

Apple's iPhone price cut consumers' reaction

[Business](#), [Company](#)



Apple Inc. (Apple) was established in Cupertino, California on April 1, 1976, engaged in producing, selling and supporting a wide range of personal computers, portable media players, mobile phones, computer software, computer hardware and hardware accessories (Apple Store). The company is always known for its strive for delivering new and improved products and find innovative means of marketing and strategies of human resource management. Since its inception, the firm has been enjoying a prominent place among the players in the computer industry with most successful marketing strategies and innovative products and services.

The company is a US - based multinational corporation that focuses on design and manufacture of consumer electronics and closely related software products. The company was established in Cupertino, California on April 1, 1976, engaged in designing, developing, selling and supporting a wide range of personal computers, portable media players, mobile phones, computer software, computer hardware and hardware accessories. Till 2007, the firm opened around 200 retail stores across five countries and one online store through which hardware and software products are being sold (Retail Stores).

In the year 2008, the firm was awarded the best corporate performer organized by the famous business magazine, Business Week. (Best Performer Award 2008). iPhone: A Revolutionary Invention The mobile phonetechnologymade its beginning in the mid 20th century. In the opinion of Robert Conway (Conway), the head of, Global System for MobileCommunication(GSM) Association " Mobile phones are becoming absolutely indispensable in the developing world".

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It was in Sweden the first mobile service introduced in the form of radio telephony which was two-way radio; used in taxis and police cruisers as tested by Swedish police. Then in 1946, first commercial mobile service for use in communication devices was launched by American AT&T and Southwestern Bell. It was only in 1970s the 'modern' mobile phones were developed, researched and experimented. Thereafter from 1980s, it attracted more and more consumers as a result the growth in the mobile phone industry was tremendous.

In 2003 the number of mobile phone users around the world reached to 1.52 billion. So the mobile phone technology is experiencing fast growth and making greater sophisticated one. The mobile users were also benefited from security systems and surveillances. Conway also stated that, "The technology is a gravitational force that brings into its orbit a huge amount of innovators." The trend in the mobile phones users in the developing nations never showed a negative trend but instead it always showed a positive trend.

For estimating the target market in mobile technologies and services, it is necessary to have proper knowledge regarding consumers live style and their demand because as the consumers passes through different stages their interest levels, usage patterns, spending habits, and brand preferences for mobile and other technological products and services constantly changes. So a good e. g. to give is iPod a revolutionary model of Apple bringing bundle of digitalmusic's introduced by the Apple company in order to exploit maximum home computer market.

With this iPod, the company created user friendly product so that the users could download music from the Internet to the player and used technological expertise to improve their product based on consumer needs. The analyst Richard Jameson, GfK NOP said, "Apple's history proves that it has the magic touch when it comes to product development and marketing". There after Apple introduced by totally redesigning iPod a small sized that changed the rules for the entire portable music market named iPod nano. This introduction made no changes in the market for iPod and continued as Apple's monopoly product.

As the competition rose between various devices in market, the iPod nano became the most fashionable product of Apple, made a stiff move with many optional accessories including lanyard headphones. There was a price-cut in iPod nanos i. e. Its 4 GB version was priced at \$149, which was \$50 below the cost of current version having a similar memory and the 8 GB version was priced \$199 lower than current model which resulted its success, so the Apple thought of launching iPhone by combining iPod and mobile phone in order to meet its design and user interface with consumers and proved to be number one in the market.

