

Apple Retail Stores

On May 21, 2001 Apple announced that its first two retail locations welcomed over 7,700 people and sold a combined total of \$599,000 of merchandise during their first two-day weekend. The stores, located in Glendale, California and McLean, Virginia are the first of 25 stores the company is opening across the U.S. in 2001. An additional unspecified number of store openings is slated for 2002.

“We are blown away with the numbers,” said Steve Jobs, Apple’s CEO. “More importantly, customers have told us they love everything about the store—from the knowledgeable sales staff to the Genius Bar to the store’s design and unique approach to presenting digital lifestyle solutions.”

At each Apple store, knowledgeable salespeople will be able to demonstrate Macs® running innovative applications like iTunes and iMovie™, as well as Mac® OS X, Apple’s revolutionary new operating system. All of the Macs are connected to the Internet, and several are connected to digital lifestyle products that complement the Mac experience, such as digital cameras, digital camcorders, MP3 players, and handheld organizers. The Apple stores are set to be around 6,000 square feet, and will carry Apple hardware and third-party software, plus products such as handheld computers from Handspring Inc. and Sony Corp. that can connect to Apple computers. Stores will carry inventory for every Apple and third-party product displayed to ensure immediate fulfillment.

Apple, whose market share stands at about 5%, has historically been carried only by some large electronic retailers and several smaller Apple resellers. So, while other PC makers have been moving away from company-owned stores, some analysts have considered them a necessity for Apple.

In his first public discussion of the effort, Steve Jobs said Apple is motivated to open its own retail outlets because 95% of consumers "don't even consider Apple" when purchasing a computer right now (Exhibit 1). He said Apple needs staffed outlets to demonstrate how its hardware connects to devices such as camcorders and digital cameras, showing how Apple's computers can be a "digital hub" for the home (Exhibit 2).

Apple's chief financial officer, Fred Anderson, said the stores are expected to break even by the end of 2001, and will likely be profitable in Apple's fiscal 2002 year. Mr. Jobs said the store openings have been in the works for the past two years; Apple created a prototype store in a warehouse near its main campus before it went out to build the actual outlets. The company has recruited heavily from retailers such as Target Corp., Gap Inc., Bloomingdales and others in order to create a retail division.

Professor Alexander Chernev prepared this case as a basis for a class discussion rather than to illustrate either effective or ineffective handling of a marketing situation.

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Exhibit 1: Apple's Manifesto: Five Down, Ninety-Five to Go.

A Special Message To Windows Users: Welcome

Over the years, there have been more than a few misconceptions about Macs. Let's take a look at some of the most popular ones.

Myth 1: Everyone uses Windows.

Fact: If you're an accountant, you're most likely surround by beige Wintel boxes. But if you work in nearly every creative field, you most likely use a Mac. Like in graphic arts, advertising and publishing. Or in Hollywood. Or in science-based industries like biotech. Or in education, where half of the computers are Apples. Or if you are President of the United States (our two most recent presidents, a Democrat and a Republican, both use Macs). Even 25% of America's lawyers use Macs. In all, over 25 million people use Macs in their homes, offices and schools every day.

Myth 2: Macs don't work with PCs.

Fact: Simply untrue. Every day millions of documents, emails and instant messages are sent between Macs and PCs. Word documents, Excel spreadsheets and PowerPoint presentations exchanged. Emails delivered and instant messages shuttled back and forth. This isn't news because it happens silently, daily, with no fanfare. That's because all Macs are designed to work seamlessly with PCs and connect into PC networks to easily access files and folders. The rest of the world should get along so well.

Myth 3: The software I need isn't available for Macs.

Fact: There are over 15,000 applications available for the Mac, in every category imaginable. Productivity programs from Microsoft Office to FileMaker. Design programs from Photoshop to Maya. Filmmaking tools from Final Cut Pro to After Effects. Finance programs from Quicken to MYOB. And games from The Sims to Tony Hawk. But if you do encounter that rare program which isn't available for Mac, you can still run it right on your Mac using Virtual PC. Still think there's something you're missing? Go to apple.com and check for yourself. We promise not to say, "we told you so."

