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Apple's One-Dollar-a-Year Man

By Steve Jobs
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FORTUNE

(FORTUNE Magazine) – Now that Steve Jobs has showed his hand on Apple's Internet and system software strategies and dropped the "interim" from his title, other questions loom. He's always denied it, but isn't it true that his old company, Next, did wind up taking over Apple? Will there ever be an encore to the 15-year-old Macintosh? Short of that, does Apple have any plans to jump into the "Internet appliance" fray? Will Apple ever build computers for business people again? And what, pray tell, does Steve think of all these young Internet zillionaires? Let's ask.

Practically every technology that your old company, Next, possessed when Apple acquired it in 1997 is now being used by Apple in some strategic way. This must seem like sweet vindication.

The thing about Next was that we produced something that was truly brilliant for an audience that our heart really wasn't into selling to—namely, the enterprise.

I suppose if you were writing a book, this would be a great plot line, because the whole thing circles back. All of a sudden, it's coming out for the market that we would've liked to create it for in the first place—i.e., consumers. So it's a good ending.

So now you're at the beginning of something else. How did Apple's Internet services come together? It seems like it happened quickly.

We entered 1999 with a feeling of having had tremendous success in 1998, what with the introduction of the iMac and all. And I was getting suggestions from people inside and outside Apple that we needed to think about starting an ISP [Internet service provider] business, just like Compaq and Gateway and Dell.

I was dragging my feet because it just didn't feel right. The more I thought about it, the more I saw that you can separate services from Internet access, and use those unique services to create incredible competitive differentiation, regardless of who provides the access. We didn't have to be an access provider ourselves to get most of the benefits.

Remember, we have a lot of market power in that we own an extremely popular Internet-access device. If you look at most ISPs, their No. 1 expense by a mile is customer acquisition. Well, we're acquiring new customers all the time; one third of all iMac customers are first-time computer owners. We can help those hundreds of thousands of newbies—who also happen to have incredible demographics—find an ISP. So we've made Earthlink our exclusive ISP; we'll get paid a bounty and they'll get new customers.

I'd say the big light bulb on services came on about nine months ago. The big light bulb being: "Wait a minute. We own a major operating system. Why don't we build some services that work uniquely with it to give us unfair competitive advantage?" Everything fell into place this fall. Our secret weapon to be able to build these services so quickly is OS X and the set of programmers' development tools that goes with it, WebObjects. We really do eat our own dog food around here.

Given that you're emphasizing Mac OS X and iTools, and not even introducing new hardware at a time of year when you customarily do, should Apple's new slogan be something like "It's the software, stupid"?

We're still heavily into the box. We love the box. We have amazing computers today, and amazing hardware in the pipeline. I still spend a lot of my time working on new computers, and it will always be a primal thing for Apple. But the user experience is what we care about most, and we're expanding that experience beyond the box by making better use of the Internet. The user experience now entails four things: the hardware, the operating system, the applications, and the Net. We want to do all four uniquely well for our customers.

You seem more focused than ever on the consumer market. Why do you think it holds so much promise?

A lot of people can't get past the fact that we're not going after the enterprise market. But that's like saying, "How can the Gap be successful not making suits?" Well, we don't make wingtips here either.

Then again, big companies are beginning to buy a lot from us simply because they like our jellybeans. If you want to have your employee up and on your intranet in seven minutes and if you want to have lower maintenance costs than you would running Windows, iMacs are great. But we make zero effort to sell to big companies.

We think that a lot more big businesses will eventually come back to us, because FORTUNE 500 companies use a lot of consumer products. If you want a minivan for your corporation, you don't have one custom made; you go to the Chrysler dealer and buy one. They make great minivans, even though they don't make them for Corporate America. Even so, a lot of big companies—including ours—buy them.

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It's really hard to serve multiple masters—different sets of customers with completely different points of view, requirements, and ways of approaching computing. I think Microsoft is experiencing this.

I've always believed that the biggest market for PCs is consumers. The Mac was originally intended to be a consumer PC. One of the big arguments I had with [former Apple CEO] John Sculley was that the Mac was designed to sell for \$1,000. Yes, we overshot a little and it cost too much to make to sell for that, but even so, I thought it should have sold for between \$1,500 and \$1,799. John wanted to bump it up to \$2,499. His vision was to keep on going all the way up and have Macs selling for \$5,000 or \$10,000. After I left, that's exactly what Apple did.

By some measures, it worked. Apple made a fortune, although not as much as we're making today. What they didn't understand was that they had thrown away one of the greatest chances they'd ever get to win market share. They went for \$1 billion in extra profits over four or five years when what they really should have done was tell everybody they would make 'normal' profits and go for market share.

Just about every other computer maker is exploring new digital devices that can tap into the Internet, but you're still focused on personal computers. Why?

Everyone's talking about "information appliances" and other "post-PC" devices. So far, there have only been two or three that have succeeded—the Palm and game machines like the Sony PlayStation and possibly the cell phone. None of the others have succeeded. Why is that?

Well, if you look at the Internet, you can see it is absolutely optimized for PCs. All the pages are laid out to be viewed on a PC. That's one reason WebTV—a device that displays Websites on a normal TV—has failed. Beyond that, the Web is rich with things like Java and QuickTime and RealPlayer and MP3 sound files. By the time you build a device that [can handle those things], you've got something that is like a PC without the disk drives and is only about \$50 cheaper than a PC or an iMac.

Then you ask your user if they care about storing anything. Do you care about storing MP3 files, or would you rather wait a few minutes to download them every time you want to hear them? Do you care about storing the photos you take with your digital camera? The answer is almost always yes. It's not that expensive to add a disk drive to let you do these things, and once you do, you're back to a PC. The only way to make it any cheaper is to start giving up things.

