

Taking Apple to new heights

SAZZADUL HASSAN

IT was January 24, 2012. Investors, business analysts, in fact, the whole business community were eagerly waiting as Apple was expected to announce its first quarter financial results for fiscal 2012 at 5pm from Cupertino, California. This particular event drew special attention of the business world as this was the first full quarter led by Tim Cook after the legendary Steve Jobs had stepped down as Apple's CEO on August 24, 2011, because of his unfortunate health issue.

It was an extraordinary result from many aspects. Apple earned record breaking quarterly revenue of \$46.33 billion, which was \$26.74 billion in the same quarter of the previous year. The company posted record quarterly net profit as well -- \$13.06 billion, a huge jump by over \$6 billion they made a year ago. Some of the highlights of Apple's performance in this particular period were:

- iPhone sales had a growth of 128 percent over the comparable quarter in 2010. They sold 37 million iPhones in the quarter.
- iPad sales also had a significant rise of 111 percent. Around 15.4 million iPads was sold in the quarter reported.
- Mac sales stood at 5.2 million, an increase of 26 percent.
- iPod sales experienced a downturn of 21 percent as the iPhone cannibalises sales of the more limited-function devices.
- The company holds \$97.6 billion cash on hand.
- Revenue from iTunes hit \$1.7 billion.
- There are 1.5 million iPads being used by educational institutions.
- iCloud has 85 million users. There are now 550,000 applications available. Developers of such applications have earned more than \$4 billion, \$700 million in quarter one.
- Apple Stores produced \$6.1 billion in revenue for the quarter. The average revenue per store was \$17.1 million vs. \$12 million last year. There are about 22,000 visitors per store per week.
- Apple's revenue for the quarter was higher than the company's revenues

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Tim Cook

for its entire fiscal 2009.

In the backdrop of prevailing fierce competition in the tablet and smart phone industry, these were spectacular results and not really expected by many analysts and industry experts. It was a bolt from the blue to the business world when Jobs resigned from his position as CEO. There were a lot of discussions on how Cook would fill the shoes of Jobs who is regarded as one of the greatest CEOs the world has ever produced. Many experts from Silicon Valley were cynical. One of their main arguments was that Cook lacked creativity in regards to product design and introduction of innovative products for which Jobs was renowned. Some experts branded him merely as an "Ops Guy".

It was a kind of a myth that "Steve is irreplaceable". Cook even once commented, "Come on, replace Steve? No. He's irreplaceable... That's something people have to get over. I see Steve

there with grey hair in his 70s, long after I'm retired."

Cook clearly had Steve's blessing. According to Jobs, Cook's name was already down in an existing CEO succession plan. In fact, it was Jobs who brought Cook to Apple in 1998. Cook is a seasoned campaigner and has significant experiences and achievements under his belt. He has a successful career of 29 years in the computer industry, 13 of which have been spent at Apple and 12 at rival IBM. In addition to his work with Apple, Cook is also a member of the board of directors at Nike.

Cook is known for being a calm, collected and quiet man, quite contrary to the very animated style of his predecessor. His work style is fairly intensive to the point that he is often described as being a "workaholic". A typical day might see Cook begin checking and sending emails at around 4:30 am. He is known for hold-

ing staff meetings on Sunday nights to prepare for the week ahead. Cook proved his intense devotion to work during his tenure at IBM -- even once volunteering to work over the Christmas and New Year holidays just so IBM could complete its orders for the year. With intense devotion to work, his former IBM boss Richard Daugherty said Cook had "a manner that really caused people to enjoy working with him."

Cook left IBM in 1994 and joined Intelligent Electronics in the computer reseller division. He had become the COO of that division before he moved to Compaq for a short stint of six months. He started his journey at Apple with an office near Jobs and as senior vice president of worldwide operations. The first thing he started was to steer Apple away from manufacturing components themselves. Instead, he ensured Apple established strong relationships

with external manufacturers. Cook's relation with supply chain was best described by an anecdote reported by CNN. It happened in 1998, soon after he joined Apple. In a meeting convened to tackle a problem in China, he had said: "This is really bad someone should be in China driving this." Thirty-minutes in the meeting, he looked at Sabih Khan, the then operations executive, and said, "Why are you still here?" Khan, without even getting a change of clothes, immediately booked a ticket to China.

He made tremendous success in managing inventories, which were troublesome for Apple at that time. A report in business magazine Fortune acknowledged his success -- "As a result, Apple's inventory, measured by the amount of time it sat on the company's balance sheet, quickly fell from months to days. Inventory, Cook has said, is 'fundamentally evil ... You kind of want to manage it like you're in the dairy business. If it gets past its freshness date, you have a problem'."

