

APPLE COMPUTER, INC.
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Revised April 1998¹

Apple Computer was formed in 1976 by Steven Jobs and Stephen Wozniak, who visualized a personal computer that could be used easily by anyone. Together, they created the Apple I. Setting up shop in Jobs' garage, they soon experienced sales beyond the garage's capacity. In the same year, A.C. Markkula was recruited as the company's first professional manager. With financing from Markkula and a group of venture capitalists, Apple Computer was incorporated on January 3, 1977.

As cofounder of Apple, Jobs' focus was on creating new and different products. He was the visionary responsible for Apple's reputation for innovation. Apple's mission was to change the world by bringing computers to the masses. Jobs' notion of "one person--one computer" became a central tenet of the Apple belief system.

In its first six years of business, Apple's earnings grew explosively from \$793,000 to \$76,714,000.² By 1983, Apple Computer had annual net sales of almost \$1 billion and 4,645 employees.³

The Microcomputer Industry

Apple Computer primarily produced microcomputers. This infant industry was characterized by the manufacture and sale of small desktop computers with microprocessors as central processing units. Apple's main competitors in this industry included IBM, Commodore, and Atari. Competition was increasing. Both Hewlett-Packard and AT&T launched a personal computer, and Commodore was planning to introduce a more advanced personal computer into the market. IBM's machines were the industry standard. Most PC makers made machines that were compatible with IBM. Apple did not. Its goal was to provide a machine "for the rest of us."⁴ The differences between the Apple II and the IBM PC confused dealers and consumers who had to decide which one to buy, and software developers had to make software for two standards.

There were five major market segments in the industry: home, business, government, education, and international sales. The home market included games and educational programs for children and programs for professionals who worked at home as well as hobbyists. The education market included programs used for educational purposes outside the home and was smaller than either the home or business market. The business market was by far the most profitable market and was predicted to grow faster than other segments. Exhibit 1 shows both 1984 and projected 1990 personal computer shipments by segment.

Apple Products and Markets

Apple focused its sales on the home and education markets and was the leader in the education market. Apple had two product lines, Apple II and the Macintosh. The Apple II line consisted of the Apple IIe and the Apple III. The Apple II family of computers represented the company's major revenue generator.⁵ The Macintosh line consisted of Lisa (Macintosh XL) and the Macintosh. Macintosh had not yet been introduced to the market. Jobs personally headed its development.

Jobs believed that "Compatibility...was the noose around creativity."⁶ It required conforming to a standard "out-of-date" hardware. Consequently, the Apple II family of products were incompatible not only with IBM machines, but also with the Macintosh family of products. Apple salespeople, who received regular feedback from the dealers, recognized that this incompatibility discouraged customers who did not want to invest several thousand dollars in an Apple computer and software only to discover that to move ahead technologically they would have to throw them out and start over.

Apple Management

To manage its products and marketing, Apple Computer had five product divisions responsible for the development, evaluation and manufacture of computer systems, software, and peripheral devices (e.g., Macintosh). It also had four product support divisions which handled marketing, distribution and post-sale product support (e.g. North American Sales Division). In addition, there were a number of administrative departments in charge of overseeing Apple's day-to-day corporate activities (e.g., the Finance Department).⁷ Exhibit 2 provides a description of these divisions. Although Apple did not publish an organizational chart, Exhibit 3 represents what such an organization probably would have looked like.

The Early 1980s and John Sculley

Since 1981, Apple's market share relative to its industry competitor had steadily declined.⁸ Apple attempted to enter the business market with its new Lisa and Apple III computers, but the products failed to win acceptance and could not compete successfully with the IBM PC.

In May of 1983, Markkula retired from his posts as CEO and president but remained as director and consultant. Jobs hired John Sculley from PepsiCo, where he had been the president of domestic operations and, before that, vice president of marketing. Sculley was hired for both his executive and marketing expertise. Considering Apple's new competitive pressures, choosing Sculley with his corporate experience as the company's new president was considered by Jobs to be "one of the most important decisions in Apple's history."⁹

Once Sculley joined the company, he had the following reaction:

As a member of the executive staff, I came away with a clear impression that there wasn't a common understanding of the company we were trying to build. In fact, there were many, competitive fiefdoms. A group called PCDS (Personal

Computer Systems Division) was responsible for the development and marketing of the Apple II. Within that division was a smaller splinter group in charge of the Apple III. There was the Lisa computer division, and Steve's Macintosh team, which hadn't yet introduced a product.¹⁰

The Macintosh and Lisa teams were not getting along. The Macintosh people believed that once on the market their product would be better than Lisa and any other Apple product. They routinely referred to the Apple II people as "bozos" and were given perks such as free fruit juice and a masseuse to work the tense backs of the Mac engineers. The Apple II group resented this favoritism. They also resented that they had been moved to a building that was two and a half miles from the Apple campus. Furthermore, there was duplication of activities and resources within the company. Sculley recalls, "When I arrived, I found people all over the organization doing the same thing. Three or four home-marketing groups, for example, existed. Everyone had great ideas. But some structure was needed if people were to feel a greater sense of accountability."¹¹

A Change in Structure

In December of 1983, Sculley reorganized management. His main change was to reduce the number of Apple product divisions to three: a division for Apple II products, another for the Lisa product and the development and production of the Macintosh, and an accessory products group. Each division was responsible for its own functions and could be managed as "independent profit-and-loss centers." The organizational chart is presented in Exhibit 4. Sculley placed himself in charge of the Apple II group to "learn how a product division worked."¹² He later gave this position to Del W. Yocam, a six-year Apple veteran. Jobs was placed in charge of Macintosh division but maintained his position as chairman of the board of directors.

Sculley hoped that the new structure would eliminate most of the overlap without causing massive layoffs.¹³ Also, he did not want to be insulated from the organization.¹⁴ He wanted many people reporting to him, both line and staff people, so he could "assess all the pieces."¹⁵ Sculley also installed tighter control policies and increased the market focus and level of discipline of Apple's managers. No longer did he have more than a dozen vice presidents reporting to him, as was the case when he arrived. "Now there was a distinct hierarchy, with two powerful product divisions responsible for their own manufacturing, marketing, and finance and a small central organization for sales, distribution, corporate finance, and human resources--in essence, two companies, each reporting to Sculley and his staff, each competing with the other."¹⁶

New Apple Products

In 1984, Apple discontinued Apple III and Lisa and introduced a new product--the compact, portable Apple IIc. That same year, the Apple II division experienced record sales. It sold an estimated 800,000 of Apple IIe's and portable IIc's, with revenues that year nearly reaching \$1 billion.¹⁷ The Macintosh was also introduced. In keeping with the company's new strategy, the Macintosh was promoted as an alternative business computer in a bold campaign to win space in offices at the expense of IBM, whose PCs dominated the business market. Despite the fanfare, the Macintosh failed to attract business customers as had the Lisa and Apple machines before it.

