

STRATEGIC PLANNING AT APPLE INC.¹

Fabrizio Di Muro wrote this case under the supervision of Professors Kyle Murray and Miranda Goode 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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INTRODUCTION

Apple Inc. is one of the world's most successful and most recognizable companies. Over its 30 year existence, the company had seen a lot of changes in the computer industry. What would the future hold for the computer giant in a rapidly changing world?

HISTORY OF APPLE

Steve Jobs and Stephen Wozniak founded Apple Inc. (Apple) on April 1, 1976, in Jobs' garage.² The two partners had been introduced to each other in 1971 by a common friend, Bill Fernandez. In 1972, Jobs enrolled at Reed College, but he dropped out after only one semester. A couple of years later, in 1974, Jobs started working as a technician at Atari. Later that year, Jobs visited India for spiritual enlightenment and returned to California in the fall. Upon his return, he joined the Homebrew Computer Club, where Wozniak, who was working with Hewlett Packard (HP), was already a member. As a hobby, Wozniak manufactured microcomputers that were cheaper than other existing microcomputers.³ Jobs saw Wozniak's invention and, since he was interested in starting his own business, he convinced Wozniak that, as a team, they could manufacture personal computers (PCs) for sale.

Early Products

Apple's first computer was manufactured in Jobs' garage and was called Apple I. The Apple I differed significantly from other computers offered at the time: it used a MOSTek 6502 processor (instead of the Intel 8080 processor), it had fewer parts (a TV was used as a display unit), and its price of US\$666.66⁴ was less than its competitors' prices. In May 1976, Jobs and Wozniak displayed the Apple I to the other

¹ This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Apple Inc. or any of its employees.

² <http://www.markusehrenfried.de/mac/applehistory.html>, accessed March 28, 2008.

³ http://www.ioltechnology.co.za/article_page.php?iSectionId=2892&iArticleId=3456594, accessed March 17, 2008.

⁴ <http://news.bbc.co.uk/2/hi/technology/7091190.stm>, accessed March 21, 2008.

members of the Homebrew Club. A local dealer present at the demonstration ordered 25 units, a deal that represented Apple's first sales revenue.⁵ At this point, Wozniak quit HP to join Apple. Over the ensuing 10 months, 200 Apple I computers were sold.⁶ The Apple I targeted individuals who were interested in computers and electronics. Overall, 1977 sales for the Apple I totalled US\$774,000.⁷

Apple was incorporated on January 3, 1977.⁸ Later that year, at the West Coast Computer Fair in San Francisco, the two entrepreneurs introduced the Apple II as a general purpose computer.⁹ The Apple II was also built on a 6502 processor. It interfaced directly with a color video monitor and had color graphics, as well as an audio cassette drive with a storage capacity of 4 KB RAM.¹⁰ The Apple II was priced at US\$1,298.¹¹ In 1978, the audio cassette drive was replaced with a floppy disk drive, and the RAM storage was increased to 48 KB. The Apple II was also successful, yielding US\$139 million¹² in sales within the first three years of its launch.

In 1980, the company introduced its third computer, the Apple III.¹³ This PC had eight applications, with its price ranging from US\$4,340 to US\$7,800, depending on the configuration.¹⁴ The initial Apple III had technical problems so it was withdrawn from the market and eventually relaunched in 1981.¹⁵ Despite the fact that the newer model had 128 KB RAM, an updated software system and a lower price (US\$3,495)¹⁶ than the previous version, it still was not successful. After launching Apple III, the company focused on developing a new computer with innovative features, such as a hand-held mouse and graphic user interface (GUI). This new product was codenamed "Lisa," and it was supposed to take the industry by storm. However, its high price (US\$9,995) prevented high sales.¹⁷

A significant problem with Apple's first three models was that they all ran on different operating systems, thus limiting the company's market share. Jobs recognized this and tried to create a new computer, as well as an operating system for it. To that end, Apple combined the talents of hardware and software designers and created an atmosphere where their creativity could flourish. The result was the Macintosh (Mac). Priced at US\$2,495,¹⁸ this PC had 128 KB of memory, as well as a 32-bit microprocessor. The Mac was released in 1984, along with its operating system, Mac OS, which could run on all Apple computers. Overall, the Mac was quite different from previous Apple computers: it was smaller, less expensive, more user-friendly, adaptable and flexible. Furthermore, it could do more creative work such as graphics – most PCs at the time were used for calculations. Despite its advantages, the Mac suffered from several problems, in particular, its lack of compatibility with IBM PCs, which made it difficult to sell Mac computers to large corporations that were already using IBMs.

