

## CASE STUDY 4

### The Apple of Your i

A quick glance at Apple's stock history in Figure 4-28 will tell you that Apple is an incredibly successful and dramatic company, having peaks around the turn of the century, in 2007–2008, 2012 and again in 2015. At its high, it had the highest market value of any public company worldwide. Apple has been so successful that the NASDAQ stock exchange concluded

Apple's price was skewing the price of the NASDAQ 100 Index and reduced Apple's weight in that index from 20 percent to 12 percent. As of this writing, Apple stock is trading at \$95 after hitting a recent low of \$56 in 2013.

But since Steve Jobs's death (October 5, 2011), there haven't been any groundbreaking products like the iPod, iPhone, and iPad. iWatch was released in 2015, but many initial reviews were tepid at best.<sup>49</sup> There were already several smartwatches



**FIGURE 4-28**  
**Growth in Apple Stock Price**  
Source: Financial data from *finance*,  
*yahoo.com*

on the market that had similar functionality, and it had performance issues. Most importantly, it wasn't clear if the iWatch provided enough value over the iPhone that was already in users' pockets. In short, it wasn't an immediate hit. So, what does the future look like for Apple and its shareholders? Uncertain, especially if you consider its past history without Jobs.

## Early Success and Downfall

At the dawn of the personal computer age, in the early 1980s, Apple pioneered well-engineered home computers and innovative interfaces with its Apple II PC for the home and its Macintosh computer for students and knowledge workers. At one point, Apple owned more than 20 percent of the PC market, competing against many other PC vendors, most of which are no longer relevant (or in business).

However, Apple lost its way. In 1985, Steve Jobs, Apple's chief innovator, lost a fight with the Apple board and was forced out. He founded another PC company, NeXT, which developed and sold a groundbreaking PC product that was too innovative to sell well in that era. Meanwhile, Apple employed a succession of CEOs, starting with John Sculley, who was hired away from Pepsi-Cola where he'd enjoyed considerable success. Sculley's knowledge and experience did not transfer well to the PC business, however, and the company went downhill so fast that CNBC named him the 14th worst American CEO of all time.<sup>50</sup> Two other CEOs followed in Sculley's footsteps.

During this period, Apple made numerous mistakes, among them not rewarding innovative engineering, creating too many products for too many market segments, and losing the respect of the retail computer stores. Apple's PC market share plummeted.

## Steve Jobs, Second Verse

In 1996, Apple bought Jobs's NeXT computing and gained technology that became the foundation of macOS Sierra, today's Macintosh operating system. The true asset it acquired, however, was Steve Jobs. Even he, however, couldn't create an overnight miracle. It is exceedingly difficult to regain lost market share and even more difficult to regain the respect of the retail channel that had come to view Apple's products with disdain. Even by 2011, Apple's PC market share was in the range of 10 percent to 12 percent, down from a high of 20 percent in the 1980s.

In response to these problems, Apple broke away from the PC and created new markets with its iPod, iPhone, and iPad. It also countered retailer problems by opening its own stores. In the process, it pioneered the sale of music and applications over the Internet.

iPod, iPhone, and iPad devices are a marvel of creativity and engineering. They exude not only ease of use, but also now/

wow/fun coolness. By selling hot music for the iPod, Apple established a connection with a dynamic segment of the market that was willing to spend lots of money on bright, shiny objects. The ability to turn the iPhone on its side to rotate images probably sold more iPhones than anything else. With the iPad, portable devices became readable, and the market responded by awarding Apple a 44 percent share of the mobile market.<sup>51</sup> And Apple's success continues with the iPhone 7, which, as of this writing, is selling well.

All of this success propelled Apple's stores not only beyond vanilla retailers like Best Buy but also beyond the lofty heights of Tiffany & Co. In 2011, Apple stores were grossing more than \$4,000 per square foot, compared with \$3,000 for Tiffany and a mere \$880 for Best Buy. Apple currently operates more than 447 such retail outlets and has welcomed more than a billion customer visits.<sup>52</sup>

Apple encourages customer visits and loyalty with its open and inviting sales floor, its Genius Bar help desk, and its incredibly well-trained and disciplined sales force. Salespeople, who are not commissioned, are taught to be consultants who help customers solve problems. Even some vocabulary is standardized. When an employee cannot solve a customer's problem, the word *unfortunately* is to be avoided; employees are taught to use the phrase *as it turns out* instead.<sup>53</sup> Try that on your next exam!

Apple has sold more than 25 billion songs through its iTunes online store, 130 million books through its iBookstore, and a mere 75 billion applications downloaded through its App Store. Apple is now the number-one PC software channel.<sup>54</sup>

To encourage the development of iPhone and iPad apps, Apple shares its revenue with application developers. That would be more than \$25B paid to developers over the years!<sup>55</sup> Developers responded by creating 1,000,000 iOS applications, and an army of developers are at work building thousands more while you read this.

By the way, if you want to build an iOS application, what's the first thing you need to do? Buy a Macintosh. Apple closed its development to any other development method. Adobe Flash? No way. Apple claims that Flash has too many bugs, and perhaps so. Thus, Flash developers are excluded. Microsoft Silverlight? Nope. Microsoft developers are out in the cold too. The non-Apple development community was furious, and Apple's response was, in essence, "Fine, we'll pay our \$25B to someone else."

The bottom line? Until Jobs's death, every sales success fed every other sales success. Hot music fed the iPod. The iPod fed iTunes and created a growing customer base that was ripe for the iPhone. Sales of the iPhone fed the stores, whose success fed the developer community, which fed more applications, which fed the iPhone and set the stage for the iPad, which fed the App Store, which led to more loyal customers and, of course, to more developers.

## Apple Without Steve Jobs

Apple's future is uncertain. It floundered when Jobs was fired in the 1990s, and it could flounder again. Sure, it'll be around for a long time, but the days of its incredible innovative leadership could be, alas, over.

### QUESTIONS

- 4-12.** Which of Porter's four competitive strategies does Apple engage in? Explain.
- 4-13.** What do you think are the three most important factors in Apple's past success? Justify your answer.
- 4-14.** Steve Jobs passed away in October 2011. Until his death, he had been the heart and soul of Apple's innovation. Today, 115,000 Apple employees continue onward in his absence. A huge question for many investors is whether the company can be successful

without him. What do you think? What role did Jobs play? How can Apple respond to his loss? Would you be willing to invest in Apple without his leadership? Why or why not?

- 4-15.** Microsoft took an early lead in the development of tablet devices (like the iPad), and it had the world's leading operating system and applications for more than 20 years. Provide five reasons why Microsoft has not been able to achieve the same success that Apple has. Most industry analysts would agree that the skills and abilities of Microsoft's 118,584 employees are as good, on average, as Apple's.
- 4-16.** Considering your answers to the four questions above, if you had a spare \$5,000 in your portfolio and wanted to buy an equity stock with it, would you buy AAPL (Apple)? Why or why not?