Its impressive graphics and ease of use did not compensate business managers for its lack of power and software. “Because the Macintosh was so easy to use, people concluded that it wasn’t powerful,” Apple executive Guy Kawasaki complained.¹⁸ Also, it was a closed machine that did not allow specialized add-on hardware and software. Jobs developed the machine this way because he wanted it to be as simple an appliance to use as a telephone—one complete package like any other appliance in the home. The strategic decision to produce incompatible machines increased short-run profitability. Prices could remain high since competition was minimal. IBM, on the other hand, welcomed competition by allowing cloning. As a result, IBM prices were forced down by cloning companies, which tended to charge less for their machines. While high margins were attractive to Apple management, the company’s strategy was decidedly short-term in perspective. Regardless of Apple’s ease of use, computer purchasers could not ignore price forever.¹⁹

Additionally, incompatibility caused the Apple computer to have limited applications. The business market sought machines that could be used with various hardware and software. Also, the Macintosh had fewer software programs written for it—600-700, compared with the 3,000 programs that could run on IBM PCs and their clones.²⁰

Furthermore, Apple’s image as an “irreverent, hip, young company” sustained a perception that the Macintosh was not a business computer. This discouraged professionals, most of whom were familiar with the maxim, “No one ever got fired for buying IBM.” Apple expected to sell 60,000 to 85,000 Macintosh machines a month by late 1984, yet sales barely exceeded 20,000.²¹ Still, an estimated 250,000 were sold by the end of 1984, which was more than the IBM PC had sold in its first year.²² The division earned revenues of close to \$500 million, but the cost of introduction and reorganization significantly reduced profits.²³

A Changing Industry

In 1985, the microcomputer industry suffered its worst slump in over a decade. Many new computer products had been promised or rumored but were not yet available, causing consumers to delay purchases until they could evaluate the new machines. Also, the home market was saturated. Hobbyists and professionals who worked at home were pausing to “digest” their recently purchased systems and were not buying newer models.²⁴ Other potential home users did not yet see the need to have a computer in their homes, which made this market difficult to penetrate. The business market also experienced a decrease in sales. Businesses, concerned about an impending recession, delayed capital equipment purchases. Only one market—education—was still growing. Apple was still the dominant player in this segment. Unfortunately, it was smaller than either the business or home segments.

Consumer preferences also changed. Service and how new products fit into an existing family of products had become more important. There was a growing demand for personal computers that could communicate and share information or that were tied together into cohesive information systems. It was estimated that this demand was growing at 30% a year, or twice the rate of the overall industry.²⁵

Apple focused its efforts on developing the Macintosh as an alternative business computer. In January 1985, Apple introduced the “Macintosh Office” which consisted of the computer, a laser printer, a local area network called Appletalk, and a file server. The company’s emphasis on gaining acceptance in the business market led it to finally acknowledge IBM’s preeminence, which, in turn, led to a change in its competitive strategy. In the past, said marketing director Michael Murray, “We would have vowed to drive IBM back into the typewriter business where it belongs.”²⁶ In 1985, according to Bill Gates, chairman of Microsoft Corp., Apple began to preach coexistence.²⁷ It now emphasized developing a comprehensive line of compatible computers that worked well with those made by other manufacturers. The company targeted small and medium-sized businesses, accounting for 80% of personal computer sales, and tried to win several accounts from major corporations to be used as “showcase accounts.”²⁸

Despite these changes, Apple’s efforts to sell Macintosh to business were making little progress, and the company experienced its first quarterly loss. The Macintosh fell short of its 150,000 sales goal over the Christmas season by approximately 50,000.²⁹ Sales then declined to an average of 19,000 units a month, falling even further after that.³⁰ Sales of the Apple II, Apple Iie, and the Apple Iic were also disappointing. The Apple II line of products was the company’s cash cow, but in 1985 it was not bringing in the revenue it had in the past.³¹ Although the company experienced stunning Christmas sales, the following quarters were worrisome. The company earned only \$10 million on sales of \$435 million for the three months following Christmas, as compared with \$46 million on sales of \$698 million the previous quarter.³² Apple had no backorders left over from Christmas; rather, it had inventory excess for the first time.

Internal Problems

Disappointing market performance was attributed to internal problems. Jobs and his director of engineering were missing schedules for crucial parts of the system. They were “months behind with a large disk drive that would help Mac run sophisticated software programs for business and make it easier for users to share information.”³³ In addition, Apple had no salesforce with direct access to corporations. Unlike IBM, which had 6,000 to 7,000 direct salespeople, Apple relied on 300 manufacturers representatives over whom they had no direct control. These representatives also sold the products of other manufacturers. In the early 1980s, Apple established a 60-person direct sales staff. However, soon after, the staff began to experience conflict with the independent dealers who still provided most of Apple’s revenue. The direct salespeople were accused of selling Macintoshes at lower prices than dealers, “elbowing” them out of markets.³⁴

There were also marketing problems. The company failed to communicate a business image for the Macintosh to the market. A former Macintosh employee stated, “Mac was being perceived as a cutesy, avocado machine for yuppies and their kids, not as an office machine or as the technology leader that it is.”³⁵ This image problem was compounded by the fact that Jobs and Sculley disagreed over marketing strategy. Jobs believed that Apple should focus on technology, which would be the motivating force behind purchases of computers. Sculley thought the focus should be on customer needs. Customer needs should determine the product. Therefore, getting close to the market was of fundamental importance. Jobs complained that Sculley didn’t understand the nuts and bolts of the business or how products were developed and questioned Sculley’s competence.³⁶

These problems were heightened by conflicts between the Apple II and Macintosh Divisions. The members of the Apple product group, led by Del Yocam, were frustrated by Job's favoring the Macintosh product group.

According to several insiders, Jobs, a devout believer that new technology should supersede the old, couldn't abide the success of the venerable Apple II. Nor did he hide his feelings. He once addressed the Apple II marketing staff as members of the "dull and boring product division."³⁷

Jobs' intense involvement with the Macintosh project had a demoralizing effect on Apple's other divisions. The Apple group considered this intolerable favoritism, especially since their division was producing more than twice the revenues as the Macintosh division.³⁸ Apple had become "two different warring companies," and the internal competition was self-defeating. Sculley described his own perspective of the organization:

Initially, I saw Apple in PepsiCo terms. Frito-Lay and Pepsi-Cola could comfortably and successfully exist as separate entities under Pepsi-Co. The Apple II group could have its own factories and sales organization for the K-12 [kindergarten through 12th grade] education and consumer markets. Macintosh, with its own independent operations, targeted the university and business markets. What I didn't realize was that it wasn't working. The two groups became too competitive with each other. People were getting burned out.³⁹

In February 1985, Stephen Wozniak, designer of the Apple I and an engineer in Yocam's group, resigned.