⁵ Vinaya Kumar Mylavarapu, "Channel Conflict at Apple," ICFAI Center for Management Research, 2005.

⁶ *Ibid.*

⁷ <http://www.sba.gov/INV/apple.html>, accessed March 10, 2008.

⁸ <http://phx.corporate-ir.net/phoenix.zhtml?c=107357&p=irol-faq#corpinfo1>, accessed March 17, 2008.

⁹ Owen W. Linzmayer, "Apple Confidential 2.0: The Definitive History of the World's Most Colorful Company," No Starch Press, 2004.

¹⁰ *Ibid.*

¹¹ Vinaya Kumar Mylavarapu, "Channel Conflict at Apple," ICFAI Center for Management Research, 2005.

¹² *Ibid.*

¹³ Owen W. Linzmayer, "Apple Confidential 2.0: The Definitive History of the World's Most Colorful Company," No Starch Press, 2004.

¹⁴ Vinaya Kumar Mylavarapu, "Channel Conflict at Apple," ICFAI Center for Management Research, 2005.

¹⁵ Owen W. Linzmayer, "Apple Confidential 2.0: The Definitive History of the World's Most Colorful Company," No Starch Press, 2004.

¹⁶ Vinaya Kumar Mylavarapu, "Channel Conflict at Apple," ICFAI Center for Management Research, 2005.

¹⁷ <http://lowendmac.com/orchard/05/apple-lisa-history.html>, accessed March 19, 2008.

¹⁸ *Ibid.*

Exit of Jobs and Decline of Apple

Jobs' management style drew significant criticism from the Apple board. In particular, board members were not happy that Jobs had expended so much of the company's resources on Macs. Overall, Mac sales were quite low. In 1984, only 20,000 Macs were sold, which was well short of the 80,000-unit projection. In 1985, Mac sales were averaging only 2,500 units a month.¹⁹

Jobs left Apple in 1985.²⁰ He then went on to start NeXT, a venture designed to create computers for students. After eight unsuccessful years, the company finally entered a growth stage in 1993. However, while NeXT was growing, Apple was declining. Increased competition, a lack of innovative products, as well as falling hardware and software prices all combined to reduce Apple's worldwide market share from 11 per cent in the mid-1980s to 5.3 per cent in the mid-1990s.²¹

Re-entry of Jobs

In 1996, Apple CEO Gil Amelio brought Jobs back with Apple as an informal advisor with no contractual commitments. In addition, Apple purchased NeXT for US\$400 million.²² Starting from the last quarter in 1997, Apple posted profits in three consecutive quarters, and in 1998, Jobs was appointed interim CEO.

Jobs launched the iMac (Internet Macintosh) in mid-1998, targeting it to first-time buyers and customers who were shifting to Macs from other computers. The iMac was a success, as two million units²³ were sold in the first year. In early 2000, Jobs was appointed CEO. He focused on regaining market share by releasing new models of Macs. In 2004, Apple released the iMac G5, and the following year, the company introduced the Mac Mini.

Apple iPods and iTunes

On January 9, 2001, at MacWorld Expo, Apple introduced the first edition of iTunes. This first edition was Mac-OS 9 compatible, and it had the ability to burn CDs. Along with iTunes, Apple launched iTunes Music Store (iTMS) on April 28, 2003. This service allowed customers to pay and download music through Macs and was later modified to allow Windows users to access it. Over the years, iTunes grew substantially, and as new editions were created, its capabilities increased. The current version, iTunes 8, allowed users to manage the contents on Apple's popular iPod digital media players as well as on the iPhone.²⁴ Furthermore, it was possible to connect to the iTunes store through the Internet to purchase and download music, music videos, television shows, applications, iPod games, audiobooks, various podcasts, feature-length films, movie rentals and ringtones.²⁵ It could also be used to download applications for the iPhone and iPod touch iTunes and was available as a free download for Mac OS X, Windows Vista and Windows XP. Also, iTunes could be bundled with all Macs and some HP and Dell computers.²⁶

¹⁹ Vinaya Kumar Mylavarapu, "Channel Conflict at Apple," ICFAI Center for Management Research, 2005.

²⁰ <http://lowendmac.com/orchard/06/1002.html>, accessed March 19, 2008.

²¹ <http://www.bizjournals.com/sanjose/stories/1996/08/19/newscolumn3.html>, accessed March 16, 2008.

²² Vinaya Kumar Mylavarapu, "Channel Conflict at Apple," ICFAI Center for Management Research, 2005.

²³ *Ibid.*

²⁴ <http://www.apple.com/pr/library/2008/09/09itunes.html>, accessed January 24, 2009.

