

Apple

The third act

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Steve Jobs has twice taken Apple to new heights. With the launch of the iPhone this month he is hoping to do so for a third time

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IN ANY other setting, it would have been corny to quote from a Beatles song to sum up a three-decade relationship that has encompassed partnership and alliance, rivalry and enmity, as well as defeats, triumphs and reversals on both sides. But not when Steve Jobs of Apple was talking to Bill Gates of Microsoft after reminiscing about the old times on a conference stage last week. "You and I have memories longer than the road that stretches out ahead," he said. And there were moist eyes in the audience.

Mr Jobs might have added that the two of them are likely to continue jostling each other on that road ahead for some time longer. In the past they and their companies shaped the era of the personal computer—Mr Jobs as the archetypal pioneer, by building some of the first boxes three decades ago, and Mr Gates as the archetypal industrialist, by being the first to recognise how to charge for software as a separate piece and using that to dominate the industry, at Apple's expense.

Today, however, at the dawn of a new era of digital lives in which computers are only part of an expanding consumer-electronics industry, the odds are on Mr Jobs and Apple as the winner. In the past six years Apple, with its iPod player and iTunes service, has come to lead the (legal) digital-music industry roughly as Microsoft dominates the PC industry with Windows. On June 29th Apple will enter an even bigger market when it launches a new mobile phone, called the iPhone.

Ostensibly, Mr Jobs's ambitions for the iPhone are modest. He expects 10m to be sold by the end of next year, about 1% of the world market for handsets. Apple has sold ten times as many iPods. But these numbers belie the significance of the iPhone—and Mr Jobs's ambitions for it. Rather, it represents the latest step in the transformation of Apple, from a computer-maker to a consumer-electronics company, which Mr Jobs made official this year with the symbolic dropping of the word "Computer" from the firm's name. His success in this transformation so far, and the expectation of a new phase thanks to the iPhone, explain why Apple, one decade after nearly collapsing, is now worth more than \$100 billion and is

to be included in America's blue-chip elite, the Standard & Poor's 100 index.

As a phenotype, the iPhone displays the best of Apple's DNA in design and simplicity. Where other handsets are cluttered with mechanical buttons, the iPhone has exactly one. For its functionality, it relies on a new technology, called "multi-touch", which lets people use their fingers—as opposed to, say, a stylus—to move, resize, swivel, or select things that appear on the screen. As with other breakthroughs to come out of Apple, multi-touch was not invented at the company, but spotted by Mr Jobs as his key to unlocking the next advance in gadget design. Nor is Apple the only firm to have thought of fingers as navigation tools—Microsoft has similar plans for a "surface computer" that uses a table-top as the interface. These will be vastly more sophisticated than the touch-screens already found on devices like ticket machines. But Apple is among the first to tie the hardware and software together and make it available for sale.

At first glance, the iPhone appears to be an unusual device for Mr Jobs to launch. Tim Bjarin, who has covered Apple as an analyst since the early 1980s and runs Creative Strategies, a consultancy, says that Mr Jobs is usually attracted to devices that define new categories, rather than compete in large, pre-existing industries such as the handset business. But Mr Jobs knew that mobile phones were becoming music players, and thus rivals to the iPod, says Mr Bjarin, so entering the handset industry became a "defensive" imperative.

Since he could not invent the category, Mr Bjarin says, Mr Jobs decided to reinvent it. He did this by making the iPhone not only a phone, but also a fully fledged iPod ("the best yet," says Mr Jobs), as well as the first device that can really claim to bring the full internet into users' pockets.

The iPhone has plenty of drawbacks, such as its battery (see [article](#)). But these criticisms miss the point, argues Ben Reitzes, an analyst at UBS, just as scepticism about the original iPods in 2001 was misplaced. The iPod introduced a new technology (the click wheel) which made possible better and cheaper successor versions (the "mini", the "shuffle", and the "nano") that now collectively account for nearly half of Apple's revenues. Similarly, the first iPhone and its multi-touch technology should be seen as a new "mega-platform" that will support other products—ultra-portable computers, say, or new TV sets—besides better and cheaper iPhones. Hence the iPhone launch, says Mr Reitzes, provides a "logical chronology of new products for years to come."

How did he get here?

This prospect makes Mr Jobs arguably unique "in the Silicon Valley pantheon," says Paul Saffo, a veteran forecaster in the industry, since it suggests a rare ability to reinvent not only product categories, but also himself. A new launch trajectory based on the iPhone would mean that Mr Jobs will have pioneered a third technological revolution after the graphical user interface, with the Macintosh in 1984, and the legal digital-music era, with iTunes and the iPod in 2001.