Sculley was losing confidence in Jobs' ability to manage the Mac division.⁴⁰ When Jobs failed to order necessary parts for the Macintosh XL, and Apple had to discontinue the product after having introduced it only three months earlier, Sculley became concerned.⁴¹

The organizational structure contributed to these management problems. As Sculley explained,

[The] organization created two power bases and removed me from day-to-day operating decisions. I became more remote from the business. As chairman, Steve was over me. And as head of a product division, he was under me. He really had more knowledge about what was going on in the business than I did because all the information was coming up through the product divisions. They had all the power. The corporate staff basically became an impotent group, largely a financial organization.⁴²

Sculley felt that he was losing control:

It was nearly impossible to get the right information quickly when I needed it most. I was constantly surprised by new and disturbing findings, including the failure to order parts for the Macintosh XL. The management inexperience of many of Apple's key players as well as my own lack of experience in the personal

computer industry should have been early warning signs that a decentralized organization wasn't suited for our volatile marketplace. It set up a system under which people would fight for what was best for their groups, not what was best for the company as a whole.⁴³

According to middle managers at Apple, Sculley was in Jobs' shadow. He was not taking the action he needed to run the company. Jobs was making all the decisions and was being favored over all the other vice presidents.⁴⁴ The board was also unhappy with the way Jobs was running the Macintosh division. They encouraged Sculley to exercise his authority as CEO and hire a new general manager to improve the Macintosh's sales.⁴⁵

A New Organization without Jobs

In May of 1985, Sculley announced another reorganization. The three product divisions were consolidated into one called Product Operations. Exhibit 5 is an interoffice memo from Sculley introducing the new organizational structure to Apple's employees. The company was downsized in an effort to reduce operating costs. Advertising was reduced, factories were closed, and the Lisa computer and some development efforts were eliminated. The direct sales force was dismissed except for those on established accounts. A total of 1,200 employees were laid off, 60% of whom were in manufacturing.⁴⁶ Other cutbacks were made across the organization except for R&D.

The other part of the reorganization called for bringing in a new general manager of the Macintosh Division to replace Jobs. Also, Jobs' operating role in the company as chairman was taken away. On September 17, 1985, he resigned from Apple. Yocam was placed in charge of engineering, manufacturing, and distribution, and William V. Campbell became responsible for U.S. marketing and sales. Sculley imported two top-level executives to headquarters in California from Europe. Jean-Louis Gasse, head of Apple France, was promoted to replace Jobs as head of product development, and Michael Spindler, a German national, who had been running European marketing and sales, was promoted to head all of Apple's international operations. Apple became one of few companies to have two Europeans at the highest levels of senior management.

Apple International

Apple was an early market leader in Europe. Before 1983, the company expanded sales into Britain, Germany, and France. Gasse led a successful marketing effort in France, and, under his strong leadership, Apple achieved a high profile and a critical mass of buyers. However, Apple was not as successful in Britain and Germany. Competitors in the British education market shut out Apple. In Germany, the home market of hobbyists, where Apple products were most popular, never took off with the same popularity that it had elsewhere. Still, the company established a European headquarters in Paris with a staff of 45 people and built a production plant in Ireland.

Apple managed its international operations from California. This drew criticism from the European computer industry. Both Gasse and Spindler tried to convince Apple to pay more attention to growing markets abroad.

Enthusiast to Businessman

Following its 1985 reorganization, Apple began to adjust its products and marketing strategy to better fit the computer industry environment. Product lines were filled out with equipment the consumer wanted, such as large disk drives and more powerful versions of the machine itself. Efforts were made to open up the Mac to third-party hardware and software companies. These companies were hesitant, however, to invest time and money to develop software for the Mac since the installed hardware base was such a small percentage of the market. Programs designed for Apple would sell far fewer copies than those created for IBM compatible machines, making it too costly to develop Macintosh software.⁴⁷

In late 1985, Apple finally introduced a product that was successful in the business market. The product was a desktop publishing program pioneered by the Macintosh for printing typeset-quality documents on the computer. "Some 50,000 Macintosh publishing systems were sold in 1986, and sales of the accompanying printers alone added about \$150 million in revenues."⁴⁸ Excel, a spreadsheet program written by Microsoft Corp. for the Mac was also a success. Apple was now able to offer capabilities similar to IBM PCs running Lotus 1-2-3 spreadsheet programs.

In January 1986, Sculley began to pitch the Macintosh to Fortune 500 companies like General Electric, Eastman Kodak and Du Pont, and listened to their criticisms. He also expanded the number of business packages written for the Mac. Apple's marketing strategy focused more aggressively on the corporate market to win space in the office at the expense of the IBM. Simultaneously, the company slowly extricated itself from the unprofitable home computer market and lessened its dependence on sales to schools. Said Sculley, "We went after business because that's the biggest market with highest profit and the fastest growth in the personal computer industry."⁴⁹

In pursuing the business segment, Apple began to hire more employees with professional business backgrounds.

Early on, Apple tended to hire hackers and enthusiasts. For the last two years, they've taken on experienced professionals who were businessmen before they were Apple enthusiasts.⁵⁰

The idea was that corporate managers would be more responsive to salespeople who were similar to them.

Apple's national salespeople were ordered to seek "highly visible reference accounts." The company received orders from Sea First Bank for 1,000 Macs, Federal Express for \$5 million worth of machines, and commitments worth roughly \$2.5 million apiece from General Motors, GTE, Honeywell, and Motorola. In 1986, revenues from the sale of Macintosh products exceeded those of Apple II products. That following March of 1987, Apple introduced two new computers for the business market: the Macintosh SE and the Macintosh II. Both machines were "open"--the first to accommodate microprocessor boards made by outside companies.

The open design vastly increased the Macs appeal to businesses, since the extra boards let Macs work better in corporate computer networks, use bigger screens, and run software written for IBM computers. The...Mac II had ten times the computing power of the first Mac.

These products attracted larger software houses that developed sophisticated applications for large business users.

The new Macintosh products and desktop publishing contributed to an expanded business market for Apple. Nearly half of Apple's sales and most of its profits came from selling personal computers and related products to business users. The company now offered product features that IBM did not offer that the business market highly valued.

In 1990, however, Apple's progress in the business market was largely thwarted by Microsoft's introduction of the Windows operating system. This system's ease of use surpassed MS-DOS and reduced Apple's interface advantage. This fact, coupled with the much larger installed hardware base of IBM compatible machines for which Windows was designed, enabled Microsoft to beat Apple with Apple's own ideas, and "Microsoft emerged as the uncontested leader of the desktop computing world."⁵¹

Growth

Business market expansion resulted in a 30% increase in Apple's sales from \$1,901.9 million in 1986 to \$2,661.1 million in 1987.⁵² Exhibit 6 shows net sales, net income, and the total number of employees for years 1982-1989. Apple expected this rapid growth to continue, predicting a more than doubling of revenue to \$10 billion annually by the early 1990s.⁵³

As the number of employees increased, there was less time available for Sculley to devote to day-to-day operations. As the "bureaucracy continues to grow,...there is a limit to how many engineers can walk directly into Sculley's office to pitch their ideas."⁵⁴

Also, there were constant battles between Apple's sales, marketing, and engineering departments. Upper managers were "not all lined up facing in the same direction."⁵⁵ "The technical people didn't respect the marketing department, the marketing department was disorganized, and there was little possibility that we could afford all the projects it was working on."⁵⁶ These problems required even more of Sculley's time.

In an effort to centralize operations and involve Apple's senior management in day-to-day decisions, Sculley created a new position of Chief Operation Officer (see Exhibit 7) to which Yocam was appointed. Sculley hoped that this change would free up more of his own time to spend on long-term planning. New high-level management positions included vice president of advanced technology and vice president of U.S. sales and marketing. Sculley doubled the size of Apple's field force and the number of employees grew to 10,836.⁵⁷

International Growth

In 1987, international growth became a priority at Apple. The European market for PCs was expanding faster than the U.S. market. Apple depended on growth in markets abroad to cover up declining U.S. sales. Sculley said, “We were going to reduce our dependency in the U.S. consumer market, which meant sales growth in the international area would be important because otherwise people could feel Apple was failing.”⁵⁸ Sculley turned to Michael Spindler, head of Apple’s international division, to develop a strategy for growth in the European market. Spindler’s strategy involved focusing more closely on the needs of corporate and other markets rather than on those of home users. In order to appeal to these consumers, Spindler developed a businesslike approach to the European market, similar to the one Apple developed in the U.S. He brought more experienced computer industry professionals into Apple’s older European subsidiaries and stressed a professional, corporate image from the start in newer ones.