²⁵ <http://www.crunchgear.com/2008/09/09/apple-announcesconfirms-itunes-8-features/>, accessed January 24, 2009.

²⁶ <http://www.techarena.in/guide/9259-itunes-store-huge-selection-music-lots-extra-features.htm>, accessed January 24, 2009.

In October 2001, Apple entered the digital music market by launching the iPod, a hard-drive-based music player. The iPod was comparable in size to most portable CD players and used a 1.8" hard drive. Also, it had five GB of storage space and could hold about 1,000 songs. The iPod was superior to all contemporary flash memory-based players, which could store only about 30 songs. Upon its release, Jobs proclaimed that "with iPod, listening to music will never be the same again."²⁷ However, most industry analysts felt that the iPod's price of US\$339.95²⁸ was too expensive and that it would limit sales. Contrary to analysts' predictions, the iPod was a great success. Overall, it had high sales numbers – in the fourth quarter of 2001 alone, Apple sold around 125,000 iPods.²⁹ Apple's resellers were key to the success of the iPod, as they aggressively promoted the product.

In March 2002, Apple introduced a new model of the iPod. The storage capacity was doubled to 10 GB and its price was raised to US\$499.³⁰ During the same year, the company made some technical changes to the product, increased the storage capacity to 20 GB and decreased the prices of the five and 10 GB models.

On January 11, 2005, Apple introduced the iPod Shuffle, which used flash memory. By May 2005, Apple had captured 58 per cent of the flash player market, and by May 2005, Apple held 90 per cent³¹ of the hard-disk player market share in the United States.

Name Change and Recent Products

On June 6, 2005, at the Worldwide Developers' Conference (WWDC), Jobs announced that Apple would begin producing Intel-based Macs starting in 2006.³² As promised, in early 2006, Apple shifted the entire Mac product line towards Intel chips. The PowerMac was eliminated and replaced with the MacBook Pro (15.4-inch widescreen), which was targeted towards a professional audience. In addition, Apple introduced the iMac, which was two or three times faster than its predecessor. The company also introduced new software called Bootcamp. The purpose of this software was to help users install Windows XP on their Intel Mac alongside Mac OS X.³³

Apple's success during this time period was evidenced through its rapidly increasing stock price. Between 2003 and 2006, the price of Apple's stock skyrocketed, increasing from US\$6 per share (split adjusted) to more than US\$80 per share.³⁴ On January 13, 2006, Apple's market cap surpassed that of Dell.³⁵ Ten years before, in 1997, Dell's CEO, Michael Dell, indicated that if he ran Apple, he would "shut it down and give money back to shareholders."³⁶

On January 9, 2007, at MacWorld 2007, Jobs announced a name change: Apple Computer Inc. would become known as Apple Inc.³⁷ On the same day, the company announced the launch of the iPhone and Apple TV, a move that gave Apple the ability to compete in the on-demand digital media market (i.e. HD-

²⁷ <http://www.designchain.com/coverstory.asp?issue=summer02>, accessed March 16, 2008.

²⁸ Vinaya Kumar Mylavarapu, "Channel Conflict at Apple," ICFAI Center for Management Research, 2005.

²⁹ <http://www.designchain.com/coverstory.asp?issue=summer02>, accessed March 29, 2008.

³⁰ Vinaya Kumar Mylavarapu, "Channel Conflict at Apple," ICFAI Center for Management Research, 2005.

³¹ <http://www.macnn.com/articles/05/05/04/merill.on.aapl/>, accessed March 17, 2008.

³² <http://www.apple.com/pr/library/2005/jun/06intel.html>, accessed March 24, 2008.

³³ http://www.businessweek.com/technology/ByteOfTheApple/blog/archives/2006/04/news_flash_appl.html, accessed March 19, 2008.

³⁴ <http://www.ipodtopctransfer.com/news/apple-inc.html>, accessed March 13, 2008.

³⁵ <http://www.macobserver.com/stockwatch/2006/01/16.1.shtml>, accessed March 18, 2008.

³⁶ http://www.news.com/Dell-Apple-should-close-shop/2100-1001_3-203937.html, accessed March 3, 2008.

³⁷ Form 8-K SEC Filing (pdf), accessed March 3, 2008.

