

# CONFIDENTIAL

## Apple's Identity, Goals, and Corporate Strategy

Written by John Sculley, Chairman & CEO

*Apple specific material developed by Apple Executive Staff facilitated by Professor Steven Wheelwright.*

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### Towards shared values...

We are all part of the journey to create an extraordinary corporation. The things we intend to do in the years ahead have never been done before by any other company on such a large scale. Many of us believe that Apple is poised to take off and the purpose of this document is to give everyone at Apple as clear a vision as we can as to where we are going. We expect the world ahead to be filled with changes but we need the stability of a clear corporate identity and a set of directional goals to give us a framework against which to judge how well we are doing. Our identity and directional goals also provide the foundation for establishing a shared set of values which we hope Apple people will also feel very good about.

#### Apple's Identity:

Apple's identity can be described using three important ideas. The first relates to what Apple does, the second to why it seeks to do that, and the third to how it goes about accomplishing it. First, with regards to "what":

#### **I. We create great personal computer products.**

One person, one computer is still our dream. Apple is an applied technology company. The purpose is to bring high-technology to individuals by making the power and control readily accessible to the individual. Apple creates products that people really want to use and enhances their knowledge and ability. These can be thought of as tools which empower people and whose elegance is brought about through simplicity.

With regards to "why" Apple wants to do this:

#### **II. We have a passion for changing the world.**

Apple wants to make personal computers a way of life in work, education, and the home. Apple wants to be a catalyst for change by improving the way people think, work, organize, communicate, and learn. There is a commitment to action and to changing the way things are done in the world.

The third aspect of Apple's identity is the "how":

### **III. We build an exciting environment.**

At Apple there is an opportunity to do and to be your best and to make a difference. In addition to being a fun, exciting and rewarding environment, it's one where there's an openness and a shared vision. Learning and growth are the norm, not the exception. However, it's discipline that sets us free, and we recognize both individual and team contributions.

### **Apple people are paradigm shifters...**

We offer the world alternative viewpoints on critical issues of productivity and learning.

The traditional perspective on productivity focuses on institutions. It systemizes work flow using large scale data processing technology. Productivity is expected to increase by giving institutions the means to do complex work faster. Apple's alternative viewpoint on productivity focuses on people. We are a company that wants to be a catalyst in the process of discovering new ways for people to do things. We believe that increased productivity will result as people invent better ways of working with the enabling tools of better personal computer systems.

The traditional viewpoint on education focuses on institutions as the primary place of learning. Education is seen as a structured rule-bound process. The goal has been to prepare students for a life in the industrial economy. Apple's viewpoint on education is different. We see learning as a growing lifetime experience. Learning should be an interesting interactive process unbounded by rules and open to experimentation. We are interested in enabling people to turn information into knowledge and to prepare them for the information economy.

### **Apple Directional Goals:**

We have established six key directional goals which will be important in strengthening Apple's identity in the years ahead.

#### **1. Independence**

We believe we can best achieve our identity if we have the freedom of being an independent company. We are therefore not interested in acquisitions or mergers on only their financial merits. Innovation will be required across every area of our company and we must have the uncompromised commitment to take risks and try new things. This is hard to do if we were to become part of a different culture with a different identity and set of values.

## **2. High Market Capitalization**

Market capitalization is the total value of a company as determined by the marketplace. It summarizes investor's assessment as to profitability, technology, growth, assets, management and competitive position. In today's era of takeovers, a high market capitalization is one of the few ways we have of protecting our independence.

## **3. Superior Customer Value**

We want to set an expectation for customer satisfaction that is vastly different and better than any of our competitors. Apple's way starts with a passion to create awesome products with a lot of distinctive value built in. Then we must learn to do new kinds of things in the future which will keep users satisfied after they have bought our products (e.g. ease of use, reliability, installation and service, etc...).

## **4. Exceptional Growth**

We want Apple to consistently grow faster than the rest of the industry. To accomplish this we must make real strides in improving the functionality of our personal computer systems. We see ourselves in the role of creating phenomenal enabling tools which will stimulate people to learn new and better ways of doing things. We believe that meaningful differences, not better sameness will be what drives our long term growth.

## **5. 21st Century Model Company**

In the second wave of management, large size was considered a strategic advantage. We believe that in the future, diversity and flexibility will be more important than corporate size in determining the winning companies.

