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Reading between the Lines: Apple's New Business Strategy

By Christopher S. Rollyson —Monday, 16 July 2007

Why Apple Could Emerge as a Three-Screen Player Par Excellence

Apple's name change in early 2007 was heralded as the company's redefinition as a consumer products company. The conventional wisdom held that the lion's share of the run-up of Apple's stock price has been due to the excitement of the iPod and the successful rekindling interest in the company's Macintosh computers. Moreover, Apple's stock has limited headroom because consumer electronics heavies are getting into the market for music players, and this will leech profits. The iPhone looks great, but it's overpriced in hyper-competitive market; it won't penetrate much beyond a few gadget freaks.

This prevailing view works great for Apple because it keeps people focused on the wrong things. Apple's business strategy is far more profound.

Apple is truly transforming itself—with an alacrity that itself poses significant risks for the company. It is clearly moving toward a "three screen strategy" in which it will forge strong relationships with customers in TV (first screen), computer (second screen) and mobile (third screen). To make this even more interesting, Apple's iPhone partner, AT&T, has an explicit three-screen strategy. Many media and telecoms executives foresee three windows of consumer interaction, and content will flow seamlessly among the three. Content producers see the three screens as outlets through which consumers can experience content. With the advent of mobile video, consumers gain more time to experience content (they don't have to be home or, tsk, tsk, at work). Jobs has a much more intimate understanding of the three screen idea due to his Hollywood connections as the CEO of Pixar.



How Apple's Core Competencies Play the Three Screens

Apple has consistently shown how its strengths in hardware and software design create a competitive advantage with respect to the second screen. I postulate that Apple has succeeded consistently because it has explicitly focused on a degree of abstraction above the computer user experience. It focuses on experience, period. The computer is a means to an end. By studying and creating experience that is removed from the computer, Apple is able to apply its knowledge more readily to the user's experience with using other devices like a portable music player or a mobile phone. Apple's strategy is to become the individual's content interface gateway, via all three screens.

The New Kid in Town—the Third Screen's Significance

As a gateway for multimedia content, the third screen is emerging, and it is the most important because it is the most personal, trackable and pervasive. It goes everywhere the person goes. The devices face a similar challenges to those of portable music players—except that the challenges are multiplied. Music players are nice to have; phones are mission-critical. Mobile device designers and manufacturers are working against a perverse paradox: they want to add value by including more power and features, but the device must remain highly portable, i.e., small. In practice, the way this has played out is that the power of Treos, Blackberrys, music players and phones has been imprisoned within devices. User interface (software) has been so poor that users have largely forgone the features. It's too inconvenient to use them.

In the mobile device category, Apple has proven its prowess at unlocking hardware power via its excellence in software design. At [Digital Hollywood Chicago](http://www.digitalhollywoodchicago.com), the iPhone was constantly referenced as the possible answer to the problem of realizing the vision of making true entertainment content available on mobile. Before the iPod, the menus proffered by bricklike MP3 players were as much fun to use as cell phone menus. Apple succeeded in making the navigation process itself—via the scroll wheel—playful, intuitive and

simple. It unlocked the quantity of music that the miniaturization capabilities of the hardware provided.

Mobile manufacturers are already uneasy: if the iPhone surpasses expectations like I believe it will, Motorola, Samsung, Nokia and Ericsson will be disrupted because Apple brings a different perspective and set of skills to the market. By no means do I wish to imply that Apple will threaten their market share in numbers. However, it stands a decent chance of setting the agenda for the "mobile phone's" redefinition as a multifunctional mobile device for integrated entertainment, work and communications. Here is an [exhaustive review of the iPhone](#). Keep in mind that many of the shortcomings can be corrected by software fixes, which are done simply and automatically via updates.