TV, music, video). The next day, Apple's share price increased to US\$97.80, and in May 2007, its share price went over US\$100.³⁸

On February 7, 2007, Apple indicated that it would sell music on iTunes without digital rights management protection if major record labels agreed to drop anti-piracy technology.³⁹ On April 2, 2007, Apple and EMI reached an agreement regarding the removal of anti-piracy technology, effective in May 2007.⁴⁰

APPLE AS A RETAILER

Apple's Online Store

Traditionally, Apple products were sold through authorized Apple resellers, such as retail chains like Sears and large electronic resellers like MacMall, MacZone and Best Buy. Even Apple's corporate accounts were managed by channel members. In mid-1997, Apple severed relationships with Sears and Best Buy because of poor sales support. On November 10, 1997, Apple opened an online store, called the Apple store (www.apple.com/store), in order to increase market share and sales.⁴¹ The store manufactured computers according to customer specifications. Apple also allowed big electronic resellers such as MacMall and MacZone to sell online. Overall, the online store was very successful, producing revenue of US\$12 million in the first month alone.⁴²

Apple's Physical Stores

The development of an online store created speculation that Apple could open physical store locations to eliminate the middlemen, as well as to increase the company's sales and market share. In January 2000, this speculation was fuelled by the hiring of Ron Johnson, the former vice-president of merchandising at Target, the second most successful discount retailer after Wal-Mart. Johnson was charged with building a chain of stores, developing a sales strategy and making the stores profitable with an investment of US\$700 million.⁴³ On May 19, 2001, Apple opened its first retail store at Tysons' Corner Center, a large mall in McLean, Virginia.⁴⁴ Large numbers of customers waited in line for hours for the opening ceremony, and the store tallied US\$599,000 in sales in its first two days of operation.⁴⁵ During the same week, Apple opened its second store at Glendale Galleria, in Glendale, California. The stores had 500 different items, along with third-party peripherals and software titles. For the remainder of 2001, Apple planned to open 25 more stores across the United States at an average of one store every 10 days.⁴⁶

According to Jobs, Apple became a retailer to increase its five-per-cent market share in the United States. Jobs cited a study reporting that 95 per cent of people did not consider Apple when buying a PC. "If only five of those remaining 95 people switch, we'll double our market share," Jobs reasoned. As a result, Apple planned to start a newspaper ad campaign entitled "five down, 95 to go"⁴⁷ – a reference to the

³⁸ <http://www.macnn.com/articles/07/04/26/analyst.raised.aapl.target/>, accessed March 3, 2008.

³⁹ <http://www.apple.com/hotnews/thoughtsonmusic/>, accessed March 7, 2008.

⁴⁰ <http://www.macworld.com/article/57098/2007/04/drmfree.html>, accessed March 9, 2008.

⁴¹ "Apple unveils new marketing strategy." *Knight Ridder/Tribune News Service*, accessed August 15, 2008.

⁴² Vinaya Kumar Mylavarapu, "Channel Conflict at Apple," *ICFAI Center for Management Research*, 2005.

⁴³ <http://forums.appleinsider.com/showthread.php?s=&threadid=44982>, accessed March 17, 2008.

⁴⁴ Owen W. Linzmayer, *Apple Confidential 2.0: The Definitive History of the World's Most Colorful Company*, No Starch Press, 2004.

⁴⁵ Vinaya Kumar Mylavarapu, "Channel Conflict at Apple," *ICFAI Center for Management Research*, 2005.

⁴⁶ *Ibid.*

⁴⁷ http://news.cnet.com/25-Apple-stores-to-sprout-this-year/2100-1040_3-257633.html, accessed March 16, 2008.

company's market share position. In addition, Jobs thought Apple's stores could be utilized to offer customer solutions using salespeople. The salespeople could show customers how to use Macs with MP3 players, camcorders, etc. Also, in order to be more approachable, Apple planned to open stores in high-traffic locations, such as on 5th Avenue in New York City.

Despite Jobs' seemingly solid reasoning, most industry analysts were sceptical of Apple's foray into retailing. Analysts noted that the high leasing costs in major U.S. cities, such as New York, Los Angeles, Chicago and Boston, meant that Apple needed to sell US\$12 million worth of products per year at each store, a figure that was US\$4 million more than the sales revenue of computer retail giant Gateway.⁴⁸ Furthermore, the retail stores ComputerWare and The Computer Store, both of which carried only Macs, had lower sales and eventually went out of business in 2001. In addition, Apple's retail stores were expected to take business away from their resellers, leading to a potential rift between the company and its resellers. Also, the lower profit margins associated with selling PCs made analysts wonder about Apple's move. David A. Goldstein, president of Channel Marketing Corporation, commented: "I give them two years before they're turning out the lights on a very painful and expensive mistake."⁴⁹ However, others were more optimistic: *BusinessWeek's* Stephen Baker praised the strategy, indicating that a limited number of stores would help Apple create brand awareness.

