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## CONSIDER THIS:

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### **#53** Steve Jobs' Endangered Second Act

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In his later years, the American Jazz Age author F. Scott Fitzgerald ruefully observed that "There are no second acts in American Lives." That now-famous verdict was based upon the personal experience of the once celebrated author, by then a self-described "Hollywood Hack," reduced to writing B movie scripts for much-needed current income.

If there is a current exception to Fitzgerald's axiom in the world of technology, it must certainly be Steve Jobs. The company he founded in a garage with partner Steve Wozniak quickly seized the lead in the PC revolution, reaching \$100 million in revenues by 1980. Later the same year, Apple launched the largest IPO since Ford Motor Company went public. But the introduction of the IBM PC and the rise of Microsoft wrought a reversal in Apple's fortunes, and in May of 1985, the man he had recruited to be his mentor ousted Jobs from his own company.

The rest, of course, is the stuff of which legends are made. Jobs attempted to vindicate his vision in 1985 by founding a new company that he unsubtly dubbed NeXT Computer. But NeXT never found its market: by 1993, it had sold only c. 50,000 machines. Then, at last, Jobs' fortunes began to improve.

In 1996, NeXT was acquired by Apple, which had itself been largely wandering in the wilderness during the intervening years. By acquiring NeXT, Apple not only obtained the rights to a new operating system, but it reacquired Jobs as well. Moreover, not long after leaving Apple, Jobs had bought an animation studio from LucasFilms for \$5 million, plus a \$5 million cash infusion into the studio itself. He later renamed that studio Pixar, and it went on to become wildly successful, making Jobs a very wealthy man twice over.

With the fantastic success of the iPod and iTunes, the successful launch of the tectonically innovative iPhone and the rejuvenation of Mac sales, Jobs now seems poised on the cusp of proving Fitzgerald wrong to the point of stomping on the author's grave. But will he in fact pull it off, leading Apple to dominate the mobile platform of the future after surrendering the emerging PC platform of the past to his rivals?

Given Jobs' announcements of yesterday, I'm afraid that history may be about to repeat itself instead. Here's why (or, to employ my usual phrase, "Consider this...").

Yesterday, Jobs made a number of impressive iPhone related [announcements](#), most significantly (for business users) disclosing that Apple had entered into an agreement with Microsoft whereby the iPhone will support Microsoft Exchange. Jobs contends that the result, along with further details, will allow Apple to more directly challenge Research in Motion's (RIM) dominant BlackBerry mobile device. If so, this would permit Apple to have the same impact on its competitors in the business space that it is already having in the consumer world, and perhaps more so, since the penetration of mobile devices in the business world is still much smaller than the spread mobile phones among consumers.

Jobs also revealed news of major appeal to consumers as well, announcing a new release of the iPhone operating system, and here is where I fear he may be making a fatal misstep. But first, the good news: Apple will embrace the innovation of independent software vendors (ISVs), providing them the technical information to create iPhone-based apps, and also a ready distribution channel as well. From the press release:

The iPhone 2.0 software release will contain the App Store, a new application that lets users browse, search, purchase and wirelessly download third party applications directly onto their iPhone or iPod touch. The App Store enables developers to reach every iPhone and iPod touch user....Users can download free applications at no charge to either the user or developer, or purchase priced applications with just one click. Enterprise customers will be able to create a secure, private page on the App Store accessible only by their employees. Apple will cover all credit card, web hosting, infrastructure and DRM costs associated with offering applications on the App Store....

The iPhone SDK provides a reliable, fast and secure way to create innovative applications for the iPhone and iPod touch. In addition to the rich set of iPhone OS APIs, the iPhone SDK also provides advanced tools for creating native iPhone and iPod touch applications including: Xcode® for source code editing, project management and graphical debugging; Interface Builder with drag and drop interface creation and live preview; Instruments to monitor and optimize iPhone application performance in real time; and the iPhone Simulator to run and debug applications.

All of which sounds beyond wonderful, not only for Apple, but for ISVs and Apple's enthusiastic customers as well. But now the bad news: the devil is in the ellipses. Here's a part of the language that I did not include in the extract above:

Developers set the price for their applications—including free—and retain 70 percent of all sales revenues....Third party iPhone and iPod touch applications must be approved by Apple and will be available exclusively through the App Store.