Cook never looked back. As time progressed, he started taking on more responsibilities, which included leading the sales force, customer support, the Macintosh division from 2004 and in 2007, becoming Apple's COO. He served multiple stints as an interim CEO -- first in 2004, then in 2009, and he has been at the helm of the company since January 2011 while Jobs continued to battle health issues. Those responsibilities would have played a big part in his selection for the CEO position today.

It is no wonder that expectations from the Apple CEO is sky high from all quarters of the society -- be it investors, analysts, consumers or even employees. Cook has so far been managing the pressures efficiently. Jeffrey Pfeffer, a professor at Stanford's Graduate School of Business, said, "Tim Cook doesn't need to be Steve Jobs -- he needs to be the best Tim Cook he can be. Cook understands what he is good at and what he is not good at."

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Rise of the machines

CHRISTIA FREELAND

IF you want to get a finger-tip feel for one of the most important transformations in our world today, read The Fear Index, Robert Harris's new thriller.

Harris has been widely praised for his adept portrayal of the hedge fund universe in which his novel is set. "The greatest pleasure of this book is that it gets the finance right," cooed Felix Salmon, the Reuters finance blogger whose keyboard often oozes acid.

He is right that Harris's hedgies are a welcome and realistic departure from the Masters of the Universe of most popular fiction. For one thing, these are the alpha geeks, the nerdy doctorate-holders whose testosterone is channelled into equations instead of frat-house swagger.

And Harris knows his superrich. As they are being wooed to make a billion-dollar investment, over a 1995 Latour in a fine Geneva restaurant, an international group of investors energetically discusses the ways that their national governments oppress them. Dr Alex Hoffmann, the billionaire hedge fund manager protagonist who is making the pitch for their cash, reflects: "He was remembering now why he didn't like the rich: their self-pity. Persecution was the common ground of their conversation, like sport or the weather was for everyone else."

But the most valuable intellectual takeaway from this riveting novel is the element that has been widely dismissed by reviewers as familiar and unconvincing: VIXAL, the intelligent machine at the heart of the story that torments its human creator and may be trying to rule the world. Michiko Kakutani, writing in the New York Times, gave The Fear Index a thumbs-up, but deemed the machine takeover "silly and con-

trived." VIXAL, the evil genius computer, "seems less like a plausible villain than like a metaphor for the greed and heedlessness that overtook Wall Street," she wrote.

Kakutani's dismissal of VIXAL as an unoriginal and unconvincing reworking of the Frankenstein template misses the most important point. VIXAL and the parallel world the computer program creates by interacting with other machines is worth reading about -- but not for the usual pulp fiction pleasure of entering a vividly rendered imaginary world.

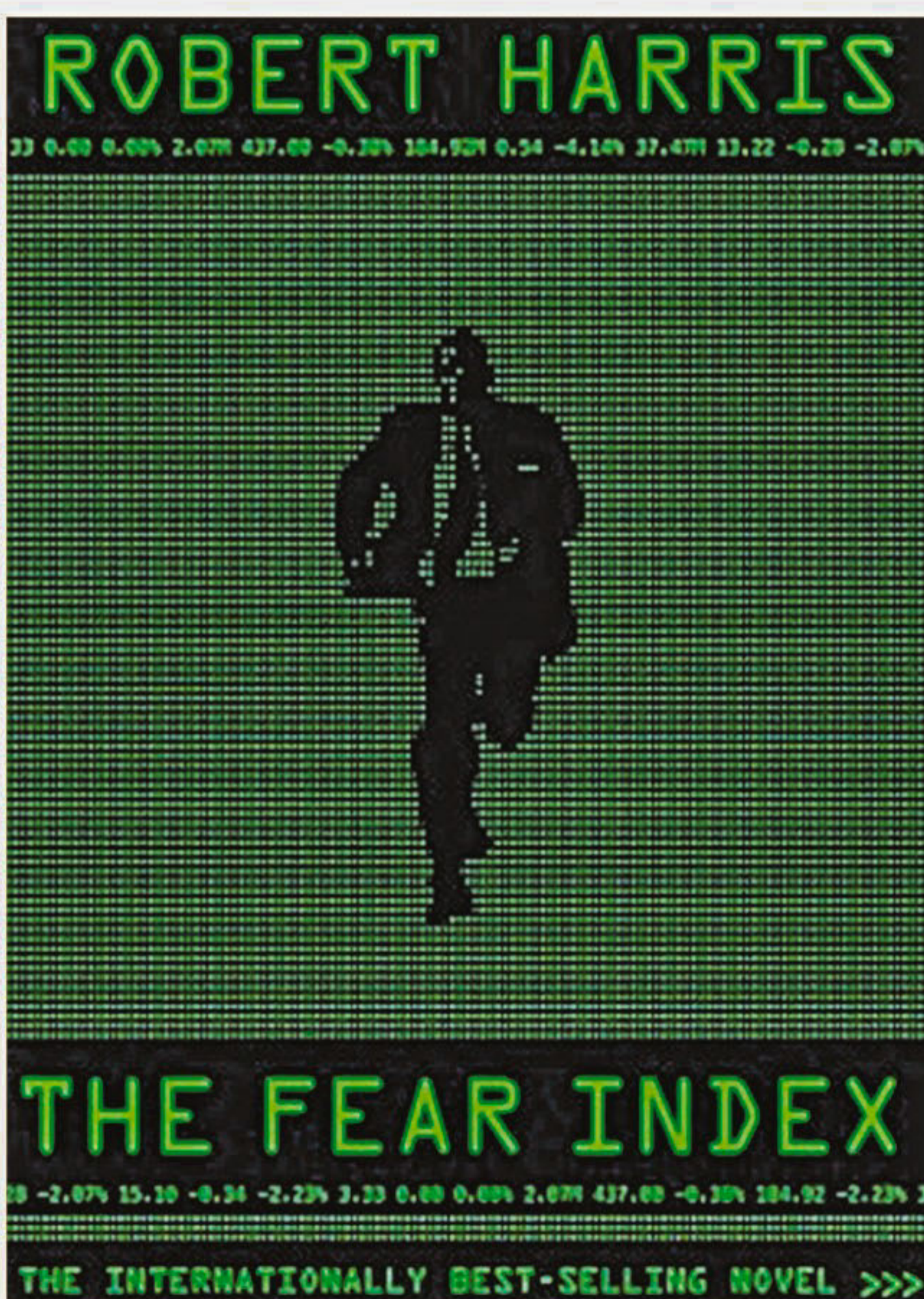
The Fear Index is fun to read because Harris is a great novelist, but VIXAL is worth getting to know not as a fictional character, but because so much of what it does is already happening in real life.

