, so misunderstanding and various frictions began to arise between him and Scully.

#### First Macintosh

In 1984, Apple first introduced the new 32-bit Macintosh computer. In the history of the company, it was a real breakthrough. It was thanks to Macintosh that the company mainly made profits in the future. For two decades, the company released Macintosh computers based on Motorola processors, equipped with a proprietary operating system. This platform is available only under the brand "Apple" without any licenses for third-party manufacturers.

#### Crucial moment

In 1985, there were 2 important events in the history of the development of the company Apple: US President Ronald Reagan presented the founders of the company with a medal for a powerful technological breakthrough. Steve Jobs, who dispersed with the company's board of directors, resigned.

#### Prolonged fall

After the departure of the founder and spiritual leader, the company continued its fall. Despite the fact that various measures were taken to produce other products besides PC, they did not receive further development. By 1997, Apple was on the verge of bankruptcy - its debts amounted to almost \$ 2 billion.

#### The Return of Steve Jobs

Perhaps Apple's story would have ended at the turn of two millennia, if not for the return to the post of head of the company's founder, Steve Jobs. In 1997, he returned, and at the end of 1998, the company began to show the first small profit, removing the stigma of "bankrupt". It was a real success for Apple and Jobs.

#### In the new millennium with new technologies

On the threshold of the third millennium, a revolution in the world of new technologies was in full swing. Steve Jobs "caught the wave" and began to bring Apple to new product markets (:

In 2001, the company introduced the iPod audio player, which quickly gained popularity.

In 2003, the company opened the iTunes Store - a popular online supermarket of digital audio, video and game content.

And in 2007, it entered the mobile market with an iPhone touchscreen smartphone.

New tops

Visibly pushing competitors and taking a robust place within the market, Apple continued and continues its development, which, however, in 2016 declined.

In 2010, the iPad was launched on the market. the discharge and sale of products like the iPod, iPhone, and iPad, which were in high demand throughout the planet, improved Apple's financial position, making the corporate more profitable.

Important milestones within the history of Apple in recent years.

In August 2011, for the primary time Apple became the foremost expensive company within the world in terms of market capitalisation, bypassing the company ExxonMobil, until the top of the year they changed places several times, but since January 2012 Apple managed to realize an edge within the first place.

On September 21, 2012, Apple shares reached a maximum during the bidding period - \$ 705.07 per share, capitalization amounted to 662.09 billion dollars.

In 2013, Apple was the primary to start out production of 64-bit ARM architecture chips with the discharge of the 64-bit 2-core microprocessor Apple A7.

In 2014, the corporation introduced its first personal, wearable device - Apple Watch. November 13, 2014, Apple again broke its record within the stock exchange - its capitalization was \$ 663.43 billion.

In 2016, at the annual WWDC-2016 conference, Apple announced that the brand's devices will operate the principle of terminal encryption: information are going to be encoded on the device that transmits it and decoded by the receiving gadget. it's planned to use when making voice calls, also as on the new messenger.

#### **4.1.2. Value System**

Apple has been listed by Forbes because the most precious business brand within the world valued at \$182.8 billion. And it's been observed that folks buy Apple products due to their affinity to the brand. They love and believe the brand in order that they buy the products.

Steve Jobs, the founding father of Apple said, "Marketing is about values. It's a sophisticated and noisy world, and we're not getting to get an opportunity to urge people to

recollect much about us. No company is. So we've to be really clear about what we would like them to understand about us.”

Think Marketing Magazine in analyzing and commenting about the success of the Apple brand noted that the core values of Apple sets forth the elemental pillars upon which their development and marketing is made on. The marketing strategy of Apple is concentrated on the core values of the corporate. the merchandise development, the promotion, the distribution, the customer service and every one other functions of the corporate has been intensively focused on the core values of the company! A brand is made from core values. The core values of the entrepreneur forms the DNA of the corporate. and therefore the DNA of the corporate is what builds the brand and maintains the brand within the marketplace. Tim Cook, who is now the CEO of Apple said, “Steve built a corporation and a culture that's unlike the other within the world and we're getting to stay faithful that.”

The core values of the corporate—the heart of the business brand—when observed over a period of your time forms the culture of the company. This corporate culture reflects the core values of the entrepreneur, the corporate and therefore the products the corporate produces! The core values are the basics of the company's beliefs, philosophies, principles and code of ethics for doing business. The core values build the brand and therefore the brand builds the corporate. Apple's core value is to form the simplest products within the market and focus in few selected products in order that they will develop and innovate.

Here are the seven core values of Apple which frms their corporate culture, holds and glues the company together over the years.

We believe that we're on the face of the Earth to make great products that will change the world.

We believe in the simple, not the complex.

We believe that we need to own and control the primary technologies behind the products we make.

We participate only in markets where we can make a significant contribution.

We believe in saying no to thousands of projects so that we can really focus on the few that are truly important and meaningful to us.

We believe in deep collaboration and cross-pollination of our groups, which allow us to innovate in a way that others cannot.



We don't settle for anything less than excellence in every group in the company, and we have the self-honesty to admit when we're wrong and the courage to change.

#### **4.1.3. Apple's Corporate Mission Statement**

Apple Inc.'s corporate mission has changed over time. The corporate considers the changing business landscape, which influences the chances of what the business can do. the corporate recognizes the changing market and industry environment. Apple's current mission statement is as follows: Apple designs Macs, the simplest personal computers within the world, along side OS X, iLife, iWork and professional software. Apple leads the digital music revolution with its iPods and iTunes online store. Apple has reinvented the mobile with its revolutionary iPhone and App store, and is defining the longer term of mobile media and computing devices with iPad.

Considering such a corporate mission statement, Apple Inc. is specific in enumerating its organizational outputs. For example, these outputs include Macs, iPods, iPhones, and iPads. Another characteristic of Apple's corporate mission is its emphasis on digital distribution services via the online. for instance, the iTunes online store enables the company to distribute digital content. during this regard, the mission statement highlights the company's consider computing devices and related online services. The business outputs enumerated within the company mission partly determine Apple Inc.'s marketing mix or 4Ps.

#### **4.1.4 Organization Structure**

Organizational Structure Apple Inc. contributes to effective and rapid innovation, which is a decisive factor for the success of a business in the field of information technology, online services and consumer electronics. The organizational or corporate structure of a company is a combination of work groups, resources, and the relationships between these groups and resources in a business. Organizational design determines how the organizational structure is developed and managed. In this case, the business analysis of Apple Inc. The corporate structure supports strategies that drive further technological innovation. The structural characteristics of a company support a traditional hierarchy with some key elements from other types of organizational structure. Success Apple Inc. is associated with innovation and leadership by Steve Jobs, and his corporate structure is

partly responsible for providing support for such leadership. Now, under the leadership of Tim Cook, Apple has made small changes to its organizational structure to meet the current needs of the global market and industry.

Apple's organizational structure provides effective business support by providing industry leadership, especially when it comes to competing with Google, Microsoft, IBM, Intel, Amazon, SonyPayPal and many more. An analysis of Porter's five forces determines that these competitors create strong competitive competition in the company's external environment. Nevertheless, thanks to the effective use and development of its corporate structure, Apple continues to improve its capabilities and competitive advantages, especially in the field of quick and creative innovation and product design for competitive products in the international market.

#### Apple's Organizational Structure Type and Characteristics

Apple Inc. It has a hierarchical organizational structure with noticeable characteristics of the unit and a weak functional matrix. Hierarchy is a traditional structural feature in business organizations. The unit's characteristics relate to Apple's product grouping, for example, for iOS and macOS. A weak functional matrix implies collaboration between departments, while the hierarchy is maintained. The following are the key features of Apple's corporate structure:

- Spoke-and-wheel hierarchy;
- Product-based divisions;
- Weak functional matrix;
- Strong Corporate Control;
- Limited Organizational Flexibility.

