

Apple vs. Microsoft

How competitive is the competition?

1. Definition of a competitive environment

Apple and Microsoft belong currently among the world's most influential companies and the companies that changed the most current world economy and modern world. But that is not the only one similarity between them.

For example, both are linked by the strong leadership personality, which is associated with the emergence and expansion. On the one hand, it is regularly in recent years the world's richest man Bill Gates (10/28/1955), on the other hand, charismatic personality already dead Steve Jobs (2/24/1955- 05/10/2011)

Common is existence of the man in shadow, who stood behind the successes of companies especially in the first period. By Apple it is a figure of Steve Wozniak (11/10/1950), which is considered to be the last person constructed a advanced computer as individual wok. He left Apple (1985) and spend time with various charity projects including a very non-commercial activity as teacher of computer science. In Microsoft was the "second" Paul Allen (1/21/1953), who stopped working for Microsoft after treatment of cancer and since then has been devoted to various charitable and innovative projects.

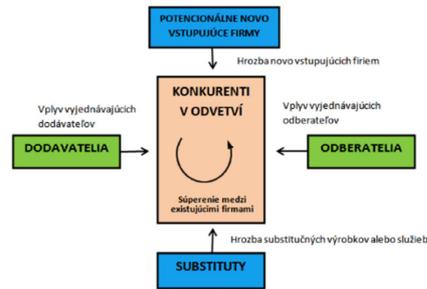
Nevertheless, the story of both entrepreneurs and visionaries and stories of their firms differ significantly. Their life and history of companies is documented in various Works. Better documented is the life of Steve Jobs (movie Jobs, or several books about his life and thoughts). As well as history and business model of both companies are attractive study materials for processing (i.e. Apple from the inside). The relationship of both companies is, for example, the base of movie Pirates of Silicon Valley.

Relationship of both companies is subject to the following description, because over the years has evolved in a very different form. Both companies were established in a similar time and were among the first companies on emerging information technology industry. The difference between the emergence of companies is very small, Microsoft was founded in April 1975 and Apple in less than a year later, in April 1976. In the early years, they would face similar challenges as many start-ups, but in the early eighties began for both boom. For Microsoft were the springboard cooperation with giant IBM and the establishment of DOS operating system for computers using IBM PC architecture. Apple created base for their success with Lisa and Apple computers continuing with Apple II., which already contains some elements of the graphical interface. During this period, the two companies were among the rising stars of the new computer industry.

2. Models of competition analysis

Porter's model of competitive forces

It is one from the most common techniques of competitive analysis and examination of competitive forces. Since its initial publication in 1979 model gained great popularity due to the fact that it is complex and can explain many processes of competitive struggle.



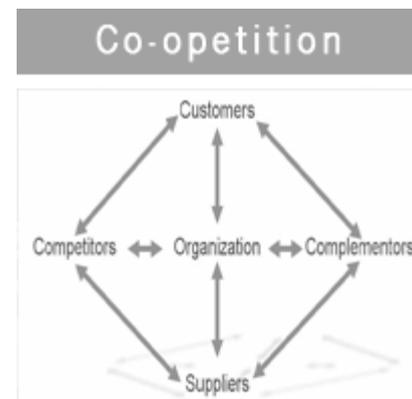
According to Porter, there five basic forces that create competition in the industry. The strength of each is limiting the ability of existing enterprises in the sector to raise prices and increase profits. High competitive strength creates for studied business potential threat, on the contrary when weak position competitive force creates new opportunity. To identify individual strength of competitive forces can be used an empirical study, point method using different aspects of forces as well as different mathematical and economical models calculating power, elasticity or other economic reactions.

Despite its popularity Porter is also the subject of frequent criticism. According critics Porters model works well in industries with a relatively stable market environment and easy to identify potential threats. In the environment of new technologies and markets without fixed boundaries is for business very difficult to separate the competitiveness of industry from potential threats substitutes, respectively new competitors.