In addition, for many products, the market is bifurcating into commodity and luxury segments while the middle stratum gets clobbered. The majority commoditizes, and chronic price battles rage at the bottom, where Chinese and Vietnamese engineering and manufacturing prowess will undoubtedly take a large part of the global market. Maintaining a leading position in the luxury category requires persistent panache and cachet as well as top engineering and design. I would not want to bet against Apple in these categories. Pundits' projections for the iPhone will probably be surpassed significantly. By no means is the iPhone perfect or unassailable, but the combined value proposition of software on the device, one-click content, easy access to features and iconic cachet will be hard to beat. The iPod is an icon for self-expression, and the iPhone is already setting the bar. I have used Treos and Blackberrys (I do not have an iPhone), and their features just do not have the ease of use—no, fun of use—that Apple's things have.

Within the year, I expect Apple to introduce, gently, mini applications for content creation and editing on the iPhone for pictures, videos and text. True, Apple is U.S.-centric, where mobile devices have a strong precedent for depending on computers for managing and editing content. As a business strategist, I have to believe that Apple is regarding emerging markets: the iPhone is an entree into markets in which people primarily access the Internet with mobile devices.

The Second Screen—Basis of Deep Interactivity

The second screen is the wellspring of interaction, work and "deep gaming." In this sector, people are pushing the envelope with intense "man-machine" integration and performance. Of course, the "computer" began with a strong reference to work, and individualized computing power is optimal on the personal computer. It is the workbench for authoring digital content, whether written, audio or film/video.

Apple's base strength in the second screen is more fragile than with the third screen because there are fewer physical constraints. A cornerstone of Apple's and Jobs' comeback in the late 1990s/early 2000s was introducing the computer as a creative lifestyle entertainment tool. Its design aplomb with hardware captured consumers' imagination, but its software strategy, with iLife applications was even more critical and difficult for competitors to emulate. Even today, Dell is trying to revitalize itself partially by adding color options to its dull boxes. iLife (iTunes, iPhoto, Garageband) and Final Cut enabled consumers to manage and share their digital creations with highly intuitive, simple interfaces.

Competing for the second screen forces Apple to innovate by pushing design differentiation in software, hardware and—most important—their intersection. This is a wellspring of R&D when one considers that computing resources are maximum on the computer (as opposed to a mobile device, with its spatial constraints). Keeping in mind that Apple's strength lies in *abstracting above the person using the machine*, one can see that its continuous, forced innovation here can serve as R&D for customer experience in other contexts.

The Toughest Battle—the First Screen

Jobs terms AppleTV, its initial foray into first screen territory, as "a hobby" because Apple doesn't want to tip its hand too early.

The first screen is a complicated battle that will have to be approached carefully. It makes the mobile device battle seem trite by comparison. At Digital Hollywood, speakers were focused on only one-half of the first screen—the TV in its broadcast, cable, satellite flavors—because it is relevant to advertising, and the game console is not. Actually, the game console is an emerging force that also threatens to change the rules. This will be an expensive and bloody battle: telecoms are aggressively moving into content, broadcast TV is declining rapidly, cable companies are moving into the network/connectivity area. So content and distribution are converging. Set-top boxes, TV sets and game consoles are converging and battling for prominence. One could make a solid argument that the computer can be included into the convergence as well, although that will take longer to resolve itself. Game consoles and TV are largely entertainment-oriented, while the computer is work-oriented.

AppleTV is a first gambit that is tightly tied to the iTunes Store for the time being. It could easily increasingly acquire set-top box functionality. Here's an impression from [InfoWorld's Tom Yager](#).

The trick for Apple will be to align the value chain with its capabilities: it doesn't provide connectivity or content. It enables customers to create, edit, manage and experience content.

Abstracting above the Device Layer

Where Apple could succeed beyond anyone's expectations is by overlaying the value proposition of its positions in each of the three screens. Executives from telecoms, cable companies, Hollywood content producers, software entrepreneurs, enterprise software and networking gear all speak of the seamless, three screen consumer experience. The most visionary (i.e. Cisco's John Chambers) emphasize the leverage of self-organizing social networks and collaboration. He mentioned some impressive results with [Cisco's M&A integration processes](#).

However, speakers made constant reference to the difficulty of making all of these devices play together so that consumers will enjoy them. That sounds like software design, human factors, hardware engineering and, above all, explicit consciousness of what experience is—or should be. In addition, Apple has thus far succeeded in adding to its competitive advantage by making content acquisition legal and easy, via the iTunes Store.