Myth 4: Macs don't run Microsoft Office.

Fact: Quite the opposite. Not only does a brand new version of Microsoft Office run on the Mac, but – and this is according to the company that made it – Office v.X for Mac OS X is actually better than its Windows cousin, with features available only on the Mac. Microsoft Office documents are fully compatible between Mac and Windows. So when you create an Excel spreadsheet or a Word document or a PowerPoint presentation on a Mac, you can send it to someone with a PC and it will open perfectly. And vice versa.

Myth 5: Windows has caught up with the Mac.

Fact: It can't be denied that Microsoft has made a good business out of copying the innovative Mac OS. And, truth be told, Windows XP is their best effort to date. But Mac OS X has sent them back to the drawing boards. Particularly with respect to graphics, everything digital (like music, movies

and photography), ease of use and elegances. In other words, all the things that make a state-of-the-art operating system, well, state-of-the-art. And we're not the only ones who think so. Consider critics like the Detroit Free Press, who recently proclaimed: "The new OS X for Macs runs circles around Windows XP." Or ZDNet's David Coursey, who praises Mac OS X as "The nicest operating system I've ever seen."

Myth 6: Macs are far easier to use than PCs.

Fact: Guilty as charged.

Exhibit 2: Field Questions and Answers Retail Apple Store: Reseller and Apple Field Q&A Why is Apple opening retail stores? On May 16, 2001, Apple placed national newspaper advertisements with the following "manifesto": 5 down. 95 to go. This Saturday, Apple is opening its first retail stores. Here's why:

Reason 1: Growth

Apple currently has around 5% market share in personal computers. This means that out of one hundred computer users, five of them use Macs. While that may not sound like a lot, it is actually higher than both BMW's and Mercedes-Benz's share of the automotive market. And it equals 25 million customers around the world using Macs.

But that's not enough for us. We want to convince those other 95 people that Macintosh offers a much simpler, richer and more human-centric computing experience. And we believe the best way to do this is to open Apple stores right in their neighborhoods. Stores that let people experience firsthand what it's like to make a movie right on a Mac. Or burn a CD with their favorite music. Or take pictures with a digital camera and publish them on their personal website. Or select from over 300 software titles, including some of the best educational titles for kids. Or talk to a Macintosh "genius" at our Genius Bar. Or watch a demonstration of Mac OS X, our revolutionary new operating system, on our theater's giant 10-foot diagonal screen.

Because if only 5 of those remaining 95 people switch to Macs, we'll double our market share and, more importantly, earn the chance to delight another 25 million customers. Here we go...

Reason 2: To convey that the Mac is the best computer to serve as the "digital hub" of people's lives.

The personal computer is evolving, quickly becoming the center of a new digital lifestyle. Instead of being just a standalone computer, the computer is now becoming the center for a variety of portable digital devices. Mac hardware, the operating system, powerful desktop applications and portable digital devices are combining to create solutions. We want to show and teach people about these solutions. We want to show them iTunes; let them see how to bring a whole library of music onto their computers and burn songs onto a CD right in the store so they can take it home with them. We want to show them how to make a movie on a computer, then get on the Internet and use iTools to take the movie and create a personal website featuring that movie. We want to show people how to do these things. When people see how the complete solution works, they will see how the Macintosh is the best computer to serve as the digital hub for their lives.

Reason 3: To establish the “gold standard” for the Mac buying experience.

We want to set an example for all of our resellers. Maybe they’ll have better ideas, but if they don’t we want them to take our ideas and adopt them as their own.

Is Apple’s management team experienced in the retail store arena?

Apple’s attitude is that retailing is hard, and so we’ve approached this effort in a humble way, but with preparation and due diligence in order to be successful. We’ve formed a management team of people very experienced in retail. Mickey Drexler, CEO of The Gap joined Apple’s board of directors two years ago and has been instrumental in this effort. Ron Johnson, former VP of Merchandising for Target is Apple’s Senior Vice President of Retail. Kathy Calcidice, former President of Virgin Records and Victoria’s Secret is now Apple’s Vice President of Retail Operations. And Allen Moyer, Sony’s Sr. VP of Development, the man who built the Sony Metreon in San Francisco, is the Vice President of Development for Apple.

