THE SURVIVAL PARADOX

CHANGE VS STABILITY AT APPLE AND ANY IMMORTAL COMPANY

FONS VAN DYCK

LANNOO CAMPUS

To my parents, who both left us in 2015.

CONTENTS

'You can't connect the dots looking forward; you can only connect them looking backwards. So you have to trust that the dots will somehow connect in your future.'

Steve Jobs | Stanford Commencement Speech, June 2005

INTRODUCTION

There is life after 'God'

In the summer of 2018, Apple became the first American company in history to achieve a stock market value of more than 1 trillion dollars. This means that Apple's stock market value was at that point at more than a third of the size of the UK economy and larger than the economies of Turkey and Switzerland. It is an achievement that speaks to the imagination, all the more so because as recently as 25 years ago Apple almost went out of business.

This news was in sharp contrast to the gloomy speculations made about the company following the death of its charismatic founder, Steve Jobs, in 2011. At that time, many observers expected – and feared – that Apple would not survive the demise of its 'founding father'. Over the years, Jobs had grown to become the face of the company to the outside world. Apple was Jobs and Jobs was Apple. He was famous for the manner in which he succeeded in binding his customers to the Apple brand with a loyalty that had seldom been seen before, often bordering on the fanatical. 'Which other technology brand do you ever see on bumper stickers?' *The Economist* once asked pointedly.[1] In the academic world, Jobs was lauded as the best performing CEO ever. The media also praised him to the skies. He appeared on the cover of *New York Magazine* as the 'iGod', while *Fortune Magazine* described him as 'the most innovative businessman of our time' and a special edition of *Time Magazine* claimed that he was 'the genius who changed our world'. The news of his death from pancreatic cancer was met with worldwide scenes of grief and mourning from his dedicated fans, comparable to the reaction to the death of Lady Di in 1997 or Michael Jackson in 2009. Even the American president, Barack Obama, felt obliged to comment on his passing, praising Jobs as one of the great American innovators: 'Brave enough to think differently, bold enough to believe he could change the world, and talented enough to do it.'[2]

Few people could imagine that Apple would continue to reach the remarkable heights it had reached under Jobs' skilful guidance. Serious questions were asked about the ability of the new CEO, Tim Cook, to fill his predecessor's massive shoes and lead the company to the next level of success. A journalist of the respected *Wall Street Journal* expressed what many others were thinking but were often reluctant to say: 'They're not re-inventing the world. They're circling the wagons.'[3]

But what is the real secret behind the success of an immortal company like Apple? Is this purely attributable to the merits of their charismatic leaders? Or is something more going on? How do they persuade their existing customers to keep on coming back time after time, whilst continuing to capture new hearts with the same enthusiasm and passion? What are the key factors that make this commercial conjuring trick possible? And – most importantly of all – will it last? These are the questions that I will seek to answer in this book. To do so, I will not simply be looking at stories of glittering success, but will also attempt to draw crucial lessons from cases of equally dramatic failure. In this sense, my book is different from most management literature, which often concentrates exclusively on triumph and ignores the possibility of disaster. But there are two sides to every coin: what goes up, must come down. It is my conviction that we can learn at least as much from the mistakes that some companies have made (and how they managed to get themselves out of the mess they had created) as from their tales of derring-do.

The history of Apple – on which I will focus in the first instance – is a case in point. It has not always been plain sailing for Steve Jobs' brainchild. On the contrary, there have been numerous ups and downs. In 1985, the annual results were so poor that the directors conspired to get rid of Jobs in a manner that was anything but elegant. In 1996, things were even worse and the company almost went out of business altogether. In other words, Apple has twice looked commercial death in the face and on each occasion managed to survive – and eventually thrive. So perhaps we should not be surprised that it has also survived the untimely departure of its founder and greatest leader.

Of course, I will not be confining my analysis exclusively to Apple, but will also be looking at other sectors. The histories of some of these companies go back a very long way. The doyens in this respect – and again, perhaps we should not be surprised – are in the wines and spirits sector. Moët & Chandon, which today is the largest champagne house in the world, dates back to 1743! The Irish Guinness brewery was founded in 1759. The Hennessy cognac brand first saw the light of day in 1765. In 2010, the average lifespan of the world's major companies was 87 years. The three branches with the greatest longevity were food and drink (141 years), pharmaceuticals (119 years) and the financial sector (117 years).[4]