Apple is very much weighted toward the consumer-electronics space right now, because we're selling to a lot of consumers and we want to help them get more benefits from hooking up various things to computers and to each other. The perfect example is the digital camcorder and the iMac. It's amazing what you can do when you plug these things together—we call it iMovies.

I won't lie, we're working on other digital devices like everybody else. But I'm not convinced that customers won't pay a little bit more for a device that's not going to be obsolete in a year and that's going to give them the full Internet experience, not an "Internet Jr." experience.

What has always distinguished the products of the companies you've led is the design aesthetic. Is your obsession with design an inborn instinct or what?

We don't have good language to talk about this kind of thing. In most people's vocabularies, design means veneer. It's interior decorating. It's the fabric of the curtains and the sofa. But to me, nothing could be further from the meaning of design. Design is the fundamental soul of a man-made creation that ends up expressing itself in successive outer layers of the product or service. The iMac is not just the color or translucence or the shape of the shell. The essence of the iMac is to be the finest possible consumer computer in which each element plays together.

On our latest iMac, I was adamant that we get rid of the fan, because it is much more pleasant to work on a computer that doesn't drone all the time. That was not just "Steve's decision" to pull out the fan; it required an enormous engineering effort to figure out how to manage power better and do a better job of thermal conduction through the machine. That is the furthest thing from veneer. It was at the core of the product the day we started.

This is what customers pay us for—to sweat all these details so it's easy and pleasant for them to use our computers. We're supposed to be really good at this. That doesn't mean we don't listen to customers, but it's hard for them to tell you what they want when they've never seen anything remotely like it. Take desktop video editing. I never got one request from someone who wanted to edit movies on his computer. Yet now that people see it, they say, "Oh my God, that's great!"

I don't see enough innovation like that in our industry. My position coming back to Apple was that our industry was in a coma. It reminded me of Detroit in the '70s, when American cars were boats on wheels. That's why we have a really good chance to be a serious player again.

You and Apple have been responsible for popularizing the personal computer. What will be the next big breakthrough?

People are always asking, "What will be the next Macintosh?" My answer still is "I don't know and I don't care." Everybody at Apple has been working really hard the last two and a half years to reinvent this company. We've made tremendous progress. My goal has been to get Apple healthy enough so that if we do figure out the next big thing, we can seize the moment. Getting a company healthy doesn't happen overnight. You have to rebuild some organizations, clean up others that don't make sense, and build up new engineering capabilities.

Another priority was to make Apple more entrepreneurial and startup-like. So we immediately reorganized, drastically narrowed the product line, and changed compensation for senior managers so they get a lot of stock but no cash bonuses. The upshot is that the place feels more like a young company.

We're trying to use the swiftness and creativity in a younger-style company, and yet bring to bear the tremendous resources of a company the size of Apple to do large projects that you could never handle at a

startup. A startup could never do the new iMac. Literally 2,000 people worked on it. A startup could never do Mac OS X. It's not easy at a big company either, but Apple now has the management and systems in place to get things like that done. I can't emphasize how rare that is. That's what makes Sony and Disney so special.

Now when we see new things or opportunities, we can seize them. In fact, we have already seized a few, like desktop movies, wireless networking, and iTools. A creative period like this lasts only maybe a decade, but it can be a golden decade if we manage it properly.

You've finally done away with the word "interim" in your title. But you still only let Apple pay you \$1 a year. Why don't you take any salary or stock yet?

The board has made several incredibly generous offers. I have turned them all down for a few reasons. For the first year I did not want the shareholders and employees of Pixar to think their CEO was going on a camping trip over to Apple never to return. After two and a half years, I think that the management teams at Pixar and at Apple have demonstrated that we can handle this situation. That's why I dropped the "interim" from my title. I'm still called iCEO, though, because I think it's cool.

Bottom line is, I didn't return to Apple to make a fortune. I've been very lucky in my life and already have one. When I was 25, my net worth was \$100 million or so. I decided then that I wasn't going to let it ruin my life. There's no way you could ever spend it all, and I don't view wealth as something that validates my intelligence. I just wanted to see if we could work together to turn this thing around when the company was literally on the verge of bankruptcy. The decision to go without pay has served me well.

Do you ever look around and think that a younger generation is driving this industry now?

I had dinner in Seattle at Bill Gates' house a couple of weeks ago. We were both remarking how at one time we were the youngest guys in this business, and now we're the graybeards.

When I got started I was 20 or 21, and my role models were the semiconductor guys like Robert Noyce and Andy Grove of Intel, and of course Bill Hewlett and David Packard. They were out not so much to make money as to change the world and to build companies that could keep growing and changing. They left incredible legacies.

It's hard to tell with these Internet startups if they're really interested in building companies or if they're just interested in the money. I can tell you, though: If they don't really want to build a company, they won't luck into it. That's because it's so hard that if you don't have a passion, you'll give up. There were times in the first two years when we could have given up and sold Apple, and it probably would've died.

But then, the rewarding thing isn't merely to start a company or to take it public. It's like when you're a parent. Although the birth experience is a miracle, what's truly rewarding is living with your child and helping him grow up.

The problem with the Internet startup craze isn't that too many people are starting companies; it's that too many people aren't sticking with it. That's somewhat understandable, because there are many moments that are filled with despair and agony, when you have to fire people and cancel things and deal with very difficult situations. That's when you find out who you are and what your values are.

So when these people sell out, even though they get fabulously rich, they're gypping themselves out of one of the potentially most rewarding experiences of their unfolding lives. Without it, they may never know their values or how to keep their newfound wealth in perspective.

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