The first of these revolutions—the original Macintosh—is now perhaps less famous for its technology than its marketing, especially the memorable TV spot during the 1984 Super Bowl which announced it. An unobtrusive allusion to George Orwell's "1984", it featured a Big Brother, understood at the time to be IBM, indoctrinating the numbed masses, until a colourful rebel, understood to be Apple, literally smashed the oppressor, liberating those who dare, as an Apple slogan would in later years have it, to "think different".

Its name an intentional misspelling of the McIntosh apple variety, this Macintosh was the first commercially successful personal computer that allowed users to point and click with a mouse. Beginning a pattern, Mr Jobs had spotted the technology outside Apple, grasped its potential, developed it and made it easy to use. Microsoft wrote software for the Macintosh, but then copied it with Windows, thus determining the way people everywhere would encounter PCs ever since.

Mr Jobs's success with the Macintosh, however, soon gave way to a personal and professional nemesis. He had brought John Sculley, an executive from PepsiCo, to help him run Apple. But in 1985, when Mr Jobs was only 30, he and the 46-year-old Mr Sculley fell out and Mr Jobs, in a Shakespearean boardroom drama during which all the directors voted against him, was ignominiously ousted. "What had been the focus of my entire adult life was gone, and it was devastating," he would later recall.

With hindsight, however, the next 12 years in Mr Jobs's career were the crucible in which today's innovator and better businessman was forged. "I didn't see it then, but it turned out that getting fired from Apple was the best thing that could have ever happened to me," he said in 2005. "The heaviness of being successful was replaced by the lightness of being a beginner again, less sure about everything. It freed me to enter one of the most creative periods of my life."

Outwardly, this took the form of two companies. One was NeXT, which Mr Jobs founded to create, yet again, a new kind of computer. Its first product, unveiled in 1988, was the NeXT Cube, an absurdly powerful and expensive box that nobody, as it turned out, wanted to buy. After that dud NeXT turned to software and focused on its state-of-the-art operating system.

The other firm was Pixar, an animated-film studio that Mr Jobs bought from its founder, George Lucas, in 1986, largely because he loved its stunning graphics. But Pixar struggled until Mr Jobs struck a deal with Walt Disney in the 1990s. Using Pixar's creative flair and Disney's marketing and distribution clout, Mr Jobs oversaw an uninterrupted string of blockbusters, starting with "Toy Story" in 1995.

During this time, Mr Jobs matured in other ways. As a character, he had always been a bundle of contrasts. Aesthetically and outwardly, he started as a Californian hippie, a "fruitarian" and a Zen Buddhist. At the same time, he habitually and gratuitously parked in handicapped spots and was capable of decidedly un-Zen-like outbursts of anger and ruthlessness towards friends and colleagues. Employees at NeXT lamented their "hero-shithead roller-coaster", as Mr Jobs oscillated between doling out profuse praise and public humiliation. These traits did not disappear in the 1990s, but did seem to subside.

A similar evolution took place in Mr Jobs's business instincts. Until his ousting from Apple, recalls Mr Bjarin, Mr Jobs was a purist and idealist in matters not only of design, technology and marketing, but also of strategy and tactics. In his exile—and while watching Mr Gates score one victory after another to make Windows a virtual monopoly—he became a realist in matters of strategy, while remaining an idealist in other ways.

The return

Mr Jobs's career and life took another dramatic turn in 1996. His former company, Apple, was by now so marginal in the computer industry and losing so much money that analysts debated whether it would implode or be sold. Instead, Apple's boss, Gil Amelio, gave it another roll of the dice by buying the best available operating system at the time, which happened to belong to NeXT, and thus Mr Jobs. So Mr Jobs found himself back at the company he had started 20 years earlier.

Now it was Mr Jobs's turn to stage a boardroom drama, except this time he made sure he would prevail. In 1997 he became Apple's "interim CEO", only to drop the word "interim" from his title in 2000. Culturally, he returned Apple from its free-wheeling Silicon Valley ways to a benign dictatorship and enforced a cult of secrecy that employees began to call *omerta*, because it resembled the code of silence that keeps Mafiosi from ratting.

Gradually, all the threads of Mr Jobs's life over the past decade would converge. Out of his new strategic realism—and to the horror of his cult—he invited Microsoft to invest in Apple. This removed the immediate doubts over Apple's survival. Technologically still an idealist, he used the NeXT operating system as a foundation for a new operating system, Mac OS X, and its later versions (called Cheetah, Puma, Jaguar, Panther and Tiger, with Leopard coming this year). Aesthetically still a purist, he worked with Jonathan Ive, a British designer, to launch the iMac, a provocatively candy-coloured line of computers and the precursor to all Macs since.

