# STEVE JOBS AND APPLE, INC.

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## CASE DESCRIPTION

*The primary issues in this case involve business startup and management, and are appropriate for entrepreneurship and management courses. A secondary issue demonstrates how personal drive and motivation are critical components of successfully managing and growing a business, thereby making this case appropriate for discussion on the topic of strategic management. The case chronicles the life and passion of entrepreneur, Steve Jobs – illustrating the rise, fall, and current state of the Apple Computer Company. The case has a difficulty level 2 and is designed to be covered within one (75 minute) class period. The required preparation time is about 2 hours. It is appropriate for small business, entrepreneurship, or management classes. The purpose of this case is to illustrate to students how individual passion, determination, and innovation is a critical element in business start up success and also to stimulate critical thinking in terms of future direction for a company in a struggling economy.*

## CASE SYNOPSIS

*The Apple Computer Company is arguably one of the most innovative technology companies to emerge in the last three decades. Apple, Inc. is responsible for bringing to market such products as the Macintosh computer and laptop, iPod and iTunes, and most recently, the iPhone. The success of the company can be traced primarily to a single individual - founder, Steven Jobs. Jobs and his friend, Steve Wozniak founded and built Apple into a 32 billion dollar company. The company enjoyed much success during the past decade with its stock price hitting a high of $200 in 2007. More recently, the stock has retreated to around $90 causing a massive decline in shareholder wealth. Today, Apple CEO Steve Jobs is faced with the challenge of resurrecting his once dominant company in light of weak economic conditions and sub-par personal health. The case chronicles the life of Steve Jobs, the rise of Apple, Inc. and his personal challenges as CEO of the company to continue to provide innovative products to a marketplace of technology avid consumers.*

## INTRODUCTION

In late 2008, amid the swirling news reports and rumors of his failing health, Steve Jobs, the co-founder, Chairman, and CEO of Apple, Inc. issued the following statement to his employees at

Apple's international corporate headquarters in Cupertino, California. *"We are in the worst economic environment since the Great Depression. However, we are determined to continue to make Apple the most innovative company in the world while increasing shareholder wealth. While hundreds of companies are firing employees, we have no intention of doing so. We will overcome this challenging economic environment and remain a strong innovative company. While others will decrease spending we will increase spending on R&D and come out way ahead of our competition in the long run."*

Jobs co-founded Apple Computer with Steve Wozniak in 1976. After founding Apple, Jobs was fired by the company's board of directors 10 years later at age 30. After his termination, he went on to create two more companies. During this period Apple went through three different CEOs and their stock price dropped to $2 a share. As a result, Jobs was invited back to join the company as CEO. Not only did Jobs rejuvenate Apple, but it flourished. Jobs led the company to the forefront with cutting edge products and their stock price grew to around $200 a share by 2007. However, in 2008 Apple's stock price had dropped to around $90 due to the recession around the world. Fortunately, Apple had an abundance of cash (approximately $9 billion) on hand with no debt. The company was one of the few companies, large or small, that was able to operate with virtually no debt.

After his speech, Jobs walked into his office and sat down. Based on current economic conditions around the world, he wondered what his next steps should be to increase shareholder's wealth. Apple never issued dividends and this policy worked well for them over the years. However, Jobs wondered what he should do next to increase the firm's profitability.

## STEVEN PAUL JOBS

Steven Paul Jobs was born on February 24, 1955, in San Francisco, California. Growing up in Mountainview, the heart of Silicon Valley, he exhibited behavior problems while in elementary school. During fourth grade, Job's teacher would bribe him with candy and money in order to curb his behavior. Reflecting back on these years, Jobs recounts that if such behavior continued, it would "absolutely have landed me in jail" (Leander, 2008). He found school to be so easy that he was able to skip 5th grade and move directly into Middle School. He found middle school chaotic and persuaded his parents to move to Los Altos in 1967 where he could attend the much nicer Cupertino Junior High School. This area (Los Altos, Cupertino, and Sunnyvale), was full of engineers and with this emerged many young startup companies (e.g., Hewlett-Packard).