And now you can begin to see why I think that rather than standing on the verge of an unprecedentedly successful second act, Jobs may be about to stage a replay of

the same mistakes of three decades ago. Will developers wish to tie themselves to the whims of Steve Jobs, the same way they did 25 years ago to Bill Gates - and pay a toll for the privilege of doing so to boot? Or will they spend their time working to support more open platforms, such as Android, where there will be less control, no toll booth, and multiple channels of distribution? Haven't they all been there before?

Unfortunately, it appears that Steve Jobs learned the wrong lessons the first time around, and is fighting the last war rather than the next one. Apple failed in the early 1980s in large part because the IBM PC platform provided what at the time was a remarkably open platform for ISVs, as well as an ever-growing potential customer market as more and more personal computer buyers flocked to the "WinTel" platform instead of Tandy, Commodore - or Apple.

Soon, this "virtuous cycle" of more platforms attracting more applications attracting more customers (and back around again) became a juggernaut that no computer manufacturer could challenge with a proprietary alternative. Instead, the name of the game became to simply play the game better. While Apple's fortunes fell, Compaq and Dell became ascendant, soon eclipsing Apple in both business and consumer sales. Eventually, Apple flirted with allowing its products to be cloned, it was too little and too late, and Jobs reversed the experiment in any event upon his return.

I find yesterday's announcements particularly unfortunate, because Jobs really does have a chance for a "do-over" here, but only if he understands the opportunity. Just as the PC revolution allowed new venturers to unseat IBM, we are on the dawn of another unparalleled shift. I recently described that opportunity in a piece I called [Going Mobile: the Year of the Smartphone Startup](#). In that piece, I observed:

2008 will usher in a multiyear period of opportunity for entrepreneurs and investors. The dynamics will echo two boom periods of the past -- the rapid expansion of the PC marketplace in the early 1980s, and the Internet explosion of the late 1990s. The device that will most robustly deliver on these antecedents is the smart phone, initially deployed (like the first personal computers) with many competing operating systems, and now able (like the PCs of the Internet boom) to satisfactorily access the Internet and the web.

In many ways, however, this boom will be better. Unlike the early, anemic, expensive PCs that people had never used before, a smart phone is simply a much more versatile telephone -- something a billion people already own. With a decade of Internet and web experience behind us, there will be far fewer failed efforts to determine what people really will and won't do online. And these mobile devices will be able to perform new tricks, using as many as nine separate on-board radios to interact with an ever-expanding "Internet of things," such as ATMs, film kiosks, movie posters and much more.

But there is one extremely important difference this time around: now we live in an open IT world. If Jobs fights yesterday's war the way that Bill Gates did - by trying to create an ecosystem with Apple firmly entrenched at its center - ISVs will simply go elsewhere. Crucially, there are only so many iPhones in use today. The prize is

simply not yet large enough to offset the costs to ISV independence to lure the best of them in and keep them there exclusively.

Already, various flavors of Linux are destined to power the majority of mobile devices, and the Google Android project aims to provide developers with greater independence as well. Not long ago, even the dominant telecommunications carriers grudgingly came to realize that they are better served (assuming they still have a choice) by opening their phones to independent software vendors than by shutting them out.

If Steve Jobs is to truly prove F. Scott Fitzgerald wrong, he needs to realize that the game - and the rules - have changed. Will that happen? Unfortunately, I'm not optimistic. Jobs seems constitutionally rooted in proprietary strategy, and to date has only been capable of incrementally opening the door a crack at a time in the same way as Microsoft - and for Apple's benefit alone.

As I have opined before, this seems to me to be a tragic flaw in Jobs' leadership. Certainly Apple is the unparalleled leader in innovation and design for the consumer market among the majors. Were Jobs to truly open the Apple platform, it seems likely to me that Apple could enjoy a substantial and sustaining lead in an explosively growing market space. How much better to be king of a much larger and more profitable hill as the acknowledged master of the game, rather than a latter day, unsuccessful adopter of the Bill Gates play book? Unless Steve can get through the openness knothole, I fear that his chance at a truly successful second act will be squandered.

The choice, of course, is his. We need not worry too much on his account, though, as the remaining years of his career are certain to end more happily than F. Scott Fitzgerald's.

After all, Jobs owns a studio.

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