Spindler reorganized Apple’s European distribution network, which was geared more to individuals and small business buyers. He cut back the network and upgraded the remaining distributors to lure large corporate dealers who were accustomed to dealing with IBM. As Spindler explained, “We made a decision to take the distribution network down, and build it back up in quality rather than quantity. We put more emphasis on adding value, rather than just moving boxes.”⁵⁹

Spindler also championed a new “multilocal” approach to international subsidiaries. Most American multinationals simply cloned their U.S. operations overseas, selling the same products as were successful in the United States. According to Spindler, a multilocal approach meant “you have a network model that adapts to local markets. You behave and act like a local company, yet you are within the network of the mother company back home. The whole world can thus become one big shopping cart for ideas and capital.”⁶⁰

An International Business Market Structure

By 1988, Apple had established strong markets in France, Canada, and Australia. Major European companies, such as France’s Aerospatiale and Renault, Germany’s Bayer and BASF, and Britain’s Plessey purchased a significant number of Macintosh machines. Apple gained 6% of the overall European market.⁶¹ Apple’s European revenues grew by 55%, faster than revenue growth for the entire company.⁶² Apple experienced the same success in new markets such as Spain, Sweden, Holland, Belgium, and Japan. Its Swedish subsidiary, developed in 1985, captured 15% of the business market in 1988.⁶³ Sales in Japan also took off as localized products were developed.

Apple’s foreign operations now consisted of three manufacturing facilities in Ireland and Singapore and distribution facilities in Europe, Canada, and Australia.⁶⁴ In October of 1988, European sales alone made up nearly one-third of total revenues for Apple.⁶⁵

International growth spurred Apple to expand its European headquarters in Paris. The staff was increased by over 150 people.⁶⁶ “We can’t do everything from the U.S. anymore; valuable things are happening in Europe,” said Spindler.⁶⁷ A new corporate “account management” program was

established, which included several hundred corporate account specialists fanning out across the Continent. The proportion of European-made components used in Apple's Irish production plant was increased and Apple opened a \$10 million R&D center in Paris that employed 50 engineers.⁶⁸

This growth was accompanied by a realization that Apple's various markets were distinct and required different expertise. Apple responded by splitting its International Division into separate, autonomous Pacific and European units and creating the Apple USA division from what was formally known as U.S. Sales and Marketing. Exhibits 7 and 8 show the old and new Apple structures. The four functional divisions were replaced by two, Apple Products and Apple USA, and the role of Chief Operating Office was removed. Each division was headed by a president who reported directly to Sculley. Jean-Louis Gasse was placed in charge of Apple Products, responsible for all product development, manufacturing operations and marketing. U.S. sales and marketing, service and support, and Apple's internal information systems operations were incorporated into Apple USA. Sculley segmented this division's operations into business and education market units and a marketing support unit. Apple's International Division was split into Apple Europe and Apple Pacific. Michael Spindler was placed in charge of Apple Europe responsible for sales, service, and marketing operations for primarily France, West Germany, and Scandinavia. Del Yocam was placed in charge of Apple Pacific handling sales, service, and marketing for Apple's current markets in Canada, Australia, and Japan while investigating market opportunities in Pacific Rim and Latin American nations.

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Endnotes:

¹ The authors wish to thank Sharon Simon for her help in revising this case.

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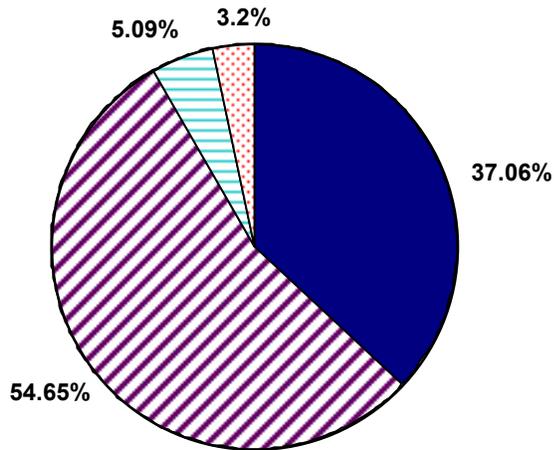
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- ⁵³ Schlender, Brenton R., "Apple Sets Plan to Reorganize into 4 Divisions," *The Wall Street Journal*, August 23, 1988, p. 2.
- ⁵⁴ Glenn Rifkin, "Getting to the Core of the New Apple," *Computerworld*, February 1, 1988, p. 49.
- ⁵⁵ *Ibid.*, p. 48.
- ⁵⁶ Brian O'Reilly, "Apple Computer's Risky Revolution," *Fortune*, May 8, 1989, pp. 76-77.
- ⁵⁷ Apple Computer Inc., Annual Report, 1988.
- ⁵⁸ *Ibid.*, p. 282.
- ⁵⁹ *Ibid.*, p. 37.
- ⁶⁰ *Ibid.*, p. 328.
- ⁶¹ *Ibid.*, p. 37.
- ⁶² Jane Sasseen, "Replanting Apples Across Europe," *International Management*, October 1988, p. 36.
- ⁶³ *Ibid.*, p. 37.
- ⁶⁴ Phylles Fedderler and Thomas Wheelen, "Apple Computer Corporation 1987," *Strategy Management and Business Policy*, 3rd edition (Massachusetts :Addison-Wesley Publishing Company Inc.,1989), p. 547, p. 552.
- ⁶⁵ Jane Sasseen, Jane, "Replanting Apples Across Europe," *International Management*, October 1988, p. 36.
- ⁶⁶ *Ibid.*
- ⁶⁷ *Ibid.*
- ⁶⁸ *Ibid.*, p.37.