This gadget was launched on June 29, 2007 and revolutionized the tech-savvy market. It also entered highly volatile cell phone market combining telephony, MP3, web surfing and video watching. The iPhone was the most awaited gadget by technology enthusiasts and mainstream media. It wants to reach top during holiday season of 2007 than the previous year's 2121 million units and the way it interacted its consumers succeeded it to reach

the top. Exhibit 1) describes the features of iPhone as: it has got 2-megapixel camera, headset and audio jacks, an iPod dock, Wi-Fi, stereo Bluetooth and a speakerphone; weight is about 135 g little heavier than standard mobile phone but lighter than many devices having QWERTY keyboard; its thin design has a touch screen that allow users to use on-screen soft keys to dial numbers, enter web addresses and type e-mails and text messages; it makes more appealing to the less tech-savvy users because of touch screen that helps for all menu navigation and data entry from typing messages to dialing phone numbers; it can also support digital-music player that syncs with iTunes; the Apple's voicemail system provides visual interface that allow users to pick messages as the wants to listen; finally it has built-in rechargeable battery that allow users to talk up to eight hours and standby time up to 250 hours but browser sessions on General Packet Radio Service (GPRS), depletes its battery rapidly, however if the iPhone is used as an iPod music player by users its life would be shortened.

Apple iPhone also possesses unique features that perform its most functions with single contract and able to standby long time. It also has supportive functions of like multi tasking where the user can read a web page while downloading e-mail in the background over Wi-Fi or Enhanced Data rates for GSM Evolution (EDGE). Here interface is unique with large multi-touch display and innovative new software that allows controlling everything by finger on touch screen. It also combined the features of multiple tools into one handheld device to appear as the grid of colorful icons, with the four chief functions—Phone, Mail, Safari web browser and iPod—in a separate strip along the bottom.

These all sophisticated features made iPhone a much sought after device and enjoyed a top position in the market (Exhibit 2) in spite of its acute competition from the top mobile players having overlapping features. The combined features of iPod music and video player with mobile telephone, the iPhone was available through AT&T Wireless Services. But it was locked by the service provider AT&T in its two-year service agreement. The consumers in India could not use iPhones in their home town even they have purchased from US or UK, because of reloading software. The demand for iPhones rated greater than any other product of Apple. In the opinion of iSuppli, the best-selling handset among the 2, 70, 000 smart phones and featured phones sold to US consumers during the beginning of month in July 2007 is iPhone.

Even market analyst pointed that Apple created a strong brand and customer Market analysts pointed out that Apple had created a strong brand and customer loyalty by following a skimming price strategy and customers are ready to purchase highly priced products now and in future with equanimity. iPhone: Banking on Pricing The iPhone entered the market a month with stock of 3, 00, 000 and a manufacturing capacity of 1, 50, 000. Their version 8 GB was available for \$399 in the US through Apple's retail and online stores and AT&T retail stores but 4 GB version were sold till the supplies lasted. To make it affordable to customers, Apple launched more iPhones during holiday seasons.

The launching of Apple iPod in October 2001 is a success story which was priced at \$349 (as of 2007) for 160 GB lower than a MP3 player and remained popular by gaining high demand till date though there was a price rise in

2005. Later another product named iPod shuffle with 512 MB, was introduced having unique appeal with a price at \$99 and \$149 for 1 GB. The analyst at Jupiter Research Joe Wilcox analyzed that the lower-priced iPod is part and parcel of Apple's new mass-market strategy, and before September 2007 it wanted its one-millionth piece to be sold. Similar to the price cut of the iPod, the Apple after two months decision to cut the price of 8 GB storage iPhone from \$599 to \$399 on September 5, 2007 showed a good response from many quarters.

In accordance to Steve Wozniak, Cofounder of Apple Computers, remarked, "Nobody expects a product to drop that much in price in such a short time" and criticized Steve Jobs (Jobs) the chief executive of Apple Inc. , for his decision to price cut of iPhone by \$200 within 68 days of its launch. He also said that Jobs has received letter on the company's website and complaints from hundreds of customers acknowledging that Apple has disappointed some of its customers through price cut of iPhone's 8-gigabyte model. According to Apple executives the plan for price cut was done long ago and hoped it would keep the iPhone's pricing in line with its new iPod Touch. But this price cut suggested that Apple which long lived in a pricing bubble insulated from other personal computer makers was not different from the brutal pressures of the cellular phone business.