Why does Apple think it will be successful with a retail store effort? Apple has considered the following success factors and why it is positioned to do well:

Concept

Apple’s products are not a brand new or risky concept. Apple’s product offerings are well established with billions of dollars in annual sales.

New Product Pipeline

Apple has over 2,000 people in engineering groups who work on exciting products, which in just the past year have included the new iBook, Titanium PowerBook G4, iMacs with CDRW, and Power Mac G4 computers that can burn DVD videos.

Financing Apple is financially solid with over \$4 billion in cash. With such a solid balance sheet, Apple is not dependent on outside firms for financing. Marketing Arguably, Apple has one of the most recognizable brands in the world, and Apple’s new wave of advertising is reaching out to consumers through print, outdoor, and on-air advertising.

Supply Chain Management

In the past 3 years, Apple has demonstrated repeatedly its prowess as one of the best at supply chain management in the world.

Information Systems Apple has developed a point-of-sale system that is connected all the way through to suppliers around the world. Apple has this capability on day 1 while others have been trying to achieve such a system for years and are still not there.

Real Estate

Apple is attempting to capture the “other 95%” by putting itself in hightraffic locations. If it is true that 95 out of 100 people don’t even consider the Macintosh when buying a computer, then they certainly aren’t going to make the specific trip to an Apple store if it is a “big box in a parking lot”;

rather it is important to select environments where people are shopping, seeking entertainment, or having lunch or dinner anyways.

Store Design

For an entire year, Apple prototyped numerous store designs in a warehouse. The company brought in Michael Fisher, the creative director of Bloomingdale's, and researched and evaluated the best stores in the world. We went to London. We went to New York. We've created an inviting and exciting retail buying environment. The windows at the entrance of the stores themselves are fun, engaging, and designed to draw people into the store from outside. The store even features a very high quality 10-foot screen for presenting and entertaining.

Operational Excellence

Apple has demonstrated its operational excellence for the past several years. As it enters into retail, the company intends to emulate the operational excellence of Wal-Mart, Target, Home Depot, and other such retailers. Whereas most startups strive to achieve this, Apple will have this type of operational excellence from day 1. Part of the key to success in this area is the leveraging of Apple's current supply chain management, information systems technologies, and financial planning and controls.

How can Apple afford to open 25 stores in 2001 and more in 2002?

Over the last three and a half years, Apple has generated over \$2.7 billion in cash, thus ending the most recent quarter with a total of over \$4 billion in cash. Apple's operational plan is for the retail business to break even by the holiday quarter with a slight profit expected in fiscal 2002.

How many stores does Apple plan to open and where will they be located?

Apple has announced plans to open 25 Apple-owned retail stores during the remainder of 2001. The first two stores open on Saturday, May 19, 2001 at the following locations: Tysons Corner Center, McLean, VA 22102 and Glendale Galleria, Glendale, CA 91210

The other 23 stores will open across the nation, including the following locations:

South Coast Plaza Irvine, California
Colorado Blvd Pasadena, California
Fashion Island Newport Beach, California
Valley Fair San Jose, California
University Avenue Palo Alto, California
Burlingame Avenue Burlingame, California
North Michigan Avenue Chicago, Illinois
Lincoln Park Chicago, Illinois
Woodfield Schaumburg, Illinois
Mall of America Minneapolis, Minnesota
Soho (Prince Street) New York City, New York
Westfarms Hartford, Connecticut

The other 11 locations have not yet been announced by Apple. Apple has also stated that it will

open more stores in 2002, although details have not yet been disclosed by Apple.

What information is Apple using in determining where to open its stores?

Apple conducted research on where its Mac customers live and also where Wintel customers live. It discovered that both sets of customers live in the same locuses of concentration, across the United States. Apple is selecting locations where people are shopping, seeking entertainment, or having lunch or dinner anyways. This includes high-traffic gathering places, hip streets, high-end high-traffic malls, and “lifestyle centers.”

