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Peripherals Sell the PC, Not Vice Versa

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By [Daniel Drew Turner](#), [eWEEK](#)

Few analysts, if any, short the Apple company's stock any more and fewer still were surprised the PC maker posted positive, and record breaking, quarterly PC sales figures, which were announced this week. But few expected the pace Apple is making in PC sales.

The manufacturer moved 2,164,000 Macs in the third quarter of 2007, up 400,000 from a year ago and eight times the industry average growth rate, propelling it to the number three PC manufacturer in the U.S., all despite the delay of Leopard, the new version of its OS X, which kept some potential buyers on hold.

More surprising still is the fact that more than half of those Mac sales went to first time buyers, prompting the question: what is selling Macs at eight times the rate of any other PC on the market?

Peripherals are selling the PCs at Apple, according some industry watchers and insiders. Apple's wildly popular iPod and iPhone are luring former Microsoft Windows devotees to the Apple brand and Macintosh PCs. "It is primarily [the] 'halo effect' driving the jump in Mac sales," said Van Baker, a research vice president at Gartner, that is mainly "realized in the Apple stores. Consumers come in to buy an iPod and stop to check out the MacBook Pros while they are there."

iPod and iPhone sales were also strong in the quarter, with the former seeing a 17 percent year-over-year growth, and the latter selling 1,119,000 units in the third quarter. "Apple continues to gain ground in the PC market and more and more people are drawn into the Apple stores due to their interest in iPods and iPhones," agreed Tim Bjarin, the president of Creative Strategies. "But the fact that 50 percent are new to the Mac suggests something bigger," Bjarin said. "It points to the fact that the Mac is viewed as an easier system than competitive operating systems and more and more people are feeling comfortable with the Mac for use as their own personal computer.

"This quarter's numbers are impressive and shows that Apple is making the right technology and marketing decisions to help them become an even more powerful force in the PC market."

That Leopard's delay might have slowed computer purchases early, but were compensated for by Apple's mid-October announcement of its ship date. "Mac sales did get a bump from the Leopard launch," he said, "but I don't think this is the major driver of Mac sales. It is an important technology milestone but people's interest in the Mac is high because of its ease of use and the halo effect of the iPod and [the] iPhone. From their projections, [Apple] should have a great holiday quarter."

Ezra Gottheil, an analyst for Technology Business Research, also saw non-Mac products boosting Apple. "Apple's iPod business continues to generate profits," he said. "The innovative iPod Touch was not available until the last two days of 3Q07, and apparently did not affect iPod sales. iPod units increased 17 percent over last year, but revenues were up only 4 percent, a similar pattern to recent quarters. TBR [Technology Business Research] believes the market for the more expensive iPod media players is mature, and Apple is benefiting from selling more of the lower-price units, which appear to be more profitable. The iPod Touch is a different product, addressing a different market, and TBR believes it will be successful in 4Q07.

Gottheil said iPhone sales were strong, and received a boost after Apple announced a price drop. Due to the nature of the product, its financial effect on Apple has to be seen differently. "Because the company is recognizing iPhone revenues on a two-year subscription basis, Apple reported only \$118 million revenue in 3Q07, but the company is assured a continuing revenue stream from those sales," he said.

He reiterated that the iPhone will be a strong halo product for Apple. "TBR believes the iPhone will be a profitable product for Apple, and will introduce the Apple brand to many new customers," he said. "Note that the 1.1 million iPhones is more than one-half the number of Macs sold in 3Q07."

Charles Golvin, an analyst at Forrester Research, looked at the iPhone section of Apple's business—and was pleased at what he found. "I see the sales as quite strong," he said. "And considering that they've yet to launch in Europe, the sales appear to be well on target to meet or exceed the 10 million by year-end 2008 target."

However, Golvin was a little more cautious about assigning credit to halos. "We haven't asked this question of consumers so we don't actually know," Golvin said. "My guess is that because [the] iPod and iTunes have exposed lots of Windows users to an Apple experience they find positive, in conjunction with reviews extolling the virtues of the Mac, and (to a lesser extent) the switch to Intel chips and programs like Boot Camp/VMware/Parallels that address concerns about access to Windows, consumers are indeed much more favorably inclined toward Macs than in the past."

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