Contrary to most analysts' predictions, the retail stores were successful. For the fiscal year that ended September 30, 2004, Apple's stores generated revenue of US\$1.185 billion, with a profit of US\$39 million.⁵⁰

By the end of 2005, Apple had 103 retail stores, including three outside of the United States, in London, Tokyo and Osaka. Going forward, the company planned to open more retail stores. In fact, across the world, Apple opened 25 new stores in 2005 alone.⁵¹

Despite the retail stores' success, Apple had some problems with its authorized resellers, who alleged that Apple wooed away their customers by giving unfair discounts and that the company also charged its resellers for machine parts under warranty.

Apple's Retail Approach

Apple's differing approach to retailing was uncovered by Researcher and author Alex Frankel, who, in a two-year undercover project, took on a series of entry-level jobs to better understand the world of retail. According to Frankel, Apple held a competitive advantage with respect to retail because of how the company handled its people.

Apple generally tended to hire employees who were already big fans of the brand, looking to hire individuals who were passionate about what they were selling. In addition, Apple carefully trained its employees. New employees watched and listened to podcasts about selling techniques and shadowed more experienced salespeople while they executed the company's three-step sales process: position, permission, probe. When salespeople met a customer, they explained to the customer that they have some questions to ask in order to understand their needs, then obtained permission to ask those questions, and then kept digging in order to determine which products were the best fit for a given customer's needs.

⁴⁸ Vinaya Kumar Mylavarapu, "Channel Conflict at Apple," ICFAI Center for Management Research, 2005.

⁴⁹ http://www.businessweek.com/magazine/content/01_21/b3733059.htm, accessed March 16, 2008.

⁵⁰ http://ifapplestore.com/stores/charts_graphs.html, accessed March 23, 2008.

⁵¹ Vinaya Kumar Mylavarapu, "Channel Conflict at Apple," ICFAI Center for Management Research, 2005.

Overall, Apple employees focused on dispensing information. This approach seemed to be effective: as a retailer, Apple stores averaged approximately \$4,000 in gross sales per square foot of retail space per month.⁵²

Apple also treated its employees like adults – unlike other companies that tended to use approaches that generated cynicism or created a false sense of belonging. For instance, during an orientation session, Gap Inc. showed a video about the perils of employee theft during orientation, while Starbucks distributed handbooks telling employees to “Be Authentic.”

According to Frankel, Apple was doing a number of things well. To begin with, employees were taught to work together, as customers can easily tell when employees do not get along with each other. In addition, Apple flooded the retail zone with employees, as sales and profits could be lost every minute that customers had to wait for help. Furthermore, employees handed out business cards, a habit that was not typical in a retail environment.

CHANNEL CONFLICT AT APPLE

Before opening retail stores, Apple products were sold through a network of authorized Apple resellers. With Apple’s advent into retailing, resellers feared that Apple’s stylish ambiance could pull customers away from their own stores. In particular, many feared that Apple would focus more on its own stores rather than on supplying products to its resellers.

Perhaps not surprisingly, Apple’s problems with its resellers soon began to mount. Tom Santos of MacAdam Computers claimed that since the inception of Apple stores, it was hard for his company to obtain CD-rewritable/DVD combination drives. Yet these products were readily available in Apple’s own retail stores.

In addition to this complaint, Santos claimed that Apple shipped new models of products to its own stores first, putting resellers at a disadvantage. Furthermore, he claimed that Apple’s salesmen sabotaged the authenticity and integrity of authorized resellers to customers and asked them to buy only from Apple stores. Santos also commented that Apple had a faulty accounting and control system that billed him for products he had returned. Finally, Santos indicated that Apple had unfairly fixed the upper limit on the value of faulty goods to be returned to the company by resellers.

As a result of his complaints, Santos filed a multimillion-dollar lawsuit against Apple, accusing the company of fraud, breach of contract, unfair competition, false advertising and charges under the Federal Racketeer Influenced and Corrupt Organizations Act. Several other resellers, such as MacTech Systems of Bend, Oregon, and Los Angeles-based Computers International, followed with lawsuits in February 2003 for similar reasons.⁵³ In March 2003, another long-term reseller, Thomas Armes of Elite Computers filed a lawsuit against Apple for breach of contract, unfair competition, false advertising and fraud and claimed US\$5 million in compensation.⁵⁴

On June 4, 2004, Santos filed an amended complaint against Apple. The complaint claimed more than US\$70,000 from Apple as part of unpaid monies owed by the company and another US\$7.5 million in damages for breach of contract, fraud, negligent misrepresentation, false advertising, trade libel,

⁵² <http://www.fastcompany.com/magazine/120/magic-shop.html>, accessed March 16, 2008.