We have a passion to make quality a building block in every area of our company.

We believe that outstanding individuals if given the charter, resources and right environment can personally make a difference in the success of our enterprise.

In the process of pursuing Apple's identity and directional goals we believe we will pioneer many exciting new ways of doing things which may be adopted by the best companies in the 21st century. We are excited by the prospect of learning and experimenting with new ideas.

## **6. Dynamic Global Company**

**We have a passion to change the world, not just the USA. The parameters of the world's economy have shifted and we expect Apple to be leading the way as a powerful innovator for the future.**

### **Let the journey be the guide...**

**We have chosen directions for Apple that will lead us to wonderful ideas we haven't as yet dreamed. Yet, how successful we are in making progress towards our directional goals will be the evidence of how well we are doing towards living up to the vision of our corporate identity. In other words, our directional goals are consistent with our identity yet do not set limits on our creativity.**

#### **What is Corporate Strategy?**

**Identity and Directional Goals should be stable over time. Corporate Strategy on the other hand needs to be flexible enough to match the changing nature of our industry. There are three important criteria for our Corporate Strategy:**

- Should be consistent and supportive of corporate identity and directional goals.**
- Should define which businesses (e.g. products and markets) we want to be in.**
- Should establish a framework for acquiring and allocating resources.**

**Business Strategy is different from corporate strategy. Its criteria is:**

- To establish the specific boundaries of the products and markets.**
- To define the various sustainable competitive advantages which will provide the basis for our market position, revenue growth and profit growth.**

#### **Apple's Corporate Strategy:**

**Our overall corporate strategy is to use innovation to create growth by enabling people to create new ways of doing things. Innovation will be the basis of the meaningful differences which we believe should be sustainable over the long term.**

**We will apply our commitment to innovation in three areas of opportunity: the core markets where we have been, the new markets we choose to enter because our meaningful differences are important and the new markets which we can create with the new products we can invent.**

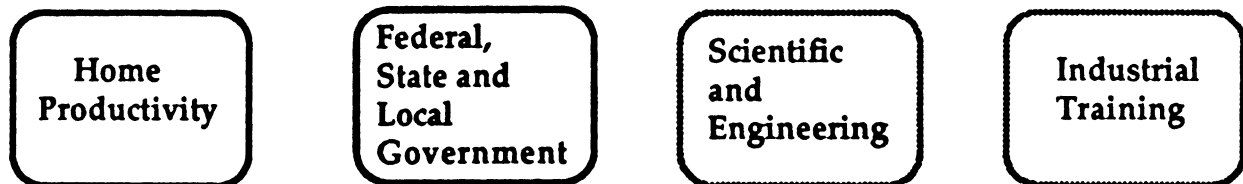
## Corporate Strategy #1 Core Market Development



(A) **Core Markets:** We will create new innovative solutions and expand our market coverage. We intend to strengthen our position in Apple's three existing learning markets: **K-12 education, higher education and home education.** Home education is a natural extension of K-12 education and allows us to leverage the added value of our institutional position thereby avoiding the commodity end of the home. Enthusiasts share our dream and are part of our roots. We want to maintain a strong link to these loyal supporters.

Desktop Publishing and Macintosh Plus productivity solutions have given us entry points into the **business market.** We now want to expand this beachhead with a broad family of products and new innovative solutions which are capable of connecting and co-existing with other computers in the installed base of business. New selling concepts such as systems integrators, large VAR's and/or Apple Centres should be tried.

## Corporate Strategy #2 Market Driven Growth



B) Our second corporate strategy is to expand into new markets where Apple can strongly influence growth by matching market needs with the meaningful differences of our product offering. We see this as a **market-driven strategy.** The expansion into markets that are relatively new to Apple such as **federal, state and local government** is an example of matching the needs of a market which we have not aggressively pursued in the past with the strengths of our unique added value ( e.g. electronic publishing, training and reliability). The credibility and critical mass of our business product systems are also well matched for government needs with only minor modifications required.