Job's introduction to the world of electronics came during High School with the discovery of electronic hobby kits, Jobs realized that the electric world was not as complicated as it first seemed and that electronics was an interesting field. It quickly became his passion. He began attending lectures conducted by the Hewlett Packard Company (HP). This further fueled his appetite for the field and eventually he found summer employment at HP. It was here that he met future co-founder and co-adventurer Steve Wozniak.

Jobs graduated Homestead High in 1972 and eventually attended Reed College, a small regional liberal arts school in Portland, Oregon. He lasted a semester before dropping out. Though no longer enrolled, he still attended classes that interested him. Not having a place of his own, he frequently slept at the home of friends. Collecting and recycling cans provided him with money and free meals were obtained by walking across town to the Hare Krishna temple.

Jobs eventually returned home and got a technician job at the Atari Company, which paid him a mere $5 hourly wage. He was viewed by his fellow workers as arrogant and this caused problems with several employees. As a result, he was scheduled to work the night shift when there were fewer people. This enabled him to sneak his friend, Steve Wozniak into the building so that they could play favorite video games. In exchange for this kind gesture, Wozniak assisted Jobs with the technical side of his job. Unbeknownst to either of them, this was the beginning of a partnership that would form the beginnings of Apple Computer Company.

## STEVE WOZNIAK AND STEVE JOBS

Steve Wozniak's passion for electronics stemmed from his father's career as an engineer at Lockheed Martin (Wozniak, 2006). Wozniak formally studied electrical engineering at the University of Colorado at Boulder and De Anza College near his hometown in the bay area of California. Ironically however, he did not earn a degree from either college. Instead, he withdrew from college and began building computers with a friend. To help fund his interest in building computers, Wozniak learned how to construct a "blue box" from an article he read in *Esquire Magazine*. Blue boxes were handheld devices used to make free, illegal phone calls. Steve Jobs contributed to this partnership by providing the component parts. These parts cost Jobs $40 and the blue boxes were mainly sold to students in dorms and door-to-door for $150. Jobs and Wozniak shared the profits from the sale of the blue boxes. Though this venture was profitable, they ceased operations for fear of a police crackdown.

Around this same time, Atari had been gaining popularity through the sales of their video games and was looking to advance their success even further. Jobs, who was still working for the company, was approached by Atari founder, Nolan Kay Bushnell. Bushnell invited Jobs to develop the circuitry that would transform the popular game, Pong into something more innovative. Jobs was given four days to create this new game called Breakout. Knowing that this project was beyond his capabilities, he contacted his friend, Steve Wozniak to help him accomplish the task. Wozniak was excited to take on the challenge. Four days was not a lot of time to accomplish what needed to be done given that Wozniak was now working full time at HP. To accomplish the task, Wozniak worked at HP during the day and then worked with Jobs during the evenings and nights. In four days time, they accomplished what they sat out to do. They were both very proud of their work. They created a viable game that took a high level of technical skill and did it under relatively intense time pressure. The two split the $700 compensation paid by Atari, however to Wozniak the real compensation was the sense of accomplishment and excitement realized by completing the task. Looking back on this experience Wozniak claims, *"I would have done it for a quarter*" (Linzmayer, 2004).

After the success of creating the Breakout circuitry, Wozniak and Jobs began to attend meetings of the Homebrew Computer Club together. The club consisted of other electronics enthusiasts. The meetings consisted of members presenting news of new innovations in the electronics world and discussed updates of the progressions made by members in creating their own computers. During one of these meetings Wozniak presented an apparent working model of a computer that could be viewed on a television set, as opposed to a costly monitor. Immediately, Jobs had a vision and plan for this innovation which was to sell the blue prints to a company that would manufacture the computer.

