

CASE 20.2

Apple Hangs Up on High iPhone Price

Days before the first Apple iPhones went on sale, thousands of buyers lined up outside Apple stores, eager to try the new cell phone's large, user-friendly touch screen and multimedia capabilities. Like Apple's iconic iPod media player, instantly identifiable because of its sleek case and white ear buds, the stylish iPhone became a must-have status symbol for tech-savvy consumers across the United States. However, despite a major promotional campaign, widespread media coverage, many rave reviews, and a fast-growing customer base, the iPhone became the focus of criticism and controversy within two months of its release.

Apple has traditionally set high prices for its new products. One purpose of pricing in this way is to reinforce the brand's high-end positioning and special cachet. Another is to start recouping development costs and build profits from the very start of each product's life. This pricing strategy has worked with the company's Macintosh computers and its iPods, allowing the Apple to increase both revenues and profits year after year.

The iPhone was initially priced at \$599, not including the cost of monthly phone service through an exclusive deal with AT&T. Two months later, in a break from its usual pattern, Apple abruptly slashed the iPhone's price by \$200. Although electronic products often drop in price over time, they rarely sell for so much less so soon after introduction. This time, Apple had its eye on the year-end holidays, believing that setting a more affordable price during the fall would put the iPhone within reach of a larger number of gift-giving buyers. The company also saw an opportunity to close in on its goal of selling 10 million iPhones worldwide within 18 months of the product's launch.

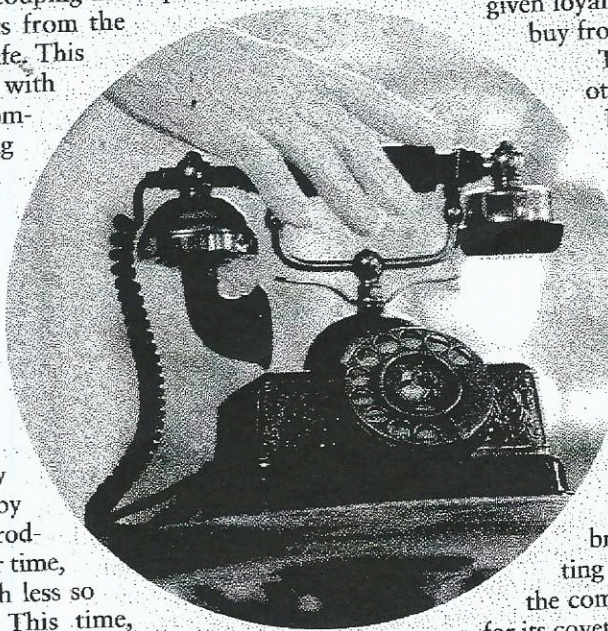
Apple's pricing decision provoked angry protests from customers who protested that they had overpaid for a cutting-edge product that was going mainstream more quickly than expected. With Apple on the spot, CEO Steve Jobs quickly conceded that customers had a point. "Our early customers trusted us, and we must live up to that trust with our actions in moments like these,"

he said in a statement posted on Apple's website. To avoid alienating early buyers, the company offered a \$100 Apple store credit to each customer who had purchased an iPhone before the price cut. Although this policy also drew criticism—because the credit had no value except toward the purchase of something from Apple—the pricing controversy lost steam after a few weeks.

Apple soon launched a series of new iPhone models with more features, more power, and a lower price than when the product was originally introduced. The iPhone has gone on to become an enormous success around the world, sparking excitement and prompting long lines at Apple stores in the United Kingdom, France, and other countries. Just as the iPod attracted many first-time Apple buyers, the iPhone's unique appeal has brought in new customers and given loyal customers another reason to buy from Apple.

The buzz from the iPhone and other new products has also boosted demand for Apple's line of Macintosh computers.

In fact, the company gained enough market share to become the third-largest U.S. computer marketer, trailing only market leader Dell and Hewlett-Packard. Higher sales of Apple's entire product mix have resulted in record-setting company profits. Just as important, all these innovations have polished the Apple brand and added to its trend-setting image—which, in turn, allows the company to charge premium prices for its coveted products.³⁵



Questions for Discussion

1. What was Apple's primary pricing objective when it introduced the iPhone? What was its primary objective in cutting the product's price just two months after introduction?
2. How much weight does Apple appear to have given to its evaluation of competitive pricing?
3. Do you agree with Apple's decision to switch away from price skimming after the iPhone's introduction? Defend your answer.