Apple faces the risk of overlooking the social network aspects of content experience. Many hopeful CEOs of music subscription companies have proclaimed the end of the music purchase model that the iTunes Store is built on, but it hasn't happened yet. However, music sites like Pandora, Snoop My Tunes and Last.fm apply social networking to content suggestion (if you like the Smashing Pumpkins, Iggy Pop, Alfred Brendel's Beethoven and Madeleine Peyroux, they suggest new music based on similar listening habits). This may prove to be the tipping point for pushing the market to forgo the purchase model in favor of subscription. That may not be such a threat to Apple, though. Why couldn't iTunes offer both content for purchase (as now) and for subscription?

Conclusions

- I believe that Apple has a chance to be a major disruptor in third screen and first screen markets. The iPhone may well succeed in leading the mobile phone's metamorphosis to an integrated communications, entertainment and work device. AppleTV could emerge into a full-blown set-top box that could add value through simple, elegant content management/editing tools. Moreover, Apple has a real possibility of championing the simplification of the home network. The AppleTV, combined with Macintosh, could add significant value in delivering ease of use for managing and sharing digital content.
- Apple has consistently succeeded in design because I believe that it has an explicit focus on customer experience, not the person using the machine. Most machine makers fall in love with the engineering of the machine, and user experience is grafted on later (i.e. Sony). Apple tends to ask, "How would I like to do this?" It is able to answer the question with hardware, software and services design.
- Regarding the vision for seamless experience of content among the three screens, Apple's competencies in elegance, design and simplicity give it a significant advantage over dominant vendors of set-top boxes, mobile devices and computers. Its ability to translate vision for customer experience through device, interface and service (i.e. iTunes Store) is unusual and could be significantly differentiating.
- Although it has been criticized for years for maintaining control over hardware and software, it may turn out that this will prove to be a key ingredient of its competitive advantage.
- The iPhone and AppleTV may be entrees into non-U.S. markets for digital content experience.

About the Author

Christopher S. Rollyson launched *The Global Human Capital Journal* in 2005 to address the most poignant issues of day for chief executives, namely global transformation, the reinvention of the enterprise, technology and culture. Mr. Rollyson has been a technology and marketing visionary and pioneer for over fifteen years, with distinction in corporate strategy and innovation. As a consultant and marketing executive, he has had a leading role in launching such game-changing offerings as: Java with Sun, e-business strategy with PwC Consulting, and SOA, Web services and architecture solutions with IBM and nVISIA. In 2006, he launched The Consumer Empowerment Adoption Curve™ and Transourcing™, a new approach to innovation that leverages high performance collaborative partner networks. He currently advises global enterprises on collaborating with Web 2.0-enabled customers—to drive innovation and to engage emerging markets.

Recently the Vice President of Marketing at nVISIA, he developed executive marketing programs and service offerings to drive the value of software transformation through service-oriented architecture and Web services, working with IBM, Rational and Grand Central. Previously a subject matter expert for e-business and knowledge strategy in PricewaterhouseCoopers' Strategic Change

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The Global Human Capital Journal addresses the global shift from the Industrial Economy to the Knowledge Economy, which is changing how human beings work and deliver value. In the Industrial Economy, products encapsulated the value of human work; in the Knowledge Economy, information produces the lion's share of value, and customer experience itself is the focus of commerce and government. A greater degree of collaboration among people of the world is possible than ever before, and increased interaction will bring unprecedented surprise and opportunity, especially because the potential is great to "level the playing field" among people of the world. Obviously, these developments hold significant ramifications for business and organizational strategy.

Global Human Capital covers two prongs of economic transformation: 1) strategically, how organizations can rejuvenate their relationships with customers and constituents by collaborating with them to drive innovation and 2) operationally, how organizations can build strong collaborative cultures and skills to engage the world's emergent network of expertise, both within and without their walls. We analyze how global sourcing and collaboration are transforming enterprise and government organizations, as they transition from relatively self-contained, closed entities to more networked, open organizations.

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