That being said, achieving this kind of commercial 'immortality' is not something that can be taken for granted. While some brands are successful for decades (or even centuries), others – sometimes even iconic names – disappear forever. Think, for example, of the fate of Nokia. While Apple was climbing its way to the top of the tree with its revolutionary iPhone, Nokia's business results went into an irreversible nosedive – and this for a company that at the turn of the 21st century had been regarded as one of the most innovative in the world. By 2011, the writing was on the wall: Stephen Elop, who was then the CEO at Nokia, wrote in an internal memo to his senior managers that: 'Our platform is burning.' And he was right. Less than 2 years later, the company was sold to Microsoft for 'just' 7.17 billion dollars, a fraction of its former value.[5]

There are plenty of other examples from recent years. In 2011, the Swedish car manufacturer Saab went to the wall because it was unable to convince its potential Chinese investors to pump new money into the company. A year later, the legendary Eastman Kodak brand, which had been a pioneer in the field of photography for 131 years, found itself on the edge of bankruptcy, primarily because it had missed the digital train. In spite of all its frantic efforts to cut costs and restructure, the company still continues to be unprofitable. And when in 2015 technology pioneer Hewlett-Packard was forced to split into two separate companies – HP Inc. (printers and personal computers) and Hewlett-Packard Enterprise (servers, software, storage capacity and networks) – analysts spoke of 'the end of an era'.[6]

The future of many brands has never been as threatened as they are today. A study by Havas Media, a major advertising and media player, concluded that consumers worldwide would not be overly concerned if a staggering 77 % of brands would cease to exist. In other words, three out of every four brands have no lasting value in the eyes of the people who are supposed to buy them. They could all disappear overnight and no-one would shed a tear. In fact, they would hardly notice.[7] It looks as if brands have become an endangered species, threatened with extinction.

Linked to this is the ever-increasing expectation that many industries and product categories will move towards a 'winner-takes-all' model, in which one or at most two brands (in a form of duopoly) will establish market leadership, while the other remaining brands will need to focus on specific niches in order to survive. In many cases, the super-digital retailers - the Amazons and Alibabas of the world - will be able to secure an almost total monopoly.

The history of Apple and other iconic companies can help us to discover what more modest companies can also do to achieve their own 'immortal' status. A survey by Credit Suisse has shown that family-run companies worldwide perform 4 percentage points better than the stock market average. More recent research specifically relating to Belgian family businesses suggests that the additional annual return over a period of 15 years can even amount to as much as 7 percentage points.[8] In other words, many family companies not only have a proud past, but also a promising future. What is the secret behind their success? How will they maintain this success in the challenging environment of the coming decades? What changes will they need to make? The answers to these questions will be revealed in the pages that follow.

But the most burning question that will keep on returning in this book is the following: how can <u>your</u> company survive in these disruptive times? More important still, which factors strengthen the likelihood of future success or failure for your company and for your competitors? It is certainly not a good idea to hide from reality, or to play fast and loose with the future prospects of your company. And short-term 'quick wins' won't guarantee your survival chances in the long run, either. Along the way, you will also learn why Apple is now achieving much better results under Tim Cook than was ever the case under the leadership of Steve Jobs and how Cook's approach has confounded the expectations of so many of the armchair strategists.

It goes without saying that I will not be plucking my analyses out of thin air. Amongst other things, I will be basing my conclusions on the scientific AGIL paradigm, which was developed in the 1950s by the renowned Harvard sociologist Talcott Parsons. Using his model, supported by the results of other scientific empirical research, I will examine the reasons why some companies can survive for 100 years or more, while others sink into oblivion in less than a decade. The management lessons that this exercise will yield can form the inspiration for a strategy that will allow your company to keep its head above water, not only tomorrow but also the day after tomorrow.

What I am most certainly not going to do is allow myself to be misled by the many scare stories that are currently doing the rounds in marketing circles about the survival chances for companies in the future. I will consciously puncture a number of the most popular and persistent myths that have been drummed into the collective memory of managers and company leaders for decades, often with disastrous consequences for the companies concerned.

In contrast, the story of the rise, fall and resurrection of Apple will speak to the imagination of the business community in many different industries and offer a viable way forward for the years ahead. In that sense, this book can be seen as a scientifically based survival kit for companies in uncertain times, founded on the lessons I have drawn from the successes and failures of others. As such, it will help to set you on your way to continued future viability and to your own version of immortality. Because if you can learn from your own mistakes and those of your rivals, if you can claw your way back to your feet when fate has knocked you down, if you can re-invent yourself when all around you are clinging to the life raft of the familiar, you will be able to stand firm and secure in the chaotic and turbulent years that lie ahead.