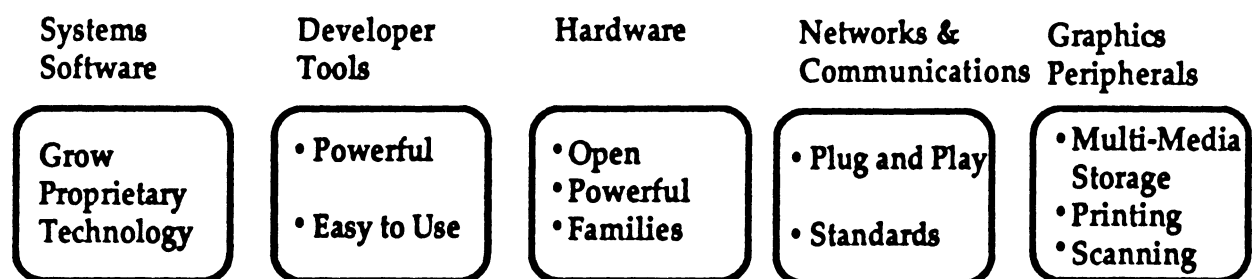
We are only interested in selling our personal computers into homes where the meaningful differences of our products will be appreciated and we are able to compete on value rather than price alone. The growing functionality of our low end business products are well suited to **home productivity** solutions as well.

The product systems we are creating for higher education and high end business offer us an excellent entry point opportunity into the **engineering and scientific markets**. The main issues here are selling and channel support implementation which may require entirely new reseller and direct sales concepts than we have utilized in the past.

Exploring opportunities for expanding the use of computers in learning beyond the traditional boundaries of the school or university will become increasingly important if people are to successfully cope with the dynamic information intensive world ahead. We should explore new ways Apple's personal computers can be used in **industrial training**. Industrial training is a potential new market for us which ties in well philosophically with our experience in education and therefore is worth our investigation.

We want to significantly expand our position in **international markets**. The leaders in information technology will be those companies who are most successful in establishing a global position with their products. We will place our highest international priority on building our position in those countries we define as core countries. We will do this by localizing our products to match each core country's market needs and investing locally for the future. We want Apple to become a portfolio of multi-local companies around the world.

### Corporate Strategy #3 Product Driven Growth



(C) Our third strategy is to create exciting new products which will be the basis for creating entirely new markets. This is a **product-driven strategy**. This strategy builds on Apple's strength as a technology and product innovator. Creating new product ideas that can be turned into innovative new solutions either by us, third parties or end users, will be very important. We must be able to respond quickly to put resources behind those ideas that have the potential of "taking off".

**Document processing is a powerful new concept we are innovating which is far more user oriented than data processing. We have already demonstrated the appeal of stand alone document publishing systems with Desktop publishing. Now we have an opportunity to extend document processing further by connecting our personal computers into workgroup systems. The basic enabling technology and products we call desktop communications are an excellent example of this strategy.**

**Creating new learning solutions for K-12 using optical media solutions such as the Apple/Lucas Film/National Geographic joint venture is an example.**

**Creating new easier to use high-performance engineering workstation systems which may open up a much larger engineering workstation market for the under \$10K systems is also an example.**

**There are five strategic areas where we are currently investing research and development resources to stimulate product driven growth.**

**First, our proprietary systems software technologies are the crown jewels and foundation for the meaningful differences of our product innovation. Our intent is to grow this technology as a seamless integration into the products which we will build in the 1990's. Therefore, what we do to be competitive today must be equally balanced in terms of how it will serve as a platform for the future.**

**Second, in order to expand innovation and penetration we must have an extraordinary choice of powerful and easy to use developer's tools available. This is not only important for the current Apple II and family products but also for the future architectures of the 1990's. This is a major reason behind our decision to establish the Cray center and expand the resources of the Advanced Technology group.**

**Third, we must stay ahead of the power curve of hardware innovations. As new technologies become commercially available we must be among the first to turn them into successful products. We want our products to be open, powerful and maintain a close relationship with each other within families.**

**Fourth, Network & Communications innovation is very important. We want to do more than just connect devices together and to be able to do data communications. We want to go beyond connectivity by making the technology as transparent as possible to the end user. We want to be both a standard setter and, where appropriate, to adopt important industry standards which will allow our systems to effortlessly co-exist with other environments. We want to minimize the level of installation, training, support and service by creating a new standard of excellence which we describe as "plug and play".**

**Fifth, we want to be a leader in bringing graphics into the mainstream of the personal computer industry. We want a wide range of peripheral products which expand the usefulness and usability of our systems. Optical storage, laser printing, and high resolution/OCR scanning are examples of important technologies which we want to incorporate into our solutions.**

While we may choose to market many new products ourselves for strategic reasons, we also want to encourage a strong and healthy third party industry to market add-on products for our open systems. Third party companies are an essential strategic building block in our strategy to be a product driven innovator.