Last Modified: 5/23/01

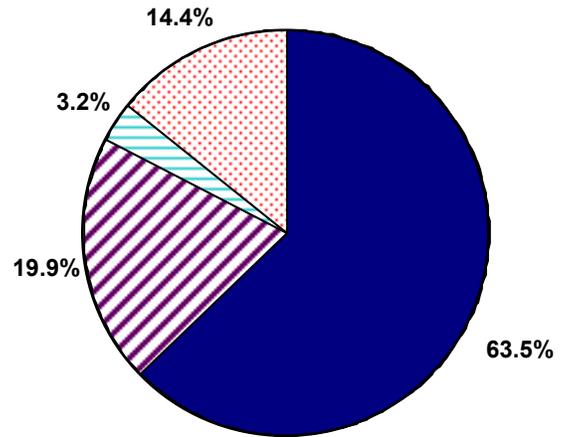
Exhibit 1

**Worldwide Personal Computer Shipments
By Market Segment**

1984

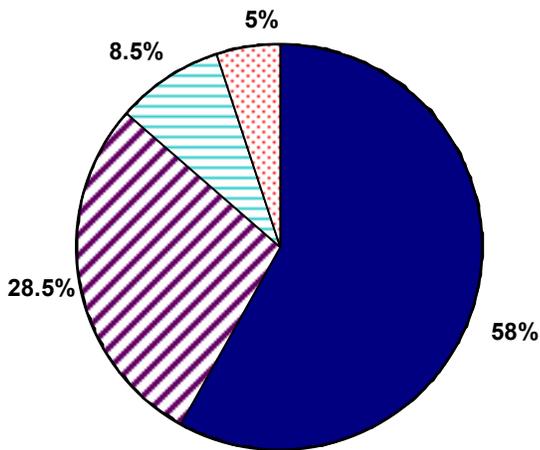


**Units
9.5 Million**

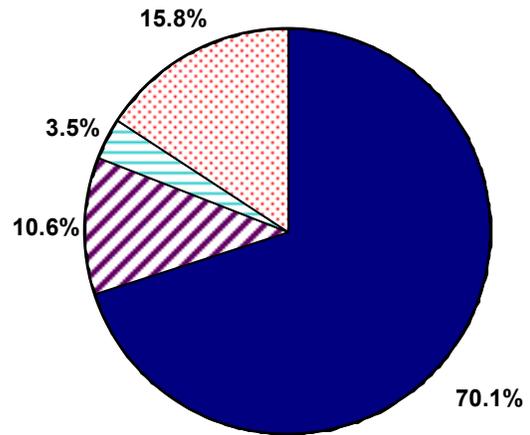


**Dollars
\$17.9 Billion**

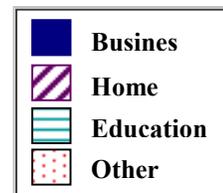
1990



**Units
16.7 Million**



**Dollars
\$43.0 Billion**



Source: International Data Corporation, EDP Industry Report. August 30 1985.
Copyright 1985 by International Data Corporation.

Exhibit 2

APPLE DIVISIONS

There are two major types of divisions within Apple--Product Divisions, responsible for the development, evaluation, and manufacture of computer systems, software, and peripheral devices, and Product Support Divisions, which handle marketing, distribution, and post-sale product support. There are, in addition, a number of administrative departments in charge of overseeing Apple's day-to-day corporate activities.

PRODUCT DIVISIONS

PERSONAL COMPUTER SYSTEMS DIVISION (PCSD) is responsible for the Apple II and Apple III computer systems and is constantly working to refine and improve them. PCSD most recently introduced the Apple IIe, a significantly enhanced version of the Apple II.

PERSONAL OFFICE SYSTEMS DIVISION (POSD) designs and manufactures mass-storage devices for Apple computer systems. PSD unveiled Unifile and Duofile high-density floppy disk drives in late 1982 and continues to develop and produce both hard and floppy drives to support all Apple systems.

ACCESSORY PRODUCTS DIVISION (APD) produces all keyboards for Apple computers. It is also responsible for developing, manufacturing, and marketing accessory products such as joysticks, cursors, numeric keypads, and hand controllers. In addition, APD designs and markets a variety of monitors, printers, modems, and plotters.

MACINTOSH DIVISION (MAC) is pursuing a product line that promises to become the highest volume personal computer system of the '80s.

OPERATIONS DIVISION is responsible for most of the Apple's manufacturing activity. Other product divisions manufacture the initial prototype/pilot units and establish process procedures. Products ready for high-volume production are then transferred to the Operations Division, which manufactures in Dallas, Texas; Cork, Ireland; and Singapore.

PRODUCT SUPPORT DIVISIONS

NORTH AMERICAN SALES Channels Apple's products to customers through field sales groups which service a larger dealer network. The division also handles direct sales to volume users and is responsible for the identification and penetration of major markets. Its highly successful National Accounts Program furnishes Fortune 1000 corporations with direct sales, installation, service, and support. Sales and marketing for the Far East, South Africa Central, and South America are handled by INTERCONTINENTAL SALES.

EUROPEAN DIVISION manages field sales and distribution activities throughout Europe, supporting the efforts of original equipment manufacturers (OEMs) and assisting other divisions in tailoring Apple Products to European markets.

COMMUNICATIONS DIVISION sees that sales prospects, investors, and other parties interested in Apple receive whatever information they need. The division handles advertising and public relations activities, conducts market research, and manages employee, investor, and press communications.

MARKETS MARKETING group identifies and defines target markets for Apple and develops strategies for approaching them. The group also coordinates all proposed marketing activities to ensure that Apple's messages to each segment are clear.

ADMINISTRATIVE DEPARTMENTS

Many activities at Apple fall outside the neatly structured division, yet they are intimately associated with daily operations of the company. These activities report to Vice Presidents, just as the divisions do, and are lumped together under "Administration". Such operations include the following:

FINANCE DEPARTMENT monitors Apple's financial well-being. It provides accounting and cash management services to the company as a whole, at the same time working with each division to help project and manage expenses. Finance also oversees Apple's Management Information Services (MIS) computers, which track all sales and inventories.

HUMAN RESOURCES safeguards and helps develop Apple's most valuable asset, its people. In addition to handling counseling, compensation, and benefit programs, the department is responsible for staffing and training to ensure that Apple has the people it needs to reach its goals. Human Resources also provides the resources to assist employees in reaching personal and professional goals.

LEGAL SERVICES makes certain that Apple complies with the law in all business operations. It also represents the company in legal disputes with individuals, business, and the government. In addition, facilities and the Apple Education Foundation both now report to Legal Services.

