

2010 sees Apple at pinnacle of tech industry

December 16 2010, By John Boudreau

As 2010 draws to a close, much of the tech world is struggling to regain its footing after a difficult recession. Then there's Apple.

Never before has this venerable company, which at age 34 is a grizzled veteran by [Silicon Valley](#) standards, stood so firmly atop the high tech industry. Earlier this year, Apple's [market capitalization](#) surpassed that of Microsoft, making it the most valuable property in the tech universe. And during its just-completed [fiscal year](#), it broke four consecutive quarterly revenue and profit records. Amid the worst recession in decades, [Apple](#) hired thousands while others cut jobs.

But what most distinguishes Apple is the way it has climbed these heights. While other tech titans spent 2010 cutting costs and acquiring new technology through mergers, this \$65 billion company is innovating like a startup.

"It has a different cultural mind-set," said Charles Wolf, an analyst with Needham & Co. "They are acting like a start-up though they are becoming a \$100 billion company."

Its iPhone revolutionized the market for smart phones, the must-have product of the decade. Its iPad is now creating consumer electronics' most promising new market, for tablet computers.

"This past year has arguably been among Apple's best, if not the best, year," Kaufman Brothers analyst Shaw Wu said.

Experts point to three key factors that drive Apple's relentless innovation: It invests heavily in R&D, is unafraid to cannibalize or kill its own products, and is able to extend its core technology across a host of different products to create a dominant ecosystem of consumer gadgets.

"Never in our history has one company done so much to drive personal technology," said Mark Gilmore, co-founder of Wired Integrations, a San Jose technology consulting firm. "IBM developed the PC, but that was really geared to businesses. Ford developed the assembly line to help consumers have more access to automobiles, but that is really a single product. Sony has developed several consumer gadgets over the years, but none as game-changing as what Apple has done."

Apple, no matter how many economic dark clouds may hover, never skimps on research and development. In calendar year 2009, at the nadir of the great [recession](#), Apple's R&D spending jumped 20 percent to \$1.4 billion. That contrasted with a 4 percent drop in spending on research among the SV150, the San Jose Mercury News' annual report on Silicon Valley's 150 largest publicly traded companies. While the SV150 as a whole cut payrolls by 6 percent, Apple went on a hiring binge, adding 2,300 employees to the fold, a 7 percent increase in its work force.

The pace of hiring accelerated during the company's fiscal 2010, which ended Sept. 25. Over the preceding four quarters, it added another 12,300 employees, raising its number of full-time workers to 46,600, a 36 percent jump. Over the same period, Apple's R&D spending soared 38 percent and it opened 44 new retail stores, ending the year with a total of 317 outlets.

Apple's innovation is not only relentless but also ruthless. No company is more willing to kill its own babies. Rather than wait for competitors to draw the knife, co-founder and CEO Steve Jobs does the deed himself.

In Sept. 2005, Apple killed off the popular iPod Mini to make way for the even sleeker digital music player, the iPod Nano. Apple executives readily acknowledge that the iPhone is cannibalizing its iPods - and they don't seem to care. The iPad tablet, a category-redefining device launched this year that triggered a stampede of me-too devices from competitors, could ultimately threaten its core laptop business. Such a risk, though, barely triggers a shrug from company executives.

Some companies, such as [Microsoft](#), whose Windows operating system has been a franchise money-maker, are too focused on protecting successful products and not on the next disruptive innovation, Wolf said. "They can't envision another profit stream that would be that important, so they go into protective mode."

Apple probably gets more bang for its R&D buck than any other company because it spreads its new technology across many products, he added. The Macintosh operating system became the seed for the iPhone's iOS mobile operating system, which in turn became the operating system for the iPad.

The company has created an ecosystem in which all its devices, software and services are tightly knitted together. This breeds familiarity and ease of use, allowing consumers to seamlessly engage in such tasks as sharing apps between the iPad and the iPhone. It also encourages users to buy other Apple products, including its computers.

During its just-completed fourth quarter, Apple reported a 27 percent jump in the number of Macintosh computers it sold - out-sprinting the PC industry, which recorded a 7.6 percent increase globally. The soaring popularity of its desktops and laptops is tied to what analysts call the "halo" effect - people fall in love with another Apple product, such as the iPhone, then fall in love with its computers.

While Google's Android mobile operating system is becoming ubiquitous across many platforms, from smart phones to tablets, no hardware maker has created a device universe like Apple's.

Over the past year, Apple completed major revamps to almost all of its product lines, including the iPhone, and launched the new iPad. It also made a foray into social networking with the new Ping music platform and Game Center social gaming application.

"The financial performance of the company is really a derivative of all the stuff the company has done," Wolf said. "It's been an awesome year. The frequency of new stuff just boggles the mind. There is no company that is remotely close to what Apple is doing. They are the Energizer Bunny."

Apple is a master of not just innovation but also of marketing. Marketing pervades its corporate culture with the force of a pop icon - like the Beatles, which recently agreed for the first time to offer its legendary music in digital form on Apple's online iTunes store.

Even when things went wrong this year, Apple managed to right its course. Jobs had to abandon a vacation in Hawaii in July and return to Cupertino to extinguish a public relations conflagration around the iPhone 4's "death grip" problem, brought on by complaints of dropped calls if users' fingers touched the wraparound stainless-steel antenna.

In the end, it was just a bump on the road to riches for Apple.

Last quarter, the company reported record sales of 14.1 million iPhones, up 91 percent from the same period a year ago. iPhone sales accounted for 43 percent of Apple's revenue in the quarter, its largest-ever share.

Such good times, though, won't last forever, said Sung Won Sohn, an

economics professor at California State University-Channel Islands.

"No one has a monopoly on brilliant ideas," he said. "The genius of America is there will be other companies like Apple with new ideas and new products that will surpass Apple. Apple has had a string of successes. The question is, 'Can Apple continue to do that?' History says, 'Probably not.' "

But as long as Jobs and the team he assembled sticks around, the company has a good chance of repeat performances.

"He's a remarkable, once-in-a-lifetime, visionary guy," said John Morgan, a professor at the Haas School of Business at the University of California-Berkeley. "It's one thing to say, 'Well, you had a great hit.' But Jobs has had many great hits. He's like the Beatles."

(c) 2010, San Jose Mercury News (San Jose, Calif.).

Distributed by McClatchy-Tribune Information Services.

Citation: 2010 sees Apple at pinnacle of tech industry (2010, December 16) retrieved 18 April 2024 from <https://phys.org/news/2010-12-apple-pinnacle-tech-industry.html>

<p>This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.</p>
