

# Price Skimming on a Successful Marketing Strategy: Study of Ipad Launching as Apple's Innovative Product

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**Abstract:** What is the secret behind the highly success of Apple Inc.? How the Brand has conquered a considerable proportion of the market share as increased Brand Loyalty with the new Tablet product of Ipad? The answer is already given: Brand Loyalty. This paper attempts to analyze the principal factors and activities that conform his Marketing Strategy, and the advantages and disadvantages of a Price Skimming setup on this kind of market. Price skimming strategy provides an excellent opportunity for the company to maximize profits from the early stage of the Product Life Cycle (PLC), covering research and development costs and eventually, slowly decreasing price when is needed, due of sales reduction.

**Key words:** Marketing strategy; Price skimming; Price setting strategy; Ipad

## 1 Introduction

Price is perhaps the most important of the four Ps of marketing, since it is the only one that generates revenue for a company. A Price strategy usually changes as the product passes through its life cycle. One of the strategies for Price setting of new products consists in set high initial prices to “skim” revenues layer-by-layer form the market (Kotler, Armstrong). The case of Apple on launching the Ipad as a relative new product of electronic Tablet is an example.

Apple is well-known for their innovative thinking in terms of marketing, and the strategy for their newest creation of iPad is no an exception. Part of Apple's marketing strategy is to have their products appeal to the masses, gathering business customer and entertainment customer both in one market.<sup>[1]</sup> Its combination of exceptional products, great style and design, great strategy, innovative marketing, sleek and enticing communications is part of the key. In other words, his Marketing Mix and Strategy for adding value to customer is translated into an excellent customer relationship and brand loyalty.

We aim to study the Marketing Strategy of Apple Inc. on the launching of Ipad, its Market Mix and factors affecting the market. We compared the literature review and analyze the Unites States Scenario, evaluating whether the Price Skimming might be the best alternative or not on this stage of the Product Life Cycle (PLC). Finally we will enumerate the advantages and disadvantages of this Price Setting strategy and bring up with some highlights and conclusion.

## 2 Literature Review

### 2.1 Marketing strategy and price setting

A Marketing Strategy consists of specific strategies for targeting market, positioning, marketing mix, and marketing expenditure levels. It outlines how the company intends to create value for target customers in order to capture value in return. It is on this part where the company plans how each strategy responds to the threats, opportunities and critical issues spelled out earlier in the plan.<sup>[2]</sup>

A critical part of a company's overall strategic planning includes the establishment of pricing objectives for the products it sells. A company has several pricing objectives from which to choose, and the objective chosen will depend on the goals and type of product sold by them (in our case the Ipad) to the market.

### 2.2 Price skimming strategy

The practice of ‘price skimming’ involves charging a relatively high price for a short time where a new, innovative, or much-improved product is launched onto a market. The objective with skimming is to “skim” off customers who are willing to pay more for having the product sooner; prices are lowered later when demand from the “early adopters” falls.

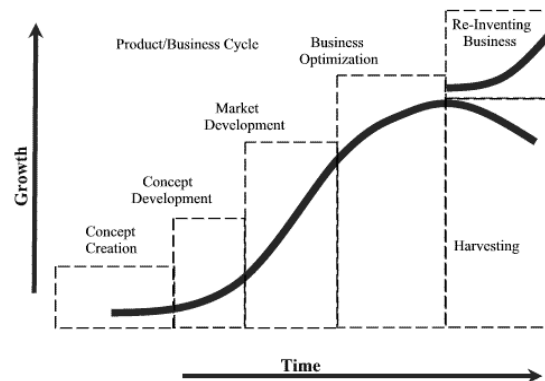


Figure 1 PLC – Product Life Cycle. Generic Graphic

The success of a price-skimming strategy is largely dependent on the inelasticity of demand for the product either by the market as a whole, or by certain market segment. High prices can be enjoyed in the short term where demand is relatively inelastic. In the short term the supplier benefits from ‘monopoly profits’, but as profitability increases, competing suppliers are likely to be attracted to the market (depending on the barriers to entry in the market) and the price tends to fall as competition increases. The main objective of employing a price-skimming strategy is, therefore, to benefit from high short-term profits (due to the newness of the product) and from effective market segmentation.

### 3 Methodology

The study is conducted to analyze the scenario of Apple Inc. on the electronic device’s market, especially in United States. (USA) Through a qualitative research, we aims to describe its segmentation and targeting market and how its position on the market makes it or not possible the Skimming Price as the best alternative for Price Setting for market share. The SWOT Analysis is referred but not presented as part of the topic study. Likewise we make use of Secondary Data of Journal and book publications, online business information, websites of Apple and principals competitors, as a previously Price comparison Study as well.

