

THE PUBLISHER'S VIEW

Can Apple Adapt to the PC Business Model?

Competition Could Be Apple's Savior or Its Downfall

With the shipment of the first Macintosh clones from Power Computing this month, Apple is entering an exciting and dangerous new phase. Creating a multivendor Macintosh market is essential for Apple to reverse the Mac's declining mindshare among software developers and PC buyers, but it is also fraught with peril.

Unlike x86 PC vendors, Apple writes its own system software and also designs and builds the hardware on which it will run. This has some great benefits: it has enabled Apple to provide consistently superior ease-of-use, establish a full-featured base platform (including SCSI, audio, and networking in every system, for example), and shift its entire design base to new technologies (such as from 68K to PowerPC, and from NuBus to PCI).

Despite the advantages afforded Apple by its vertical integration, its proprietary approach crippled its success and led to the overwhelming dominance of Windows-based x86 PCs. It is too late for Apple to have the impact that once would have been possible, but the end of its proprietary business model should enable the Macintosh to begin slowly gaining market share.

The new, non-Apple Mac vendors will operate using the PC business model, freeing Mac software from the bonds of Apple's hardware strategy. Makers of Mac-compatible systems will pay an OS license fee to Apple, which Apple has said will be competitive with Microsoft's Windows fees. By the end of 1996, the multivendor Mac market could approach the economics of the PC business. Macs will use PC-compatible power supplies, monitors, and disk drives, and there probably will be multiple suppliers even for Mac-specific chips.

The price of entering the new world is that Apple must give up its ability to dictatorially establish Mac configurations and pricing. The new environment will lead to a sharp lowering of Apple's gross margins, since it will have to compete with leaner hardware vendors that aren't burdened by OS or chip-set development costs. Furthermore, Apple's software licensing revenues will be a small fraction of Microsoft's, so hardware profits still will need to subsidize OS development.

The big question for Apple is whether the Mac licensees will expand the market or merely divide it. If the net result of the licensing effort is that Apple loses some of its customers and is forced to slash its profit margin without significantly expanding the Mac market, the effect is likely to be catastrophic.

Apple's intent, of course, is to expand the market, at least modestly; Apple has talked about non-Apple ven-

dors making up about 25% of the Mac market in two years. Having Power Computing as a direct-mail supplier is a good start, but licensees with name recognition and established sales channels are needed to achieve this growth. The big win for Apple would be for IBM to produce Power Macs and to recommend the Mac OS as the best personal productivity solution, but the company's OS/2 obsession makes this shift unlikely.

The Mac standard will make significant gains in the next 18 months. The forthcoming 604-based Power Macs will boost performance, not only with faster CPUs but also with a more advanced, PCI-based system architecture. In 1996, Copland—the next major release of the Mac OS—should put the Mac in a strong position, once again, relative to Windows, and the common hardware reference platform (*see 081602.PDF*) will enable system makers to build a single PowerPC system to run Mac, Windows NT, OS/2, or Unix software.

Apple's mainstream systems reportedly will remain 601-based this year, however, and they aren't likely to provide business users with a significant performance advantage over Pentium PCs. PowerPC has enabled the Mac platform to keep up with Windows PC performance, but it hasn't provided the kind of performance leadership Apple hoped for. Thus, the battle remains one of Mac vs. Windows, with performance as a minor issue.

Apple has the opportunity to combine its superior platform design, which was made possible by the total hardware and software control its original business model offered, with the economies of a competitive environment. Because of the tardiness of Apple's shift in strategy, however, it now faces a more powerful, better-orchestrated challenge from the Intel/Microsoft duopoly than it would have faced just two years ago.

Apple needs to quickly learn how to drive an open standard, which requires a very different way of thinking than Apple's past approach. Apple's recent reorganization is a good sign that the company recognizes this need. The departure of Ian Diery, a staunch opponent of licensing, and the elevation of David Nagel and Dan Eilers, who both have long backed licensing, show that real changes are taking place. Apple has one last shot at saving itself from being confined to a shrinking niche, and its success will depend on how well it executes on Copland and whether it can sign some big-name licensees. ♦

