

# Apple's selling gadgets like the iPad on price as much as on features

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When Apple unveils the next version of the iPad on Wednesday, the tech world will be focused on its new features.

But don't let the bright and shiny new gadget distract you from a bigger story: The company known for premium prices has very quietly been driving down the price of its products.

And if Apple continues to pull off this trick without sacrificing profits, competitors are going to have an even harder time catching up to the Cupertino company in the smartphone and tablet markets. What crystallized this for me was a note published Monday by Toni Sacconaghi, an analyst at Bernstein Research. He talked to several Apple executives, including Tim Cook, the acting CEO.

Sacsonaghi quoted Cook as saying he didn't want Apple products to be "just for the rich." And Cook said the company was spending a lot of time trying to understand the Chinese phone market, where he noted most customers still use the low-cost method of prepaying for phone services.

Cook didn't officially confirm the company was developing a low-cost phone. But his remarks all but signaled Apple's move in that direction.

Make no mistake, this unheralded shift represents a profound change. Apple is still deeply associated with premium-priced products. Its computers in particular are so elegant, so well-designed, that people have traditionally been willing to pay more for them. And Apple willingly conceded the mass PC market to others to focus on its high-end niche.

And yet this new direction shouldn't be a surprise. While the original iPhone debuted in 2007 for an eye-popping \$399, the company slashed the price just a few months later.

And last month, the company began offering the iPhone 3GS for \$49. That's the cheapest price ever for a new iPhone. Even the latest phone, the iPhone 4, starts at \$199.

Also, recall that just last year, when the company unveiled the iPad, among the biggest shocks was the low prices, starting at \$499. Of course, for many people that's a big chunk of change, but pundits had predicted it would sell for at least \$1,000, given Apple's penchant for commanding a premium price.

That low price helped propel sales of the iPad that exceeded most expectations. But even more remarkable, competitors who are finally rolling out their own tablets are having trouble beating Apple on price.

"The bottom line on any price advantage is there doesn't appear to be any major difference between the current iPad and an Android tablet like the Xoom," wrote Andrew Eisner at [Retrevo.com](http://Retrevo.com), a shopping comparison site. "For example, you can get a 3G Xoom with a two-year contract from Verizon for \$599 with a \$20 monthly fee, which adds up to a little over \$1,000 over two years. A similar deal from AT&T for a 3G iPad requires a higher upfront cost but lower monthly fee, adding up to a little over \$1,000 for two years."

So why the change? It comes down to opportunity, and Apple's growing might.

The opportunity is to move products like the iPhone and the iPad beyond a niche and into the hands of mainstream audiences. Bjarin said smartphones represented only 22 percent of the U.S. cell phone market in 2010, but that number will grow to 60 percent by 2012. And he projects 65 percent of all cell phones sold worldwide will be smartphones by 2015.

Bjarin and others are making those lofty projections because the price of smartphones in the U.S. has started to come way down, in large part thanks to Apple. But around the world, Apple and other tech companies need to design phones that are even less expensive, or that allow for alternative pricing plans, to make them appealing for mainstream users in emerging markets.

In the past, those price drops might have only been done reluctantly, at great risk to profit margins. But thanks to Apple's growing power, it's driving down the costs of building its devices, giving it room to sell them at relatively low prices and still make money.

It is able to do that because it can order components in much larger batches than anyone else. And as any shopper will tell you, the bigger the order, the bigger the discount.

"A vendor was telling me that their greatest fear isn't that iPad 2 will have new features," Bjarin said, "but that the base unit will come in at \$399. At that point, their competitive opportunity is basically nothing."

It's something that would have seemed unthinkable just a few years ago. But of Apple's many advantages, cheaper may be its most potent weapon in the fight to maintain its leadership in the coming years.

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