Marketing iphone flashcard

Q1: Apple faced with two main pricing decisions for its range of iPhones. The first one is a skimming price decision and the second one is a penetration pricing decision.

1. Skimming price decision When Apple first launched the new iPhone 3GS, it made a skimming price decision which means it aims to sell to the top of the market and focuses on maximizing profits in short term so it could recover the research and development costs.

2. Penetration pricing decision As the iPhones have moved through their product life cycle (from the introduction to the growth or maturity stage) Apple adopted a penetration pricing strategy which means selling products at very low price to attract more customers. The rationale behind this decision was that the cost of producing has dropped and competitors such as Blackberry and Nokia have entered into the smart phone market. In order to counter those competitive threats, Apple lowered prices to maintain high market shares.

Q2: Apple had to consider both internal and external factors before it could implement its pricing decisions. The internal factors include its product life cycle and costs of the new product. The main external factors are the demand and the pricing environment such as the economy, the competition and consumer trends.

1. The product life cycle Before Apple could implement its pricing decisions it need to consider where the product is in its life cycle and how fast it is moving through the cycle. Skimming price strategy may maximize profits in the market introduction stage for its innovation, especially if there is little

competition. (Quester et al. 2005) However, when the product enters into the growth stage, there will be more competitors so the company needs to reduce the initial price to counter the increasing competition.

2. Costs Determining costs of products is the basis of making pricing decisions because if a company wants to gain profits, it must ensure that the price is higher than the total cost of the products otherwise, it will lose money. The total costs consist of fixed costs and variable costs for the product. As to Apple, the material using for producing iPhones and the cost of labor are variable costs which vary with the number of units produced. The costs of technology equipment, costs of utilities and the salaries of company’s employees are fixed costs which are not tied to the number of products. However, if the company sell or produce larger quantity its average costs will be reduced because of economies of scale. In this case, the company may adopt penetration pricing decision.

3. The price elasticity of customers’ demand Before Apple implements the pricing decision it needs to understand how sensitive customers are to changes in price. When demand is inelastic, price and revenue changes in the same direction, however, when demand is price elastic, price and revenue change in the opposite direction. A skimming price decision is attractive if demand is quite inelastic so that high price or an increase in price will cause little decrease in demand or no change in demand. Therefore, when Apple sets a high price for its new product the total revenue will increase thus it can recover the R&D costs. On the other hand, if the demand is elastic, skimming would not an appropriate decision to implement.

4. The competition Apple should also consider prices charged by competitors and try to anticipate how competitors will respond to their pricing decision. For example, if Apple is in monopolistic competition, where there are lots of sellers offering slightly different products in such case, reducing prices might lead to similar reductions by competitors and could result in a decrease in total revenue.

Q3: Apple could adopt the following three alternative pricing strategies for iPhones:

1. Cost-plus pricing. The company calculates the total cost of producing the product and adds on a percentage to those costs to give the selling price. This method although simple has two flaws: it takes no account of demand and it cannot determine if potential customers will purchase the product at the calculated price.

2. Target costing one type of the demand- based pricing. Apple could first use market research such as consumer surveys to identify the customers' requirements of the quality and features of the product and their perception of a ' fair' price before the product is designed.

3. Trial pricing Apple could price the new iPhone at a low price for a limited period of time to attract customers. This strategy can help the company to get customer acceptance at the initial period and then bring profits by increasing the price.

Q4: As far as I am concerned, I would recommend skimming price and trial pricing strategy to Apple during its introduction stage of its product life cycle.

When Apple moves into the growth or maturity stage of life cycle, I would recommend the penetration pricing strategy. In terms of a skimming price decision if Apple doesn’t know much about the customer demand for its new product it would be useful. The reason is that it is safer to start with a high price, which can be reduced if customers initially refuse to purchase. In this case, as Apple’s senior vice-president said the new iPhone 3GS has some unique competitive advantages in the phone market such as the wide range of applications and faster load time.

These benefits make many customers feel they must have it no matter what the costs, that is to say, during the introductory stage of the new product, the demand is price inelastic so the increase in price did not cause a large decrease in demand. What’s more, with those unique features of the new iPhone, there were no competing products in the market, which also contributes to the skimming price decision. However, the company needs to notice that, under this pricing strategy it is achievable to reduce the price but will be harder to increase the price due to competition and the price elasticity.

As to the trial pricing, it would reduce the risk for customers. Apple can attract all potential customers to try the new product at a low price and make them impressed with all benefits and unique experience from the product. Then these customers would persuade others to buy it at the higher full price. Since Apple is very good at creating an image of being the most “ superior quality” thus the trial can make consumers feel that they need to pay high for the superior qualities.

As the iPhones moved through their product life cycle, more competitors entered into the mobile phone market. Therefore, a penetration pricing strategy by reducing the price would be appropriate for Apple to maintain its market shares.

An example of adopting the above pricing strategies successfully is Hewlett-Packard Australia. When HPA introduced its laser printer for personal computers, it initially set a high price, around $8000. The company had a head start on its competitors and few close substitutes. When other companies entered the market with similar printers, HPA added features and adopted a penetration pricing strategy by reducing its price to about $1300. This is an example of changing the pricing decision through a series of marketing strategies over the stages of the product life cycle.