The iMac marked the start of a string of "i" products (for "internet"), from software such as iLife, iPhoto, iMovie, iDVD and iTunes, to hardware such as the iBook, iPod, and now the iPhone. Underlying them was a vision about the emerging digital life. Mr Gates and others may have shared it, but only Mr Jobs already understood how it would differ from the PC era, when office-worker productivity was the priority. The digital life requires more simplicity for home use and much tighter integration between hardware and software.

Thus it was Apple, not Microsoft, that became the early leader, thanks again to Mr Jobs's new realism. While the first iPod, in 2001, was beautiful, it worked only on Macs. But the following year Mr Jobs—again shocking his cult—made iTunes, the iPod's sister software, available to Windows users, which was "like giving a glass of ice water to somebody in hell", as he joked last week. With about 300m copies of iTunes in use, Mr Jobs now influences the music industry as it gropes for a new business model. Partly at his urging, EMI, a British label, has now begun selling songs on iTunes without copyright protection.

In video, Mr Jobs used his other company, Pixar, to gain preferential access to Hollywood. Mr Jobs had fallen out with Pixar's partner, Walt Disney, because he clashed with its boss, Michael Eisner, who liked to control everything around him and was thus too similar to Mr Jobs for collaboration. But when a new and more convivial boss, Bob Iger, took over at Walt Disney, relations warmed again. On behalf of Apple, Mr Jobs struck an alliance to turn iTunes into a seller of video as well as music. Then, last year, he sold Pixar

to Walt Disney outright and joined its board, thus securing for Apple a reliable partner in Hollywood for things to come.

During all this, Mr Jobs never forgot his original passion, his Mac computers. At their nadir, Macs fell to a world market share of a couple of percent; now, benefiting from what Wall Street calls the iPod's "Halo effect", some people are switching from Windows PCs to Macs, and their market share is near 5% and rising. Once again, Mr Jobs displayed his new strategic realism by switching from processors made by Motorola and IBM to ones from Intel, whom he had once considered part of the "Wintel" axis of evil. Now that all Macs run on Intel chips, users can, with so-called "virtualisation" software, run both Windows and OS X on their Macs. This removes—for Mac fans who need to use Windows at work, for instance—the largest single obstacle to gaining converts.

To market the digital life, Mr Jobs took another iconoclastic step and made Apple a retailer. This defied convention, but it worked. With more than 170 shops across the world today, characteristically temple-like in their design, Apple's stores are more efficient (in sales per square foot) than such established retailers as Tiffany, BestBuy and Neiman Marcus.

Halo wobbles

There have been setbacks during this decade, but they have been manageable. The G4 Cube, launched in 2000 (and harking back to the old NeXT Cube), flopped, but was conveniently forgotten. More frightening was a brush with pancreatic cancer in 2004. It was cured, but it was a reminder that, even though Mr Jobs has competent lieutenants—Tim Cook runs operations, Philip Schiller marketing, and Mr Ive design—the identity of the company is dangerously intertwined with one man.

This concern has been reinforced by a financial scandal that briefly threatened to engulf Mr Jobs himself. Since returning to Apple, he has received a salary of only \$1 a year, but his share options made him the highest-paid boss in America last year. Two grants of such options—one to Mr Jobs himself, the second to other executives—in 2001 have aroused the interest of America's financial watchdogs. Both times, the options were "backdated"; that is, the dates of the grants, and thus the relevant share prices, were artificially moved back to a more convenient time.

Technically, such backdating is legal, although it has accounting implications that Apple initially ignored. Last December it had to restate its earnings. Apple insisted that Mr Jobs didn't know about the accounting implications. But Fred Anderson, a former finance director and board member who resigned last October, and who in April paid \$3.5m to settle a lawsuit by America's regulator over this issue, has said that he warned Mr Jobs that backdating would incur extra expenses. Moreover, according to regulators, Apple's former general counsel, Nancy Heinen, told staff to prepare fake paperwork to cover the backdating, including board minutes from a meeting that never occurred. Ms Heinen is now fighting these accusations in court.

None of these issues has yet interrupted Mr Jobs's astonishing second act in music, or his preparations for a third with the iPhone. Far from being defeated by its old foe, Apple is now building alliances against Microsoft with friends such as Google, with whom Apple shares two board directors. Conceivably, Messrs Jobs and Gates may yet take the stage again in another three decades, to reminisce about even more revolutions pioneered, and to look toward the road still ahead.