Value model according to Brandenburger and Nalebuff

Porter and his criticism also inspired other authors. Several authors have pointed out that in the sectors of rapid market environment development and change is cooperation among business gaining much greater importance than in a highly competitive environment would be expected.

Such sector show beside the strong competition high rate of cooperation as well. Cooperation between businesses in competitive markets is in literature characterized as co-opetition (cooperation and competition). Graphical representation of co-opetition is the value model designed Brandenburger and Nalebuff (1996) inspired by graphic representation of Porters model. According to this model, in addition to supplier and customer impact on success in a competitive environment have also complementary products and competitors. From the perspective of Porter's model competitors in the value chain competitors in value net model includes not only the competitiveness of industry, but also potential competitors and the threat of substitutes.



3. History of Apple and Microsoft relationship

1. Period: Friends (1981 to 1983)

Beginning of 80s was position of Apple much stronger than by Microsoft. Although both were considered as interesting new companies (today we would say start-ups), Apple was real market star. As company developing both sides of information technology, that means software as well as hardware, Apple controlled completely production process. On the other hand Microsoft grew up with IBM development and as produced of software was considers as supplier with no power in IT business.

During the development of the Macintosh in the early 80s, Microsoft was an important ally. Apple needed groundbreaking software for it's upcoming platform and Microsoft was one of the few companies developing for it. It was a crucial phase for Apple.

The strength of their relationship could be witnessed at an Internal Apple Event in Hawaii where Steve Jobs introduced the Macintosh to a few Apple VIPs. Bill Gates sugarcoated the Mac and Steve Jobs loved every moment of it.

Steve Jobs and Bill Gates were so close at the time that according to a Guardian article, they even double-dated occasionally. But all good things must end.

2. Rivals (1983 to 1996)

Steve Jobs had this dream where Apple would dominate the computer business and Microsoft would own the application-side of that business. The computer operation system would naturally also by controlled by Apple.

But Bill Gates wasn't blind. He understood that the Graphical User Interface was the future of computing. He also knew that it would quickly make its DOS operating system, as the core product of Microsoft, irrelevant and threatens Microsoft to become (just) a software company dependent of Apple. Bill Gates had bigger plans.

For years, Microsoft had engineers secretly analysing the Macintosh OS and working on its own version of a Graphical OS: Windows. Not long after the Internal Event in Hawaii, Steve Jobs learned the crushing news. Microsoft wanted to compete with Apple; Bill Gates deceived him.

For the next 15 years, Apple would engage in a strange relationship with Microsoft. On one end, Microsoft was prying marketshare away from Apple. If Apple market share on consumer computer markets was 1992 15% thanks to increasing competition of PC computers with Windows operation system it decreased by 1997 to less than 5%. On the other, it was one of its biggest partners in supply of some software products for Apple computers.

Steve Jobs would soon leave Apple and create NeXT but would not succeed to make a dent in Microsoft's dominance. Along the way, Jobs often sparred with Microsoft, criticizing the company's lack of creativity. "The only problem with Microsoft is they just have no taste," Jobs said in the 1996 public television documentary "Triumph of the Nerds." "They have absolutely no taste. And I don't mean that in a small way, I mean that in a big way, in the sense that they don't think of original

ideas, and they don't bring much culture into their products." In a New York Times article that ran after the documentary aired, Jobs disclosed that he called Gates afterward to apologize. But only to a degree. "I told him I believed every word of what I'd said but that I never should have said it in public," Jobs told the Times. "I wish him the best, I really do. I just think he and Microsoft are a bit narrow. He'd be a broader guy if he had dropped acid once or gone off to an ashram when he was younger."

Microsoft has developed his market position and become most important world company in IT sector. It used his power to assure his position. Microsoft acquired some companies developing new product, which could be potentially competing its own products. By internet browser was Internet Explorer in popularity behind the market leader Netscape. Microsoft decided to offer its Explorer for free as part of Windows system what destroyed completely the market position of market leader.