Exhibit 3

Apple Organizational Chart
1983

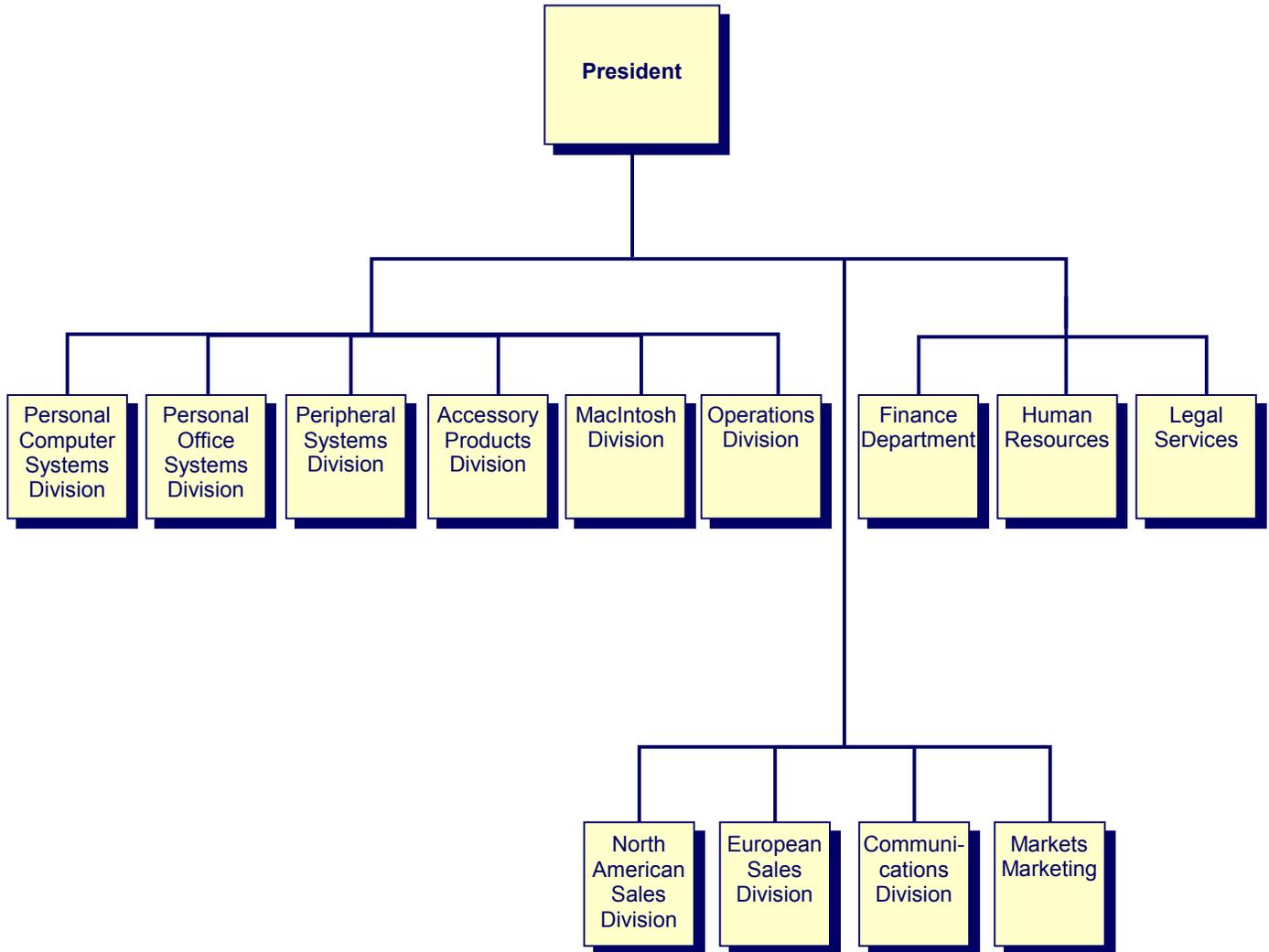


Exhibit 4
Apple Organizational Chart - 1984

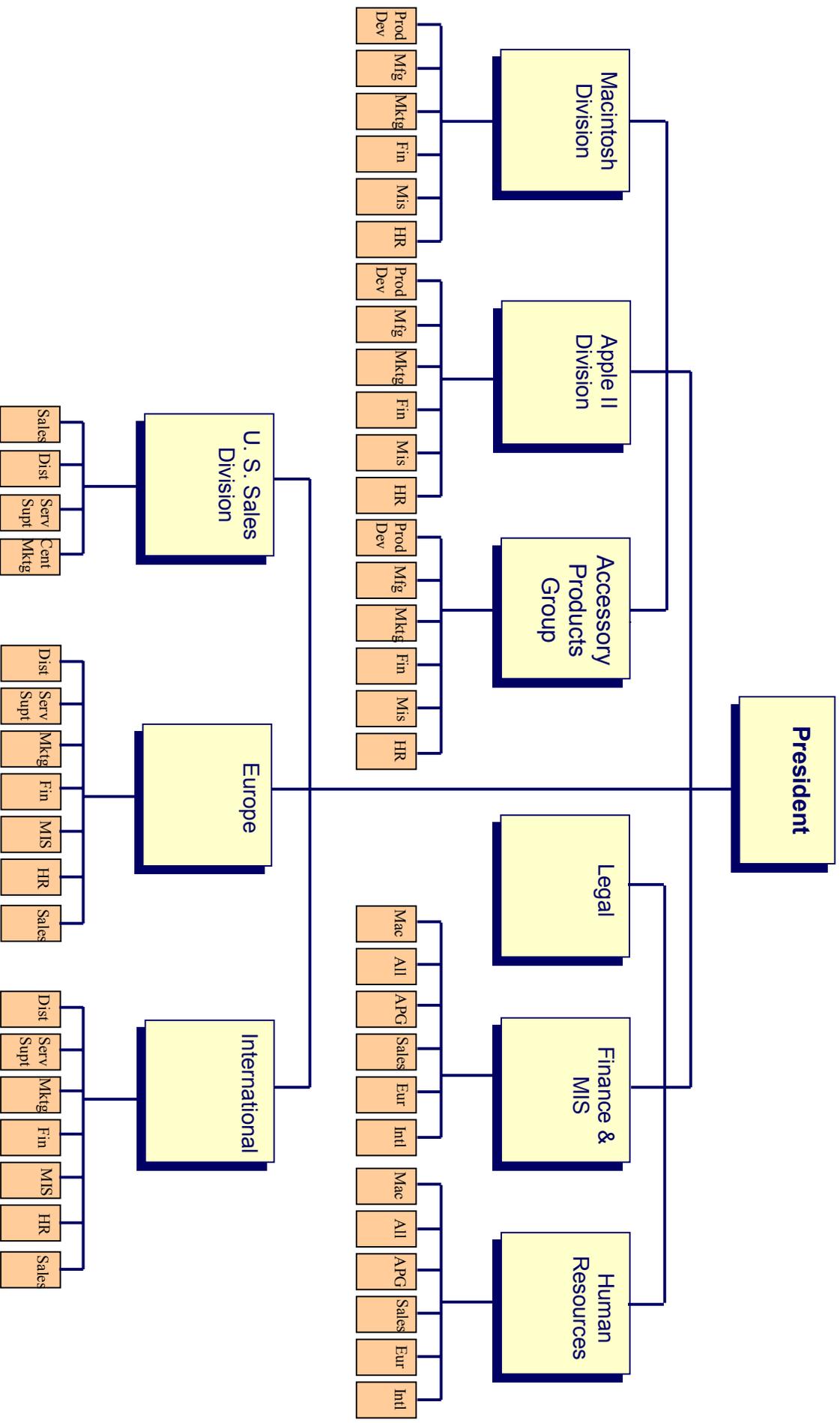
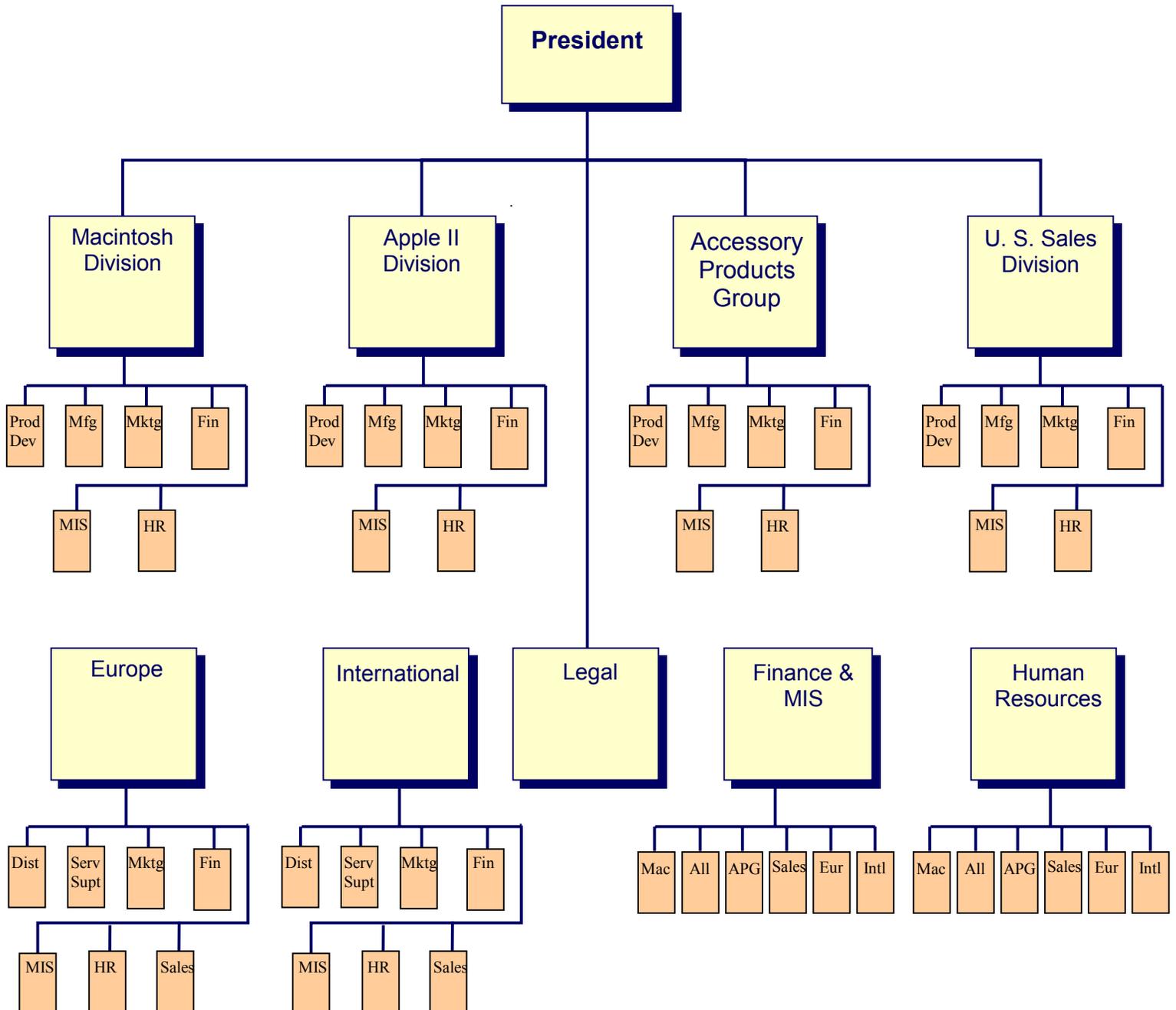


