

MANAGEMENT ECONOMICS

- *Assessment 1* -

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Introduction

This report is based on a selection of the product or a company and evaluates its economic concepts. In relation to this, the chosen company is Apple, and its main product which will be considered in this entire report is iPhones. Apple is an American multinational technology company whose headquarter is situated in California, US. Apple deals in the consumer electronics industry with having global reach to a large base of loyal customers. This company produces Mac, Services, iPad, and iPhones including home, accessories, and wearables units. But this report will majorly focus on iPhones and by considering it will address the information of chosen product and its purpose, identify the market & demand equilibrium, and consider the factors that influence the price demand and elasticity.

Describe the business and its main product or service

What is your chosen product?

iPhone is Apple's most valuable product since 2008, and it has been the main revenue source. Even though, this company has diversified its product line with AirPods, services, and Watch. iPhone is still responsible for 50% of its revenues (Chase et al, 2022). iPhone is a smartphone made by Apple and combines iPod, computer, cellular phone, and digital camera into one device with a touchscreen interface. In addition, iPhone also runs the operating system of iOS, and when its new product iPhone 13 launched in 2021, so it offered a 12-megapixel camera and even up to 1TB of storage (Chase et al, 2022). Apple was developed for those who yearned to be different and this company always tries to cater to dreamers and creators. This company was developed to cater to people not only the consumers. Unlike, most companies, Apple manufacturers' decisions regarding the products are driven by design instead of marketing and finance.

Why did you choose it?

The purpose of choosing this company and product is to understand the effectiveness of the iPhone when it comes to cybersecurity which means iPhones have tighter security rather than Android. Moreover, the main purpose of choosing this product is to identify why this product is good compared to other phones or android (Leith, 2021). Moreover, in terms of functionality, Apple knows how to develop products that are really easy to use as the main objective when setting out the product. Another reason for choosing this product is to understand the role of Apple's best brand because, among the top brands, this company stands out for its control, and differentiation high degree. By producing its M1 and A15 flagship processing units in the house, this company received more flexibility in logistics and pricing power in the market as others struggled with the related challenges of the supply chain and shortages of the chip (Shapiro,1987).

Identify Demand and Market Equilibrium

Price of substitutes



Substitute products are two goods that might be used for the same objective and even they give different options to consumers (Hokky and Bernarto, 2021). In iPhone and Android cases, they offer the same form and functionality, but for some consumers, there is a huge difference in form of loyalty to the brand (Leith, 2021). The substitute products for the iPhone are Xiaomi 12 Pro Price, Galaxy S21 FE 5G Price, Samsung Galaxy S22 series, Google Pixel 7 series, OnePlus 10 Pro, etc (Leith, 2021).

