

APPLE WATCH: MANAGING INNOVATION RESISTANCE¹

Tania Bucic and Gaganpreet Singh wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Apple Inc. (Apple), one of the most innovative companies in the world, embarked on a brand extension strategy to enter different industries. After affirming its place in the computer, phone, and music markets, Apple shifted its focus to wearable technologies,² including Apple Watch, which launched in April 2015. The watch integrated fitness and other health-related capabilities with Apple's mobile operating system (iOS) and other Apple products and services. Because Apple owned the necessary hardware, software, and services that were augmented through its ecosystem, the watch was virtually inimitable.³ The innovation thus appeared poised to be a true game changer.

However, in mid-2016, Tim Cook, Apple's chief executive officer, acknowledged that Apple Watch had not created quite the market impact Apple had expected. Quantitatively, Apple Watch recorded 55 per cent lower sales in the second quarter of 2016 than in the previous year (see Exhibit 1), suffering from restricted product utility, high prices, low perceived value, limited social acceptability, and late market entry.⁴ The concerns appeared even more problematic for consumers in developing countries, who had less disposable income than those in developed economies. Yet Apple had already been strategizing to expand its presence in developing countries in response to stagnant growth prospects for Apple's traditional products in developed economies.⁵

Apple management had limited options. One proposal was to reconfigure the marketing mix to realign Apple's marketing strategy to reduce resistance to Apple Watch.

SMARTWATCHES

The wearables industry included fitness bands and smart eyewear as well as smartwatches, which constituted the leading product category and accounting for 59 per cent of total wearable device shipments in 2016. This share was estimated to exceed 70 per cent by 2019. The global wearable industry as a whole appeared poised to increase by a compound annual rate of 35 per cent over the coming few years.⁶

The high-tech, computerized watches were positioned to go beyond traditional timekeeping, offering extended utilities, such as making calls, sending messages, and surfing the Internet, by incorporating operating systems that could combine multiple functions in the small devices. Continued innovation resulted in great strides in the smartwatch market, especially relative to the first commercially successful smartwatch, the Pebble,

launched through Kickstarter in 2012. The five common smartwatch platforms included Apple's watchOS, Tizen, Pebble OS, Android, and Android Wear (an Android spinoff).⁷ Of the five, the watchOS became the most popular, with a momentum that was expected to persist, while Android Wear remained in second place (see Exhibit 2). The "finely tuned design, the use of premium materials, the fluid software and the luxury feel" of Apple Watch and its watchOS platform gave Apple a competitive edge.⁸

APPLE WATCH

Apple Watch was the first product produced during Cook's leadership period. A year later, in mid-2016, the company launched a second generation of the watch. Besides its primary timekeeping function, the watch was designed to link to other iOS devices, such as the iPhone, to push and receive content. Yet consumer responses differed, such that, "For many it [was] an abhorrent square wrist-computer, devoid of any style. To others it [was] sleek, opulent and classy."⁹ Apple also sought to position the watch as an alternative to a fitness tracker;¹⁰ the second-generation updates were strongly oriented toward advanced fitness and health-related capabilities. The watch's water resistance helped expand its target audience by making the watch useful for swimmers, surfers, and others participating in water sports.¹¹ At the launch of the second generation watch, Jeff Williams, Apple's chief operating officer, proclaimed,

We're thrilled with the response to Apple Watch and how it's changed people's lives. We are committed to fitness and health and think our customers will love the new capabilities of Apple Watch Series 2. With a powerful new dual-core processor, water resistance [to] 50 meters and built-in GPS, Apple Watch Series 2 is packed with features to help our customers live a healthy life.¹²

Similar to the original Apple Watch, the Series 2 offered a choice of a lower-priced aluminum sport version, available in silver, gold, space black, and rose gold, or a mid-priced stainless steel version, available in silver and space black (see Exhibit 3). In addition, the Series 2 added the option of a high-end, glossy white, ceramic model. Apple also collaborated with Hermès and Nike to offer exclusive software, bands, and watch faces, attempting to make the watch into a "killer device," even without a "killer app."¹³

INNOVATIONS IN APPLE WATCH

Although not the first smartwatch to hit the market, Apple Watch was different.¹⁴ Its value could be measured with a scientific metric: an economic value estimation (EVE), which reflected the combination of *reference value*—the equivalent value offered by the next best alternative—and the *differentiating value*—the distinctiveness of the product, which could be either positive or negative.¹⁵ For smartwatches, the reference value varied across target markets, which could be classified broadly into potential buyers who still wore traditional watches and those accustomed to using smartwatches who had adopted other platforms (for example, Android Wear). The latter already had overcome any potential resistance to wearing technology, but potential adopters posed a challenge.

