

*Picking Apple as a Server Solution*

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SPECIAL REPORT: APPLE'S STRATEGIC SHIFT

## Picking Apple as a Server Solution

**Some companies are finding that OS X and Xserve are a viable, sometimes cheaper, alternative to Windows-based networks. That could be a big help**

Two years ago, Jon Moog, chief information officer for RiskWise, considered giving Apple Computer the boot. Moog's St. Cloud (Minn.) outfit, which screens credit-card applications and does fraud detection for financial institutions and other companies, had used Apple gear as its primary computer system for years. That put RiskWise out of step with most of its peers -- but Moog's main problem was that his Mac hardware and software was just getting old. He put in countless hours researching alternatives, such as computers that run the Linux operating system.

In the end, he re-upped with Apple ([AAPL](#)). What sold Moog? First, Apple had come out with OS X, a new version of its operating system -- basic software that runs a computer -- that's patterned after the industry-standard Unix operating system. Moog found that OS X was better supported and offered much easier-to-use development tools for writing new programs from scratch.

Then in the spring of 2002, Apple unveiled a new corporate server, called Xserve, that Moog is using to run his company's various databases. Apple followed that this past February with its Xserve RAID (redundant array of independent disks) storage server -- and in March with a cluster of Xservers that can be used for scientific research. Over the past year, Moog has bought 200 Xserve boxes to use for transaction processing in RiskWise's two data centers and one backup site.

**"STARTING TO TAKE NOTICE."** Moog is among a growing coterie of technology managers who are giving Apple a chance to show that it can succeed as a supplier to corporations -- for something other than the Macs used in graphics departments. At Apple's June developer conference, where for the first time it offered sessions for IT managers on upcoming corporate products, crowds filled the room. "I think people are starting to take notice," Moog says -- particularly those who already use Apple for education or graphics work.

That could be a life preserver for Apple, whose PC market share slipped from 4.1% of U.S. shipments in the second quarter of 2002 to 3.5% in the same quarter of 2003, according to tech consultancy IDC. Corporate sales now account for about 39% of Apple's total revenue, according to Bear Stearns. And computer spending by small to midsize businesses -- the ones Apple targets most aggressively -- looks to be recovering sooner than that of larger companies, says Roger Kay, an analyst with IDC.

Grabbing those greenbacks could complement Apple's other strategy of introducing a wider array of consumer-electronics products. Combined, those initiatives could help Apple offset its market-share losses in consumer PCs and boost annual revenues faster than its current mid-single-digit growth rate.

**BROADER LICENSING.** Apple at least has a shot at signing up more corporate customers because unlike in PCs, where it charges a premium, it's pricing corporate server products to grab market share, even as it's designing them to interact much better than before with other brands of equipment on a network, analysts say. For instance, Xserve RAID costs about \$4 per gigabyte of storage -- or about one-third less than a comparable Windows product, claims Alex Grossman, director of storage hardware at Apple.

What's more, Apple's servers come with unlimited-use licenses for the accompanying software, while Microsoft requires Windows customers to pay for additional copies of its latest Windows server operating system. Thanks to Xserve, Apple's shipments of PC servers rose 24% in the first quarter of 2003 vs. the year-earlier quarter, even though its market share has remained roughly the same, at less than 1%, according to IDC.

Next, Apple's newest version of OS X, called Panther -- which is scheduled to debut later this year -- coupled with new emulation software from Microsoft ([MSFT](#)) will let corporations run Windows applications on their Macs more smoothly. That's a major plus, considering that nearly all companies use Windows.

**WEB EDGE.** For Greg Maynes, principal at Maynes Associates Architects in Pittsburgh, such compatibility is a major selling point: Most of his clients, who hire his seven-person firm to design structures such as bus terminals and subway stations, use Windows. But Maynes says he has tired of PCs, which in his experience freeze up frequently, lose files -- and require too much of his personal attention. "I never wanted to be an IT person," he says. "I wanted to be an architect."

