

# ***Research on High Pricing Smartphone***

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**Abstract:** Since the introduction of the iPhone X, we have seen more and more phones that are priced at about \$1000, and some of them are priced at about \$2000. However, are these phones too expensive for most people? Many people do not want to buy these phones because, in some places around the world, people think these phones are too expensive. In addition, what benefits do the companies get when they price these phones this way? Thus, we can take Apple as an example. By evaluating the financial report from Apple, this paper aims to find out whether or not this kind of strategy is successful. Then, it suffices to show that by increasing the products' prices, the products' profits also increase. Thus, this strategy can be very successful since Apple has become the company with the highest market value. In addition, since the cost of production has increased dramatically, Apple needs high prices to keep the revenue stable. In some cases, these phones may not be overpriced.

**Keywords:** smartphone, Apple, price, market value

## **1. Introduction**

Today, many phones are priced over \$1000. Some people just keep buying those. However, this price is still too expensive for some people, so they cannot afford it. The reason why these companies raise the price of their phones is that they need to spend more money to build these phones. For example, the chips inside these phones are getting more expensive and these companies need to pay more to develop a new phones. Thus, they need to raise the prices of phones so that they can make enough money to keep their revenue stable. Indeed, these phones still could not be overpriced. For customers, "Intrinsic values are based on people's real psychological needs, support their growth and development, and are inherently satisfying to pursue." [1]. This paper takes Apple as an example because iPhone is one of the most popular smartphones in the world and the profit of each iPhone is the highest in the market. According to Daniel Ruby, iPhone has 18% market share in global smartphone industry [2]. Based on this research, we can expect the price of the phone in the future and what it means to our people. This means that in the future, more people could spend more money to buy a phone. At the same time, we can evaluate Apple's value in the market around the world and find out what the advantages and disadvantages of high pricing are.

## **2. High Pricing - The Ultimate Strategy**

One of the goals of a company is to maximize the revenue and minimize the cost. For a tech company, it takes a lot of money to develop a new product each year. In addition, it also costs them a lot to manufacture these products and sell them in different ways, including in retail stores and online

stores. Thus, the company needs a lot of money to make everything as stable as possible so that they have enough income and, at the same time, can keep introducing new products for people to buy. Last month, Apple launched his 2022 Q4 financial statement. Notice that there is no sales volume on the finical statement. Long time ago, Apple still shared the sales of their products. In the past, Apple announced they would not share the sales because they wanted people to focus their revenue and profits. Accordingly, they do not have to share the sales of each products. In that case, to get high revenue, they need to increase the prices of their products, including the iPhone. For example, in 2017, Apple introduced iPhone X priced at \$999, which was a significant increase in price and it let them become a one trillion dollars company in 2018. Accordingly, the revenue and profit of the iPhone had been increasing dramatically even though the cost of the production also increased. Furthermore, they increased their other products, such as the iPad and Mac, to maximize revenue in recent years.



Figure 1: The starting prices of the iPhone each year [3].

Based on the financial reports from the past five years, this kind of strategy has been very successful for Apple. In the past twelve months, the net sales of their products and services were \$365,817 million, and the gross margin was \$152,836 million. Thus, Apple earned a lot from their products and services compared with other companies thanks to their high pricing strategy. However, the cost of the sales also increased from \$212,981 million to \$223,546 million since the cost of production is also rising around the world. For example, each chip in each new iPhone costs about \$50, so Apple has to raise the price of the phone in some countries. Finally, net income increased by approximately \$5,000 million dollars.[4] Furthermore, Apple has a significant amount of liabilities. From the report, we can see that the total current liabilities have increased compared to last year. Additionally, operating activity increased, but investing activity was lower than in 2021. Hence, this year, Apple focuses more on operations. Thus, their high pricing strategy keeps their financial situation optimistic since the cost is higher compared to last year. For Apple, a \$1000 phone will keep their income more stable in the current global financial situation.

In that case, however, the customer will spend more money to buy a phone. According to Dave2D, who known as a YouTuber, in some country, people will spend 30% to 60% of their yearly income to buy an iPhone. Thus, people will spend a lot money on their phone to get the best experience and some people even can not afford an iPhone in some cases. It spends apple about \$600 to make a iPhone and Apple prices it at \$999 to secure the profit per phone. Thus, to making more profits, Apple can price higher even though the sales going down. They can do this because they still make the best phone in the world in terms of overall experiences.

However, Apple knows some people can not afford some of their products. Thus, they still sells less expensive iPhone, iPad, and Mac to earn as much as possible. "In offering a product line to

achieve maximal profit, the manufacturer needs to carefully choose the variety of product configurations and their prices given the products' costs and customers' willingness to pay." [5]. These products use some old technologies so that they are less expensive to make. For example, the new iPad does not feature a laminated display and it only support the first generation Apple Pencil which introduced almost 8 years ago. In addition, Mac mini also did not get any design changes more than a decade. These things reduce the manufacture cost dramatically. Moreover, "The goal of the optimal PLD problem is the design of a number (line) of products (selection of the attribute levels for each product in the line) that will optimize an objective of the company, usually profit, market share, or customer welfare [6]. In that case, the profits still will be very high since these products are still not very cheap.

Indeed, high pricing is the ultimate strategy. Apple is not the only company with premium pricing. For example, Nike has the California collection, which has been priced really high. In addition, Tesla has different models for their cars, including Model 3, Model X, and Model Y, where Model Y is the most expensive one and Model 3 is the cheapest one. Moreover, Louis Vuitton is always one of the companies with the highest priced products, and most people still buy these products because of the brand. Because of their high pricing strategy, they can make more revenue and profits than other competitive companies.

To make this possible, of course the companies need to have a good product. Apple's integration between software and hardware is the best in the industry. iOS and macOS are the one of the most advanced in the industry. They have unique sets of features and at same time they work seamlessly. In addition, their products are powered by Apple silicon so that they have powerful features including machine learning and computational photography and the developers can create same applications which works with both platforms due to the same fundamental architecture so that the development cost will be reduced dramatically. In that case, the customers can feel that the products they purchased are worth since there is nothing like Apple's products. Thus, a good product line is also the foundation to make more money and the company can price them in the way they want to maximize the revenue.

Accordingly, because of the inflation around world, this kind of strategy lets different companies keep their revenue and at same time they can launch new products every single year during this period. For some customers, they do not care about the prices because they just want the best technologies and products. However, they are too expensive for some customers so that these customers just choose cheaper products or stop buying new products.

### 3. Conclusion

All in all, from some perspectives, \$1000 phones are not overpriced. It sets a foundation for the companies to have enough money in the current situation, and at the same time, the companies can still offer new products each year for the customers. However, this kind of strategy is not for customers who do not have enough money to buy new products. In general, this kind of strategy will help the companies go through the inflation and, at the same time, still offer new products each year. Companies like Apple offer the most advanced products in the industry, and there is no other company that offers this combination of design and utility. In that case, they can price the products as high as they want because they know that some people will still buy them.

In addition, the global economy is recovering, and more people can afford these products. Apple is a smart company, and they know what they are doing. More importantly, people need to think about what they can do with these products. If they can earn more and more by using these products, that means these products are not expensive. Thus, people need to consider the value of the products to them. In that case, people can build a better world for us to live in. However, the data in the article is

limited, and Apple cannot represent the whole industry since there are a lot of phone companies in the world. Thus, we should look at other options so that the conclusion can be more convincing.

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