A BRIEF HISTORY OF APPLE

In April 1976, bosom buddies Steve Jobs and Steve Wozniak started up a computer company in a garage. And the rest, as they say, is history…

But because not everyone is as familiar with that history as they might think and because I will refer repeatedly throughout the book to the often dramatic events that have coloured the Apple story over the years, it may be useful to start with a brief recapitulation of what actually happened. Although many books have already been dedicated to Apple, this is the first one that charts every phase of its progress, from the mid-1970s to the present day. At first glance, this might seem like a strange approach, but whoever consults the existing literature will soon come to the conclusion that most previous authors have either concentrated on relatively short (and often the most successful) periods of the past four decades or else have focused on the company from the perspective of the life story of its founder, as was the case, for example, with the most well-known biography by Walter Isaacson, published in 2011. As a result, most Apple books ignore the period from the mid-1980s to the mid-1990s, when the company was not under Jobs' control and had to navigate its way through some very stormy waters.[9]

In this book, I will make a distinction between two phases. The first phase, which I describe as the 'wilderness years', is characterised by the forced departure of Jobs, the desperate attempts of senior management to prevent the company from being sold off, and the very real threat of bankruptcy in 1996. The second phase, which I refer to as the 'golden years', cover the return of Jobs as the 'prodigal son', the spectacular success of the iPhone and the highly successful continuation of Apple's market dominance by Tim Cook after Jobs' death in 2011.

In the course of the book I will often refer to these two phases, not in the least because it is interesting to see whether the AGIL principles can explain both the successes and the failures of Apple – and, by extension, those of other companies.

The wilderness years (1976-1996): from hero to zero

The two Steves set up Apple Computer in Los Altos, California, on 1 April 1976. The first computer 'circuit board' that they put together was christened Apple I and the initial 200 models were sold to other computer nerds of their acquaintance. Contrary to what many people think, this does not mean that they invented the personal computer. This honour goes to Ed Roberts and his company MITS (Micro Instrumentation and Telemetry Systems). Roberts had developed his own Altair model a year earlier and this is now generally regarded as the first PC, with *Business Week* describing MITS at the time as 'the IBM of the home computers'.

Not that Jobs and Wozniak were bothered: they just got on with their work. In 1977, they launched the Apple II, a highly distinctive model that allowed them to differentiate their company clearly in the home computing market. It was an attractive unit, which stood out from the crowd thanks to its large screen (much bigger than their competitors), its provision of a keyboard and power cable as standard, and the possibility to work with coloured imaging. The real computer freaks – the so-called early adopters – fell in love with Apple II, to such as extent that when the company was floated on the stock market in December 1980 it was immediately valued at a staggering 1.79 billion dollars. Not bad for a bunch of beginners! At the time, it was regarded as the most successful initial public offering since the stock market launch of Ford Motors in 1956.

But the euphoria was short-lived. At the end of 1981, IBM decided to move into the personal computers market and soon proved itself to be a potentially dangerous rival to Apple. The IBM PC made use of Intel microprocessors and Microsoft's DOS operating system, which (in contrast to Apple) was a relatively open system that other players could easily copy. Although Apple's turnover continued to rise, its market share shrank to a paltry 6.2 % by 1982. To make matters worse, IBM had not only captured the home computing market, but their computers were increasingly seen as the standard for office environments. The consequences for Apple soon made themselves felt. The launch of the new Apple III and Lisa models failed to take off, in part because of technical shortcomings and in part because of lack of commercial acumen. As a result, the company increasingly found itself outgunned financially by IBM. Between 1981 and 1984 Apple profits nosedived by an alarming 62 %, plunging it into the deepest crisis it had so far had to face.

Apple tried to halt this downwards spiral by introducing yet another new model: the Macintosh, which was launched with great bravura in 1984. Jobs was heavily involved in this launch and staked his personal reputation on the new model, arguing that it represented a major breakthrough in terms of design, ease of use and technical ingenuity. In some ways, perhaps it did, but it was also slow and there was a lack of compatible software. What's more, the Macintosh was so expensive that there was hardly any interest among ordinary consumers. As a result, the initial launch was a failure – and as the person responsible for making the decisions, Jobs had to carry the can. In April 1985, the Apple board made clear to him in friendly but unmistakeable terms that they expected him to stand down. He duly obliged but immediately set up his own rival company, with the appropriate name of NeXT…

CEO John Sculley (who had been hired by Jobs in 1983 and moved across from Pepsi-Cola) was soon able to get the Apple train back on the rails, thanks largely to new and improved versions of the Macintosh, which provided good solutions for the rapidly emerging markets in desktop publishing and graphic design. The new versions also proved their worth in the educational field, where increasing use was being made of PCs in the classroom, to such an extent that by 1990 Apple had secured half of the market. In each of these ventures, the Apple approach was always the same: it offered users a single solution for a clearly identified purpose, so that all the customers needed to do was 'plug and play'.

