

*Lionel Cruz & Sophia Marquez*

# The Shock Market

Even a monopolist can encounter  
competition in the market.

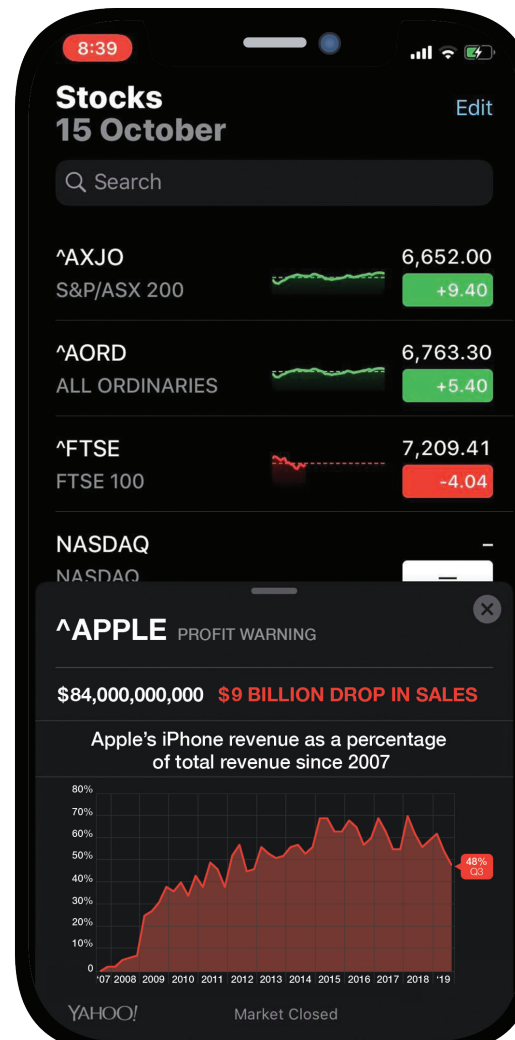


# The Shock Market

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Apple, for the first time in 16 years has issued a profit warning to its investors, outlining that Apple made profits of nine billion dollars less than that they originally forecasted. This nightmare came to be as consumers are now starting to refuse purchasing the latest iPhones. Analyst Benedict Evans explains the reason behind this as a result of people observing "less and less difference between a new smartphone and one from a couple of years ago." Consumers see no strong purpose to upgrade their iPhones as their old ones still function greatly as the latest model and that there are no highly compelling features to strive for.

Initially, in response to the realisation that the smartphone market is oversaturated, Apple, to increase their revenue and counteract the oversaturated market, focused their sales on the Chinese market as it was their fastest growing source of revenue and not to mention that China has the most smartphone users in the world. However, as the Chinese smartphone market and overall economy is slowing, Apple had to implement price hikes in 2015



to over all make money from less sales. Instead of appealing to the mass market, Apple seems to have instead, directed more attention to the higher end of the markets. This completely changes Apple's business model from catering to the wider consumer bracket by selling mass amounts of products at a low price to only catering for the top classes of society where having the latest smartphone is a symbol of their social status, selling less products at a higher price.

Another problem Apple faces is that the consumers who want to buy the new iPhone model, often tend to sell their existing iPhones on third party online platforms. These deals can often be cheap as people just want at least some cash to help them purchase the new and expensive iPhone model. These online deals would then be snatched up by prospective buyers looking to purchase new devices which takes away from the sale revenue Apple would make.

In response to this crisis, Apple's CEO Tim Cook revealed in an interview with CNBC earlier this year, his plan on how the company will cope with this situation to encourage consumers to upgrade their iPhones and gain back revenue. He aims to concentrate on internal aspects that the company can control and these include three strategies, which are the trade-in rebates, a payment plan, and services.

#### Trade-in rebates:

Apple will market its trade-in rebate program and incentives to the public more and indicate the environmental benefits from it. For instance, an iPhone XR which retails approximately \$749 USD can cost a consumer \$449 USD when they trade in their iPhone 7plus.

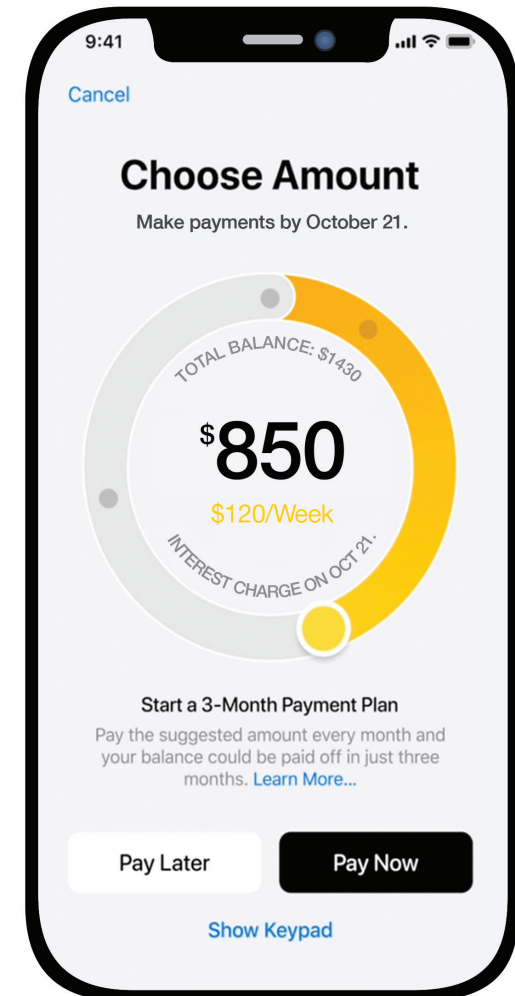
#### Payment plan

Apple will now support a payment plan which will "reduce the sting" of purchasing a \$749 USD phone and instead, allow its consumers to purchase a phone in equal monthly installments.