**Spoke-and-Wheel Hierarchy.** A germander speedwell view of the organizational structure shows a big hierarchy. within the past, everything went through Steve Jobs. Jobs made all major strategic management decisions. However, under the leadership of Tim Cook, this hierarchy in Apple's corporate structure has changed somewhat. the corporate is currently expanding collaboration between various parts of the organization, like software and hardware development teams. Apple vice presidents have greater autonomy, which was limited and minimal under Jobs. Thus, the organizational structure of the corporate is now less rigid, but still features a hierarchy of spokes and wheels, where Tim Cook is

within the center. The upper level (the innermost level within the circular circle) of the company structure features a functional grouping, which is a component derived from the functional sort of the organizational structure. Senior Vice Presidents, reporting to Tim Cook, perform business functions. for instance, Apple features a senior vice chairman of retail and a senior vice chairman of international marketing. during this structural feature, senior executives of the corporate satisfy business needs in terms of business functions.

**Product-based Divisions.** The upper and lower levels of the corporate structure of Apple have product units, an element of which is a derived type of organizational structure. There are senior vice presidents and vice presidents for different results or products. For example, Apple has a senior vice president of software engineering (iOS and macOS), a senior vice president of hardware engineering (Mac, iPhone, iPad and iPod) and a senior vice president of hardware technology (hardware components). This aspect of the corporate structure is used to manage specific products or product components that the company supplies to its target customers.

**Weak Functional Matrix.** Weak functional matrix Apple Inc. refers to the interaction between the various components of a business. In a weak functional matrix, senior management determines the direction of the project, while project managers have limited authority and control. For example, a corporate structure allows hardware teams to collaborate with software teams. Thus, the company promotes the dissemination of information necessary for innovative processes. Thanks to this characteristic of the organizational structure, the company supports strong innovation processes that support brand development and the use of premium pricing strategies.

**Strong Corporate Control.** The hierarchy in the organizational structure of Apple supports strict management control in the organization. In theory, hierarchy allows top leaders such as Tim Cook to control everything in the organization. Due to the hierarchy, business functions and product groups are based on effective control through decisions of the CEO and other executives. This is an advantage of the corporate structure of Apple Inc. contributes to the rapid and effective implementation of strategic management and helps ensure coherence throughout the organization.

**Limited Organizational Flexibility.** Apple's corporate structure has the disadvantage of low flexibility. The hierarchy usually does not allow the lower levels of the structure to respond flexibly to the current needs of the business and market

requirements. For example, a company's manufacturing departments must wait for directions from the CEO or other senior executives in order to initiate changes that take into account trends in the consumer electronics market. Nevertheless, Tim Cook has already made small improvements by expanding cooperation between the various departments of the company. Such collaboration enhances organizational flexibility. However, Apple's organizational structure does not support rapid change, because everything must go through Tim Cook and senior management.

#### **4.1.5. Apple Inc.'s Organizational Culture & Its Characteristics**

Organizational Culture Apple Inc. may be a key factor for continued business success. The organizational or corporate culture of the corporate establishes and maintains a business philosophy, values, beliefs and appropriate employee behavior. This business case study demonstrates that Apple features a corporate culture that permits human resources to support a spread of strategic goals. For instance, the cultural characteristics of the corporate correspond to the will for innovation, which is that the main factor determining the competitiveness of a business within the field of data technology, online services and consumer electronics. Supported organizational culture, this business condition facilitates Apple's corporate mission and vision statements. Under the leadership of Steve Jobs, and now under the leadership of Tim Cook, the corporate continues to enhance its cultural features so as to maximize the support of human resources for the relevance of business in various markets round the world. Apple is shaping its corporate culture and using it as a tool for strategic management and success.

Thanks to the corporate culture of Apple Inc. strengthens its competitive advantages over other companies in various industries. The company competes with firms such as Samsung, Google, Amazon.com, Dell, Lenovo, Sony and PayPal, as well as IBM and Intel. These competitors create a strong external force that affects strategic management among firms in the industry, as shown in Apple's Five Forces analysis. As a result, cultural traits must reinforce the necessary competitive advantages with the help of labor. The company partially achieves this strategic goal through its organizational culture.

## **Organizational Culture Type and Characteristics**

Apple Inc. has an organizational culture for creative innovation. The company's cultural characteristics are aimed at maintaining a high level of innovation, which includes creativity and thinking that challenges agreements and standards. Business depends on cultural support and coherence, which are crucial factors in competitiveness and industry leadership, especially with regard to aggressive and rapid technological innovation and product development. The following are key features of Apple's corporate culture:

- Top-notch excellence;
- Creativity;
- Innovation;
- Secrecy;
- Moderate combativeness

**Top-notch Excellence.** Apple's organizational culture is accompanied by a policy of hiring only the best of the best on the job market. Steve Jobs, as you know, fired employees who did not meet his expectations. This tradition continues under Tim Cook. Such a tradition maintains and strengthens a corporate culture that encourages, appreciates and expects first-class excellence among employees. This cultural trait is enshrined in the organization Apple. For example, a company has programs that recognize and promote excellence among workers. Excellence is emphasized as a critical success factor in business, especially in product design and development, which is the primary growth strategy (see Apple Inc. Overall Strategy and Intensive Growth Strategies).

**Creativity.** This cultural feature refers to new ideas that help improve the business and its products. Apple leadership encourages creativity in employee knowledge, skills, and abilities. This characteristic of corporate culture allows the company to provide a creative approach, especially among employees involved in the design and development of products. Such creativity is seen in the design and features of the iPhone, Mac, and iPad, among other products included in the Apple or 4P marketing package. In this regard, organizational culture helps maintain the company's ability to meet customer expectations and preferences.

**Innovation** Apple's organizational culture supports rapid innovation. The company is often rated as one of the most innovative companies in the world. Based on this cultural feature, the company trains and motivates its employees to innovate in terms of individual

performance of work and contribution to product development processes. Corporate culture fosters the rapid innovation that underpins Apple Inc.'s business. Rapid innovation ensures that the company continues to introduce new products that are profitable and attractive to target customers.

**Secrecy.** Steve Jobs designed Apple to have an organizational culture of secrecy. This cultural characteristic continues to determine the development of the company's human resources. Secrecy is part of the company's strategy to minimize theft of private information or intellectual property. It is also a strategic management approach that Apple Inc. allows. Maximize your competitive advantage. Thanks to the corporate culture, employees are encouraged and need to store business information within the company. This cultural trait is reinforced by company policies, rules and employment contracts. In this context, Apple's organizational culture helps protect businesses from corporate espionage and the negative effects of employee poaching.

**Moderate Combat.** Apple's organizational culture has moderate militancy. This feature is associated with Steve Jobs and his combat approach to leadership. It is known that he randomly challenged employees to make sure that they have everything they need to work at Apple. However, under the leadership of Tim Cook, the company is changing its corporate culture to a more sociable and less belligerent. However, militancy remains the main influence in business. Apple's corporate culture shows a moderate degree of aggressiveness, which sets goals to increase employee productivity.

**Advantages and Benefits.** The combination of first-class excellence, creativity and innovation in the organizational culture of Apple supports the company's leadership in the industry. The business is widely recognized as a leader in terms of innovation and product design. These cultural characteristics allow Apple and its human resources to stand out and be ahead of the competition. This corporate culture provides success and competitive advantages, as well as further strengthening the company's brand, which is one of the key business strengths demonstrated in Apple Inc. SWOT analysis. Creativity and excellence are especially important in the company's rapid innovation processes for continuous competitiveness and business development.