The two decided to pitch the idea to their employers at HP and Atari. Both companies were impressed, but neither had the desire to take on the project. Jobs' business-savvy took over as he persuaded Wozniak that this creation was good enough that they should try to produce and market the computer on their own. The main problem was that they lacked the capital to get the operation started. Both made sacrifices. Jobs provided $1500 by selling his Volkswagen van and Wozniak contributed $250 by selling his HP financial calculator. While driving along a strip of highway the two began to discuss what they would call their new company. Jobs, who still owned part of a 220 acre, farm in Oregon, said, *"We should call the company Apple Computer."*(Young & Simon, 2005).

## APPLE COMPUTER

Apple Computer was incorporated in 1977 and went public in 1980. The atmosphere and the excitement surrounding the public offering were immense as it turned out to be the largest public offering in the last 24 years. Jobs' share of the company was worth about $82 million at the stock's lowest point in 1982 and far surpassed this as the stock price rose throughout the life of the company.

Jobs was more than just an aggressive businessman. His approach to marketing was intellectual and methodical. This approach was exemplified by the details that went into packaging of the original Macintosh (Mac) Personal Computer (PC). He gave the final approval on all software that ran on the machines and provided much input on how television ads were presented and the message that they were meant to convey.

Jobs' attention to detail, confidence, and controlling personality were his strongest assets although some also felt these characteristics were his biggest flaws). His propensity to dictate decisions and manipulate people was noticed by other executives of the company. This persona and mentality led to occasional differences of opinion and ironically, eventually led to a divorce from the company he co-founded.

Job's had an erratic temper due to his drive for perfection. According to some, the inventor and innovator was a "control freak, egomaniac, and fearsome tyrant" (Deutschman, 2000). Others described him as transforming from a charismatic leader to an ego-maniac and tyrant with a "wicked tongue" (Kahney, 2008). In addition, Jobs thought of most people as "bozos" (which ironically led to the user-friendliness of Apple's products). All of this fueled Apple's Board of Directors decision to ask Jobs to resign from the company. Jobs was essentially forced out due to a clash of egos and a dispute about the power structure of the company between himself and CEO John Sculley. Steve Wozniak also chose to leave the company citing reasons that he felt that his efforts were being wasted in favor of new directions that upper management wanted the company to pursue.

## LIFE AFTER APPLE

Jobs did not leave without a plan. He founded a new computer company to compete with Apple. The NeXT Company, marketed computer systems to schools and other teaching organizations. He began by touring campuses across the country and surveying school stakeholders to understand their needs. Jobs inquired about the pros and cons of currently used computers and learned what the ideal computer should offer to create efficiency and harmony among its users. Five key employees from Apple joined Jobs in his new venture. Apple threatened a lawsuit against Jobs for stealing employees but it was eventually settled out of court.

However, through eight years of its existence the company was only able to sell 50,000 computers. NeXT was relegated to downsizing and was solely involved in distribution of its software packages.

In 1986, Jobs bought the majority share of a puttering computer graphics company, called Pixar, for $10 million from George Lucas. Lucas, the famed creator of the *Star Wars* movies, was looking to sell of some of his assets to fund his divorce. Jobs saw a lot of promise in Pixar. At the time Pixar specialized in systems that enabled and enhanced computer graphic imaging. One of their strategies for marketing the systems was creating short movies featuring computer animation capabilities. The short films became popular in the industry and at least one of the short films won an Academy award for Best Animated Short Film in 1988 (*Tin Toy*). Though the short animations received attention and recognition, the company still had trouble selling their systems. So, in 1988 Jobs and Pixar decided to focus on developing imaging software capabilities and market them to companies to produce animated commercials (Tropicana, Life Savers and Listerine were some of the first brands to contract Pixar to produce commercials).

