



## Margin Notes

December 31, 1997

### **MacFixIt's Apple Year in Review: 1997 The Year in Perspective; the Year Ahead**

I doubt that anyone would claim that 1997 has been a good year for Apple. Apple continues with what is now a two year struggle to regain the profits and market share and reputation it once had. But amidst the gloom, there has also been much to cheer about.

**The good news** In 1997, Apple became a re-invigorated and re-focused company. It was almost exactly a year ago that Apple purchased NeXT and announced the return of Steve Jobs. Uncertainty about what all of this would mean was rampant. In the coming months, Apple announced its plan for Rhapsody as well as its plans for beefing up development of the Mac OS. For once, Apple delivered on both promises - and delivered on time! Mac OS 8.0 is out, and release of 8.1 is imminent. Developer releases of Rhapsody are also out. Even Rhapsody's Blue Box (Mac OS component) is now out in a developer release. The reaction to both OS's has been extremely positive. Mac OS 8 was one of the best selling software packages (Mac or PC) of the year.

This year also saw the release of great new hardware, especially the PowerBook 3400 series and the G3 Macs. And Apple finally consolidated its confusing array of hardware choices into a selection that makes more sense and is easier to comprehend.

Apple's new advertising campaign (Think Different) marked the first time in several years that Apple's ads had a noticeable impact (Time magazine listed it as one of the best ads of the year - although Entertainment Weekly called it one of the worst).

Apple pushed to generate increased sales with its enhanced presence in CompUSA and the arrival of its online Apple Store (which continues to break records for web site sales).

This was also the year that Steve Jobs made the cover of Time and Newsweek, when he gave his Macworld Expo speech announcing Apple's fence-mending with Bill Gates (although there has so far been scant positive fall-out from this).

**The bad news** If only I could add one more sentence to the "good news" section,

the story would be near perfect. That sentence would be: "Apple has returned to making a profit and its market share is increasing once again." Clearly, this is not the case. Apple now says that its elusive black ink will have to wait at least until March. Its market share continues to drop and is now down to less than 4%. Its stock, after an initial boost following the Jobs-Gates announcement, has slid back to near record lows. The search for a new CEO continues with no end in sight. And USR's Palm Pilot has become the success that Apple once hoped would belong to the Newton.

Outside of Apple itself, there is a slow but steady trickle of software manufacturers withdrawing their support of the Mac platform, saying it is no longer worth the effort (SPSS was one notable example). Corporations and universities continue to replace Macs with PCs (the Yale University "conversion" made particularly big news).

The Mac magazine market had a major shake-up with the merger of MacUser and Macworld into the new Macworld. Perhaps recognizing the "invasion" of Windows NT-based servers into Mac strongholds, the new Macworld just announced the "debut of Windows NT-interoperability coverage within Macworld." Even this may not be enough to stem the tide. Consider that a year ago, when Macworld was still slugging it out with MacUser for advertising dollars, Macworld's February issue was 278 pages. This year, with competition from MacUser gone, the February issue of Macworld has actually shrunk to only 194 pages.

Jim Carlton's book about Apple's corporate history, published a few months ago, reads like a textbook on how not to run a company.

And the general public's perception of Apple continues to be abysmally low. Too many people are avoiding Apple products simply because they fear Apple may go out of business at any moment (which only helps the prophecy to be self-fulfilling).

**The clones** Finally, there is the major Apple story of the year: the demise of the Mac clones. Say good-bye to Power Computing and the other clone makers. Say so-long to the promised CHRP machines that briefly appeared at Macworld Expo last August. The clone story is too complex to clearly fall into either the good news or the bad news category. But it is certainly sad news.

Apple says it needed to kill the clones in order to survive. It claimed that the clones were costing Apple money instead of making them money. Apple said it could not get the clone makers to agree to pay the higher fees needed for the relationship to work.

Many critics (including me) were skeptical of the validity of this explanation. But even if it is just as Apple stated, it remains a very ill omen for Apple's future.

By killing the clones, Apple undid what many considered to be one of the most positive developments in the Mac platform in several years. Consumers generally benefit from healthy competition - it spurs products to get better and cheaper. With the loss of the clones, this competition evaporated - and Mac users were the big

losers.

Apple also lost its credibility with clone manufacturers - which means that, if Apple should ever decide to reintroduce clones, it is likely to find no one willing to risk investing in them any more. Once burned, twice learned. The clones are likely gone for good.

We learned this year that Bill Gates sent Apple a memo back in 1985 offering to help license the Mac OS. If Apple had accepted, many people feel that the Mac might be where Windows is today. Regardless, one point that Bill made is that the Mac could never become a true standard as long as Apple is the only company that sells it. Many buyers (corporate buyers in particular) would always remain cautious about investing in a platform that was manufactured by only one company. Sustained success of the platform required licensing. I think Bill had it exactly right back then. And the logic still applies today. Apple may feel that killing the clones was a short-term necessity. But I feel that it is a long-term mistake - one that will continue to haunt Apple in the year ahead.

Finally, the year ends on an especially bitter note, with PowerTools suspending its clone business because, according to a lawsuit it just filed, "Apple and UMAX conspired to restrain PowerTools by removing the company's supply of parts."

**What will 1998 bring?** With the end-user release of Rhapsody, Mac OS 8.1 (with HFS+) and new high-end G3 hardware coming just around the corner, the Mac platform only promises to get better. After several years of ho-hum software and hardware, Apple is finally generating excitement about its products. For combining power with ease of use, the Mac is still the best computer you can buy - and likely to remain so.

But unless Apple's financial situation improves, and does so pretty quickly, it will not matter much how exciting and superior Apple's products may be.

I keep waiting for Apple to hit bottom and rebound; to turn the corner; or whatever metaphor you think best fits. The year 1998 is likely to be Apple's last chance to do so. Next year at this time, we will either be seeing a reborn Apple on its way back to at least a modicum of success and stability. Or we will be administering its last rites - at least for Apple as we now know it. It could still survive as a different, smaller company - a la Sun Microsystems, or it could merge with a larger company, but it would not be the same. I remain cautiously optimistic that the news a year from now will be more good than bad. But I will not be shocked if I am wrong.

Perhaps, as I head off to Macworld Expo next week, I will find some new signs there as to which direction events are headed. I will let you know.