**Disadvantages and disadvantages.** Apple's corporate culture is creating problems due to the emphasis on secrecy and a moderate degree of action. The atmosphere of secrecy limits mutual understanding between employees. In addition, moderate fighting

can limit or reduce employee morale. These cultural issues can reduce business performance and increase staff turnover. Apple Inc. can solve this situation by changing its organizational culture in order to reduce, but not necessarily eliminate belligerence. This recommendation is aimed at reducing the disadvantages of belligerence, without eliminating the advantages of combat approaches in the company. In addition, Apple can integrate new cultural features to keep the business relevant, given trends and changes in information technology, cloud services, digital content distribution and the consumer electronics industry.

#### **4.1.6. Models of Strategic Human Resource Management**

The key people working at Apple are marketing, technology, and human resources specialists. The main goal of the company is to attract and retain its employees (Rees & Smith, 2017). To achieve this goal, the company used various strategic methods of working with personnel to attract qualified specialists. Apple is interested in maximizing the efforts of its employees by investing in their skills. The company recognizes human capital as a vital element for overall competitiveness (Storey, 2014). Human resources are the driving force behind development strategies. Thus, the company benefited from the competencies of its staff with the main goal of achieving a competitive advantage in the market. The great talents and approaches to personnel management used in the company allowed her to become the most innovative company in the consumer electronics industry.

HR Apple Inc. works to maximize return on investment by minimizing financial risks while using human capital. Human Resource Management Apple Inc has various responsibilities, including recruitment and selection, leadership development, incentive rewards, employee development, and employee relationships (Storey, 2014). These activities are carried out by HR managers efficiently and consistently. Key strategic HR functions are discussed below.

#### **4.1.7. Employees**

This graph shows the entire number of Apple employees as of the top of every fiscal year for the corporate from 2015 through to 2019. As of FY2019, the entire number of employees had reached around 139 thousand (only counting full-time equivalent).

Figure 3: Apple's number of employees in the fiscal years 2015 to 2019 (in 1,000s)



Source: Statista, 2019

The total number of employees in 2019 was 137,000, a 3.79% increase from 2018.

#### 4.1.8. Analysis of Financial Ratios

Apple completed the fiscal year 2019 with revenue of \$ 260.17 billion from \$ 265.6 billion a year earlier. The company's sales declined due to lower demand for the iPhone.

For the reporting 12-month period, closed on September 28, 2019, Apple earned about \$ 142.38 billion on iPhone sales, which is significantly lower than the year-ago indicator of \$ 164.89 billion. The telephone business, which still brings the American manufacturer more than half the turnover, turned out to be the only one falling at Apple.

Sales of computers brought the company \$ 25.74 billion in revenue for the year, which is slightly more than in the 2018 reporting year, when revenues were measured \$ 25.2 billion.

Apple's annual revenue in the tablet market rose from \$ 18.38 billion to \$ 21.28 billion, while sales of wearable electronics, wireless speakers, headphones and other products, which are reported in the Wearables, Home and Accessories line, increased from \$ 17.38 billion to \$ 24.48 billion.



Service revenues, which include earnings on the Apple Pay payment system, the App Store app store and other services, reached a record \$ 46.29 billion in fiscal year 2019. In 2018, revenue was \$ 39.75 billion.

The largest market for Apple products remains the countries of North and South America, which in the fiscal year 2019 brought the corporation \$ 116.91 billion in revenue compared to \$ 112.09 billion a year earlier.

Revenue in Europe year on year fell from \$ 62.4 billion to \$ 60.29 billion. In the Chinese market, Apple's sales fell from \$ 51.94 billion in 2018 to \$ 43.68 billion a year later. In Japan, the company's revenue changed slightly and amounted to \$ 21.5 billion.

In fiscal 2019, Apple recorded a net profit of \$ 55.26 billion, which is less than a year ago profit of \$ 59.53 billion.

### **Profitability Ratios**

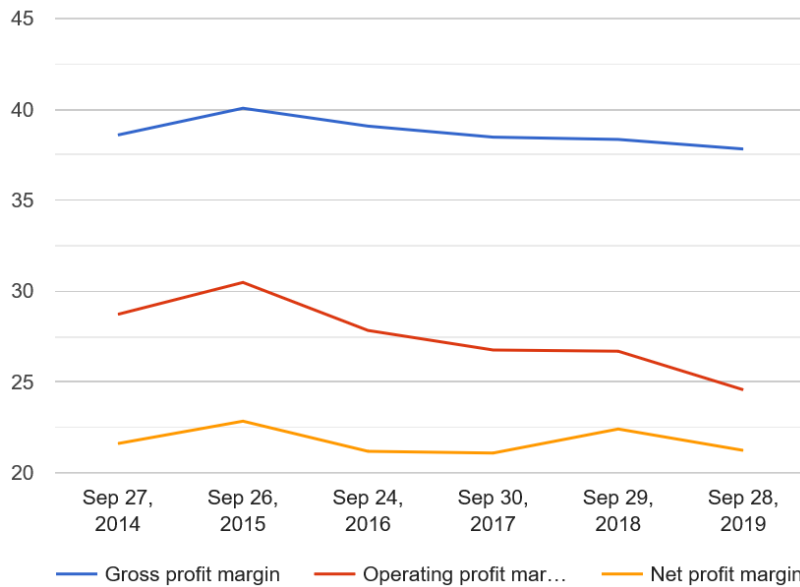
In the following work i will gather the data of profitability ratio in the time duration 2015-18. It will help me to analyse the profitabilitiy ratios in order to undertand the company's profitability capacity which is one of the objective of my work.

Table 5: Profitability ratios of Apple INC, 2014 – 2019

	2019	2018	2017	2016	2015	2014
Return on Sales						
Gross profit margin	37.82%	38.34%	38.47%	39.08%	40.06%	38.59%
Operating profit margin	24.57%	26.69%	26.76%	27.84%	30.48%	28.72%
Net profit margin	21.24%	22.41%	21.09%	21.19%	22.85%	21.61%
Return on Investment						
Return on equity (ROE)	61.06%	55.56%	36.07%	35.62%	44.74%	35.42%
Return on assets (ROA)	16.32%	16.28%	12.88%	14.20%	18.38%	17.04%

**Source:** Own calculations, data from annual reports 2014-2019

Figure 4: Profitability Ratios of Apple INC., 2014 –2019



Source: Own calculations, data from annual reports 2014-2019

A profitability ratio is an index specifies the ability of a company to generate profit relative to revenue. It covers various aspects such as above, we can see first in return on assets it shows the net earnings relative to assets. Apple Inc.’s gross profit margin ratio deteriorated from 2017 to 2018 and from 2018 to 2019. Apple Inc.’s operating profit margin ratio deteriorated from 2017 to 2018 and from 2018 to 2019. Apple Inc.’s net profit margin ratio improved from 2017 to 2018 but then slightly deteriorated from 2018 to 2019 not reaching 2017 level.

Return on Equity (ROE): in 2015, Apple’s return on equity was 44.74 %. This ratio skyrocketed to 61.06 you interested by 2019. the most driver for the return on equity increase might be that the corporate is using more debt for growth and operations as compared to equity. Also, the growth in dividend payments may help because the cash payouts reduce the general total assets. This successively, slightly increases the return on equity.

Return on Assets (ROA): Apple’s return on assets in 2015 at 18.39 %. As of 2019, the return on assets fell to 16.32 %. this means that the corporate is utilizing its assets less efficiently over the last five years. To mitigate this issue, the organization may prefer to lower their asset utilization. Or, the corporate may prefer to liquidate a number of their assets to raised align with company needs.

