

Apple's New iPad: Power and Temptation

One of the most important changes in the new iPad is not visible: they are not all the same. So-called “tear-down” reports from reporters taking them apart and analyzing the components have shown that Apple is getting some key components from multiple suppliers. Early reports indicate three different suppliers for displays and flash memory chips, for example. This is different from earlier versions of the iPad, which relied more on single sources for its components.

Why the change? Clearly one consideration is risk, as the recent natural disasters in Japan and Thailand have shown that supplies from a single source can suddenly be disrupted. No source of high-tech equipment is completely safe from disruption: US has its share of hurricanes and earthquake risks, Taiwan is in an earthquake zone, and South Korea has a troublesome neighbor in the north.

Power might be another reason. Apple has traditionally been a picky buyer with strict quality controls, but the end result of becoming (often) a sole supplier has actually put the supplier in a good negotiating position. Does Apple's management now believe that it can negotiate better prices by playing suppliers against each other? That is possible, but it should be careful about stretching such advantages too far. In close supply relations like the ones Apple has had so long, suppliers also need to justify their privileged position by showing flexibility, for example by quickly adjusting production when Apple incorrectly estimates demand, as has happened a few times.

For a firm that relies on a close relation with flexible suppliers, like Apple, over-use of the power strategy is very risky because it can fall down the priority list of the supplier and no longer get special consideration. A multi-supplier strategy calls for a lot of discipline so that the bargaining power is not overused in the short run, leading to less favorable treatment in the short run. Is such discipline realistic? Recent research by Malhotra and Gino in *Administrative Science Quarterly* shows that it is not: those who gain power by finding alternative exchange partners will end up using this power against the exchange partner. In fact, they will try to use the power even if the alternative partner is no longer available, simply because they expect more after having had an option.

Does that mean trouble for Apple's suppliers, in the short run, and for Apple, in the longer run? That is

possible. But it is also important to keep in mind that individuals and organizations are different. Organizations use devices like contracts to set clear terms of exchange, and well-managed organizations review the strategic effects of actions concerning relations with partners. Whether these mechanisms will prevent Apple from taking advantage of its suppliers remains to be seen. As Malhotra and Gino write, “The pursuit of power corrupts.”

Don Clark. Under the Hood of Apple's Tablet. *Wall Street Journal Asia*, March 16 2012.
Malhotra, D. and Gino, F. 2011. The Pursuit of Power Corrupts: How Investing in Outside Options Motivates Opportunism in Relationships. *Administrative Science Quarterly*, 56(4).

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