⁵³ Vinaya Kumar Mylavarapu, “Channel Conflict at Apple,” ICFAI Center for Management Research, 2005.

⁵⁴ <http://www.crm.com/it-channel/56900633>, accessed March 16, 2008.

defamation and many other counts.⁵⁵ On August 26, 2004, the Santa Clara superior Court ruled that there was sufficient evidence to proceed with charges of fraud and negligent misrepresentation against Apple.⁵⁶ By December 2004, there were five lawsuits filed against Apple, and all were waiting for trial dates to be allotted.⁵⁷ However, by 2006, Apple had reached out-of-court settlements with all plaintiffs.⁵⁸

COMPETITORS

Apple faced several strong competitors, most notably Dell, Hewlett-Packard (HP), Microsoft, Nokia and Sony.

Dell Inc

Operating out of Round Rock, Texas, U.S.-owned Dell developed, manufactured, sold and supported personal computers, servers, data-storage devices, network-switches, PDAs, software, televisions and computer peripherals. Dell grew throughout the 1980s and 1990s to become one of the largest sellers of PCs and servers, second only to HP in the hardware computer industry after HP's merger with Compaq in 2002.

Dell's distinct competitive advantage was that of selling PCs directly to consumers and custom-assembling each unit according to a set of options. Although Dell was not the first company to utilize this strategy, it was one of the first to succeed with it.

In 1999, Dell overtook Compaq to become the largest seller of PCs in the United States with US\$25 billion in revenue reported in January 2000.⁵⁹ In 2002, the company introduced various multimedia and home entertainment products: TVs, handhelds and digital audio players. In 2003, the company changed names, from Dell to Dell Inc. in order to recognize their product expansion beyond computers.⁶⁰

Dell's retail strategy has changed somewhat over the years. In the early 1990s, the company sold products through existing retail stores such as Best Buy, Costco and Sam's Club Stores in the United States. However, the company stopped this practice in 1994 due to low profit margins.

In 2002, the company opened kiosks in shopping malls across the United States⁶¹ in order to give personal service to customers who preferred this method of shopping instead of the Internet or the telephone. It should be noted that the kiosks were set up such that they matched or beat prices available through other retail channels. In 2005, kiosks were placed in shopping malls throughout Australia, Canada, Singapore and Hong Kong. In 2007, Dell started stocking its products with major U.S. retailers again, with the result that on January 30, 2008, Dell shut down 140 kiosks in the United States.⁶²

⁵⁵ <http://www.macnn.com/articles/04/06/16/apple.reseller.lawsuit>, accessed March 16, 2008.

⁵⁶ Vinaya Kumar Mylavarapu, "Channel Conflict at Apple," ICFAI Center for Management Research, 2005.

⁵⁷ *Ibid.*

⁵⁸ http://media.corporate-ir.net/media_files/irol/10/107357/10K_2006.pdf, accessed March 13, 2008.

⁵⁹ http://news.cnet.com/Dell-overtakes-HP-in-U.S.-workstation-market/2100-1001_3-229365.html, accessed September 19, 2009.

⁶⁰ <http://articles.latimes.com/2003/jul/19/business/ft-rup19.11>, accessed September 19, 2009.

⁶¹ <http://www.crn.com/it-channel/18819655;jsessionid=FIAGLOVYXKEQDQE1GHRSKH4ATMY32JVN>, accessed September 19, 2009.

⁶² http://www.statesman.com/blogs/content/shared-blogs/washington/plugged/entries/2008/01/30/dell_shuts_down_us_kiosks.html, accessed September 19, 2009.

Along with stocking products in other retailers' stores, Dell opened its own 3,000-square-foot retail outlet in 2006 at NorthPark Center in Dallas, Texas.⁶³ This outlet displayed 36 models, including PCs and TVs. In-store kiosks provided a means for customers to see demonstration computers and place orders through agents. Dell then delivered the purchased item as if the customer had placed the order by phone or over the Internet. Dell's retail stores also had on-site warranties and non-warranty services.

Hewlett-Packard

Hewlett Packard (HP) was an American-based company that offered PCs, notebook computers, servers, network management software, printers, digital cameras, calculators and other technology-related products. HP also had a global presence in computing, printing, digital imaging, software and services.

HP merged with Compaq in 2002. Compaq had bought Tandem Computers in 1997 and Digital Equipment Corporation in 1998. As a result of the 2002 merger, HP became a major player in desktops, laptops and servers in various markets.

