

Case Study:

Apple iPhone's - Not "Made in America"

- **Introduction and the main issue of the case**

This case study is debating about the difference between the iPhone “Made in America” and those “Made in China”, and what people are thinking about it. Nowadays, globalized companies such as Apple, have established their manufacturing headquarter overseas, mainly in China. As the production cost is much cheaper in Asia than it is in America, high-tech companies prefer to migrate overseas in order to make more profit. Moreover, the number of Chinese employees is much less than if they employed Americans; in the case study it is said: “Apple directly employs 43 000 in the U.S. and 20 000 overseas”. However, the most sophisticated components coming from many different countries are all assembled together in China only. Because of that, China, and especially Foxconn, is the largest assembling country of the world with estimated 40% of the world’s electronics companies assembling headquarters. They have other huge consumers than Apple such as Samsung, Amazon, Dell, Nintendo, or Nokia. According to the study, the leader of high-tech manufacturing is Foxconn, because no other factories in the world have such a big manufacturing scale.

The issue is concerning because Apple and other technologic companies claim that the “Made in America” is not enough competitive for them, they prefer the “Made in China” strategy in order to save more capital. According to them, American people do not have the same industrial skills, hard work and flexibility as Foxconn, and that is not favorable for them. In addition of the workers’ factor, the access to raw materials is also an issue for Apple. Indeed, in China, the cost saving is much higher than in America because the management of supply chains and the rapid access to component are making China a better host for factories.

The case study is also mentioning the high number of suicides in Foxconn in 2010, because of the poor working conditions, and the huge number of working hours that are exhausting people. Moreover this event put Apple under a big pressure caused by the negative publicity and the media impact.

The following questions and debating and answering the main issues mentioned in the case study.

- **Question 1:** What is meant by the globalization of human capital? Is this inevitable as firms increase their global operations?

The globalization of human capital links to the fact that employers are spreading around the world by their employers and becoming international. It includes the companies employed, unemployed, firms and economies. The companies are now becoming international due to the labor cost which is cheaper and productivity is faster.

It is inevitable if firms increase their global operations because every country produces and offers different things compare to other countries. Without the current innovation being promoted to the market the company will start to lose its competitiveness.

- **Question 2:** How does this case illustrate the threats and opportunities facing global companies in developing their strategies?

The most confidential consideration for global companies, are cost and capital. When President Obama's inquired about Apple bringing the job back to U.S, it was not possible for Apple.

In the case study, the breakdown was that it cost a total of \$179 to produce an iPhone and it retailed at \$500 leaving a profit of \$321. This results to more profit for the global economy. The most important for the global economy is price and profit to stay competitive. It gave the impression that Apple did not care about its country and selfishness which a global economy can face.

- **Question 3:** Comment on the Apple executive's assertion that the company's only obligation is making the best product possible. "We don't have an obligation to solve the America's problems".

First, what are the American problems?

- Labor short age
- Manufacturing supplies from various factories and not close

- No have Factories with scale, speed, and flexibility that such a high-tech company needs
- Large number of engineers and other skilled worker who are not available in the United States.

Apple as a high-tech company, they cannot solve those problems and not need to solve those problems. Making the best product is his most need to consider things; Foxconn can produce fast and high quality products. And also Foxconn greatly improved the profits of Apple, provided Apple production needs.

- **Question 4:** Who are the stakeholders in this situation and what, if any, obligation do they have?

In this situation, stakeholders are :

- Apple's owners and shareholders: Determine the company's strategy and vision
- Apple's managers: Formulate specific decisions for development plans
- Foxconn: Provide workplace, human capital and machine
- Chinese workers: provide personal skill and produce
- Suppliers: provide raw material
- Government of China and America: provide Policy support and regulatory role

- **Question 5 & 6:** How much extra are you prepared to pay for an iPhone assembled in the U.S.? How much extra are you prepared to pay for an iPhone assembled in China but under better labor conditions or pay? What kind of trade-off would you make?

Depth discussion about iPhone assembled in US & China and my preference of trade off:

If you have an iPhone, find it and turn over, there is a bunch of obvious words printed on its back side which is “Designed by Apple in California”. Why it is “designed” instead of “made”? And where exactly are these merchandises mainly assembled? Of course, the answer is China. But what will happen if these iPhones mainly assemble in their homeland – United States?

Standing on the point of view of an international manager, setting the Apple factory in the United States is not an appropriate and wise decision because once the decision is made, it means that the company need to undertake more responsibility and cost (due to the government policy) for employee insurance, welfare, and higher taxation. Generally, the

company cannot compromise the profit except government intervention. Therefore, compare with other lower cost countries, these extra costs will naturally flow to the local customer and manifest on the merchandise. Thence, from the current situation, the customer will pay more to get one iPhone and they might not be satisfied due to the expensive price. In the long run, it is not conducive to the company's profitability and is likely to be defeated by competitors who have lower price strategy.