3. Period: Truce (1997 to 2003)

Apple was on bad way. It made losses in billions of USD, its market share decreased below 5% and there were no real funds for new product development. Weeks before the bankruptcy Apple called back on position of CEO its founder Steve Jobs.

At that moment things changed. On the brink of bankruptcy, Jobs turned to his 'old acquaintance' Bill Gates for help. The Microsoft Deal is considered a low point in Apple's history by many. When Steve Jobs announced at MacWorldExpo that Microsoft was not the enemy anymore, few could believe their ears. He went as far as praising the quality of their Mac apps like Office and Internet Explorer... that was outrageous!

But it saved Apple. Part of deal was purchase of around 10% of shares of Apple to Microsoft what brought Apple about 150 mil. USD. Apple computers will offer Internet Explorer as one alternative for internet connection and Microsoft will prepare in short period versions of their software which would be compatible with Apple operation system. Microsoft must as well offer information necessary to prepare Apple software compatible with Windows system.

Things were weird for a few years – 5 years to be exact of existence of the 'Microsoft Deal'. During that period Steve Jobs only had good things to say about Redmond (Headquarter of Microsoft).

Questions and tasks:

- 1) How would you characterize relations between Apple and Microsoft products during first periods of their development?
- 2) Why in your opinion Microsoft helped and saved Apple Company and accepted the deal proposed by Steve Jobs?
- 3) What was different in Steve Jobs view on Microsoft and Microsoft products and view of Apple employees?
- 4) How you could use the above mentioned models for analysis of Apple Microsoft links and next strategy proposal?

4. Period: Frenemies (2003 to 2011)

Five year of cooperation was successful especially for Apple Company. Money from Microsoft allowed solved financial problems and continue the work of new projects, especially iPod and iTunes. Capitalisation of Apple was before the Microsoft deal about 3 bil. USD, 2003 after the end achieved more than 500 bil. USD and was bigger than capitalisation of Microsoft Corp.

New Apple strategy of Steve Jobs on the other hand respected the dominant position of Microsoft and Windows on computer market. He understood Apple is not in condition to compete with dominant market player Microsoft. Microsoft although it through new initiative of Apple has lost some market share, assured his position and protected his statement in discussion about misuse of dominant position.

The Apple became again cool in 2003 with introduction of iPods, which were selling like hotcakes. Apple understood it could not compete with Microsoft on the desktop so it brought the battle to another field: mobile. For many was decision of Apple to develop and introduce iPhone (2007) and iPad (2010) surprising and dangerous. But it was huge success and brought Apple among important player in ICT industry.

In mobile Microsoft was a minor player. It diversified own activity into entertainment industry, through launch of player console Xbox (2001) and later acquisitions of games developing software companies.

5. Period: Today situation – since 2011

After 2010 both companies developed without direct impact of their main personalities. Bill Gates decided 2009 to finish all official position in Microsoft structures. Microsoft share he moved to foundation created by him and his wife and through it he controls activity of Microsoft. Activity of Steve Jobs for Apple was interrupted by his illness and finally his death on cancer in 2011.

Both company did not stopped their activity. Especially Microsoft was very active by acquisition. In the year 2011 it acquired leading company in internet communications - Skype. Two years later it acquired former titans in mobile communication, Finnish company Nokia. As result of that 2014 for the first time mobiles with brand Microsoft were launched on the market. Microsoft used for their mobiles product name Lumia, which was used for smartphones developed by Nokia.

Questions and tasks:

- 5) Why do you think Microsoft acquired Nokia? How you can use Porter analysis of core Microsoft product (Windows system) to find answer to this question?
- 6) How would you characterize recent relation of Apple and Microsoft products in different segments and product categories?
- 7) How is competitive situation influenced by other market subject? Which are the most dangerous players for both companies and why?