Is any consideration being given to the locations of existing resellers?

There are 3,000 Apple authorized reseller locations in the U.S. today. Apple’s 25 stores will comprise less than 1% additional locations. Apple’s strategy is to work side-by-side with its resellers, increasing Apple presence and mindshare in their communities. Apple also believes that “destination locations” won’t work for Apple. If it is true that 95 out of 100 people don’t even consider the Macintosh when buying a computer, then they certainly aren’t going to make the specific trip to an Apple store if it is a “big box in a parking lot”; rather it is important to select environments where people are shopping, seeking entertainment, or having lunch or dinner anyways. This includes high-traffic gathering places, hip streets, high-end high-traffic malls, and “lifestyle centers.”

What will the store hours be?

These will vary by location. The store hours for the first two stores to be opened are as follows:
Glendale Store Hours Tysons Corner Store Hours

Monday - Friday: 10 a.m. to 9 p.m. Monday - Saturday: 10 a.m. to 9:30 p.m.

Saturday: 10 a.m. to 8 p.m. Sunday: 11 a.m. to 6 p.m.

Sunday: 11a.m. to 7 p.m.

How many employees staff each store?

Each store staffs approximately two dozen employees. How will the stores be staffed? There are three types of employees: Managers, Associates, and Mac Geniuses. The philosophy for customer handling is “one at a time.”

How large is each store?

The showfloor area (“front of store”) of each store is approximately 4,500 square feet. The total floor area, including the back room is approximately 6,000 square feet. The 25% of the store that is closest to the entrance showcases Apple’s entire product line. Both the professional products and the home products are displayed here, including CPUs and displays. The middle 50% of the store is dedicated to solutions. There are 4 solutions sections: music, movies, photo, and kids. Each of these areas includes third-party peripherals and software that support the respective solution. The back 25% of the store includes 3 elements: the “genius bar,” a presentation theater, and an area devoted to third-party peripherals, cables, and consumables.

What third-party products will the Apple Store carry?

Apple's approach to third-party products is to distill the vast selection down to that which Apple considers the "six best options" in each peripheral category, for the available spectrum of pricing. So Apple will carry 6 digital cameras, 6 camcorders, 6 mp3 players, and 6 handheld organizers. By carefully and meticulously editing the product selection, Apple has helped make decisions for its customers. This helps the customer to avoid confusion over what's the right choice for them. We've edited the list down to just the best. In addition, Apple will carry over 300 software titles. These will be featured on shelving located down the middle of the store. Each software section faces the appropriate "solution area" that occupies the middle 50% of the store.

Will the store sell from inventory or be "display only"?

All stores will carry inventory for approximately 500 SKUs. The Apple retail stores will be located in high traffic places like malls, and people have the expectation of "buying and taking" in such an environment. Will the computers in the store have application software preloaded? A typical retail Apple Store will feature 35 computers. Every computer will be fully loaded with software for the respective "solutions" area. So a customer wishing to test drive Photoshop, or Final Cut Pro, or QuarkXPress will be able to do so, right then and right there. Every computer will be connected to the Internet via AirPort wireless networking.

Will the store provide service/repair?

The store will provide service and repair. The "genius" on staff will diagnose repair situations at the "genius bar" while the customer is in the store. The following are the service offerings at the retail Apple Store:

- installation of new products purchased at the store

- carry-in software assistance and break/fix repairs
- data transfer
- facilitation of depot repairs
- presentations and demonstrations in the theater

The following services will NOT be offered at the retail Apple Store:

- color management
- on-site installation
- data recovery
- seminars and training classes (other than theater)

Note: the retail Apple Store will focus on servicing "current technology" products and will not accept repair of legacy desktop products older than the original iMac. However, the store will facilitate any PowerBook depot repair.

Will the stores stock service parts?

Yes.

What is the “genius bar?”

Apple will always staff two “Mac Geniuses” during any and every hour that the store is open. Customers can approach a Mac Genius at the Genius Bar and ask any technical question about the Mac. If the Genius is unable to answer the question, they have a red phone behind them that is a hot line to Cupertino, to enable them to get an answer right away. In addition, the Mac Genius will diagnose a repair situation right at the Genius Bar while the customer is in the store.