So Maynes plans to begin switching his company to PowerMac G5 workstations -- which will finally make Apple competitive with Windows PCs in terms of processor power -- in the fall.

Some experts expect a proliferation of Web-based applications -- essentially, an alternative to installing software onto every desktop -- to make Macs a more viable corporate resource. For instance, when New York-based Target Health, a pharmaceutical research company that currently uses PCs, puts its custom-designed applications that manage projects and clinical trials onto the Web in mid-2004, it will likely switch to Macs, says Chief Technology Officer Joon You.

**STICKING WITH LINUX?** Although Apple's PCs sell at a premium, they require less maintenance and support, Joon figures. He says Target Health will thus be able to add to its computer resources without adding to staff -- something he wouldn't be able to do with Windows gear, which he says requires more hand-holding. Apple is noticing the same trend with Xserve: "We've seen sales go well beyond our traditional markets," declares Tom Goguen, Apple's director of server software.

Many analysts aren't impressed yet. They point out, for one thing, that corporations would more likely switch to computers that run the malleable Linux operating system than to Apple products. "Savvy IT people know how to buy a cheap Linux server," says Frank Gillett, a Forrester analyst.

As Linux improves and supports more applications, many corporations might find it better and cheaper than Panther -- which isn't even out yet, adds Gordon Haff, senior analyst with IT researcher Illuminata in Nashua, N.H. Many customers might also prefer a more open operating system to Apple's proprietary version, says Bruce Kornfeld, director of worldwide enterprise marketing at Dell ([DELL](http://www.dell.com)), the market leader in PC servers.

**PERCEPTION PROBLEMS.** And even though Apple's corporate products are solid and competitively priced, its marketing efforts are modest -- with more focus on word-of-mouth rather than a full-fledged ad campaign. Of course, guerrilla marketing may make more sense than an expensive head-on campaign in an environment where the perception is that Apple's products are all premium-priced and that its gear is hard to integrate into existing networks. "Having the technical specifications doesn't mean it's going to be a successful product," says John Sloan, an analyst with IT consultancy Info-Tech Research in London, Ontario. For now, says Apple's Goguen, the primary marketing strategy in the corporate market "is to get the product right."

To reach new business markets, Apple must also develop better distribution, says Rob Enderlee, an analyst with tech consultancy Forrester Research. Today, many large customers will use powerhouses such as IBM ([IBM](#)) for all of their technology needs. But Apple's Grossman insists that small businesses prefer to work with smaller resellers -- and he adds that Xserve has attracted a lot of distributors that traditionally have specialized in Unix.

Still, Apple needs a partner that's big in technology services to expand its reach, says Enderlee, who mentions Unisys ([UIS](#)) as one possibility. It will take such moves, at a minimum, to get some analysts to stop doubting Apple's commitment to the corporate market.

**OXYMORONIC STRATEGY?** One question Apple may have to answer -- though no one seems to hassle rival Microsoft over the same issue -- is how it can focus on business customers even as it morphs into a consumer-electronics company like Sony, says Haff. The biggest question, he adds, is whether Apple is prepared to devote the resources it will take to develop a bigger corporate business. "I call their enterprise strategy an oxymoron," says Charles Wolf, an analyst with Needham & Co. "They don't have an enterprise strategy."

The evidence that Apple does is mixed, for sure. Still, it's lining up partners such as Sybase ([SY](#)) to provide software that will run on XServe rather than do the job itself -- the opposite of its apparent strategy in the consumer Mac market -- says Steve Bertges, vice-president in charge of Macintosh at Sybase. And that's drawing many enterprise software companies, such as PeopleSoft ([PSFT](#)), to Apple's side.

Some existing Mac customers will like it just fine if Apple doesn't attract a big contingent of new believers. "If everybody in the world, especially our competitors, were using Apple's hardware, it would make our job more difficult," says RiskWise's Moog. Of course, he won't have to worry about that unless Apple's corporate strategy starts building a bit more momentum.

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