

Economics of Apple, Inc.'s iPhone

INTRODUCTION

The iPhone, a product of Apple Inc. (Apple), made its debut in 2007 and proved to be a trailblazer in the smartphone industry. The phone, several versions of which were launched over the years, was looked upon as a status symbol by many smartphone owners. It also commanded intense loyalty among its users as was evident from the way consumers queued up before stores at the time of the launch of a new version. This also allowed Apple to price its iPhones higher than other smartphones. The iPhone's appeal was enhanced by its ecosystem comprising the iOS operating system, applications, services such as iCloud and Apple Pay, and products such as the iPad and Apple Watch. According to industry observers, the iPhone brand's appeal was further enhanced with the launch of the iPhone X in September 2017. .

BACKGROUND NOTE

Apple Computers, Inc. (Apple) was founded by three individuals – Steve Jobs (Jobs), Steve Wozniak (Wozniak), and Ronald Wayne – in 1976. The word “Computers” was dropped from the company's name in 2007 (Refer to Exhibit I for Apple's financial performance from 2011 to 2017). In 1976, the company came out with its first computer called Apple I. It subsequently debuted Apple II in 1977. Apple II revolutionized the computer industry with color graphics being unveiled for the first time. Apple went public in 1980. The company's Macintosh computer, which was introduced in 1984, created a sensation. The model introduced the graphical user interface phenomenon, which did away with the need for users to enter commands. The user action only involved selecting from on-screen icons...

IPHONE A HARBINGER?

iPhone gestures, focused on dynamic finger movements, such as bouncing of lists, tapping, dragging, pinching, and rotating became industry standards and were emulated by all makers of smartphones and operating systems. Blending such gestures with a highly responsive touch-screen made the small screen appear much larger and more suitable for diverse activities, whether work related or otherwise. This user friendliness ensured that the smartphones were perpetually close to the consumers' physical selves, right away handy for interaction..

IPHONE – A PREMIUM PLAY

Analysts came up with estimates of the profit that Apple made on each iPhone device. In 2014, an analyst at Sanford C. Bernstein said that the gross profit margin on an iPhone was around 50%. In April 2016, IHS Inc. estimated that the 16 GB version of the iPhone SE, the lowest-priced iPhone model available then, cost the company approximately \$160 to manufacture. The iPhone 6S Plus, the highest-priced iPhone model then, cost an additional US\$76..

AN ECOSYSTEM

In 2007, along with the debut of the iPhone, Apple also unveiled its iOS mobile operating system – at the time of debut, the iOS was known as iPhone OS1, and its name changed from 'iPhone OS' to 'iOS' with the unveiling of the fourth version of iPhone OS1, iOS4, in 2010. iOS had its genesis in Mac OS X. In 2008, Apple introduced the App Store to the then newly launched version of iOS. The App Store was an online store from which users could download third-party applications (apps). Apple had total control over the sales and app-approval

ecosystem. The company had to approve the apps prior to their being sold, which implied that a smaller number of spam apps and viruses reached the end devices..

THE X FACTOR

Apple unveiled three new iPhone models on September 12, 2017 – the iPhone 8, iPhone 8 Plus, and iPhone X. The iPhone 8 and iPhone 8 Plus were primarily updated renditions of the iPhone 7 and iPhone 7 Plus models. The 64-GB version of the iPhone 8 was priced at US\$699, whereas the 256-GB version was priced at US\$849. The 64-GB version of the iPhone 8 Plus was priced at US\$799, and its 256-GB version was priced at US\$949. The iPhone 8 and 8 Plus models came with a glass back and featured louder speakers, speedier processors, and improved cameras. Customers could pre-order the two iPhone 8 models from September 15, and the company began shipping the devices on September 22..

HIGHER PRICE POINT

Apple's charging US\$999 and above for the iPhone X also came into focus – the company was entering uncharted territory with its four-digit price tag. Several experts felt that Apple's pricing strategy was correct. Daniel Gleeson, an analyst at Ovum , said, "The price (of iPhone X) is driven by two factors. The premium smartphone market is very heavily saturated – there's no organic growth – so for Apple the only way to continue growing revenues for iPhone is to actually raise prices. Secondly, the components involved in building the iPhone X are quite limited in supply, so by having a very high price, Apple is also limiting the demand to some extent, and should help curtail any shortages it might have."

SO FAR SO GOOD

On November 3, 2017, hundreds of individuals queued up in front of Apple stores in USA, Australia, Singapore, Japan, and the UK. In New York, several had camped outside the Apple store the previous night. In Los Angeles, nearly 400 individuals had camped out near the Apple store. In Australia, nearly 400 individuals lined up outside Apple's flagship store in central Sydney.

WHAT'S NEXT?

According to Strategy Analytics, in the first calendar quarter of 2018, the iPhone X was the largest-selling smartphone globally with 16 million units shipped. The iPhone 8 and the iPhone 8 Plus models, according to Strategy Analytics, claimed the second and the third places respectively. The number of units of the iPhone 8 and iPhone 8 Plus models shipped was 12.5 million units and 8.3 million units respectively..

Discuss the following:

1-Critically analyze Apple's pricing strategy for the iPhone X.

2-Discuss whether and how Apple can maintain its premium pricing strategy