How big is the theater?

Most theaters will hold twenty customers. The North Michigan Avenue store in Chicago has a larger seating capacity.

Will the store offer products at better than MAP pricing?

No. The retail Apple Store will offer Apple products at MAP pricing. Non-MAP Apple products and third party hardware and software products will be offered at competitive prices.

Will education customers be able to purchase from the retail Apple Store?

Because Apple provides discounts for specific, eligible educational institutions, all educational purchases will be conducted at the online Apple Store via an in-store web kiosk.

Will the store have priority on product supply or delivery?

Supply of Apple product to the stores will be managed as part of Apple’s overall channel product management.

Will the store have demo units on product launch day?

In cases where Apple makes a surprise product announcement, the stores should expect to receive demo units with similar timing as Apple’s authorized resellers. If it is the case that Apple makes advance shipments to its resellers, then the retail Apple Store will also have advance shipments. What is the store return policy? If a customer is not satisfied with an Apple purchase, he or she may return it, with the original receipt, within 10 calendar days of the date of purchase. If the item is returned unopened in the original box, Apple will exchange it or offer a refund based on the original method of payment (for example, credit a credit card for a credit purchase). Unless the item is defective, a 10 percent open box fee will be assessed on any opened hardware or accessory. Opened software and memory may be exchanged only for exactly the same item and may not be returned for a refund. Non-Apple-branded products are sold by Apple “as is.” Customers should consult the appropriate manufacturer for information on terms and conditions of warranty. Items purchased at the Apple online store may be accepted for return in an Apple retail store only if the product is not a customized order (CTO), and only if the same product is carried in the store.

Is there a price protection period on purchases?

Note: the following information should not be shared with end-customers. Occasionally Apple finds it necessary to adjust the retail price of a product. In the event we adjust the price of an Apple-branded product, the retail Apple Store may, on request from a customer, offer one price adjustment per product, within 10 calendar days of the date of purchase. Apple will not offer price adjustments on third-party products.

Will the store receive different point-of-purchase/marketing collateral than resellers?

The design of the retail Apple Store is strategically crafted and designed to be inviting and engaging for customers. As elements of this environment, the retail Apple Store will utilize many of the same point-of purchase and marketing collateral that are made available to Apple's authorized resellers. In addition, Apple may produce in-store marketing materials that are specifically designed for the retail Apple Store.

Will Apple have special offers that are not available to its resellers?

As with the online Apple Store, circumstances may arise where occasionally a promotion may be offered at the retail Apple Store that is not formally made available to resellers. As has been the case with such promotions from the online Apple Store, resellers will be notified of them and are encouraged to assemble similar promotions for their customers on their own.

Does Apple have a statement about its commitment to the channel?

Apple is strengthening its commitment to the channel by opening retail Apple stores. By doing so, Apple helps to promote awareness of the Macintosh platform and reach some of that 95% of the population that historically hasn't even considered buying a Mac. In this sense, the retail Apple stores help Apple's resellers just as Apple's national advertising campaigns do. Apple also intends to set the "gold standard" of how Macs can and should be sold. Some resellers may in fact have better ideas and market the Mac platform in a superior manner, but if they don't we want them to adopt our ideas and sales methods as their own and enjoy the success that results from doing so.

How does the opening of retail Apple Stores benefit Apple's authorized resellers?

Apple currently has around 5% market share in personal computers. This means that out of one hundred computer users, five of them use Macs. Apple wants to convince those other 95 people that Macintosh offers a much simpler, richer and more human-centric computing experience. If by opening retail Apple stores the company can convince just 5 of those remaining 95 people to switch to Macs, Apple will double its market share. As the 25 Apple Stores comprise just 1% of the 3,000 reseller locations, a large part of a 100% market share increase goal would go to Apple's resellers.

Will Apple attempt to hire the employees of its resellers?