## Leverage Ratios

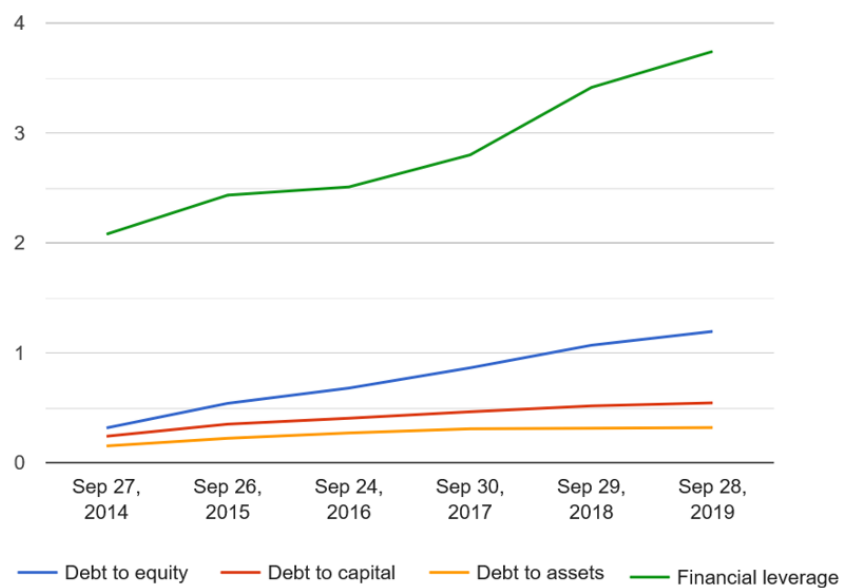
For Apple Inc. it is a very important measure of indebtedness of the company. On the given fact mainly watching new investors or existing shareholders. At high debt must be mainly explain why the company has leveraged whether invests a lot of money in technology or marketing, or whether they expect the new product to which the company needs enough money.

Table 6: Leverage Ratios of Apple INC., 2014-2019

	2019	2018	2017	2016	2015	2014
Debt to equity	1,19	1,07	0,86	0,68	0,54	0,32
Debt to capital	0,54	0,52	0,46	0,40	0,35	0,24
Debt to assets	0,32	0,31	0,31	0,27	0,22	0,15
Financial leverage	3,74	3,41	2,80	2,51	2,43	2,08

Source: Own calculations, data from annual reports 2014-2019

Figure 5: Leverage Ratios of Apple INC., 2014-2019



Source: Own calculations, data from annual reports 2014-2019

Apple Inc.'s debt to equity ratio deteriorated from 2017 to 2018 and from 2018 to 2019. Apple Inc.'s debt to capital ratio deteriorated from 2017 to 2018 and from 2018 to 2019. Apple Inc.'s debt to assets ratio deteriorated from 2017 to 2018 and from 2018 to 2019. Apple Inc.'s financial leverage ratio increased from 2017 to 2018 and from 2018 to 2019.

## Coverage Ratios

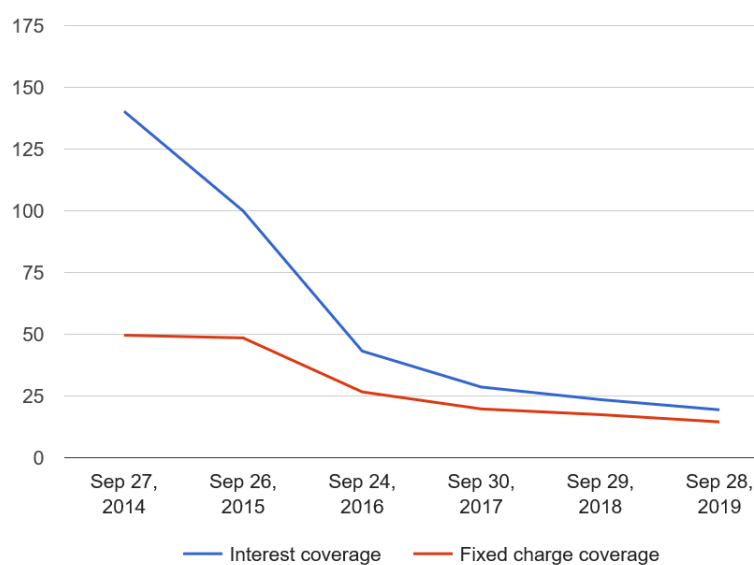
These ratios will help to live a company's ability to pay its financial obligations. a better ratio indicates a greater ability of the corporate to satisfy its financial obligations while a lower ratio indicates a lesser ability.

Table 7: Coverage Ratios of Apple INC., 2014-2019

	2019	2018	2017	2016	2015	2014
Interest coverage	19,38	23,50	28,59	43,15	99,93	140,28
Fixed charge coverage	14,48	17,42	19,72	26,63	48,49	49,58

Source: Own calculations, data from annual reports 2014-2019

Figure 6: Coverage Ratios of Apple INC., 2014-2019



Source: Own calculations, data from annual reports 2014-2019

Apple Inc.'s interest coverage ratio deteriorated from 2017 to 2018 and from 2018 to 2019. Apple Inc.'s fixed charge coverage ratio deteriorated from 2017 to 2018 and from 2018 to 2019.

## Liquidity Ratios

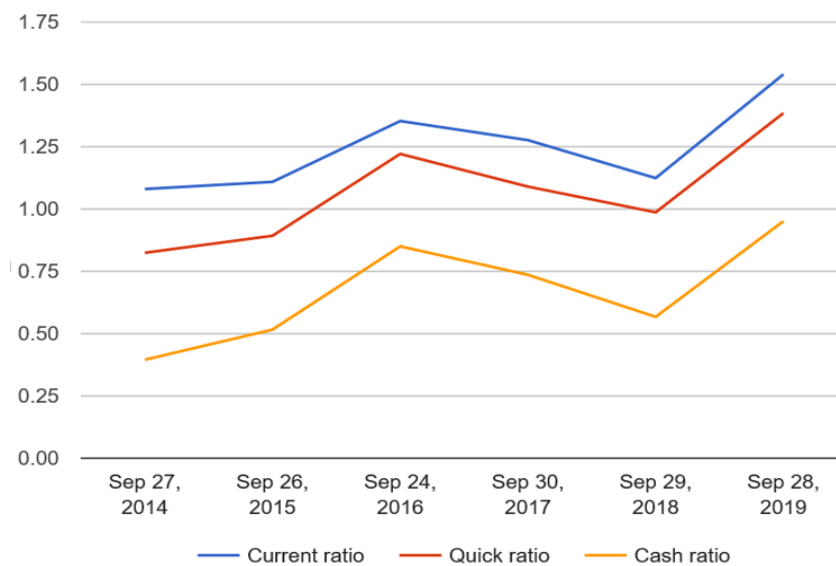
The following table 8 and figure 7 are calculated the value of the basic types of liquidity (current ratio, quick ratio and cash ratio) of the company Apple Inc. in the year 2014-2019. We have previously mentioned the difference between these three ratios: assets. Current ratio includes all current assets, quick ratio – all but inventory and cash ratio – just cash and cash equivalents, the most liquid one.

Table 8: Liquidity ratios of Apple INC., 2014 – 2019

	2019	2018	2017	2016	2015	2014
Current ratio	1,54	1,12	1,28	1,35	1,11	1.08
Quick ratio	1,38	0,99	1,09	1,22	0,89	0.82
Cash ratio	0,95	0,57	0,74	0,85	0,52	0.40

Source: Own calculations, data from annual reports 2014-2019

Figure 7: Liquidity ratios of Apple INC, 2014 – 2019



Source: Own calculations, data from annual reports 2014-2019

- Apple Inc.'s current ratio deteriorated from 2017 to 2018 but then improved from 2018 to 2019 exceeding 2017 level. Quick ratio deteriorated from 2017 to 2018 but then improved from 2018 to 2019 exceeding 2017 level. Cash ratio deteriorated from 2017 to 2018 but then improved from 2018 to 2019 exceeding 2017 level.
- Apple's current ratio increased to 1.54 in 2019. This is substantially up from 1.12

and 2018. The main reason for the significant increase is the organization's horde of cash.