#### Service

Apple will now gravely aid consumers through the process of switching to a new iPhone. As Cook mentioned, "People are very worried about transferring their data," he said. By focusing on service in its stores, Apple can ease customers' fears of losing precious photos or conversations when they upgrade to a new phone."

Considering these issues, Apple's worst enemy is indeed themselves and their high quality products. However, with the right strategy, Apple can easily and most definitely navigate themselves out of the situation they have found themselves in.



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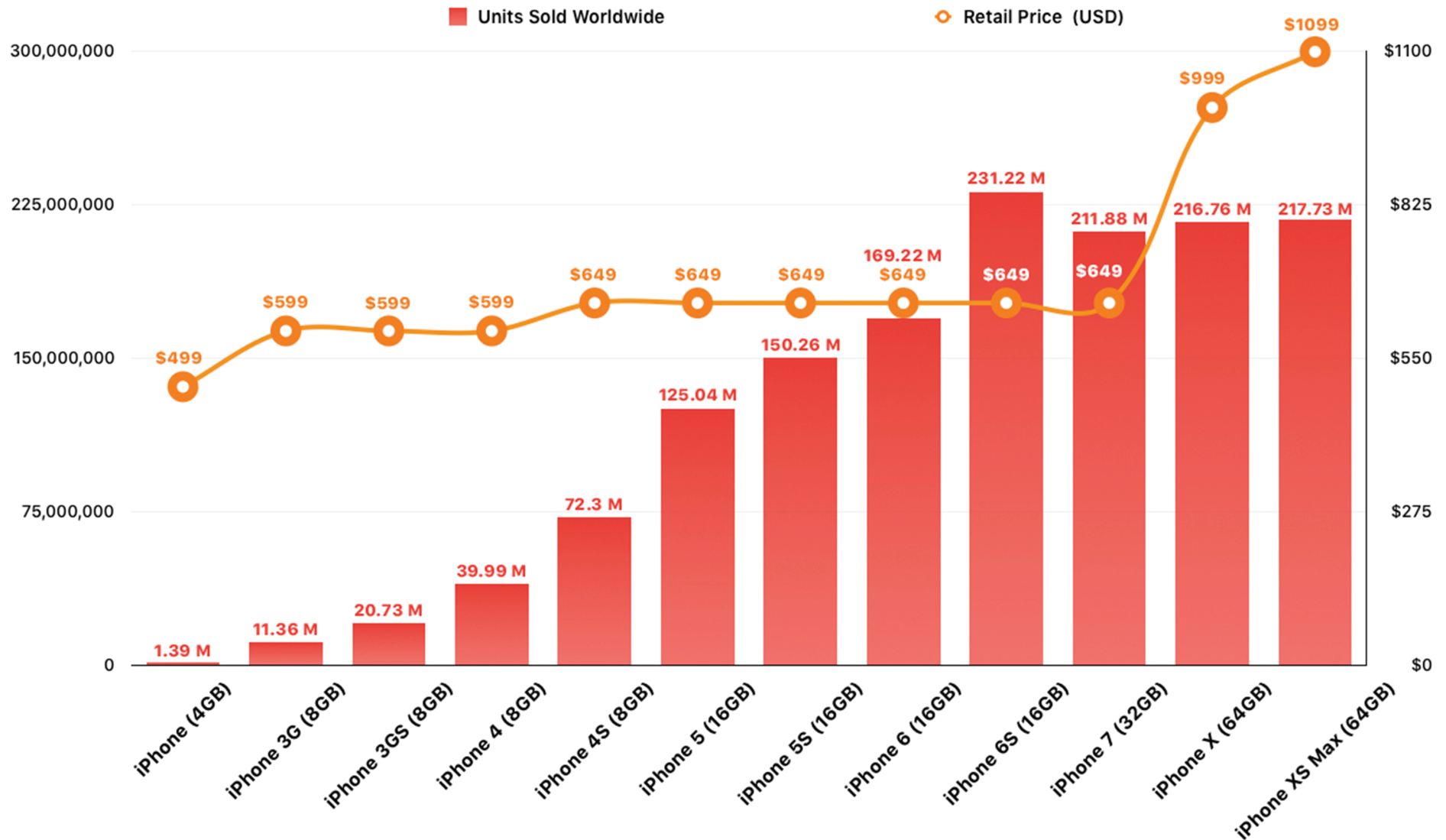
# Comparison of Features



The iPhone X, for example, in 2017 offered its edge-to-edge screen and Face ID. Though these features are great, they have been done by other mobile phone manufacturing companies before and it was not too revolutionary enough to push current iPhone users to purchase a new model to replace their perfectly functioning phone. Furthermore, when compared to the iPhone 6S, these new iPhone models have no real ground-breaking features. They both can perform the same tasks an average consumer wants to do; message, call, take photos at similar qualities, and download third party applications.



# iPhone Sales and Prices According to Model



The graph above presents the different iPhone models released, their total launch sales, and retail price. During its early models, Apple has always received a great response from the market. People loved the iPhone and were eager to purchase when newer models are introduced. In particular, the iPhone 6S was the version which helped Apple achieve the highest growth, with an increase by 62 million units sold worldwide. However, the following models after this were unable to sell higher. Apple faced a flat sales growth as the iPhone 7, iPhone X, and iPhone XS Max's units sold all ranged at around 210 million and over. To cope, the company raised the prices of the phone due to the possibility of earning even from less sales.