It is not Apple's strategy to approach its resellers as sources for staffing its stores. Rather, Apple's approach is to bring aboard people who currently live a "digital lifestyle" and are avid Mac users. Examples include recent college graduates with website design experience, former teachers who have integrated Macs in their teaching methodologies, and individuals from the creative arts who integrate Macs in their artistry. Apple is focused on finding Mac enthusiasts who are interesting

people with interesting hobbies.

Will the retail Apple Stores have a corporate sales force?

No. The retail Apple Store is designed as a storefront-only operation.

Will Apple make any effort to improve the buying experience at reseller storefronts?

Employees of the retail Apple Store are trained and knowledgeable about the extended network of resellers and resources available to customers. If the scope of need or service is outside that which is offered by the retail Apple Store, the employee is trained to refer that customer to a local reseller or consultant who can provide that offering. In addition, local resellers are invited to visit the retail Apple Store and meet with its management so that the reseller can leverage the ideas that work for their mutual customer base.

How does Apple see its resellers in its future plans?

It is Apple's goal to double its market share by convincing just 5 of the 95 people who aren't currently Mac customers, to buy a Macintosh. Achieving this goal would result in 25 million additional customers. As the 25 Apple Store locations comprise just 1% of the 3,000 reseller locations, a large part of a 100% market share increase goal would go to Apple's resellers. Can resellers have access to the information made available to the Mac Genius? All employees of the retail Apple Store utilize a web-based resource developed and maintained by the same team that developed and maintains Apple Sales Web.

Can resellers call the Cupertino hotline that the Mac Genius calls for assistance?

A Cupertino hotline has been made available for Apple authorized resellers to call during standard business hours. The number is 1-800-GO-APPLE. Authorized resellers may call this number to get technical sales assistance or help with information or troubleshooting. This is a resource that has specifically been established for Apple authorized resellers and is not utilized by end customers or employees of the retail Apple Store. Will the store refer customers to an Apple Solution Expert when requested?

Yes. The Mac Genius is trained to utilize the "Solution Experts" database to locate local Apple Solution Experts for interested customers.

Will the store work together with resellers, service providers, or consultants to fulfill services not offered by the retail Apple Store? Yes. Apple is very eager to establish relationships with resellers, service providers, and consultants to provide a complete solution for mutual customers.

What is meant by "the Mac Genius will offer 'concierge-like' service"?

The Mac Genius will refer customers to Apple resellers, consultants, and trainers when asked for a referral.

Will the retail Apple Store allow printed materials about local Apple resellers to be made available to interested customers?

The employees are trained to refer interested customers to Apple's authorized resellers if the desired products or services are not offered by the retail Apple Store. However, printed materials are not consistent with the store's personal-contact approach.

Can Apple Solution Experts participate at the Genius Bar?

No. Only store employees are permitted to work behind the Genius Bar. Will the "Where to buy" reseller locator on the home page of www.apple.com remain? Yes. This directory of locations will be updated to include retail Apple Store locations, and thus will feature both these locations and those of Apple's authorized resellers.

Will references to "or your local Authorized Apple Reseller" remain in Apple's advertising?

Yes. Apple will expand its advertising "call to action" to include the retail Apple Store in addition to the online Apple Store and Apple's Authorized Apple Resellers. Won't Apple promote its own stores in advertising? Apple is currently advertising its retail stores in national print advertising. This advertising is separate of its national product advertising which runs in print, outdoors, and on-air.

Are there opportunities to co-market with Apple and the retail Apple Store?

Currently, Apple has a comprehensive set of advertising materials for resellers, available for download on Apple Sales Web. Included are half and quarter-page newspaper ad layouts (camera-ready and customizable), radio scripts, and television ads customizable with the reseller's name and logo. An online radio/television order form makes ordering these custom ads easy. Apple will even produce the reseller-customized television spot for free, including all materials and shipping of digital master (reseller is responsible for purchasing and scheduling airtime). At this time, there are no formal plans for co-marketing the retail Apple Store.

Will Apple's product data sheets continue to reference "or your local Authorized Apple Reseller" as a purchase point for customers?

Yes. Apple will expand such references to include the retail Apple Store in addition to the online Apple Store and Apple's Authorized Apple Resellers.