- Apple Inc.'s quick ratio deteriorated from 2017 to 2018 but then improved from 2018 to 2019 exceeding 2017 level.
- Apple Inc.'s cash ratio deteriorated from 2017 to 2018 but then improved from 2018 to 2019 exceeding 2017 level.

## **4.2. External analysis of Apple INC.**

The external business environment is an uncontrollable factor; external factors can be analyzed using PEST and Porter's five forces. Kotler argues that PEST analysis is an effective strategic tool for understanding the development and decline of the market, business position, thinkability and direction of activity.

### **4.2.1. PEST analysis**

To gain an understanding of Apple's business potential, direction of operation and to know situation of future market, we will use Pest analysis.

### **Potencial impact of Political factors on Apple INC.**

Political factors play an important role in identifying factors that may affect Apple Inc.'s long-term profitability. in a specific country or market. Apple Inc. It works in the field of electronic equipment in more than a dozen countries and is exposed to various types of political conditions and political systemic risks. To succeed in such a dynamic electronic equipment industry in different countries is to diversify the systematic risks of the political environment.

Apple is one of a number of US technology companies that has amassed a lot of money. As of June 30, 2015, the bank had \$ 34.7 billion. This calls for increased corporate taxation in the United States, where income inequality has become a major political issue.

Apple is heavily dependent on cheaper production in China. Social and political unrest in China can disrupt production or increase production costs in that country. Calls were also made to limit Chinese imports in the United States in order to stimulate US production.

- The cost of finding alternatives to Chinese manufacturing might be high for Apple. this might cause increased prices for Apple products.
- Apple's dependence on Chinese manufacturing and markets makes it susceptible to political unrest therein country.
- Apple could become the target of growing nationalism and anti-Americanism in China, which could reduce its market share.
- Apple's close association with China could become a political issue in countries just like the us and Japan if China were to be perceived as a threat.
- Apple's dominant position in fields like music could lead on to antitrust concerns and political pressure to interrupt the corporate up or limit its market share.

On December 22, 2017, President Trump signed into law on tax incentives and jobs, which included a reduction in corporate tax rates from 35% to 21% and a reduction in income tax rates. Like many American companies, Apple in the past preferred to retain most of its foreign profits and profits outside the United States to avoid paying a 35% corporate tax rate.

Before Trump's tax cuts, Apple would have to pay \$ 78.6 billion in taxes for offshore money (Hannam 2017). But with Trump's new tax reform, Apple could make more than \$ 47 billion in profits if its profits are repatriated.

However, tax reform indicates that companies must pay a one-time tax on overseas accrued income of 15.5% on cash and liquidity and 8% on assets (MacMillan 2018). So far, Trump's tax reform has helped accelerate Apple's earnings growth and equity returns, as the company returned \$ 25 billion a quarter this year, compared with \$ 11 billion a quarter last year with a 19% increase in inventories (Kim 2018) . The favorable tax environment has become one of the reasons Apple has risen to the level that turned it into the first company by a trillion dollars.

In addition, the China-US trade war greatly threatens Apple's operations in China, as the country accounted for more than 25% of Apple's profits in 2017, and is projected to become the largest apple market (Edwards 2017). It is worth noting that Apple's revenue in China could be adversely affected by any retaliatory moves by Beijing. In 2017, Apple

earned \$ 44.7 billion in revenue by sending 41 million iPhones to China, making it the 5th largest smartphone player in China. If Xi Jinping and Trump's trade war escalates to include a comprehensive US tariff on all Chinese imports to the United States, iPhone imports to China can also be subject to high duties from Beijing in response, which will further increase their already exorbitant prices and affect consumer demand in China. for the main Apple product. Moreover, Apple is highly dependent on its Asian suppliers; Xi Jinping may limit its operations, which will lead to delays for Apple products (Kharpal 2018).

China has imposed US \$ 60 billion in tariffs on U.S. imports in response to trump cards worth more than US \$ 200 billion on Chinese imports (Mitchell et al 2018). While the main Apple products, including computers iPhone, iPad and Mac, were exempted from US tariffs in the amount of \$ 200 billion. U.S. introduced in September 2018, Apple's strategic business unit for selling wearable and audio accessories (SBU), which includes sales of more than 3.5 million Apple Watch watches in 2017. were not exempted from the tariff tax of \$ 200 billion introduced in August 2018.

In the worst case, these will be the main products, which will also be taxed as part of the complete list of potential tariffs that Trump wants to impose on all imports from China (Bradshaw 2018c; 2018d). Apple executives have already warned the U.S. government that existing tariffs will increase the cost of its U.S. operations and force Apple to either raise prices or hit profit margins to offset higher tariffs. These are ultimately Apple's flaws compared to foreign competitors (Bradshaw 2018d).

### **Political impact of Economic factors on Apple INC.**

Economic situation, inflation, interest rate and strengths of consumer spending. This will directly affect Apple and its profits, if the economic situation is bad, the consumer will spend less.

- Higher labor costs in China could strip the price advantage of some Apple products.
- Mid-income stagnation in some developed countries, including the United States, could reduce the potential market for higher-end consumer products, such as those sold by Apple.



- A strong US dollar could increase exchange rates, making Apple more expensive to do business in key markets such as Europe and China.

The UK economy in 2018 did pretty well, despite constant fears and uncertainty about Brexit. In April 2018, the Office of National Statistics (ONS) announced that the UK was recovering from an annual wage cut in which wage growth stagnated more than ten years after the financial crisis (Strauss 2018). Prior to this, most of 2017 and the early periods of 2018 were characterized by rising wages below inflation, which meant that British consumers were in a worse position with less disposable income at hand (Cocco 2018).

Despite this, the UK has a record number of people with unemployment, which by August 2018 reached a record low of 4%, the lowest since 1975 (BBC 2018). For much of 2018, the pound also recovered after an earlier devaluation following the Brexit referendum, which means that apple consumers in the UK are no longer subject to higher prices, which Apple set immediately after the referendum vote in October 2016, when this, for example, marked the beginning of all new Mac computers and company desktop computers with a 20% price increase across the lineup (Hern 2016) The combination of these factors played a role in maintaining Apple as the largest smartphone brand in the UK with the Apple iPhone, which holds a market share of 48% and not Samsung 35% (Statista 2018d).

### **Potencial impact of Social factors on Apple INC.**

The culture of society and the way we do business influence the culture of the organization in the environment. Common beliefs and public attitudes play a big role in how Apple Inc. marketers They will understand the customers of this market and how they develop marketing messages for consumers in the electronic equipment industry.

- The largest increase in consumer spending in the coming decades will be in regions of the world such as Africa, where people are unfamiliar with Apple products.
- Consumers in these markets and young people in established Apple markets such as the United States lack a strong emotional attachment for Apple products that drive sales.

- Some customers in the United States and Europe experience a negative reaction to expensive and stylish products.
- Ethical concerns about Apple's manufacturing in China may limit its appeal to socially conscious consumers.
- Apple's close relationship with China may offend some potential customers in other regions, such as North America and Europe, especially in the event of rising tensions in China.
- Apple's music marketing strategy has caused dissatisfaction and has caused public criticism from major record stars who may cast a shadow over the brand's image.

