

APPLE: DESIGNER ELECTRONICS

Description

Apple designs and manufactures personal consumer electronics (PCE) such as smartphones, tablets, and computers, complemented by a proprietary operating system (iOS). As of January 2023, Apple has a strong smartphone market presence across major economies such as the US, China, Europe, and Japan, which collectively account for about 50% of its revenue [1]. I believe Apple will continue maintaining its global PCE market share and deliver a minimum annualized return of 10% to its shareholders for the next 5 years, barring the emergence of a disruptive product that fundamentally redefines the PCE market.

Engineering

Apple is renowned for creating high-quality products that consistently outlast the typical lifecycle of PCEs, as reflected in their higher-than-average resale value [2]. A major factor behind this longevity is Apple's in-house silicon chip, recognized as one of the best-performing chips globally. Through vertical integration of chip production, Apple has gained better control over its supply chain while ensuring optimal performance with iOS. Moreover, iOS fosters a tightly interconnected ecosystem with features like Password Sharing, AirDrop, and iPhone-to-iPhone. Through these, as users adopt more Apple products into their lives, their overall experience becomes increasingly cohesive and intuitive.

By aligning hardware, software, and user experience, Apple effectively captured performance, battery life, and usability—the perfect trifecta of consumer satisfaction.

Brand

When an object becomes ubiquitous, essential, and constantly visible to others, it often transcends its functional role to become a form of self-expression, much like cars and clothing. Mobile phones, as they became commonplace, went through the same evolution.

Amid this shift, Apple has positioned itself as a culturally relevant brand, notably through acquisitions like Beats Electronics. Since then, Apple products have been featured on celebrities and athletes and continue to be nearly a decade later [3]. Further proof of its influence in the fashion world is reflected in demographic data, which shows Apple having a higher proportion of female users than its competitors [4].

This unique positioning has established Apple as the high-end—or even luxury—PCE brand. This is evident in Apple's pricing power in the market. Among top competitors, Apple is the only company to retain significant market share while commanding premium pricing throughout its product line.

Capital Allocation

Apple's market dominance in the mature PCE market enabled the company to release incrementally improved products that continue to meet customer expectations. This has allowed the company to use its excess cash to repurchase shares at an average annual rate of 6% [5], which has improved shareholder returns.

Conclusion

Apple has built the ultimate PCE win-win model. For everyday users, their products work well and last a long time. For fashion-conscious consumers, Apple delivers on trendiness and exclusivity through pricing. This dual appeal ensures that, as long as Apple maintains its edge in chip performance, user experience, and cultural relevance, it will retain the consumer's "share of mind."

Catalyst

- Production of the M1 chip
- Airpod Max catching the fashion trend
- Share repurchase program
- Growth in sales

References

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