

## Apple's Pricing Strategy

In the mid-to-late 1980s both **Apple** and other firms like Compaq and IBM were using **high profit margin, premium-pricing strategies**. In the 1990s most computer firms reversed this strategy by slashing prices and reducing margins, although Apple did so reluctantly and was a laggard.

In the past few years most PC makers have been offering PCs for under \$1,000. While Apple had traditionally been "**Apple priced**", rather than "**affordably priced**", their newest entry, the iMac series, while still slightly premium priced, is more affordable. The same may be said of the iPod – slight premium, but affordable. Note that **innovative differentiated products** can support higher margins.

An initial target for Apple in the 1980s was a **50% gross margin**, evidently across their entire product line. Apparently this 50% gross margin target was used in the early 1990s as well. Most times the **true elasticity of demand** is not known precisely, but by trial-and-error one can arrive at a good approximation of the elasticity of demand. **Apple seemed to ignore completely the demand they faced in setting the 50% gross margin.**

### Write 1 or 2 paragraphs on this:

**Point 1: Comment on the price strategy used by Apple.** Was the use of a 50% gross margin a good strategy? Is holding gross margins above 50% to pay for R & D a good idea? Should the two be tied together in any way? Was Apple "thinking strategically" when it set prices? "Strategic thinking is the art of outdoing an adversary, knowing that the adversary is trying to do the same to you." Was Apple concerned about its adversary and/or aware of their strategies? Do lower margins mean lower profits? When are high margins justified? Were high margins ever justified for Apple? Were the strategic effects of Apple's pricing strategy beneficial (rivals become less aggressive in pricing) or negative (rivals become more aggressive in pricing)?

### Write 1 or 2 paragraphs on this:

**Point 2: Comment on Apple's dynamic pricing strategy.** Were any of the pricing practices entry-detering/exit-promoting or possibly entry-promoting? Were there network effects to be exploited? Did they facilitate the creation of a network?

### Write 1 or 2 paragraphs on this:

**Point 3: Comment on Apple's strategy with the iPod and iTunes.** Does the pricing strategy seem appropriate? Is Apple exploiting the complementary relationship in its products with its pricing strategy? How is the competition doing in comparison?

### Write 1 or 2 paragraphs on this:

**Point 4: Comment on Apple's overall performance these days.** What business strategies have proven to be successful? How is the release of **iPad** likely to affect the company's profits? What is the price of an iPad and why do you think it was set this way?

**Thanks!!**