### **Striking a balance...**

We must learn to strike a balance between the two different perspectives of corporate strategies (2) and (3). The quality of our market implementation will be very important for us to become a more market-driven company in a very competitive industry. In contrast, the quality of our solutions, ideas and product concepts will be very important for us to become an even stronger innovator as a product-driven company.

In the future, we also see the possibility that Apple may establish new subsidiary companies which will be consistent with our Identity and Directional Goals. Apple may choose to enter such new enterprises through start-up or acquisition. An Apple Service company, if we were to create one to support our changing product line, is an example.



## **Apple's Corporate Resource Strategy:**

We want to be able to make **20% pre-tax profits** over the long term even though we are in a very competitive industry. The key to this is our ability to get ahead of the power curve of creating new products and new markets and creating sustainable high returns from our major existing markets.

We want to create a **general operational model** for Apple for the late 1980's:

### **Source of Resources**

- We are only interested in pursuing markets where people will appreciate the added value of what we do well (e.g. technology, ease of use, quality, reliability and support). We will consciously avoid the commodity end of the industry since we must generate **average gross margins in excess of 55%** to support our investments. A very substantial portion of our revenues come from peripheral hardware which makes it difficult to achieve higher margins. This is why it is so important for Apple to be in total control of our system software technology since our gross margins will be much better when it is clear that we add distinctive value to the end user.
- We want a major part of our revenues to come from high growth markets where **Apple can influence future growth by our actions.**
- We want to keep our company very lean. We will accomplish this by coming up with **new and better ways of doing things.** We will rely heavily on technology. Robotics, interconnect and sophisticated information systems are examples of areas of technology which are becoming very important to us. We want to be innovators in new concepts to manage traditionally high expense areas such as quality, inventory and support.
- We want to retain a great deal of **flexibility** by creating a strong industry around us of vendors, developers and resellers. We don't want to vertically integrate into areas which will reduce our long-term flexibility, such as making our own semi-conductors.
- We want a shared sense of responsibility that we **spend money carefully** as though it were our own. It is important to us that this become a part of our culture rather than just a series of rigid corporate policies administered by senior management.

## **Apple's Corporate Resource Strategy**

### **Use of Resources:**

- We want **R&D to be in the range of 8%** of revenues and preferably higher. We would like between 25% and 33% of these resources to be spent on development for future years.
- We want the affordability to **allocate resources to each of our three strategic areas** on a basis which will allow us to plan several years into the future. We want a balanced portfolio which will give us the flexibility to invest in the future as well as the present.
- We want to invest in the **management development and training** of our people. If we can't grow our people, we can't build Apple into the kind of company we want to be.
- We want to **invest in technology** which will help our people do their jobs better ( e.g. manufacturing, distribution, information, productivity and design engineering tools, etc...).
- We want to rely primarily on resellers for sales to end users, but we also want to be innovators in creating **new concepts for support and service** which we are prepared to invest in.
- We want very **conservative financial policies** to balance our natural instincts to be risk takers in the market.

## **Leading the way...**

**The CEO is the overall leader of the company. Overall he sets the direction of the company and the strategic use of resources. He is accountable to the Board of Directors for overall responsibility of the company as well as the primary spokesperson. As the leader of the Executive Staff, the CEO works with this group to establish the Identity, Directional Goals, Corporate and Business Strategies. The Executive Staff focuses on new markets, new products and new technologies we will need to accomplish our corporate vision and strategy. The CEO's perspective is essentially focused on the longer term.**

**The COO is the overall general manager of the day-to-day operations of the company. As leader of the Operations Staff, the COO works with this group to develop the Business and Functional Strategies. He is also the architect of the management process which includes our operating practices and system of management accountability. He drives the Business Plan process in a way which is consistent with the company's vision and Corporate Strategy. He is responsible for managing the near-term performance of the company.**

**The CEO and COO work closely together as a team to develop an extraordinary company of which we are all proud. As a team they are responsible for inspiring innovation and excellence, growing our people at all levels and creating an exciting work environment.**