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DECEMBER 7, 2004

SPECIAL REPORT: THE RUSH TO CONSUMER ELECTRONICS

Could Apple Blow Its iPod Lead?

Rivals are stalking its consumer-electronics star, and history shows its strategy still has old weaknesses. But catching Jobs & Co. won't be easy

Apple Computer's ([AAPL](#)) trendy, minimalist stores are jam-packed this holiday season as iPods seem to be on everyone's wish list. But shoppers aren't the only ones buying. Wall Street analysts' price targets for Apple's stock are soaring as high as \$77 to \$100. As of Dec. 6, the stock was trading at around \$64. This is the same Apple that opened the year at \$21.28. And it's all because of one cool little music player.

While Apple is cruising along, other computer outfits are frantically trying to crack the consumer-electronics nut. Dell ([DELL](#)), Hewlett-Packard ([HPQ](#)) and, yes, even Gateway ([GTW](#)) are all pushing new products to take advantage of the much-hyped information technology and consumer-electronic convergence. The idea is that one day soon, Internet capability from the study at home will merge with all the movies, music, pictures, and entertainment elsewhere in the house, resulting in one big, shared digital database. And everyone wants to be right in the middle of it.

TRULY INTEGRATED. In the must-have department, Apple's iPod is the only clear winner in this computer-to-electronics migration. Sure, Dell and HP have bested Apple at a game it dominated before, the PC market. But the iPod's success might have them thinking: "What's Apple's secret sauce, and can we steal the recipe?"

Analysts agree a mix of ingredients has clicked for Apple. Some of those might spice things up for Dell or HP, but most are pretty unique to Apple -- at least for now.

For starters, Apple's music products are truly integrated -- the outfit makes the hardware and the iTunes service and software. Other hardware makers are relying on Microsoft ([MSFT](#)) and other third parties for software and service, so they can't control the whole customer experience.

VALUABLE INNOVATION. That's one advantage that the Dells and HPs of the world aren't likely to be able to match. "It's hard for a bunch of partners to put together something as smooth as that," says Roger Kay, technology analyst at IDC, a market research firm in Framingham, Mass.

Also, the folks at One Infinite Loop were innovative. They looked at the sleepy market for digital music players, where existing players could hold a CD or two of songs at most, and made a device that could hold at least 1,000 tunes. While the music industry and the rest of tech were bickering over copyright issues, Apple took digital music mainstream.

The outfit is big enough to effectively market a consumer product, but small enough that one product can really shift the needle on sales, making gutsy, innovative moves worthwhile, analysts say. Dell, on the other hand, typically waits for a market to be proven, then comes in with the cheap, skillful execution. "They don't want to develop the market," says Stephen Baker, director of industry analysis at the research concern NPD Group. "They want to wait until the volumes are there, then come after you."

PAST MISTAKES. Apple's intrinsic cool factor can't be underestimated either. Being cool isn't exactly something you can plan, but Apple has backed it up with its unique designs, marketing savvy, and cult figure Steve Jobs as CEO. And it has put almost all of that muscle behind the iPod and the iTunes music service, downplaying its languishing computer business -- a tact that most analysts agree has paid off. Apple can also afford to advertise and build lush stores because as a seller of premium products, it isn't in a price war.

Sound familiar? It should. Apple had all this going for it in the heyday of its PC business. Then it lost the bulk of that market to systems based on Microsoft's Windows software. Today, Apple has just 2% share of a business it once dominated.

Jobs & Co.'s reluctance to partner, create a more affordable PC, and generally be more Dell-like -- a pattern the outfit seems to be repeating in the digital music business -- are the reasons most industry folks say it lost to Windows. So don't declare Apple the winner quite yet in digital music. The other guys have plenty of time to catch up on quality and undercut Apple on price. After all, it has happened before.

COPYING SUCCESS. Competitors already are stealing some plays from the Apple playbook. Most have to do with branding.

For a long time, Apple's ads have done something that those by Intel ([INTC](#)), Microsoft, Dell, and HP haven't, according to Rob Enderle, principal analyst at the Enderle Group in San Jose: They show customers having fun with the product. "It's a basic marketing skill, and it drives me nuts that the others don't get it," he says.

HP is starting to. It's reselling Apple's iPod rather than competing head on, co-opting even the ubiquitous commercials of black silhouettes dancing with white players. In the most recent quarter, HP announced it had already rocketed to No. 2 among digital music players as a result.

Beyond that, HP has been trying to boost the cool quotient of its cameras and photo-printing products with a series of stylish commercials featuring young attractive hipsters and rock music. That's important, since people view their cameras as something more personal than your average computer peripheral, Baker says.

"HP is the one [company] that seems to get it if you want to be successful, copying Apple isn't a bad way to go," notes Enderle. If it works, expect HP to start similarly branding its other consumer products, such as a new home theater that's generating buzz among analysts.

FAMILIAR MOVES. Dell is often regarded as the least Apple-like. While it regularly advertises its PCs and servers, its new line of consumer devices has enjoyed little marketing. And unlike Apple, which built a chain of splashy stores to display its wares, Dell is committed to kiosks and direct sales online that have made it the computer industry's king of cost efficiency.

That said, Dell has pulled one very Apple-ish move. According to Enderle, it now outspends Apple in product placement in movies and on TV, even reversing its icon on the front of its laptop so that it's displayed right side up when the device is open.

While Dell and HP are undoubtedly powerhouses, Gateway can't be counted out. Several months ago, it pulled out of some consumer-electronics lines like digital cameras. But it still sells flat-panel TVs and in late October started pushing a new digital music player, a product that has been getting good reviews. And although Apple recently launched a larger iPod with a color screen, Gateway actually has something Apple doesn't yet -- a mini-player with a color screen. And with its highly recognizable cow-patterned boxes, Gateway still has a strong, recognizable brand.

PIECEMEAL TACTICS. If any of the three companies mimicked Apple's strategy beyond marketing, it would be a departure from the fundamental ways they do business -- and from what has made them successful in PCs. Most likely, they'll partner and connect digital music technology in a piecemeal fashion.

That may not be such a bad thing. Don't forget, Jobs & Co.'s way hasn't always won out. Apple skeptics are likely whispering to each other, "Just wait."

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