According to a Mintel study, full-screen displays and enormous screens are the most trends in inflation for smartphones. As growing demand for phablets and longer battery life may be a priority for consumers, the attributes of multitasking and low prices can help drive smartphone sales as customers are interested in low-cost but high-quality products (Reynolds 2018). Apple smartphone competitors like Samsung and Huawei have already developed smartphones with a really large screen to capture a growing market. However, to appeal to a growing number of consumers preferring phablets due to their multitasking capabilities and therefore the got to provide a cheaper version of the iPhone X, Apple has released a replacement version of the iPhone, iPhone XS Max, which features a 6.5-inch iPhone screen with the most important ever made by Apple (Apple.com 2018; Bloomberg 2018).

### **Potencial impact Technological factors on Apple INC.**

The technology market is currently expanding, which means competitors for Apple Inc. will also grow.

Competition is also becoming increasingly difficult as technological change and innovation develops much faster. As a result, the entire technology has a short life. That's why Apple needs to update its product more often so they can easily outperform their competitors. In this case, Apple will invest most of its capital in research and product development. One example is that Apple installs its own brand operating system, which increases the cost of its production, and on the other hand, Dell, as its competitor, uses the Microsoft operating system in all its products.

That is why the external technological factor will also help Apple plan its new goals in order to compete with its competitors.

Artificial intelligence is one of the trends revolutionizing the technology industry, with nearly half of the U.S. population finding digital assistants very useful, as they can be used to complete tasks with voice control (Bingle 2018).

Therefore, smartphone manufacturing companies are introducing advanced artificial intelligence features using digital assistants, combining voice control with artificial intelligence and combining teams with third-party applications, making smartphones faster and more efficient.

At WWDC 2018, Apple announced its new iOS 12, which runs on Siri, one of the three largest digital assistants, including Amazon and Alexa. Apples Siri makes the operating system faster and more personalized, since the iPhone AI will understand where you are and where you need to be, and will make suggestions, for example, “someone you will be late for”, in case you are not on schedule (Perez 2018). In addition to the AI-based phone, the Apple Homepod wireless speaker is a new gadget with Siri support and is compatible with Apple's home kit. Thanks to the voice activation function, it produces high-quality sound and can control a smart home. Apple HomePod has 5% of the market among owners of smart speakers such as Amazon Echo with 76% and Google Home with 17% (Mintel 2018).

#### **4.2.2. Apple Inc. Porter's Five Forces Analysis**

Apple is trying to release new models of its phones almost every year. The popularity of the iPhone in the world is only growing, and most consider it necessary to have a novelty in use.

Apple sets a certain rhythm in the world of technology. Constantly trying to improve and give users something new in order to beat competitors. But every year it becomes much more difficult to do.

The main pursuers in the market are Samsung. The South Korean corporation is practically stepping on the heels of the Americans, and in certain years, sales of phones of this brand were significantly higher than the iPhone. Samsung manages to become the perfect phone in terms of price and quality, running on the Android operating system.

Moreover, the flagship models endowed with significant functionality, and the build quality of the device is not satisfactory.

Chinese manufacturers are also not sitting idle. In recent years, Huawei has grown significantly in the handset segment. This is evidenced by statistics. In particular, in 2018, Huawei became the second largest smartphone manufacturer in the world after Samsung.

Another company that almost broke into the market and began to dictate its own rules is Xiaomi. This Chinese corporation is called the "brand smartphone killer." This is because the products of this manufacturer are of moderate quality and performance, and most importantly, the price of such devices is quite low compared to others. Thanks to this, in recent years, Xiaomi has managed to significantly increase sales of its own products around the world.

A model was suggested by Michael E. Porter in a piece of writing within the Harvard Business Review in 1979. This model, referred to as Porter's Five Forces Model may be a strategic management tool that helps determine the competitive landscape of an industry. Each of the five forces mentioned within the model and their strengths help strategic planners understand the inherent profit potential within an industry. The strengths of those forces vary across the industry to industry, which suggests that each industry is different regarding the profitability and attractiveness. The structure of an industry, albeit it's stable, can change over time. These Porter's five forces are as follows:

- Competitive rivalry;
- Bargaining power of suppliers;
- Bargaining power of customers;
- Threat of new entrants;

The Porter's Five Forces model are often used to analyze the industry during which Apple Inc. operates, in terms of attractiveness through inherent profit potential. The knowledge analyzed using the model are often employed by strategic planners for Apple Inc. to form strategic decisions. This section analyses Apple Inc. using each of the five forces of Porter's model.

### **Rivalry Among Existing Firms**

- The number of competitors in the industry in which Apple Inc. operates is very small. Most of them are also large in size. This means that firms in the industry will not take steps without going unnoticed. This makes rivalry between existing firms a weaker strength in the industry.
- Very few competitors have a large market share. This means that they will participate in competitive actions in order to gain positions and become market leaders. This makes rivalries between existing firms a stronger force in the industry.
- An industry in which Apple Inc. growing every year, and it is expected that she will continue to do so for several more years. Positive growth in the industry means that competitors are less likely to take joint action because they do not need to seize market share from each other. This makes rivalry between existing firms a weaker strength in the industry.
- Fixed costs are high in the industry in which Apple Inc. operates. This forces companies in the industry to operate at full capacity. It also means that these companies lower their prices when demand weakens. This makes rivalries between existing firms a stronger force in the industry.
- Products manufactured in the industry in which Apple Inc. operates are highly differentiated. As a result, it is difficult for competing firms to win each other's customers, since each of their products is unique. This makes rivalry between existing firms a weaker strength in the industry.
- Production in the industry requires an increase in capacity at a rapid pace. This makes the industry prone to imbalances in supply and demand, which often leads to overproduction. Overproduction means that companies must lower prices to ensure the sale of their products. This makes rivalries between existing firms a stronger force in the industry.
- The exit barriers in the industry are particularly high due to the high investment required in capital and assets for work. Exit barriers are also high due to government regulations and restrictions. This makes firms in the industry reluctant to leave the business, and they continue to be profitable even at low profits. This makes rivalries between existing firms a stronger force in the industry.

- The strategies of firms in the industry are diverse, which means that they are unique to each other in terms of strategy. This leads to the fact that they are faced with each other regarding the strategy. This makes rivalry between existing firms a strong force in the industry.

### **Bargaining Power of Suppliers**

- The number of suppliers in the industry in which Apple Inc operates is much larger than customers. This means that suppliers have less control over prices, and this makes suppliers' bargaining power weak.
- The products that these suppliers provide are fairly standardized, less differentiated, and have a low switching cost. This makes it easier for buyers, such as Apple Inc, to switch suppliers. This makes suppliers' bargaining power a weaker force.
- Suppliers do not struggle with other products in this industry. This means that there are no other product substitutes other than those provided by suppliers. This makes suppliers' bargaining power a stronger force in the industry.
- Suppliers do not pose a real threat to further integration into the industry in which Apple Inc. operates. This makes suppliers' bargaining power a weaker force in the industry.
- The industry in which Apple Inc. operates is an important customer for its suppliers. This means that industry profits are closely linked to suppliers' profits. Therefore, these suppliers must provide reasonable prices. This makes suppliers' bargaining power a weaker force in the industry.

### **Bargaining Power of Customers**

- The number of suppliers in the industry in which Apple Inc. operates is much larger than the number of firms manufacturing products. This means that buyers can choose from several firms, and therefore do not have much control over prices. This makes buyers' bargaining power a weaker strength in the industry.
- Product differentiation in the industry is high, which means buyers cannot find alternative firms producing a particular product. This difficulty in switching makes the market power of buyers a weaker force in the industry.

