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## TMO Reports - What Keeps Apple From Getting Its Due?

by [Robyn Weisman](#), 9:00 AM EST, January 5th, 2004

Just in time for Christmas Apple filed its annual report for fiscal 2003, and while it shows some weaknesses in Apple's revenues, on the whole, it demonstrates that Apple has had a pretty good year, with net sales increasing about eight percent over its 2002 fiscal year.

At Comdex last month, however, a panel of four experts [sentenced Apple to death once again](#), stuck perhaps in some 1996 time-warp, when Windows 95 had given its users a buggy peephole into what a good GUI could offer, the [Internet](#) was still a novelty, and Gil Amelio was presiding over Apple's haphazard hardware line.

Meanwhile, Wall Street has put forth a rather schizoid valuation of Apple. UBS Securities recently initiated coverage on Apple, giving the company a "neutral 2" rating, faint praise in a business where the "sell" rating is applied less often than an NC-17. In its coverage, however, UBS wrote that Apple's financial position was solid and that the company is in a unique position to improve its earnings in the next couple of years through reinvigoration of its brand.

With the return of Steve Jobs in 1997, Apple has come out year-after-year with a host of successful, innovative products and services. Moreover the company shows no sign of straying from this path.

So why do so many analysts and related pundits refuse to give Apple its due? Are they wearing blinders, or is there something valid in either their hesitations or outright condemnations?

### No Loyalty

"IT analysts see the world in two ways now," *Business Week* online technology editor Alex Salkever told The Mac Observer. "They fall in the camp of believing that the drive to standardization, and with it cheaper hardware and software, will kill all companies that are offering something different. Or they fall into the camp of believing that future winners will offer a complete solution, soups to nuts -- [similar] to buying a car."

According to Mr. Salkever, the latter camp views complexity as the enemy rather than cost. Apple, along with Sun Microsystems and Oracle, believe in this philosophy. For his part, Mr. Salkever said that neither camp is entirely correct nor will either win outright. However, he said enough of a market exists to support companies that represent

both views.

Moreover, picking on Apple is easy because the company seems so small and vulnerable compared to Dell, Mr. Salkever said.

"But Apple has something no other hardware maker has -- strong customer loyalty," Mr. Salkever said. "That's something IT analysts generally don't account for because they don't have it themselves."

### Investment Jitters

"Apple has a very risky strategy. They try to hit homeruns. When they strike out, it's bad news. When the Cube didn't sell, it took Apple a long time to come back. Products like the original iMac provide a huge initial pop, then peter out." – Alex Salkever, *BusinessWeek*

Meanwhile, UBS's coverage was standard for Wall Street, given Apple's abysmal stock performance since the dot-com bust, Salkever said.

"Apple has a very risky strategy. They try to hit homeruns. When they strike out, it's bad news. When the Cube didn't sell, it took Apple a long time to come back. Products like the original iMac provide a huge initial pop, then peter out," said Mr. Salkever.

"Compare that to Dell, which has a huge business of upgrading corporate fleets each year. It's almost like an annuity," Mr. Salkever said. "Even if Apple is doing well, Wall Street focuses on numbers, [and] by the numbers, Apple is a mid-cap company with an up and down track record, [while] Dell is a large cap rocket and a rock of consistency. The call is easy to make if you are on Wall Street."

At the same time, however, the UBS analyst seems to have had a gut feeling that Apple could do much better in the not so distant future, Salkever said.

"It's risky so he can't make a totally ambitious call, but the phrasing is telling readers that" Apple is in a good position, said Mr. Salkever.

"Keep in mind, too, that analysts rarely -- even today -- say outright negative things about a company. So I don't think that comment is actually all that out of the ordinary," Mr. Salkever said.

### A Gradual Change

IDC research analyst Alan Promisel told The Mac Observer that financial analysts are looking at Apple's growth potential from an investor standpoint. iTunes is doing well, but in itself, is not a profit generator. The iPod is doing well, but it costs significantly less than a Mac desktop or laptop computer.

However, more people are purchasing PowerBooks and iBooks, Mr. Promisel noted; and Jupiter Research senior analyst Joe Wilcox told The Mac Observer that Apple is well-positioned in this space because it "produces some of the most appealing, usable [notebooks](#) at a time when portable sales are climbing."

In addition, Apple's retail stores are doing really well, Mr. Promisel said, and he praised Apple for growing its stores intelligently and locating

them intelligently. According to him, the stores are generating a lot of foot traffic and helping Apple to gain Windows converts.

Mr. Promisel said that the financial community would like to see Apple rebound in education and the public sector and see growth in the commercial sector. He said that more positive comments will appear from Wall Street once these gains are realized.

### Seeking Out

"20 percent of Mac OS users have incomes of \$100,000 or more, compared to 13 percent for Windows XP users." – Joe Wilcox, Jupiter Research

Mr. Wilcox said that although pundits have speculated about [Apple's imminent](#)

[death](#) for over a decade, Apple has succeeded in confounding the doomsayers because the company "perpetually seeks out and nestles into niches left open by Windows PC software and hardware makers."

In addition, Mr. Wilcox said that Apple has also remained true to its creative roots with products that appeal to designers, Hollywood and music content creators or academic researchers.

"While no longer a big, volume player, Apple's niche marketing strategy shows that who you sell computers and software to is as important as how many people buy them," said Mr. Wilcox, adding that, as an example, 20 percent of Mac OS users have incomes of \$100,000 or more, compared to 13 percent for Windows XP users.

Moreover, Apple's music strategy "polishes Apple's cool factor and introduces the company's products to a new, younger, more tech-savvy group of younger computer users," Wilcox said.

### Bull's – Eye

Wilcox went on to say that Apple's overall execution is probably better now than at any time in the company's history.

"Mac OS X is a robust, appealing [operating system](#) that is well-suited to either businesses or consumers. Mac OS X's standards support, good architecture and excellent pricing are appealing attributes," Wilcox said.

For his part, Salkever is very bullish on Apple.

"They made the right decision with OS X, and it is starting to bear fruit. I think they have made the internal shift in their mindset to acknowledge that they have to look for other revenue sources. There are lots of very smart people at Apple so I think now that they have made that decision, good things will follow," Mr. Salkever said.

Salkever also thinks that the market will emulate what Steve Jobs is trying to do.

"You look around at what the other hardware makers are doing, and they are trying to sell more and more digital lifestyle peripherals around their machines. They also are seeking to make those linkages work better and more smoothly," said Salkever.

"Apple knows how to play this game. And it's a game where a 2 GHz chip versus a 3 GHz chip doesn't matter as much. Rather, it's a game based on eliminating complexity -- where Apple excels."