HP's success over the years was due to their founders' unique management style referred to as "the HP Way." The HP Way involved "a core ideology....(which) includes a deep respect for the individual, a dedication to affordable quality and reliability, a commitment to community responsibility and a view that the company exists to make technical contributions for advancement and welfare of humanity."⁶⁴

Microsoft

Microsoft was an American multinational computer technology corporation that had US\$51.12 billion in revenues in 2007 (see Exhibit 1 for a comparison with Apple and other competitors).⁶⁵ This company competed with Apple on two separate fronts: computing devices and home entertainment products.

Microsoft's blue-chip products were the Microsoft Windows operating system and the Microsoft Office suite. The Windows operating system had been produced in various different versions, including Windows 3.1, Windows 95, Windows 98, Windows 2000, Windows Me, Windows Server 2003, Windows XP and its latest version, Windows Vista. Overall, Windows operating system and Office suite had been hugely successful – these products were at the top of the computer desktop market, with market share estimates of 90 per cent or more.

In late 2006, Microsoft introduced Zune, a product which provided online music, video and podcast downloads. Currently, Zune players came in two versions, one hard-drive based and one flash-memory based.⁶⁶ Both played music, videos, podcasts, displayed images and received (but did not record) FM radio.⁶⁷ These players, which ran on Windows XP and Vista, also had a number of other functions: they allowed users to manage files on the player, rip audio CDs, manage music and buy songs, music videos and TV shows at the Zune Marketplace online store using Microsoft Points or a Zune Pass, which allowed the subscriber to download unlimited songs temporarily and permanently keep 10 favorite songs each month.⁶⁸

⁶³ http://northparkcenter.com/press_release/072406.HTML, accessed September 19, 2009.

⁶⁴ http://www.hpalumni.org/hp_way.htm, accessed March 16, 2008.

⁶⁵ http://www.microsoft.com/msft/earnings/FY07/earn_rel_q4_07.msp, accessed March 16, 2008.

⁶⁶ <http://www.zunescene.com/zune-2.0-details/>, accessed January 24, 2009.

⁶⁷ http://news.cnet.com/Swan-song-for-Microsofts-music-allies/2100-1041_3-6097935.html, accessed January 24, 2009.

⁶⁸ <http://www.zune.net/en-us/software/zunepass/default.htm>, accessed January 24, 2009.

Microsoft also recently expanded the Windows brand into the phone market, with its “Windows-powered” Smartphone products. In addition, Microsoft recently purchased MusiWave, Opensave’s phone music business. Microsoft also made its presence felt with MSN TV (formerly WebTV), a television-based Internet appliance.

Microsoft also competed in the game console marketing, which it entered in late 2001 with the release of Xbox.⁶⁹ Recently, the company released a successor to this product, the Xbox 360.⁷⁰ Furthermore, Microsoft marketed a number of other computer-related hardware products, like mice, keyboards, joysticks and gamepads.

Sony

As a Japanese multinational corporation, Sony was one of the world’s largest media conglomerates, with revenues of US\$70.303 billion in 2007 (see Exhibit 1).⁷¹ Sony was one of the leading manufacturers of electronics, video communications, video game consoles and information-technology products for both consumer and professional markets. In particular, Sony Corporation was the electronics business unit and parent company of Sony Group, which operated through five distinct segments – electronics, games, entertainment (motion pictures and music), financial services and other. Overall, this made Sony one of the most comprehensive entertainment companies in the world.

In 1994, Sony entered the video game console market with the release of the PlayStation (later dubbed PS one), which was subsequently succeeded by the PlayStation 2 in 2000 and the PlayStation 3 in 2006.⁷² Furthermore, the PlayStation brand was extended to the portable games market in 2005 by the PlayStation Portable. At this time, Sony developed the Universal Media Disc (UMD) optical disc medium for use on the PlayStation Portable. Soon after, the company expanded the MiniDisc format by releasing the Hi-MD.⁷³

The Hi-MD allowed playback and recording of audio on a newly introduced 1 GB Hi-MD discs in addition to playback and recording on regular MiniDiscs. Furthermore, recordings on Hi-MD Walkmans could be transferred to and from computers, Hi-MD allowed users to store documents, videos and photos. However, Sony does not support this application anymore.

On September 10, 2007, Sony unveiled Rolly (Sony), a 1GB robotic digital music player with colored lights that flash as the player dances to downloaded music tunes.⁷⁴ This player also has flapping wings that move to the tunes. Furthermore, movements and music downloaded from personal computers and Bluetooth can be pre-set. Sony has also developed dog-shaped robots called AIBO and humanoids called QRIOS.⁷⁵ However, these robotic music players have been discontinued.

⁶⁹ http://findarticles.com/p/articles/mi_m0EIN/is_2002_Feb_7/ai_82604922, accessed March 16, 2008.