- Buyer income in the industry is low. This means that there is a need to buy at low prices, which makes buyers more price sensitive. This makes the purchasing power of buyers a weaker strength in the industry.
- Product quality is important to customers, and these customers make frequent purchases. This means that customers in the industry are less price sensitive. This makes the market power of buyers a weaker strength in the industry.
- There is no significant threat to buyers integrating in the opposite direction. This makes the trading threat to buyers a weaker strength in the industry.

### **Threat of New Entrants**

- Economies of scale are quite difficult to achieve in the industry where Apple Inc. operates. This makes it easier for those who produce large condensates to have an economic advantage. It also makes production more expensive for new entrants. This makes threats to new entrants a weaker force.
- There is a strong product differentiation in the industry where firms in the industry sell differentiated products rather than a standardized product. Customers are also looking for differentiated products. Particular attention is paid to advertising and customer service. All of these factors make the threat of new entrants a weak force in the industry.
- The capital requirements in the industry are high, which makes it difficult to create new enterprises, since it is necessary to incur large expenses. Capital expenditures are also high due to high research and development costs. All of these factors make the threat of new entrants a weaker force in the industry.
- Access to distribution networks is easy for new members who can easily set up their distribution channels and enter the business. With just a few outlets selling a product type, any beginner can easily get their product on the shelves. All of these factors make the threat of new entrants a strong force in the industry.
- Government policies in the industry require strict licensing and legal requirements before a company can begin selling. This makes it difficult for new entrants to join the industry, so the threat of new entrants becomes a weak force.

### **Threat of Substitute Products or Services**

- There are very few substitutes for products manufactured in the industry where Apple Inc. operates. Very few available substitutes are also produced in low-profit industries. This means that there is no limit to the maximum profit that firms can make in the industry in which Apple Inc. operates. All of these factors make substitution threats a weaker force in the industry.
- Very few substitutes available are of high quality, but much more expensive. In comparison, firms in the industry in which Apple Inc. operates sell at lower prices than alternatives with the right quality. This means that customers are less likely to switch to substitute products. This means that the threat of substitute products in the industry is weak.



### **4.3. SWOT Analysis**

This Apple SWOT analysis reveals how one of the most successful world's companies used its competitive advantages to become the dominant player in the tech industry. It identifies all the key strengths, weaknesses, opportunities and threats that affect the company the most.

#### **Apple's Strengths**

- Most valuable brand: Apple ranks seventh in a row Interbrand Apple rating, its value is 234 billion dollars.
- Globally Iconic: Apple is one of the most trusted companies in the field of personalized, modern computers and smart technology devices. He has millions of regular customers with constant growth.
- Advanced technology: Apple was the first to introduce some of the most innovative products that have changed the world (iPhone, iPad). Apple remains determined to create and manufacture better, more experienced technology devices.
- Brand selection: it's not big news that Apple is a sought after brand in corporate offices. Apple has a dedicated business page that offers high-quality technology solutions for the needs of each corporation.
- Professional research: Apple pays great attention to the design of its products. A thorough study begins and further research is conducted to help understand customer needs and requirements.
- Sustainability made possible by Liam: Liam is an iPhone recycling robot that breaks and disassembles the iPhone. He completely strips them down to one bolt. Most parts of the iPhone can be reused. Liam is designed to produce as many parts as possible. These reusable parts are then classified and stored safely so that they can be used for new production.
- Service expansion: Apple has been expanding its service portfolio for many years. For example, about 16% of Apple's annual revenue (\$ 46 billion. Of \$ 260 billion in the fiscal year 19) is accounted for by its services, which is the second largest source of income after the iPhone (54% of revenue).

### **Apple's Weaknesses**

- High-priced products: Apple products can be considered luxury because of their premium prices. Products are priced for middle and high income consumers. Low-income consumers can't just afford Apple products. Because of their premium price, only middle or high class people can afford their products.
- Limited advertising and promotions: Apple has strengthened its position by establishing regular customers, even with limited advertising resources. Apple's marketing is heavily dependent on its iconic and flagship retail stores. Thanks to its success, Apple does not feel the need for excessive advertising costs compared to other major brands such as P&G, Coca Cola and Samsung.
- Entering the realm of incompetence: Apple is rapidly expanding into new services such as video streaming, games, credit cards - competing with dominant players such as Netflix, Disney, Citi, Chase, Paypal, etc. entering the field in which they do not have competencies; Remember the failure of Apple cards.
- Incompatibility with other software. When a customer purchases an Apple product, he enters the Apple universe. Apple products do not support other software or technologies, which makes them incompatible with other devices. Customers must exclusively purchase Apple apps and accessories to continue to use their Apple products.

### **Apple's Opportunities**

- Continuous customer growth: Apple has dominated the technology sector for many years. They provide the highest quality and advanced technologies that provide a breakthrough in customer service. A customer retention rate of 92% is phenomenal. Apple can always count on the future of the Internet to find new customers and create new alliances.
- Qualified professionals. Researchers, developers, and Apple product experts are a team of highly trained professionals with years of experience in consumer branding. With the expansion of its team, Apple can constantly create new opportunities.
- Extensive distribution network: Apple Inc. has the ability to expand its distribution network. Currently, Apple's distribution network is very limited and leaves room for minimal growth. Apple can generate higher revenues and sales if it focuses on

creating an extensive distribution network. In addition, a company can benefit from careful marketing and promotions.

- Lack of green technologies. Apple has not yet launched products created using green technologies. The company has not yet implemented and participated in the creation of environmentally friendly technologies.
- Smart wearable technology. Smart wearable technology will soon dominate the world. According to Forbes, sales of smart devices for wearable technology will double by 2022. It will become a market worth more than \$ 27 billion with 233 million sales. Apple has the opportunity to continue to develop not only on Apple Watch and AirPods, but also on other wearable categories.
- Use of artificial intelligence. To increase its profit and take a strong position in the market, Apple must use artificial intelligence. The company recently expanded its AI portfolio.

### **Apple's Threats**

- Coronavirus outbreak: Apple is highly dependent on China in terms of production and supply chain. In addition, about 17% of its 260 billionth revenue comes from China. The coronavirus outbreak has been significantly affected and could continue to disrupt about 32% of Apple's annual revenue in fiscal year 2020.
- Apple intimidates counterfeit goods: Apple has become vulnerable to third world countries that illegally use the brand image to sell counterfeit products. Illegal dealers sell counterfeit Apple products at the same price as original Apple products. Counterfeit products can make potential customers believe this is an Apple product of low quality. big news can lead to negative reviews and poor advertising for the company.
- Increased competition. Although Apple as a brand has strengthened, it still faces threats from competitors. As technology advances, brands such as Samsung, Google and Dell are creating fierce competition for Apple. As competition intensifies, Apple must either introduce new technologies or revise its pricing policy to get ahead of its competitors.
- Market penetration. Market penetration of other brands in the smartphone market has changed significantly. Companies such as Samsung, HTC and Lenovo are

using Android software to create new smartphones. Currently, Android occupies 72.23% of the market, while Apple occupies only 24.55% of the market in the world.

- **China Tariffs:** The US government has introduced a higher tariff on imports from China, increasing the total cost of products. Therefore, this adversely affects gross margins on products and can make a product more expensive for customers.
- **Lawsuits:** 60 class action lawsuits have been filed against Apple. Consumers were upset and confused when Apple announced a deliberate decrease in processor performance on iPhone models with old and damaged batteries.
- **Backdoor mechanism:** government agencies are constantly pressuring Apple to unlock the iPhone through the back door, which means unlocking iPhone encryption and providing access to its data.
- On several occasions, Apple refused to provide a backdoor mechanism because it could be exploited by cybercriminals, which ultimately endangers millions of iPhone users.