When compared with a traditional watch, the reference value offered by Apple Watch included its ability to act as a regular, accurate timepiece. The immense differentiating value encompassed multiple dimensions. For example, the smartwatch offered easy access to common activities that users likely already undertook, such as making calls with electronic devices, which was enabled in Apple Watch with a voice calling feature. Texting, another common activity, also became easier because Apple Watch allowed users simply to tap their wrists to respond quickly to incoming messages. The watch also gave wearers a quick visual summary of information they had selected as important (notifications). Its ability to function as a navigator, pinging directions to a chosen location while the user was en route, was unanticipated from a wristwatch.

Categorically, Apple Watch sought to function in the shadow of the iPhone,¹⁶ while also supporting the digital wallet service offered through Apple Pay, which transformed the watch into a mobile wallet.

However, Apple emphasized the watch's ability to act as a fitness tracker as its core differentiating value. In pursuit of discerning value, Apple managed to develop powerful health and fitness applications, integrating data captured by sensors built into both iPhones and Apple Watches. It embraced programs such as HealthKit, ResearchKit, and CareKit, which enabled consumers to monitor their personal health, support medical research, and help identify appropriate care for medical conditions.¹⁷ Such value led Cook to anticipate that "one day, this is my prediction, we will look back and we will wonder: How can I ever have gone without the watch? Because the holy grail of the watch is being able to monitor more and more of what's going on in the body."¹⁸

RESISTANCE AND ASSOCIATED CHALLENGES

Resistance, an active behaviour that appeared in every adoption process, could take three forms: outright rejection, postponement, or opposition. It did not always lead to non-adoption or rejection.¹⁹ Initial market research revealed a mixed response to Apple Watch: in the target market, a few rejected it and several opposed it, but many were prepared to adopt it in the future.²⁰ Apple thus anticipated that market acceptance for upcoming versions would increase, due to the immense value offered. An industry reporter described the broad value of the watch as follows:

The Apple Watch is actually more like a framework or series of products than a single product. Whereas, previously, Apple's new product launches have centred around single monolithic models (some of which were later extended, as in the case of the iPad Mini or iPhone 5C), the Apple Watch debuts with a dizzying range of aesthetic and functional options, resulting in millions of possible permutations. . . .

With the debut of [Apple] Watch, Apple is making a major move into the health-monitoring space pioneered by devices like Jawbone Up, Nike Fuelband and Fitbit. . . .

Apple is also betting that [Apple] Watch will become a remote control for the growing range of Internet-enabled devices—the so-called "Internet of Things"—in the home and beyond. . . . [T]he Apple Watch will also incorporate near-field communication (or NFC, the technology used in London Transport's Oyster cards or contactless bank cards, for example) to enable easy mobile payment. With Apple Pay, . . . Apple's stated vision is to replace the wallet. Indeed, with hundreds of millions of credit cards already on file, Apple could well become the definitive mobile payment system.²¹

However, industry experts suggested that "consumers don't actually see the need for [smartwatches]. The reality is the phone pretty much does everything you want."²² This inability to realize the value of the watch was likely the result of an information asymmetry between Apple and its potential customers. Without a change, the problem would only grow: uninformed buyers would continue to be reluctant to pay a price premium for a differentiating value they did not understand. The cascading impact challenged Apple's leadership; the company needed to draft a more meaningful value proposition and supporting communication strategy that could reduce the information asymmetry and improve buyers' willingness to pay the positive price differential to obtain an Apple Watch.

The presence of all three forms of resistance—rejection, postponement, and opposition—made Apple's challenge particularly complex. Rejection, as the most extreme form of resistance, could prompt an organization to enter a modification and relaunch process, hoping that the improved product would be accepted or at least not

rejected outright.²³ The nature of consumer resistance varied depending on the attributes of the innovation; therefore, to proactively manage the threat of potential consumer resistance, Apple needed to consider various consumer and innovation characteristics when developing future Apple watches.

Postponement—a very common form of resistance—allowed potential customers to delay their adoption of an innovation. These customers were a prime target for Apple; it was imperative to encourage them to try Apple Watch, and using external (non-Apple) sources of motivation or propagation mechanisms might be useful in providing arm's-length enticement to try the product.²⁴

Finally, resistance could arise at either a pre- or post-persuasion stage, which made marketing even more difficult. In the post-persuasion stage, a negative attitudinal outcome—referred to as active innovation resistance—followed an unfavourable evaluation of a new product.²⁵ Broadly, this type of resistance was a result of two main causes: first, potential customers considered the device to have low value due to its limited utility; and second, customers could be unable to change their established traditions and norms, and thus, their resulting perception of the watch. The problem of limited utility constituted functional barriers, which consisted of the derived value, usage patterns, and risks associated with the device. The problem with adhering to established traditions and norms revealed psychological barriers.²⁶

In the pre-persuasion stage, consumers could be predisposed to resist innovation; this was referred to as passive innovation resistance. This type of resistance was driven mainly by two factors: an “adopter-specific inclination to resist changes” or a “situation-specific status quo satisfaction.”²⁷

Reducing the impact of both types of innovation resistance was vital for Apple. Both barriers were consumer specific; thus, the intensity of the barriers or sources varied across consumer segments. This variation segregated potential consumers into multiple groups, further complicating the challenge for Apple. Managing the individual resistance of each group with separate communication strategies then became central to Apple's revamped approach for managing resistance to its smartwatch.