Moreover, Apple's executive level requirements are strict and efficient for manufacturing. This is obviously an impossible mission in the United States, where manufacturing and labor force are underdeveloped. So, if Apple really wants to keep the profit and affordable price while assembled in the United States, they need to solve the labor force issue first.

Looking at Apple in recent years, we will find that Apple almost outsources their manufacturing to overseas companies. And even some people complain that these companies do so will lead the United States into an unprecedented serious employment environment. But Apple has its own reasons. In fact, not only Apple, a lot of electronic technology companies in the United States have the same reason as Apple. They both agree that infrastructure and labor force in America cannot meet the elementary level for the apple or other large-scale electronic companies. Let's take the example of Foxconn, a company that contains 23 million people in China and approximately 6 million people live in the factory and produce merchandises every day. However, it will not happen in American due to the lack of labor force. The study shows that the only 83 cities of the population in the United States exceed the total number of employees in the Foxconn Group. That is the population, not the labor force. Apple as an international company absolutely will consider maximizing their corporation profit. Consequently, they would prefer to choose the high labor force with the lower labor cost. Thus, Chinese factory would be the best candidate. We cannot deny that large-scale, high efficiency are the advantages of Chinese manufacturing and these are the goal of other companies. But they sacrificed the basic level of the employee which means that they ignore the business ethics and CSR. One step further, the resulting social problems (such as terrible workplaces and overload work pressure lead to employee suicides) may damage the company's image and reputation.

But what would happen if the Chinese factory under the better conditions or pay? The better conditions mean that an appropriate labor cost, a comfortable work environment, a reasonable work schedule and high quality of the employee. It is undeniable that it is hard to do these and keep these while maintaining the high efficiency. But this task is touchable for

China due to the large population and labor force. Developing skilled employee, enhancing the supervisor, upgrade the workplace and implement employee wages standard are the swift way to accomplish the Apple's profit. So, if apple assembled iPhone in China, the labor cost and overhead cost should raise a higher level. However, once the manufacturing develops in a mature phase (normal salary, suitable workplace with stable work demand), the products (iPhone) will be sold at a reasonable price and meet the market demand. At the same time, each level of the employee will be treated equally.

For the time being, the above discussion is based only on theory and will encounter real risks in practice. Thus, business decision-makers must not be overly idealized and reasoning the future development. The Apple company in the current situation outsources their manufacturing out of the United States will be the best decision for their profit and the customer. Also, this is the best trade-off strategy in my viewpoint. They should take every single responsibility when they outsourced the company. Besides, for the issue of lack of labor force, rely on Apple alone is not a fundamental solution.

- **Conclusion**

To conclude, we can firstly say that world companies get to globalization very quickly because of the low labor cost and the high speed of the productivity. Unfortunately, it leads to unemployment and lower product quality in host countries. Moreover, it is inevitable for a firm which wants to increase its global operations, to expand in other continents to manufacturing, otherwise they risk to lose their competitiveness.

Secondly, we also learned through the case study that even if globalized companies want to come back to U.S. for instance, they cannot do it without losing a huge amount of money. It results in more global economy but less local economy.

In this study we also comment on the American problems and we discovered that it is almost impossible for them to solve those problems. Moreover, Apple's stakeholders were identified and explained as well.

Finally, the last debate about assembled Apple's devices in China or in the U.S. is quite complex and delicate. Indeed, as mentioned previously, at the back of an iPhone for instance, we can read "Designed by Apple in California" and not "Made in China". It is obvious that Apple is using marketing tricks in order to minimize the impact of its globalization. It will

definitely be more costly and unwise for Apple to have its factory on the American soil due to employees' insurance, infrastructure, taxation and legislations. By manufacturing overseas, Apple is making profit and stays competitive. Moreover, in the U.S., manufacturing and labor forces are less developed than in China, so if Apple would, one day, want to assembled in America, it will have firstly to solve this issue. Furthermore, as clearly explained in the discussion, American people are complaining about the fact that electronic technology companies are manufacturing abroad. It creates unemployment and ethical issues but for such huge companies as Apple, making profit and staying competitive is more important than few complains, ethics and CSR. Actually, Apple rather chooses high labor force with low labor cost but it is damaging its image and reputation.

- **Source:** <https://www.engadget.com/2012/01/22/why-apples-products-are-designed-in-california-but-assembled/>