Van Baker, an industry analyst at Gartner Group said that. " My suspicion is that they got to 7, 50, 000 really quickly, and then it started to slow down". This price cut dropped down the share price of Apple by 5% and stood at \$136. 76 on September 5, 2007. Protests against Apple went to the extent of

consumers filing cases against the company. Dongmei Li (Li) a customer of Apple filed a case on September 24, 2007 in the US District Court, against the company for violating price discrimination laws claiming that it should stop selling the \$499 4 GB model. Li had waited for the launch of iPhone and then found that the store only had 4 GB iPhones in stock and had subsequently purchased one.

Much to her chagrin, Apple then slashed the price of the 8 GB iPhone and stopped selling the 4 GB model. 100s of customers like Li who paid the full price did not expect the sudden reduction and complained bitterly. Apple, however, had no financial reason to cut prices, but to gain more customers during the holiday season. By the end of September 2007, Apple had sold 1.4 million iPhones and also launched the device in the UK, Germany, and France. In Asia and Australia iPhone was scheduled to be released during 2008 (Exhibit 3). While the company was dealing with the price cut controversy, its competitors were working on developing models that could compete with the iPhone.

Apple's competitor LG was working on iPhone 'killers', its new product Prada phone KE850 will attempt to offer unbeatable combinations of style, features and price. It costs ? 300 (\$614). Nokia with its N800 was already a tough competitor to Apple's iPhone with a niche market. The iPhone price cut caught the media attention in a big way and raised questions about the device's continued success. However, there are also some advantages to Apple's price cut (Exhibit 5). The price cut has raised the question as to whether Apple needed to stimulate demand as it is the most valued gadget

in history, by reducing the price drastically soon after its release. Experts observe that Apple is switching from a price-skimming strategy to market penetration strategy.

They felt that it would be able to expand market share more rapidly and competitive barriers could be strengthened through the change in strategy (iPod: Factors of Success). In spite of its popularity, the iPhone is said to suffer a few shortcomings. Apple iPhone lacks some features like user-changeable battery, voice dialing, voice recording, video recording, instant messaging, Multimedia Messaging Service (MMS), copy and paste and common Bluetooth file transfer OBject EXchange (OBEX). It is hard to use the on-screen keyboard because of its small sized surface. Further, the iPhone is available only through AT&T service provider and not through third parties. It comes with a two-year service agreement in the US.

In countries like India even if iPhones are purchased customers cannot use them, as they have to reload the software to use it. Many users opine that though it boasts of a very clear and sharp screen, Apple's user interface is finger driven and the screen rapidly becomes covered in unsightly fingerprints (Ziegler). Apart from these limitations, Apple had to tackle the consequent criticism following the price cut of the iPhone. Stephen Hoch, marketing professor at Wharton University, observed, "The reversal on Apple's iPhone may have been more dramatic because the company has marketed itself as consumer friendly. People have strong positive feelings about Apple. They feel they are part of the Applefamily. When Jobs announced the price decrease, people felt betrayed".

According to Wharton faculty and analysts, the iPhone episode reveals the perils of pricing in a marketplace where constant innovation, fierce competition and globalization are changing the rules of the game (Smart pricing boosts revenue). John Zhang, marketing professor at Wharton University, said, " The product lifecycle is short and the market is moving quickly. You don't have a lot of time to learn from your mistakes. You have to price the product right the first time". Jobs, while speaking to reporters, defended his move stating that his price cut was directed to attract new customers in the holiday season with more aggressive pricing. He added that it benefits both Apple and every iPhone user to get as many new customers as possible in the iPhone 'tent'.

Jobs observed, "...even though we are making the right decision to lower the price of iPhone, and even though the technology road is bumpy, we need to do a better job taking care of our early iPhone customers as we aggressively go after new ones with a lower price. Our early customers trusted us, and we must live up to that trust with our actions in moments like these. " Greg Joswiak, Apple's worldwide vice president of iPod and iPhone product marketing, also agreed with Jobs and observed that there was no better time for the price cut and he also added that it was that time of the year that was most important and an opportunity to come into the holidays with a fresh and aggressive product line (Ziegler).

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