Futurists and fantasists have been dreaming about the rise of intelligent machines for centuries. Now it is actually starting to happen.

For a drier but in many ways even more astonishing account of what is going on, read "The Second Economy," an essay in the McKinsey Quarterly by W Brian Arthur, a visiting researcher at the Intelligent Systems Lab at the Palo Alto Research Centre in California.

Arthur's contention is that a second, machine-to-machine economy is emerging and that it will bring deep economic, social and political change comparable to the transformation wrought by the Industrial Revolution.

"Business processes that once took place among human beings are now being executed electronically," Arthur writes. "They are taking place in an unseen domain that is strictly digital. On the surface, this shift doesn't seem particularly consequential -- it's almost something we take for granted. But I believe it is causing a revolution no less important and dramatic than that of the railroads. It is quietly creating a second economy,



a digital one."

Arthur describes this economy as "vast, silent, connected, unseen and autonomous (meaning that human beings may design it but are not directly involved in running it)." The second economy is manifest in transactions as quotidian as checking in for a flight with a machine and as esoteric as the algorithm hedge funds of Harris's thriller, which use information

produced by machines to trade with other machines.

Economists and novelists aren't the only people musing about the rise of the machine-to-machine economy and its transformative potential.

Yuri Milner is one of the savviest technology thinkers in the world; he was a pioneering investor in Facebook, a bet that was wildly vindicated last week.

Milner has a presentation in which he describes the nine most important changes in the world today. Three of them are about what Arthur has dubbed the second economy: the rise of what Milner calls "the Internet of things," or the machine-to-machine economy; the growing power of artificial intelligence; and the emergence of a "global brain," which is the network of all of the people and the machines in the world and their connections to one another.

The one aspect of The Fear Index that is tired and familiar is its depiction of the rise of the machine-to-machine economy as murderous and menacing. That time-worn worry that the smart machines will turn on their creators isn't one I share. I am a fan of the machine-to-machine economy and of all the ways it makes my human life easier and less expensive.

But I am concerned about something Harris only hints at. At the end of The Fear Index, VIXAL changes its hedge fund's mission statement. The first lines of the new, machine-written version, read: "The company of the future will have no workers."

I'm not afraid our smart machines will try to exterminate us, but I do worry that the second economy may be a jobless one.

Arthur doesn't offer much comfort on that score. In an exchange with a reader after his essay was published, the economist wrote: "Since the second economy began, in the early and mid-1990s, we've had wave after wave of downsizing and layoffs, and now we have ongoing structural joblessness. I hope jobs will be created, and maybe they will. More likely, the system, as so many times before in history, will have to readjust radically. It needs to find new ways to distribute the wealth."

Christia Freeland is the editor of Thomson Reuters Digital.

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