## 5. Results and Recommendations

*Results can be achieved by using opportunities, not by solving problems. The results themselves must come from the use of opportunities: to find the right ways and actions and concentrate resources and efforts on them.*

*P. Drucker*

In conditions of high competition, any, even minor error can lead to significant losses for the enterprise. And, as you know, mistakes do not happen by themselves, and certainly they are not cases of force majeure, because it is peculiar to make them only to humans. This also applies to research, for example, necessary for making strategically important decisions in business. To exclude the human factor, people come up with systems or, as will be more accurate, research algorithms. Such an algorithm is a SWOT analysis. So, step by step, a rather complex system is assembled from fairly simple separate tasks, which allows us to say with greater confidence than with a superficial analysis that the points obtained really exist and relate to the organization at this stage of development. The result of this coursework was a clear identification of the strengths and weaknesses of the enterprise from the opportunities and threats, made on the basis of the analysis of the internal and external environment of the company.

The first chapter reveals the theoretical aspects related to the external and internal environment of the organization: the concept and their characteristics, classification of factors and methods for their analysis.

In the practical part, we conducted an internal analysis of the company, reviewed value system, corporate mission statement, organization structure, organizational culture & its Characteristics, Strategic Human Resource Management and Financial Ratios. Also I was make external analysis, where I used PEST analysis and Porter's five forces analysis.

After internal analysis, we can say that:

Apple is a giant in the field of computer hardware, software and other products. Apple is creating inequalities in the personal computer (PC) sector through its creative product design and high level of use. The Macintosh was a powerful tool in creating the

Apple Inc. performance episode. The "built-in structure" of the PC was Apple's distinctive strategy that supported the Macintosh along with its separate operating system (OS).

Forbes named Apple the most valuable business brand in the world, valued at 182.8 billion dollars. And it has been noticed that people buy Apple products because of their brand affection. They love and believe the brand, so they buy products.

Organizational Chart Apple Inc. contributes to effective and rapid innovation, which is a decisive factor for the success of a business in the field of information technology, online services and consumer electronics. Apple's organizational structure is effective in supporting business performance by providing industry leadership, especially in competition with Google, Microsoft, IBM, Intel, Amazon, SonyPayPal, and many more.

The company recognizes human capital as a vital element for overall competitiveness. Human resources are the driving force behind development strategies. Thus, the company benefited from the competencies of its staff with the main goal of achieving a competitive advantage in the market. The great talents and approaches to personnel management used in the company allowed her to become the most innovative company in the consumer electronics industry. The total number of employees in 2019 amounted to 137,000, which is 3.79% more than in 2018.

Apple completed the fiscal year 2019 with revenue of \$ 260.17 billion from \$ 265.6 billion a year earlier. The company's sales declined due to lower demand for the iPhone.

For the reporting 12-month period, closed on September 28, 2019, Apple earned about \$ 142.38 billion on iPhone sales, which is significantly lower than the year-ago indicator of \$ 164.89 billion. The telephone business, which still brings the American manufacturer more than half the turnover, turned out to be the only one falling at Apple.

Sales of computers brought the company \$ 25.74 billion in revenue for the year, which is slightly more than in the 2018 reporting year, when revenues were measured \$ 25.2 billion.

Apple's annual revenue in the tablet market rose from \$ 18.38 billion to \$ 21.28 billion, while sales of wearable electronics, wireless speakers, headphones and other products, which are reported in the Wearables, Home and Accessories line, increased from \$ 17.38 billion to \$ 24.48 billion.

Service revenues, which include earnings on the Apple Pay payment system, the App Store app store and other services, reached a record \$ 46.29 billion in fiscal year 2019. In 2018, revenue was \$ 39.75 billion.

The largest market for Apple products remains the countries of North and South America, which in the fiscal year 2019 brought the corporation \$ 116.91 billion in revenue compared to \$ 112.09 billion a year earlier.

Revenue in Europe year on year fell from \$ 62.4 billion to \$ 60.29 billion. In the Chinese market, Apple's sales fell from \$ 51.94 billion in 2018 to \$ 43.68 billion a year later. In Japan, the company's revenue changed slightly and amounted to \$ 21.5 billion.

In fiscal 2019, Apple recorded a net profit of \$ 55.26 billion, which is less than a year ago profit of \$ 59.53 billion.

After external analysis, we can say that:

Political factors play an important role in identifying factors that may affect Apple Inc.'s long-term profitability. in a specific country or market. Apple is heavily dependent on cheaper production in China. Social and political unrest in China can disrupt production or increase production costs in that country. Calls were also made to limit Chinese imports in the United States in order to stimulate US production.

Economic situation, inflation, interest rate and strengths of consumer spending. This will directly affect Apple and its profits, if the economic situation is bad, the consumer will spend less.

The culture of society and the way we do business influence the culture of the organization in the environment. Common beliefs and public attitudes play a big role in how Apple Inc. marketers They will understand the customers of this market and how they develop marketing messages for consumers in the electronic equipment industry.

The technology market is currently expanding, which means competitors for Apple Inc. will also grow.

Competition is also becoming increasingly difficult as technological change and innovation develops much faster. As a result, the entire technology has a short life. That's why Apple needs to update its product more often so they can easily outperform their competitors.

Apple tries to release new models of its phones almost every year. The popularity of the iPhone in the world is only growing, and most consider it necessary to have a novelty in use.

Apple sets a certain rhythm in the world of technology. Constantly trying to improve and give users something new to beat competitors. But every year it becomes increasingly difficult to do. The main market pursuers are Samsung. Chinese manufacturers are also not sitting idle. In recent years, Huawei has grown significantly in the handset segment. In particular, in 2018, Huawei became the second largest smartphone manufacturer in the world after Samsung. Another company that has almost invaded the market and began to dictate its rules is Xiaomi. This Chinese corporation is called the "brand killer of smartphones." This is due to the fact that the products of this manufacturer are of moderate quality and performance, and most importantly, the price of such devices is quite low compared to others.

The main advantage of Apple is its focus on innovation and product quality, which helped it maintain its strong position. In addition to fluctuations in revenue, the brand as a whole retains its impressive presence in the technology industry. However, in order to reduce its dependence on personal computers and products for mobile computers, it is necessary to diversify its activities in new areas. The PC market stabilized a bit in 2018, but declined again in 2019. All these factors led to an increase in the number of problems facing the brand, while its competitor Microsoft has steadily managed its market capitalization of over 1 trillion over the past few months. Apple faces big challenges, and if it does not focus on expanding revenue sources and attracting new user segments, the gap between it and its leading competitor Microsoft may widen.

Given all these challenges, Apple's existing user base is still a reliable source of revenue, and its strong cash flow will continue to support investment in fresh innovation.



## 6. Conclusion

Apple is one of the four largest players in the technology industry. The company's sales were impressive in 2018. However, its financial performance in 2019 (Q1 and Q2) worsened due to trade wars between the US and China and a number of other factors. However, there is good news. Service revenues are constantly growing, and in the next few years, if service revenues increase, Apple may again become number one. However, he remained stuck with his core products for a long time. Meanwhile, Amazon and Microsoft entered the cloud industry and saw that their income and profits were growing faster. The market environment is also much more complex than a few years ago.

The main advantage of Apple is its focus on innovation and product quality, which helped it maintain its strong position. In addition to fluctuations in revenue, the brand as a whole retains its impressive presence in the technology industry. However, in order to reduce its dependence on personal computers and products for mobile computers, it is necessary to diversify its activities in new areas. The PC market stabilized a bit in 2018, but declined again in 2019. All these factors led to an increase in the number of problems facing the brand, while its competitor Microsoft has steadily managed its market capitalization of over 1 trillion over the past few months. Apple faces big challenges, and if it does not focus on expanding revenue sources and attracting new user segments, the gap between it and its leading competitor Microsoft may widen.

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Appendix  
List of Supplements...