Pixar's big break came after approaching Disney to distribute an hour long animated film written and created by Pixar. Disney surprisingly responded with an offer for Pixar to create a screenplay for a feature length film. Disney put up a modest budget and retained most interests in the revenue earned through a three-film deal. After the release and success of *Toy Story*, Jobs took the company public and offered 6.9 million shares at its IPO. This move provided the bargaining power for Jobs to negotiate a bigger piece of the profits from Disney. In exchange for Pixar's co-financing of additional movies, Disney agreed to a new five film agreement which gave Pixar a much bigger share of revenues. Such titles such as *Toy Story* (I & II), *A Bug's Life*, *Cars*, and *The*

*Incredibles* highlight the impressive resume of Pixar Animation Studios under Jobs' leadership. *Toy Story* alone brought in $358 million in worldwide theatre revenue (Linzmayer 2004).

People in the industry knew that the deal was made possible because of the charisma, confidence and negotiating talents of Jobs. Pixar executive Ed Catmull said *"It took somebody of Job's stature to get us a parity deal with Disney"* (Linzmayer, 2004). Former Pixar Marketing Director Pamela Kerwin said *"He had the brains, energy, and chutzpah to protect Pixar's interest. He enabled us to negotiate as equals*" (Linzmayer, 2004). Jobs investment and financing of Pixar was rewarded handsomely. Through his investment he was awarded 30 million shares of Pixar worth around $1 billion.

## JOBS RETURN TO APPLE

Although Jobs had left Apple years ago and had no official title or duties he still retained substantial amounts of stock in the company and served as part time advisor. Since his departure in 1985, there were three permanent CEOs and the stock price reached a low of $2. Subsequently, all of those CEOs were forced to resign. By 1997 and desperate for a new leader that could revitalize Apple, the board of directors approached Jobs with an offer to rejoin the company as their CEO. Reluctantly, he decided to take on some temporary leadership roles while a search for a new CEO was conducted. The position eventually became more permanent.

To bring fresh ideas and perspectives, Jobs immediately replaced almost all the board members with hand-picked people. He then embarked on entering into an agreement with arch rival Microsoft. This involved a commitment by Microsoft to produce Microsoft Office and Internet Explorer versions that were compatible with Apple's Mac. Also as part of the agreement Apple agreed to create its Mac OS with Internet Explorer as its default browser. This was seen as taboo by many Apple loyalists, however Job's view was - "If you can't beat them, join them." To this point Microsoft had outsold, outperformed and outmaneuvered Apple at almost every stage of the recent PC movement. Instead of an obstacle, he viewed Microsoft as an opportunity.

Another strategic move initiated by Jobs was the "store within a store" concept. Apple partnered with CompUSA to create an entire department in each of Comp USA's 148 stores that offered only Apple products. Upon the opening of these "stores" the new Apple Power Mac computer line was offered. These computers contained new G3 processors created by IBM and Motorola. Next, the new Apple Store were introduced an online market place where customers could customize and purchase Apple computer systems. Both of these new initiatives were immediately successful. Since the implementation of the agreement with CompUSA, Mac sales at CompUSA stores had more than quadrupled and sales from the Apple stores topped $12 million within the first 30 days of its existence.

In an effort to reduce costs, Jobs decided to outsource manufacturing of some of the component parts used in making their hardware. In addition, in an effort to reconfigure the product distribution strategy, Apple expanded the number of outlets that it sold its computers and accessories. This move provided Apple more exposure to a larger audience. In the years to come, Apple enjoyed success with innovative products including the iMAC, iPod, and iPhone.

## iMAC, iPOD, and iPhone

One of the most popular releases by Apple after Jobs took over was the iMac Personal Computer (Kahney, 2004). It introduced a stylish design that caught consumers' attention and was difficult for stores to keep in stock. This innovative product combined the tower within the monitor. The system was not only attractive (available in a variety of colors), but it was known for its high level of performance at a competitive price (Linzmayer, 2004). Despite the success of iMac, Jobs knew that Apple could not become complacent. Apple continued to update and introduce improvements to this computer line and began offering new versions of their lap tops. After just one year of Job's return to Apple, the company announced a profit of $106 million - a vast improvement compared to the $1.6 billion in losses suffered over the previous 17 months (Kahney, 2004).