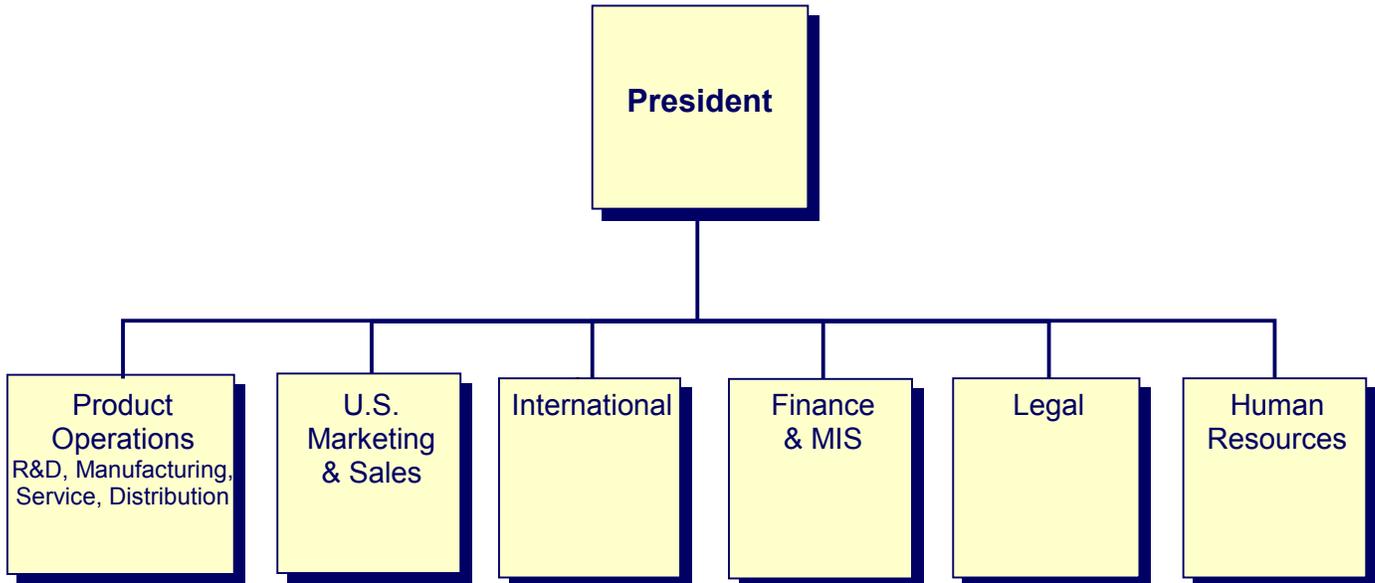
Exhibit 5
APPLE COMPUTER INTER-OFFICE MEMO

Date: June 14, 1985
To: Board of Directors
From: John Sculley
Subject: Company Reorganization

The executive staff, key managers and I have met almost daily over the past several weeks to develop a new organization. As you know, Apple has been a divisionalized company with several highly autonomous profit centers which have acted almost like stand-alone companies:



I am please to announce a new structure which is vastly simplified and organized around functions:



The new organization will reduce our breakeven point. It should also simplify internal communication of company objectives and allow for greater consistency in their implementation.

We have selected leaders of each functional area who have had considerable experience in their specialty and in managing people.

In the process of moving to this new organization, we will reduce the number of jobs at Apple by 1200. This is a painful and difficult decision. However, this streamlining will allow us to eliminate unnecessary job duplication in the divisional structure. (As shown in the organization chart, each division has had its own product development, manufacturing, finance, management information systems, and human resource staffs.)

The new organization would be more effective at providing products the marketplace wants and at providing them in a more timely manner. In addition to the greater effectiveness of the organization it should also be more efficient -- making us more profitable on lower sales than would have been the case with the former organization.

The reorganization will be costly in the short run. We take such a strong step only because it is clear that the new organization and management team will vastly improve Apple's profitability for success as an industry leader.