This concept brought a level of success that had never previously been seen. The sales figures skyrocketed: in 1990 the company achieved a turnover of 5.6 billion dollars and captured a worldwide market share of 8 %. Apple now had cash reserves that were also in excess of 1 billion dollars, making it the most profitable computer manufacturing company on the planet.

Once again, however, this success was not destined to last. In part as a result of the difficult economic conjuncture (the world crisis of the early 1990s badly hit the computer industry) and in part as a result of increasingly fierce competition (particularly from Mircosoft and their new Windows software), the company was obliged to undertake yet another radical change of course. This involved the launch of a cheaper version of the Macintosh, which achieved little other than to increase pressure on the already tight margins. Later, Sculley decided that the time had come to play the innovation card with the marketing of the so-called Newton, a revolutionary new PDA (personal digital assistant). Unfortunately, this was an idea ahead of its time and failed to capture the public's imagination, with catastrophic financial consequences. In June 1993, it was Sculley's turn to fall on his sword and the board appointed Michael Spindler, a German engineer with a long record of service at Apple, as his replacement.

Spindler's attempts to turn the company around resulted in an even bigger fiasco. His ideas were essentially sound – for example, he made internationalisation, particularly in China, his number one priority and gave permission to a limited number of companies to clone and market Apple computers at a reasonable price – but his timing was all wrong. Most of his competitors were ahead of him, so that the company effectively missed the boat (again). An effort to develop a new operating system in collaboration with IBM also failed. Faced with these expensive setbacks, Spindler felt he had no alternative but to try and cut costs. He slashed staff numbers by a massive 16 % and reduced R&D spending to just 6 % of the total sales costs. But it was too little too late. The fundamental problems remained and by now it was clear that Spindler was not the man to solve them. Two weeks after Apple reported losses of 69 million dollars for the first quarter of 1996, Gil Amelio, one of the company's directors, was appointed as the new CEO.

Amelio attempted to increase levels of efficiency by a better streamlining of the production systems and he continued to make further cuts to the payroll in an effort to build up Apple's badly depleted cash reserves. But he was fighting an uphill battle. Notwithstanding his strict regime, Apple continued to leak money, losing a further 1.6 billion dollars during his tenure in office. To make matters worse, the price of Apple shares (not unsurprisingly) fell to their lowest level for 12 years, while the company's worldwide market share fell from 6 % to a new all-time low of just 3 %. Various attempts to sell off Apple to other important players in the sector (including IBM and Sun Microsystems) proved fruitless. Nobody was interested. Indeed, the situation seemed so hopeless that Michael Dell (founder and CEO of Dell Computers) was prompted to say: 'What would I do if I was the head of Apple? I'd shut it down and give the money back to the shareholders.' It was in these parlous circumstances that Amelio was shown the door in early 1997, allowing Jobs to reappear on the scene as interim CEO of the company he still regarded as his brainchild.

The golden years (1997-2018): the sky is the limit

When Jobs took over the helm, he immediately cancelled the licensing programme that allowed other companies to clone Apple computers, since he regarded this as one of the most important reasons for the company's recent troubles. He also reduced the number of production lines from fifteen to four: the desktop and laptop Macintosh, with versions for both professional and private use. His vision was crystal clear: he proposed to use the Macintosh, which he now renamed the iMac, as a digital hub. He was firmly convinced that the iMac offered major advantages to consumers whose lifestyle was becoming increasingly digitalised through the use of digital cameras, portable music players and (of course) cell phones. According to Jobs, the iMac was the ideal hub into which all these digital applications could be integrated and controlled. Moreover, the Apple hardware and software ensured that these applications would have an ever increasing number of possibilities. Jobs believed that this multifunctionality was one of Apple's strongest commercial trump cards: the company was one of the few remaining players in the computer market that still made both hardware and software.