Although Apple flourished in the next few years under the leadership of Jobs, they lagged in the emerging MP3 market. They entered this market in 2001 with their own brand of music purchasing. Apple's iTunes was the first to introduce an online store for selling music downloads and quickly gained market share as consumers quickly took to this new and innovative way of obtaining music (Boddie, 2005). For as little as 99 cents per song, consumers could choose music from the major record labels and thousands of independent ones (Yoffie and Slind, 2008). To further enhance its popularity, Apple created its own Mac line of computers with CD burning capabilities. This laid the ground work for Apple's introduction of the iPod - one of the most popular and adapted products worldwide.

The iPod was released to compete with traditional MP3 players. The major advantages over MP3 players were its compact size, large storage capacity, and speed of uploading music. The original iPod was sleek and small, weighing only 6 ½ ounces. It had the ability to hold up to a thousand songs in its huge five gigabyte hard drive and could load one thousand songs in as little as ten minutes. Its battery could hold a charge for up to 10 hours and it simply integrated with its popular iTunes online store.

The original iPod was compatible only with Apple systems and software, but in 2002 the decision was made to release a version that also worked with the Windows operating system. This decision increased iPod sales worldwide. Within the first nine months of its release over one million units had been sold and through 2007, this number has since increased to 100 million. Industry prognosticators predict that by the end of 2009, an additional 200 million units will have been sold. Given these projections, Apple's iPod could is on track to become the largest selling consumer electronic product of all time (Mark and Crossan, 2005).

In 2007 Apple joined with AT&T and introduced the iPhone. The iPhone was marketed as the most sophisticated "smart phone". The iPhone had built in iPod music playing capabilities, a 3.5 inch high quality interactive touch screen, a 2 mega-pixel camera, GPS capability, and access to the Internet. Alliances with Yahoo!, You Tube and Google also enabled the phone to provide customized services and video enabled capabilities. Owners of the phone could choose between using AT&T's own web network or any other publicly offered internet access (e.g., web "hot spots"). Originally a 16 gigabyte iPhone sold for $499 and a smaller 8 gigabyte model was offered for $399. Despite the initial price, sales of the iPhone far exceeded predictions. Apple sold 270,000 iPhones in the first 30 hours of its U.S. debut. The iPhone was a big hit! Through its introduction, Jobs was able to negotiate very favorable agreements between Apple and AT&T. Branding, pricing and development of the iPhone were almost exclusively under the control of Apple. Also included in the partnership was a profit sharing agreement that gave Apple 10% of the revenue from iPhone internet subscriptions. Such an agreement was ground breaking in the cellular industry.

The introduction of the iPhone was not without its challenges. One problem was that AT&T's edge network was relatively slow. Another issue was that the iPhone came equipped with a battery that was not replaceable and users were not able to increase the memory capacity. In response to customer unhappiness Apple released a new version in 2008 that ran on a faster 3G network, however the short battery life and storage capacity issues still remained unresolved. The iPhone shortcomings have allowed competitors to gain some ground in the smart phone industry. For example, Japan's cellular phone market already is inundated with high performance smart phones that rival the iPhone. Though the iPhone continued to be a huge success, competitors were beginning to catch up. To maintain and grow their share, Apple must continue to be an innovator in the smart phone industry.

## THE KEYS TO JOB'S SUCCESS AND FUTURE CHALLENGES

According to Steve Jobs, the reason why his companies have become so successful is because they hire the very best people in the world to work for them (Morrow, 1995). While this strategy is definitely a huge part of the success of Jobs and Apple, it definitely is not the only reason. Jobs, from a very young age, had a tireless work ethic, particularly toward his passion, electrical engineering. His work ethic was the motivation that led him to learn about the advanced technical knowledge of the computers that Apple has been building for decades. Jobs' vision to see the potential in the opportunities allowed him to take full advantage of these ventures. Jobs envisioned a revolutionary process to bring together the world of computers and the need of consumers. His innate ability to understand human behavior helped him to predict what people desired even before they knew it themselves. His business savvy, negotiation skills, and propensity to take risks enabled him to transform technology into companies that flourished.