## 4 Data and Case Description

### 4.1 Description of company



Apple is an American multinational corporation, established on April 1, 1976 in Cupertino, California, that designs and markets consumer electronics, computer software, and personal computers. The company's best-known hardware products include the Macintosh computers, the iPod, the iPhone and the iPad. Apple software includes the Mac OS X operating system; the iTunes media browser; the iLife suite of multimedia and creativity software; the iWork suite of productivity software, among others.<sup>[4]</sup>

Apple has established a unique reputation in the consumer electronics industry. They had gained a customer base that is devoted to the company and its brand, particularly in the United States. Fortune magazine named Apple the most admired company in the United States in 2008, and in the world in 2008, 2009, and 2010<sup>[5]</sup>. The company profit was around \$8.24 billion closing the year 2009.<sup>[6]</sup>



Product: IpadThe iPad is a tablet computer designed and developed by Apple. It is particularly marketed as a platform for audio and visual media such as books, periodicals, movies, music, and games, as well as web content. At about 700 grams (25 ounces), its size and weight are between those of most contemporary smartphones, netbooks and laptop computers. Apple Inc. released the iPad in April 2010 in the United States, and sold 3 million of the devices in 80 days.<sup>[7]</sup>

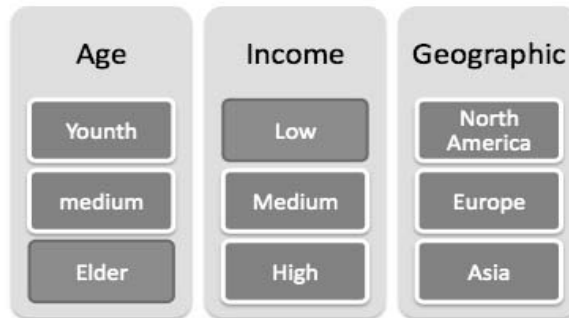
The iPad works on the same operating system as the iPod Touch and iPhone, though a slightly older version. It can run its own applications as well as ones developed for the iPhone. Without modification, it only will run programs approved by Apple and distributed via its online store.

Like iPhone and iPod Touch, the iPad is controlled by a multitouch display sensitive to up to eleven fingers— a break from most previous tablet computers, which used a pressure-triggered stylus. The iPad uses Wi-Fi or a 3G mobile data connection to browse the Internet, load and stream media, and

install software. The device is managed and synced by iTunes on a personal computer via USB cable. Media reaction to the device has generally been neutral or positive, with more positive reaction after the device was launched.

**4.2 Marketing strategy and marketing mix**

The Marketing strategy for Ipad leads the effort of Apple Inc. to concentrate its resources on the greatest opportunities in order to increase sales and achieve a sustainable competitive advantage.<sup>[8]</sup> It is centered on the key concept that customer satisfaction is the main goal. His target market is as follow:



**Figure 2 Ipad Segmentation and Targeting Market**

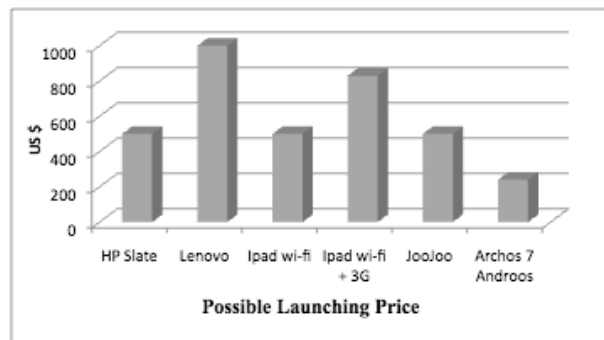
The segmentation of the market is based on Age, Income and geographic criteria. (Refer to figure 2 about segmentation and targeting market). According to age, we suggest that the target for Ipad is situated on Youth and medium age (for the entertainment and business utility of the product). According to income, is located on medium and high level (for the acquisition price); and the geographic concentration of the market is focus on North America, Europe and some countries of Asia, on this first Stage of the PLC respectively.

**Table 1 Ipad Marketing Mix for US Market**

United States	Marketing Mix
Product	Multitouch Tablet with multimedia formats including newspapers, magazines, ebooks, textbooks, photos, movies, TV shows videos, music, word processing documents, spreadsheets, video games, apps, surfing internet.
Price	Wifi: 16 GB - US\$ 499 / 32 GB - US\$ 599 / 64 GB - US\$ 699 Wifi + 3G: 16 GB - US\$ 629 / 32 GB - US\$ 729 / 64 GB - US\$ 829
Place	Retailers , online store / Direct channel (M-C) Indirect Channel (M-R-C)
Promotion	Advertisment, catalog online, public relations, temporary promotion in sales, focus on long-term Customer relationship

**4.3 Potential competitors**

Although the tablet electronic device is relatively new on the market, it has some competitors firms contending for market share and leadership. Among them we can enumerate Hewlet Packcard with the HP Slate, which continue in state of develop and proof; JooJoo with 4 GB of memory and 12 inches; Lenovo U1 with 16 GB and 11.6 inches, Archos 7 with Android OS, 8 GB of memory and 7 inches; Dell Mini 5, among others. The possible prices for each of them are the following:



**Figure 3 Comparison of Potential Product Competitors. (Data From Web Research, Drawing by the Author)**

#### 4.4 Price skimming strategy

As we mentioned, on the launching of Ipad there was a big segment of customers willing to acquire the new device.<sup>[9]</sup> On this life cycle of the product, the price elasticity of demand tended to be low. In other words, innovators and early-adapter customers were less price sensitive preferring another influences factors of value, as brand empathy, status, fashion, position; and other part, technological changes and competitive utility.