This vision of the iMac as a digital hub found its fullest expression in the launching of the iPod in 2001. In many respects, this new product was unique. Not only because of its simplicity, which was always one of Jobs' signature trademarks, but also because of the almost limitless possibilities of its software. This bullseye was followed up in 2003 with the 'opening' of the iTunes Music Store, the first ever site (supported by the music industry) where music could be downloaded legally, with the users paying a fixed sum per song. The iTunes Store sent the sales figure of the iPod soaring to new heights. And this was just the start of a whole series of blockbuster successes. 2007 saw the introduction of the iPhone, which signalled Apple's intention to gatecrash a market that had previously been dominated by a limited number of major players, such as Nokia, Motorola and Samsung. At the time, few people realised just what a game-changer the iPhone would be, but its impact was immediate. More and more consumers began automatically opting for the iPhone, particularly after the unveiling of the Apple App Store in 2008, which offered Apple users an almost endless range of solutions for a thousand and one different things. But it wasn't only the consumer who benefitted: Apple retained the right to give its prior approval for all the apps sold in the store and demanded that the developers pay them a hefty 30 % of the agreed purchase price. In 2010,it was the turn of the iPad to see the first light of day and once again the public's reaction was wildly enthusiastic. This was the high-water mark of Jobs' career, the last public launch that he was able to make personally before he died.

In the years following Jobs' death, Apple continued its seemingly unstoppable progress. The iPad and the iPhone sent turnover and profits soaring. In September 2014, the new CEO, Tim Cook, added a further weapon to the company's already impressive arsenal with the introduction of the Apple Watch, which marked Apple's first move into the field of wearable technology. Apple Pay, a new mobile payment system, was also an instant success, being quickly supported by the majority of the major banks and credit card companies, as well as being accepted by a significant number of retailers. The autumn of 2017, on the occasion of the tenth anniversary of its most iconic product, saw the launch of the start-of-the-art iPhone X. Some eyebrows were raised at the high price of 999 dollars, but the strategy proved to be the right one, at least for a time. In the fourth quarter of 2018, the turnover of the iPhone division increased by a spectacular 29 %, which was largely attributable to the high profit margin on the iPhone X, since the total number of devices sold was starting to stagnate. This explains why the company's senior management decided to stop releasing figures for the total number of products sold, although by the beginning of 2019 it was no longer possible to deny or conceal the falling level of iPhone sales, particularly in the important Chinese market.

Notwithstanding the company's many successes (the gross profit margin continues to hover around 38 %), over the years a number of critical voices have been raised that question the sustainability of the Apple model. Some observers ask openly whether or not Apple is too dependent on the iPhone (good for 60 % of total sales) and how long the current level of growth can last without the further introduction of newer and more genuinely innovative products. Or is a shift in emphasis already taking place? At the moment, the biggest growth unquestionably comes from the company's new services (including Apple Music), which in the fourth quarter of 2018 yielded a turnover of 10 billion dollars, representing an increase of 27 % on an annual basis. Apple continued on this path in early 2019, with the launch of Apple TV (its alternative for Netflix), Arcade (its gaming platform), Apple News (a collection of newspapers and magazines) and its own credit card.

It seems clear that Apple – unnoticed by some – is already in the process of a major transformation, which will allow the company to re-invent itself.

The metamorphosis that Apple has undergone in the 21st century under the leadership of Jobs and Cook is nothing short of remarkable. It is still unclear exactly what the future will bring, but the underlying thinking and values remain unaltered. When he was introducing the iPhone X in the brand-new Steve Jobs Theatre in 2017, CEO Tim Cook not only praised his illustrious predecessor, but also set out the path for the company to follow in the years ahead: 'Steve's spirit and timeless philosophy on life will always be in the DNA of Apple.'[10]

How to read this book

From this point onwards, *The Survival Paradox* will be developed in the following manner:

- There will be a section for each of the four functions of the AGIL paradigm, with two chapters in each section.

- Each letter of the AGIL acronym will be linked to the story of Apple, both in good times and bad. What did Apple do well? What did they do wrong (sometimes disastrously)? What does this mean for your company?

Do you want to get started immediately with changing things for the better in your own company? You do? Then the following text elements are especially designed to help you:

Debunking the myths

- In each chapter I will debunk a persistent myth in the management literature that is still far too often blindly followed by unsuspecting company leaders.

THE DO'S-AND-DON'TS

- Learn what concrete steps you can take in any organisation.

Apple in trouble

- Discover how the mega-successful Apple company also got things seriously wrong in the past, nearly resulting in its permanent downfall.

AGIL

Adaptation

Integration

Goal attainment

Latent pattern maintenance

THE AGIL PARADIGM