Apple: Innovate or Die
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Thirty years have passed since Steve Jobs and Steve Wozniak created Apple, the company that spurred the development of the household market for desktop computers with its Apple II. The computer, which featured an attractive, user-friendly design, found its way into the homes of users en route to taking 50% of the market share. The entry of IBM with its PC (Personal Computer) gave the brand-new product the credibility it needed in order to be accepted by the business world, and in so doing was able to relegate Apple to a minority position.

Currently, Apple’s Macintosh holds 3% of the market on personal computers. In any event, it is a far better situation than that of IBM, which ended up being forced to abandon its production of personal computers. The company from Cupertino is in good health, and none of the other PC manufacturers from the early days can say the same. Practically all of them have disappeared or given up, including providers who once seemed untouchable, such as Sperry, Wang, Digital and Compaq.

At present, Apple has $8.7 billion in cash and short-term investments and analysts insist that sales of its computers could double in the coming years. This demand will be fueled in part by the integration of Intel processors into Mac computers, and Boot Camp will help as well. This new Apple software will allow users of the new Intel Macs to also use Windows and the thousands of programs available on the Microsoft operating system.

What is the secret to Apple’s longevity and good health? Although the plans of the Cupertino company are always enveloped in the utmost secrecy, its success is clearly based on a firm commitment to innovation. In fact, Apple has just been named by Business Week and the Boston Consulting Group as the most innovative company of 2006, ahead of Google, 3M and Procter & Gamble.

This innovation is not so much about making huge investments as it is about effectively managing investments. A recent study by Booz Allen Hamilton found that in 2004 Apple allocated just 5.9% of its sales earnings to R&D. This figure is lower than the 7.6% industry average investment in this area. The key to their success is that Apple has known how to get the maximum yield on the money invested in innovation, focusing on just a few important projects.

It is a high-risk formula but one that is working quite well for Steve Jobs, the company’s CEO. In fact, the role of the CEO plays a pivotal role in the success of innovation projects within a company. The history of Apple seems to confirm this theory. The crisis suffered in the 1980s, which led to the exit of Jobs in 1985, worsened during the

Highlights
1 - With revenues from the Apple I, Apple, Steve Jobs and Steve Wozniak in 1977 launched the Apple II, the first personal computer to win over the end users.

2 The major similarity between the Microsoft and Apple operating systems led to a clash between the two manufacturers, which ended in 1997 with an agreement that rescued Apple from an extremely precarious financial situation.

3 Apple, which has become a brand as recognizable as Coca-Cola, in 2005 reached its sales record, $13.930 billion, of which $1.034 billion were net profits.

4 The new software called Boot Camp allows for Windows and its thousands of applications to be run on the new Intel Macs. This crossover use could help Apple double its current market share.
tenures of chief execs Sculley and Amelio. Steve Jobs in fact attributes Apple’s problems from that era to an excessive focus on production, marketing and sales, rather than concentrating on developing new products.

With the return of Steve Jobs twelve years later, Apple retook to the path of innovation. Not only with technology, but also in their strategy and business model. One example, the opening of Apple Stores in order to extend the reach of the external distribution channel.

Through its commitment to innovation in all areas on which it has concentrated, Apple has made such achievements as claiming 60% of the digital music market. With its iPod player, Apple has done what it knows best: offer an innovative product that combines high technology with an extremely attractive design and an easy-to-use interface. And with the iTunes online store, Jobs came up with an innovative business model. While the other digital music shops insisted on selling entire albums, charging users a subscription to listen to songs as long as they made their payments, Apple offered the possibility of downloading—through user-friendly software—a single song, which the user, with certain limitations, owns forever.

Jobs thus reveals another of the keys to innovation: you don’t just have to listen to your current customers, but also to your potential customers. And as 3M says, you have to “listen carefully to what the customers don’t say and observe their actions.”

Apple’s business model for digital music is based on the behavior of P2P users, the major consumers of digital music: they want to download songs, not albums, and “own” songs, rather than “rent” them.

With this innovative approach, as he did previously with home computers, Jobs has developed a new market: that of legal digital music, which in 2005 reported $1.1 billion in sales to the record companies, as compared to 400 million from the previous year.

Of course, nothing is stopping Apple from losing its lead in the music sector, as it did before in the computer business. Time will tell as to which companies will be the IBM and Microsoft of the digital music market. However this is a risk that all companies face and only constant innovation can help them overcome it.