Steve Jobs has undoubtedly brought success and riches to Apple and Apple's shareholders. This past decade has catapulted Apple to the position of being able to compete and possibly overtake perennial industry leader Microsoft. Company revenues have seen annual revenue increases progressively since 2003 (see Exhibit 1). The recent economic downturn has hurt Apple. The stock price has been on a steady decline. From August of 2008 to March 2009 Apple's stock price went from trading around $200 to trading around $90 (www.apple.com). In 2008 many industries, along with the U.S. economy as a whole, experienced unprecedented declines. Record high unemployment rates, and near collapses of the housing and automobile industries contributed to the current recession. Consumer confidence dwindled and as a result retail sales dipped steeply throughout the year. Job's challenge now is how to once again increase shareholder wealth for the company.

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| Exhibit 1: Apple, Inc. Financials Fiscal Year Ended Sep. 30, 2008 | | | | | | |
|---|---|---|---|---|---|---|
| | 9/30/08 | 9/30/07 | 9/30/06 | 9/30/05 | 9/30/04 | 9/30/03 |
| Income Statement Analysis (Million $) | | | | | | |
| Revenue | 32,479 | 24,006 | 19,315 | 13,931 | 8,279 | 6,207 |
| Operating Income | 6,748 | 4,726 | 2,645 | 1,829 | 499 | 138 |
| Depreciation | 473 | 317 | 225 | 179 | 150 | 113 |
| Interest Expense | Nil | Nil | Nil | Nil | 3.00 | 8.00 |
| Pretax Income | 6,895 | 5,008 | 2,818 | 1,815 | 383 | 92.0 |
| Effective Tax Rate | 29.9% | 30.2% | 29.4% | 26.4% | 27.9% | 26.1% |
| Net Income | 4,834 | 3,496 | 1,989 | 1,335 | 276 | 68.0 |
| S&P Core Earnings | 4,834 | 3,496 | 1,989 | 1,259 | 164 | -119 |
| | | | | | | |
| Balance Sheet & Other Financial Data (Millions $) | | | | | | |
| Cash | 24,490 | 9,352 | 6,392 | 3,491 | 2,969 | 3,396 |
| Current Assets | 34,690 | 21,956 | 14,509 | 10,300 | 7,055 | 5,887 |
| Total Assets | 39,572 | 25,347 | 17,205 | 11,551 | 8,050 | 6,815 |
| Current Liabilities | 14,092 | 9,299 | 6,471 | 3,484 | 2,680 | 2,357 |
| Long Term Debt | Nil | Nil | Nil | Nil | Nil | Nil |
| Common Equity | 21,030 | 14,532 | 9,984 | 7,466 | 5,076 | 4,223 |
| Total Capital | 21,705 | 15,151 | 10,365 | 7,466 | 5,076 | 4,223 |
| Capital Expenditures | 1,091 | 735 | 657 | 260 | 176 | 164 |
| Cash Flow | 5,307 | 3,813 | 2,214 | 1,514 | 426 | 181 |
| Current Ratio | 2.5 | 2.4 | 2.2 | 3.0 | 2.6 | 2.5 |
| % Long Term Debt of Capitalization | Nil | Nil | Nil | Nil | Nil | Nil |
| % Net Income of Revenue | 14.9 | 14.6 | 10.3 | 9.6 | 3.3 | 1.1 |
| % Return on Assets | 14.9 | 16.4 | 13.9 | 13.6 | 3.7 | 1.0 |
| % Return on Equity | 27.2 | 28.5 | 22.8 | 21.3 | 5.9 | 1.6 |
| *Per Share Data, Income Statement Analysis, and Balance Sheet & Other Financial Date attained from https://research.scottrade.com/research/common/pdf.asp?sym=AAPL&reportType=SNPReport | | | | | | |

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