In a perfect competition market the consumer surplus is usually a benefit for the buyer of the good. As we know, it consists on the maximum amount a consumer will be willing to pay for a good, minus the amount the buyer actually pays for it. However when those customers buy the Ipad at the skimmed price, they are transferring this value to the Company. This strategy depends on the factors already explained in the literature review. The advantages and disadvantages are presented on the next section.

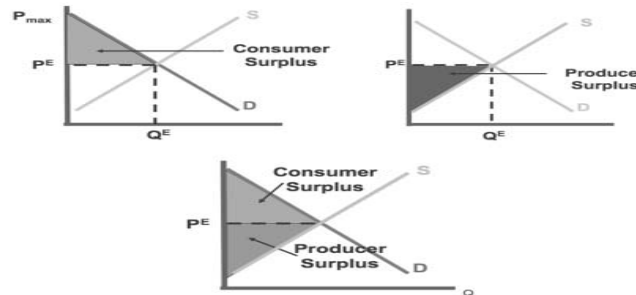


Figure 4 Skimming Price on demand and supply curve. General Theory

### 5 Highlights

#### 5.1 Advantages of price skimming

Cause the research and development costs of an innovative product as Ipad are likely to be high, as are the costs of introducing the product to the market via promotion, advertising etc., the practice of price-skimming allows for some return on the set-up costs.

By charging high prices initially, Apple can keep build a high-quality image for its product. Charging initial high prices allows the firm the luxury of reducing them when the threat of competition arrives. By contrast, a lower initial price would be difficult to increase without risking the loss of sales volume.

Price skimming helps in segmenting the market. The price can be lowered to suit each segment and thereby the demand of each segment is satisfied. That might allow Apple to make maximum profit from each of them.

In Apple logistic, the product is distributed via retailer stores. The high price of the product brings huge benefits for the retailers as well. Since the prices are initially high the manufacturer has the liberty of lowering it when competitors knock at the door.

Because the Ipad had started to have the expected position, its buyers are more prestige conscious than price conscious. Expensive goods easily attain the tag of being luxury items.

#### 5.2 Disadvantages of price skimming

This policy is workable only when the product has an inelastic demand curve. If in the long run demand curve turns elastic then market equilibrium will be attained by quantity changes instead of price changes.

Skimming attracts competitors. The high margins compel them to enter onto the market as soon as possible.

Skimming results in a slow rate of stuff diffusion and adaptation. This results in a high level of untapped demand. This gives competitors time to either imitate the product or leap frog it with a new innovation. If competitors do this, the window of opportunity will have been lost. A Critic wrote in a research article: "The iPad prices and gaps in functionality are likely to leave the door open for other media tablet vendors." [10]

The process of Lowering of price for Ipad product should be done at an appropriate time. If lowered too soon early customers could feel cheated. As a result the company and its brand name could suffer. In other sense, if customers had waited a little longer before buying Ipad product, this would have helped them to make a better deal.

High margins may turn the firm inefficient. There will be less incentive to keep costs under control. Inefficient practices will become established making it difficult to compete on value or price.

## 6 Conclusion

We have seen an overview of the Marketing Strategy of Apple Inc. and his marketing mix of how it had made possible a positioning on the market, especially in the United States. Due to the Brand Loyalty that Apple had acquired and taking into account their strengths and weaknesses, the company has been able to take advantage of market opportunities and adapt to environmental threats, such as the range of competitors, among others.

For the launching of Ipad on April 2010, the company made use of Price Skimming on this new stage of the PLC. It is a useful strategy and could be done when:

- There are enough prospective customers willing to buy the product at the high price.
- The high price does not attract competitors.
- The high price is interpreted as a sign of high quality, status, technological utility, etc.
- Lowering the price would have only a minor effect on increasing sales volume and reducing unit costs.

When the Skimmed Price tends to slow, Apple may change from Price Skimming to Optional-product Pricing Strategy, offering accessories along with Ipad, such as chargers, adapters, cases, cables, among others. Also is good to mention that the business of Apple does not only consist on their devices selling (laptops, Mac, ipod, ipad, iphone, Apple TV) but on the selling of media (music, books, software, applications and other services) through the net.

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