Apple Passes Microsoft as No. 1 in Tech

By MIGUEL HELFT and ASHLEE VANCE

SAN FRANCISCO — Wall Street has called the end of an era and the beginning of the next one: The most important technology product no longer sits on your desk but rather fits in your hand.

The moment came Wednesday when Apple, the maker of iPods, iPhones and iPads, shot past Microsoft, the computer software giant, to become the world's most valuable technology company.

This changing of the guard caps one of the most stunning turnarounds in business history for Apple, which had been given up for dead only a decade earlier, and its co-founder and visionary chief executive, Steven P. Jobs. The rapidly rising value attached to Apple by investors also heralds an important cultural shift: Consumer tastes have overtaken the needs of business as the leading force shaping technology.

Microsoft, with its Windows and Office software franchises, has dominated the relationship most people had with their computers for almost two decades, and that was reflected in its stock market capitalization. But the click-clack of the keyboard has ceded ground to the swipe of a finger across a smartphone's touch screen.

And Apple is in the right place at the right time. Although it still sells computers, twice as much revenue is coming from hand-held devices and music. Over all, the technology industry sold about 172 million smartphones last year, compared with 306 million PCs, but smartphone sales grew at a pace five times faster.

Microsoft depends more on maintaining the status quo, while Apple is in a constant battle to one-up itself and create something new, said Peter A. Thiel, the co-founder of PayPal and an early investor in Facebook. “Apple is a bet on technology,” he said. “And Apple beating Microsoft is a very significant thing.”

As of Wednesday, Wall Street valued Apple at $222.12 billion and Microsoft at $219.18 billion. The only American company valued higher is Exxon Mobil, with a market capitalization of $278.64 billion.

The companies have comparable revenue, with Microsoft at $58.4 billion and Apple at $42.9 billion. But in their most recent fiscal years, Apple had net income of $5.7 billion, while Microsoft earned $14.6 billion.

Microsoft has more cash and short-term investments, $39.7 billion, to Apple’s essentially a bet on its future prospects, all the more remarkable.

Microsoft’s chief executive, Steven A. Ballmer, shrugged off the shift Thursday morning. “No technology company on the planet is more profitable than we are,” he said in New Delhi, where he had come to tout Microsoft’s cloud computing plans. “On any given day, the stock market is a voting machine,” he said, and only “in the long run is it a weighing machine.”

Apple declined to comment.

Apple’s climb to the top of the heap cements the reputation of Mr. Jobs, who once operated in the shadow of Microsoft’s co-founder, Bill Gates.

“It is the single most important turnaround that I have seen in Silicon Valley,” said Jim Breyer, a venture capitalist who has invested in some of the most successful technology companies.

While Apple is at the top of its game, it faces a new and powerful rival in Google, which is battling Apple in mobile devices with its Android operating system, and mobile advertising.

Google, with a market cap of $151.43 billion, also appeared to leap ahead of Apple in a new potentially important area, Internet-connected televisions. And Google is steering consumers toward yet a new model of computing in which Internet applications, rather than iPhone or desktop applications, rule.

“The battle has shifted from Microsoft against Apple to Apple against Google,” said Tim Bajarin, a technology analyst who has been following Apple since 1981. “Apple has a significant lead. But Google is going to be a powerful competitor.”

Apple and Microsoft initiated the personal computing revolution in the late 1970s, but Microsoft quickly outflanked Apple and grew to be one of the most profitable businesses ever created.

A little more than a decade ago, Apple, which had pushed out Mr. Jobs in 1985, was widely believed to be on the path to extinction.

Michael S. Dell, the founder and chief executive of Dell computer, went so far as to suggest that Apple should shut down and return any money to shareholders. (The computer maker is now worth about a tenth of Apple.) Around the same time, Microsoft’s chief technology officer called Apple
“already dead.”

But with the return of Mr. Jobs to Apple in 1996 — and an investment by Microsoft of $150 million — the company began a slow path to recovery. Apple’s rebirth began in earnest with the introduction of the iPod music players, and Mr. Jobs began to gain a reputation for anticipating what consumers want. The company elbowed aside Sony and came to dominate the music distribution business with the iTunes online music store.

It later upstaged Nokia, the dominant brand in mobile phones, by introducing the iPhone in 2007. And this year, Mr. Jobs shook things up again, with the introduction of the iPad, a tablet computer that has the potential to create a new category of computers and once again reshape the way people interact with their devices.

Mr. Jobs helped create “the best desktop computer, the best portable music device, the best smartphone and also now the best tablet,” said Steve Perlman, a serial entrepreneur who was an executive at both Apple and Microsoft and is now the chief executive of OnLive, an online gaming company.

As Apple grew increasingly nimble and innovative, Microsoft has struggled to build desirable updates to its main products and to create large new businesses in areas like game consoles, music players, phones and Internet search. Microsoft, which is a component stock of the Dow Jones industrial average, has lost half its value since 2000.

Mr. Ballmer said Thursday that while Microsoft has “some very good competitors,” the company is a very good competitor itself. Yet Mr. Ballmer seemed to concede that Microsoft needs improvement in some areas.

“Windows phone – boom! We have to deliver devices with our partners this Christmas,” he said. Feedback so far has been good, he said, but the company still has “a lot of work to do.”

Still, Microsoft is a hugely powerful and profitable company in the tech world. Its Windows software runs 9 out of every 10 computers, while more than 500 million people use its Office software to perform their daily tasks, like writing letters or sending e-mail messages. These two franchises account for the bulk of Microsoft’s annual revenue.

But Apple has the momentum. “Steve saw way early on, and way before Microsoft, that hardware and software needed to be married into something that did not require effort from the user,” said Scott G. McNealy, the co-founder and longtime chief executive of Sun Microsystems.

“Apple’s products are shrink-wrapped and ready to go.”

Heather Timmons in New Delhi contributed reporting.