Source: Apple Computer Inc. 1985 Annual Report

Exhibit 6

Net Sales, Net Income and Number of Employees 1982-1989

	1982	1983	1984	1985	1986	1987	1988	1989
Net Sales(millions)	583.1	982.8	1515.9	1918.3	1901.9	2661.1	4071.4	5284.0
Net Income (million)	61.3	76.7	64.1	61.2	154.0	217.5	400.3	454.0

Exhibit 7

**Organizational Chart
1988**

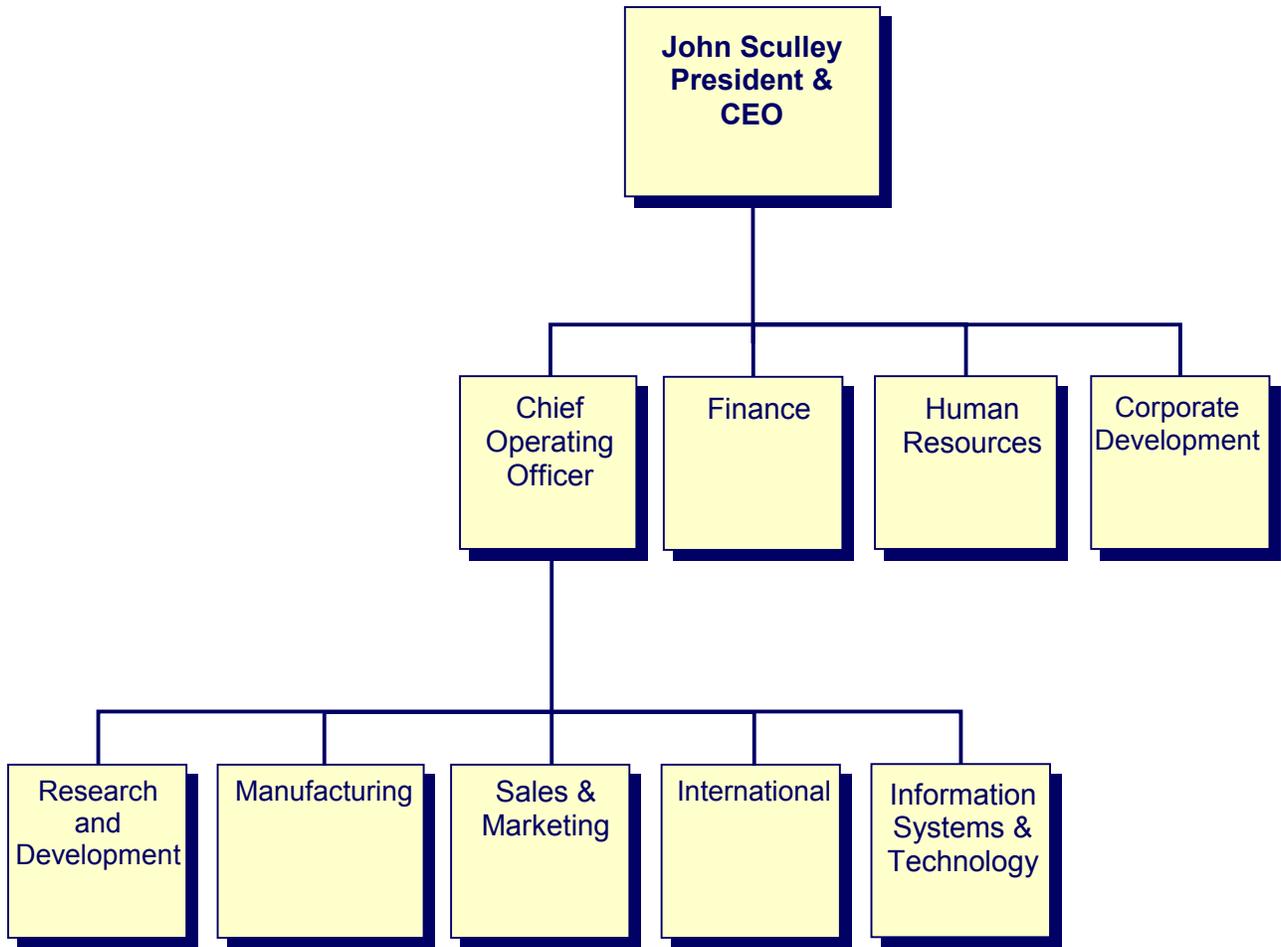
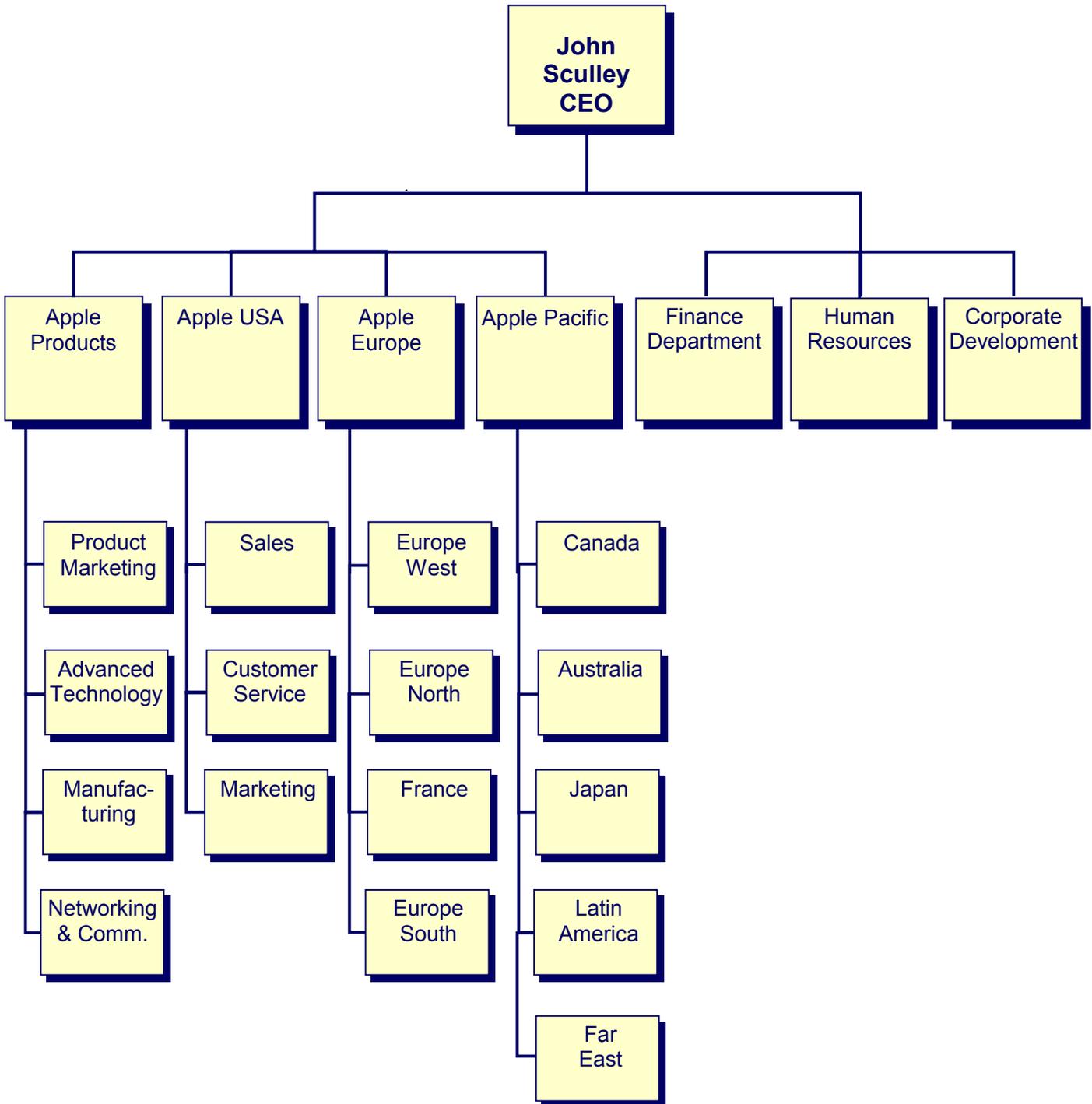


Exhibit 8
Organizational Chart
1989



Source: New York Times, Sunday February 26, 1989