⁷⁰ <http://www.informationweek.com/news/management/showArticle.jhtml?articleID=174401045>, accessed March 16, 2008.

⁷¹ <http://www.sony.net/SonyInfo/IR/financial/ar/2007/qfhh7c0000d7pmp-att/SonyAR07-E.pdf>, accessed March 16, 2008.

⁷² http://www.thocp.net/software/games/consoles/sony/sony_playstation.htm, accessed March 16, 2008.

⁷³ <http://www.pocket-lint.com/news/143/sony-establishes-himd-format>, accessed March 16, 2008.

⁷⁴ http://www.techdigest.tv/2007/09/sony_unveils_ro.html, accessed September 19, 2009.

⁷⁵ <http://www.thewest.com.au/default.aspx?MenuID=27&ContentID=40047>, accessed March 16, 2008.

Nokia

Nokia was a Finnish multinational communications corporation that focused on wireless and wired telecommunications. This company was one of the world's largest manufacturers of mobile telephones, with a global market-share of 38 per cent in 2008.⁷⁶ This company produced mobile phones for each major segment, and its subsidiary company, Nokia Siemens Network, produced telecommunications network equipment, solutions and services.⁷⁷ Nokia was one of the world's largest and most successful companies, with an annual revenue of €50.5 billion and an operating profit of €5.1 billion in 2008.⁷⁸

Along with manufacturing telephones, Nokia also developed the N-Gage, a mobile telephone and handheld game system based on the Nokia 60 platform.⁷⁹ This product was released to the public on October 7, 2003, in an attempt to attract Nintendo Game Boy users by incorporating cell phone functionality on its gaming system.⁸⁰ However, this was unsuccessful partly because the buttons, which were designed for phone use, were difficult to utilize in a gaming concept. In 2005, Nokia announced that it would move the N-Gage platform onto smartphones.⁸¹ This device has been available since 2007. A pre-release version allowed users to purchase and download games from the official N-Gage website.⁸² The full version of the N-Gage service was released on April 3, 2008.⁸³

SUMMARY

Apple's traditional focus on personal computers had certainly helped the company to make its name, yet Jobs felt that a more recent focus on products such as the iPod, iPhone and Apple TV had made a significant contribution to his company's phenomenal growth. Jobs also felt that the company's unique retail approach was the key to Apple's phenomenal success.

Jobs wondered how the company should allocate resources between its more traditional products (i.e. computers) and its newer products (i.e. iPods, iPhones, Apple TV) in order to maintain and improve its market position. Also, Jobs wondered how Apple's unique retail strategy could be used to support the company's product decisions and further contribute to its success.

⁷⁶ <http://www.nokia.com/about-nokia/financials/quarterly-and-annual-information/q2-2009>, accessed September 19, 2009.

⁷⁷ <http://www.nokiasiemensnetworks.com/global/AboutUs/Company/?languagecode=en>, accessed January 24, 2009.

⁷⁸ <http://www.nokia.com/about-nokia/financials/quarterly-and-annual-information>, accessed January 22, 2009.

⁷⁹ <http://www.nokia.com/press/press-releases/archive/archiveshowpressrelease?newsid=919619>, accessed January 24, 2009.

⁸⁰ *Ibid.*

⁸¹ <http://cellphoneforums.net/cell-phones-news-archive/t175945-nokia-expanding-n-gage-platform-regular-smartphones.html>, accessed January 24, 2009.

⁸² <http://forums.arena.n-gage.com/nokia/board/message?board.id=downloadingapplication&thread.id=2>, accessed January 24, 2009.

⁸³ <http://www.n-gage.com/ngi/ngage/web/g0/en/location.html>, accessed January 24, 2009.

Exhibit 1

REVENUE FOR APPLE AND ITS COMPETITORS IN 2007

Company	2007 Revenue (in US\$ billions)
Apple	\$24.01
Dell	\$57.095
HP	\$104.3
Microsoft	\$51.12
Sony	\$70.303
Nokia	\$64.68

Sources: Adapted from:

<http://www.apple.com/pr/library/2007/10/22results.html>, accessed June 3, 2008.

<http://www.sec.gov/Archives/edgar/data/826083/000095013407022267/d48366e10vk.htm>, accessed June 3, 2008.

http://www.cbronline.com/news/hp_reaches_100_billion_revenue_mark_for_the_fiscal_2007, accessed June 3, 2008.

http://www.microsoft.com/msft/earnings/FY07/earn_rel_q4_07.msp, accessed June 3, 2008.

<http://www.sony.net/SonyInfo/IR/financial/ar/2007/qfhh7c00000d7pmp-att/SonyAR07-E.pdf>, accessed June 3, 2008.