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Apple, a Success at Stores, Bets Big on Fifth Avenue

By [STEVE LOHR](#)

Shortly after Ron Johnson joined [Apple Computer](#) in 2000, his new boss, [Steven P. Jobs](#), summoned him to a room at the company headquarters. Mr. Jobs, Apple's chief executive and impresario, pointed to a conference table with just four computers on it.

"Here's our products," Mr. Johnson remembers Mr. Jobs telling him.

"How big is the brand?" Mr. Johnson asked.

"Apple is one of the biggest brands in the world," Mr. Jobs replied.

Then, Mr. Johnson said, Apple's retail stores should be big and spacious, a physical embodiment of the Apple brand.

That early opinion set a framework for Apple's store strategy, according to Mr. Johnson, a retailing executive who stepped off the fast track at [Target](#) to come to Apple.

"We had to design an experience that was as big as the space," said Mr. Johnson, 47, who is senior vice president in charge of the stores. "When your product line is the size of a conference table, that is a real risk."

Taking that risk has paid off handsomely so far. Since it opened its first two stores five years ago today, the Apple chain has become a retailing phenomenon. Necessity and inspiration led Apple to toss out the conventional textbook on computer stores and to ignore the rules of location, design, staffing and services provided.

Revenue for each square foot at Apple stores last year was \$2,489, compared with \$971 at [Best Buy](#), the big computer and electronics retailer, according to [Forrester Research](#), a market research firm.

This evening, Apple is opening a showcase store in Manhattan that will burnish the company's reputation for clever design. The entrance to the store, on Fifth Avenue between 58th and 59th Streets, is a glass cube, 32 feet on each side, with a suspended Apple logo inside. Customers walk down a circular staircase — or take a cylindrical glass elevator — to the 10,000-square-foot store below. The store will be open 24 hours a day, seven days a week — a first for Apple and an acknowledgment of New York's status as a round-the-clock city.

"We wouldn't do that in Palo Alto, but this is New York," Mr. Jobs remarked in an interview.

Apple now has 147 stores — all but 14 in the United States — and is adding new ones at the rate of 40 a year. Sales at the stores more than doubled last year, to nearly \$2.4 billion, and same-store sales, those open at least a year, increased 45 percent. But in the most recent quarter ended in March, same-store sales fell 18 percent from a year earlier. That prompted some to ask whether Apple was running out of gas.

Apple says that the slippage was an aberration, caused mainly by its announcement in January that

it was shifting to [Intel](#) microprocessors in its Macintosh computers, though the new machines were not yet in the stores. It says that the problem is mostly behind it now.

Intel processors also power most machines running [Microsoft](#) Windows, the dominant PC operating system, and using Intel chips makes it easier for Apple users to also run Windows programs.

Apple holds less than 5 percent of the personal computer market, and is often cast as the innovative underdog in a Windows world. The stores are crucial in turning Windows users into Apple fans because they allow them essentially to test-drive machines, with plenty of assistance from store personnel. The company says that nearly half of the people buying Macintosh computers at Apple's stores are converted Windows users.

"The dip in the March quarter was not unexpected," Mr. Johnson said. "We knew there would be a bump during this transition. But the longer-term objective here is that Apple stores are the place people are going to go to switch, to buy their first Mac. We've got to be ready for that."

At first glance, some of the company's moves seem, in stark financial terms, to be costly indulgences. Almost half of the store staff is there not to sell but to provide free help on how to use Macintosh computers, iPods, software and third-party accessories like digital cameras. Nearly all of the computers have Internet access, and the stores are crowded with people checking their e-mail, browsing the Web or listening to music on the iPods.

Staff members receive salaries and do not depend on sales commissions, as such employees do at most other computer stores. And the stores are organized around different uses of computing technology: organizing music, editing digital photos or movies, creating podcasts and blogs — all done with Apple's software.

"The Apple stores are selling digital experiences, not products," said Ted Schadler, an analyst at Forrester Research. "Its stores can be seen as solutions boutiques. And that's the direction that selling technology to consumers, from cellphones to [HDTV's](#), has to go to be successful."

At Apple, Mr. Jobs is the guiding hand behind most of the big decisions and many of the small ones as well. But Mr. Johnson, analysts say, deserves much of the credit for the success of Apple's stores.

"He's a truly innovative merchandiser and a great manager," said Charles R. Wolf of Needham & Company.

After earning an M.B.A. from [Harvard](#) in 1984, Mr. Johnson was offered a job in investment banking by [Goldman Sachs](#), but turned it down. Sitting on a stool at another Apple store, in the SoHo district of Manhattan this week, he explained that he thought retailing would be more stimulating. He started at the Mervyns store chain, working on a loading dock at a branch in suburban Los Angeles. "Fill a 40-foot trailer in 40 minutes — that was the goal," he recalled.

Mr. Johnson then spent 16 years at Target, where he rose to vice president for merchandising. He forged a partnership with Michael Graves, the interior designer, that helped build Target's image as a marketer of affordable yet stylish goods.

The lesson from his Target years, Mr. Johnson said, was that "if you have great products that are merchandised and marketed clearly, the impact can be almost unlimited."

He saw the same kind of opportunity at Apple when Mr. Jobs approached him. Other computer stores were giving Apple short shrift, Mr. Jobs thought, in part because they lacked skilled

employees that could explain why Apple was different. "Steve felt with every bone in his body that Apple had to do retailing," Mr. Johnson said. "It was not an experiment for him. He saw it as an essential business strategy."

To develop the concept, Apple built a prototype store in a warehouse near its headquarters in Cupertino, Calif. The work, like much at Apple, was a secret, and for his first year at the company Mr. Johnson was given an employee alias: John Bruce.

The first two Apple stores opened in McLean, Va., and Glendale, Calif., 17 months after Mr. Johnson arrived.

The conventional wisdom of retailing is that when selling expensive products that are purchased infrequently, like cars or computers, stores should stand alone on cheap land. The assumption is that shoppers will drive a distance for such special shopping trips.

But Apple decided that it could not afford to have its stores be out of the way. Instead, it opened in more expensive sites, like malls and downtown areas, where shoppers were gathered already.

"Steve's view was they'll never drive 10 miles to look at us, but they will walk 10 feet," Mr. Johnson said.

In retrospect, success has a way of looking inevitable. But there was considerable skepticism at the outset about what Apple was doing. And others have failed; Gateway closed its retail stores two years ago.

One worry Mr. Jobs and Mr. Johnson had at the start was whether the stores could attract enough skilled people to explain Apple technology to nonexperts.

As it turned out, there were plenty of young Apple enthusiasts who wanted to work for the company: 5,000 applied for the 300 jobs at the Fifth Avenue store.

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