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IN THE MONEY: Apple's Petite R&D Budget Delivers Big Results

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The engineers at Apple Inc. (AAPL) have figured out how to get a lot into tiny machines, like the wafer-thin MacBook Air laptop. They also know to get the most out of their R&D dollars.

Apple generates more revenue from every dollar spent on research and development than virtually any other major technology company. Last year, the Cupertino, Calif.-based company spent a scant 3.1% of revenue on R&D, less than a quarter of the 14% of revenue the average large tech firm spent finding its next product.

The efficient use of capital, along with an unflinching focus on consumer trends and mobile products, are among the reasons Apple overtook Microsoft Corp. (MSFT) on Wednesday to become the world's most valuable technology company. Apple's market capitalization of \$222.1 billion, according to FactSet Research, is nearly \$3 billion more than the market capitalization of its competitor in Redmond, Wash. Unsurprisingly, Microsoft spent a hefty 15.4% of its revenue on developing its new products.

On Wednesday, Apple shares fell \$1.01 to \$244.21.

Over the past four years, Apple has developed pioneering smartphones and a path-breaking tablet computer. During the same period, Apple increased its R & D spending by 87% to \$1.3 billion. That jump, however, was outpaced by a huge 122% increase in revenue to \$42.9 billion.

The dynamic is easy to quantify. For every dollar increase in R&D since 2007, Apple has created \$38 in new revenue. By comparison, the average tech firm has generated just \$2.30 in new revenue per dollar spent.

An Apple spokesman declined to comment on its research spending.

Apple has done this by creating an ecosystem rather than just technology.

The company's engineers leveraged early innovations in music players to extend their mobile technology, adopting existing technology when it made sense. The iPhone, for example, uses established communications technologies, like GSM and the MP3 digital coding format for its music players. And while Apple doesn't make big acquisitions, the company splashed out for touch-recognition company FingerWorks, which saved it time and money in developing a key component in the iPhone.

Apple's devices also have a built-in efficiency edge: They encourage other developers to create content, like applications, to run on them.

Eric Openshaw, who leads consultancy Deloitte's technology group, says this is no accident.

Innovations that advance technology and the market at the same time "happen by design" Openshaw said. "It's not an unintended consequence."

Not every company has the focus on research nor discipline to pull the plug on failure and feel for the market.

"Everyone from technology to soft drink companies tries to create platforms for continuing innovation," said **George Haley**, director of the Center for International Industry Competitiveness at the University of New Haven. "Few succeed to the degree Apple has."

Like its compact products, Apple's R&D is condensed. But the power of that focus, is anything but petite.

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