MOVING FORWARD

To maintain a global leadership position, Apple needed to strengthen its market share in both developed and developing economies. It also needed the ability to manage multiple challenges that were likely to create obstructions. For innovative products, a major task always revolved around managing resistance. The associated challenges spread across multiple dimensions and included incorporating desired innovation characteristics in future generations of the watch; managing consumer characteristics that could influence resistance; drafting value propositions and accompanying configurations of the marketing mix to shape communication strategies that showcased the superior value created by Apple Watch; and formulating marketing strategies and tactics to overcome these resistance barriers.

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EXHIBIT 1: SMARTWATCH MARKET, SALES PERFORMANCE

Vendor	2Q 2015 Unit Shipments*	2Q 2015 Market Share	2Q 2016 Unit Shipments*	2Q 2016 Market Share	Year-Over-Year Growth
Apple	3.6	72%	1.6	47%	-55%
Samsung	0.4	7%	0.6	16%	51%
Lenovo	0.2	3%	0.3	9%	75%
LG	0.2	4%	0.3	8%	26%
Garmin	0.1	2%	0.1	4%	25%
Others	0.6	11%	0.6	16%	-1%
Total	5.1	100%	3.5	100%	-32%

Notes: *Unit shipments are in millions; the comparison refers to the second quarters (2Q) of 2016 and 2015.

Source: Created by the author based on Joe Rossignol, "Apple Watch Remains Nearly Three Times as Popular as Samsung Smartwatches," *MacRumors*, July 21, 2016, accessed October 19, 2016, www.macrumors.com/2016/07/21/apple-watch-vs-samsung-gear-idc-q2-2016.

EXHIBIT 2: ADOPTION FORECAST FOR SMARTWATCH OS

Smartwatch OS	2016 Units*	2016 Share	2020 Units*	2020 Share	2016-2020 CAGR
watchOS	14.0	49.4%	31.0	37.6%	22%
Android Wear	6.1	21.4%	28.8	35.0%	48%
RTOS	1.4	5.0%	8.3	10.1%	56%
Tizen	3.2	11.3%	5.4	6.6%	14%
Android	1.0	3.6%	4.3	5.2%	44%
Linux	0.6	2.3%	2.3	2.8%	37%
Pebble OS	2.0	7.0%	2.2	2.7%	3%
Total	28.3	100.0%	82.5	100.0%	31%

Notes: *Units are in millions; CAGR = compound annual growth rate; OS = operating system.

Source: Created by the author based on Joe Rossignol, "Apple Watch Remains Nearly Three Times as Popular as Samsung Smartwatches," *MacRumors*, July 21, 2016, accessed October 19, 2016, www.macrumors.com/2016/07/21/apple-watch-vs-samsung-gear-idc-q2-2016.

EXHIBIT 3: APPLE WATCH VERSIONS

Category	Band	Case	38 mm	42 mm
			Price (CAD\$)	Price (CAD\$)
Low Priced (Sport)	White	Silver Aluminum	449	519
	Blue	Silver Aluminum	449	519
	Green	Silver Aluminum	449	519
	Pink	Silver Aluminum	449	519
	Black	Black Aluminum	449	519
Mid-Priced (Stainless Steel)	White Sport	Stainless Steel	699	779
	Black Sport	Stainless Steel	699	779
	Classic Buckle	Stainless Steel	849	919
	Milanese Loop	Stainless Steel	849	919
	Black Leather Loop	Stainless Steel	NA	919
	Blue Leather Loop	Stainless Steel	NA	919
	Stone Leather Loop	Stainless Steel	NA	919
	Light Brown Leather Loop	Stainless Steel	NA	919
	Black Modern Buckle	Stainless Steel	749	NA
	Midnight Modern Buckle	Stainless Steel	749	NA
	Soft Pink Modern Buckle	Stainless Steel	749	NA
	Brown Modern Buckle	Stainless Steel	749	NA
	Stainless Steel Link	Stainless Steel	949	1,299
	Space Black Stainless Steel Link	Stainless Steel	1,049	1,459
	High Priced	White Sport	Rose Gold	10,000
Black Sport		Yellow Gold	10,000	15,500
Black Classic Buckle		Yellow Gold	NA	19,000
Blue Classic Buckle		Yellow Gold	NA	19,000
Rose Grey Modern Buckle		Rose Gold	22,000	NA
Bright Red Modern Buckle		Yellow Gold	22,000	NA

Source: Extracted from Gary Ng, "All Apple Watch Models Compared: Canadian Price Matrix [PIC]," iPhone in Canada, March 11, 2015, accessed November 19, 2017, www.iphoneincanada.ca/news/apple-watch-price-matrix-canada/.

ENDNOTES

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