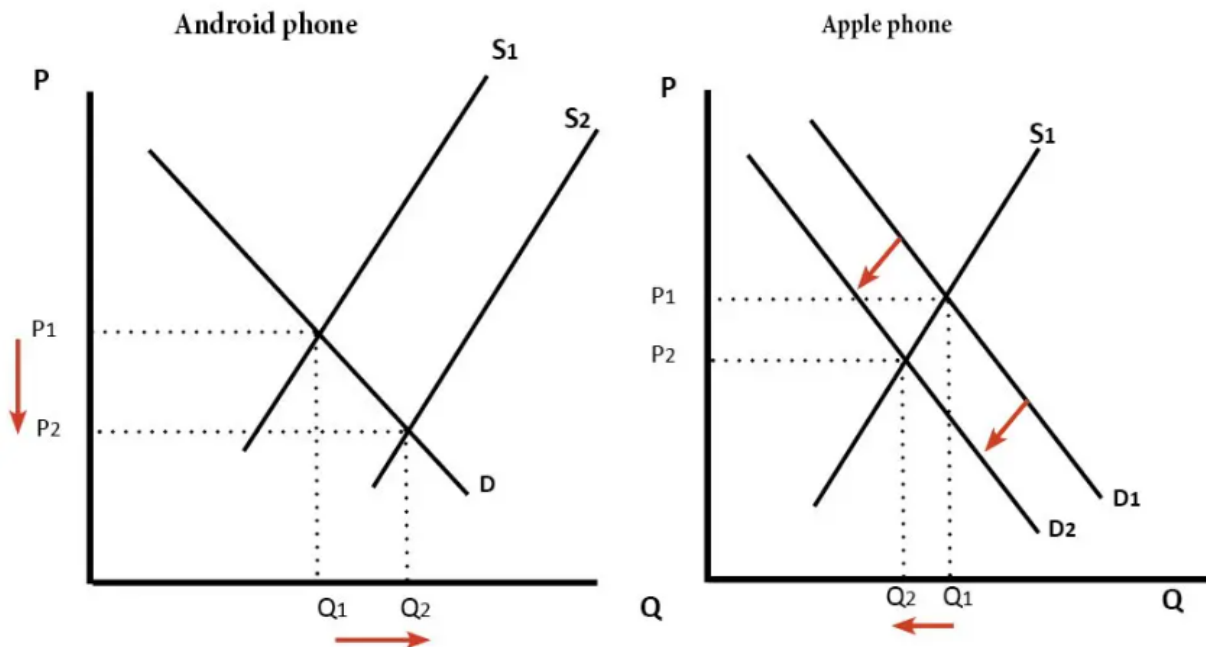


Figure: Showing Apple and Android as substitutes

Source: Pettinger, 2017

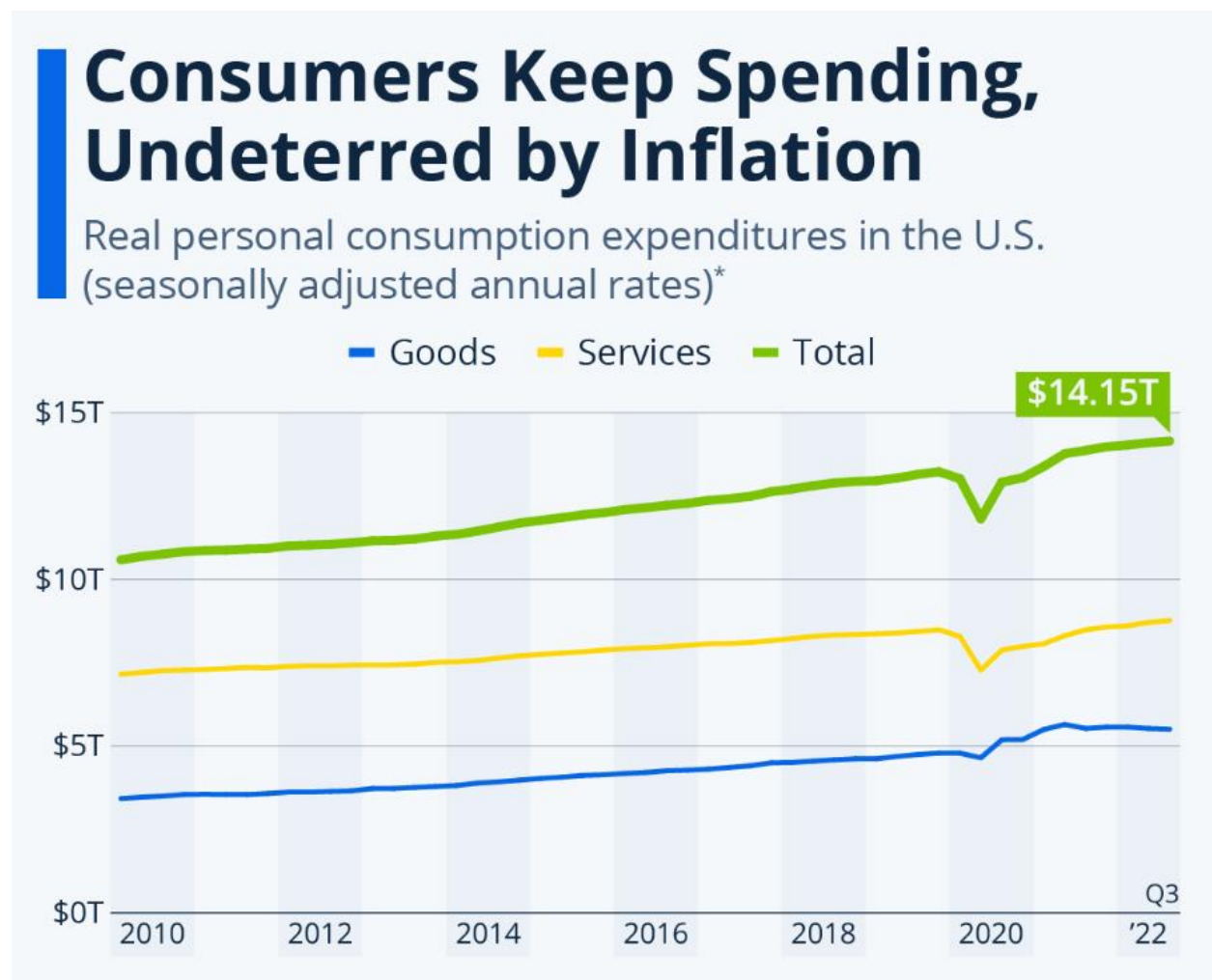
If there is a fall in the price of Android Phones, consumers will start demanding more (movement with demand curve), and as an outcome, there is a demanding fall for a substitute (iPhone of Apple) leading to decreasing demand (curve demand for shifts of iPhone to left). For example, let's assume that the price of Android phones fell by 10%, so it might be possible that the demand for iPhones will also fall by 2%. So, in that situation, the demand cross elasticity for Android Phones (concerning iPhones), will be $2/10 = 0.2$ (Pettinger, 2017).

Price of complements

Quickly open new conversations without having a previously registered number. New contacts register without any store them on iPhone. Edit, export, and share contacts to this product whenever the user requires it. There are weak and strong complementary products. The weak complements have a low demand cross-elasticity. For example, if Apple increases the iPhone's price, so it would reduce iPhone sales and iOS app demand (Leith, 2021). The complementary products are different from the substitutes because they affect fulfilling the

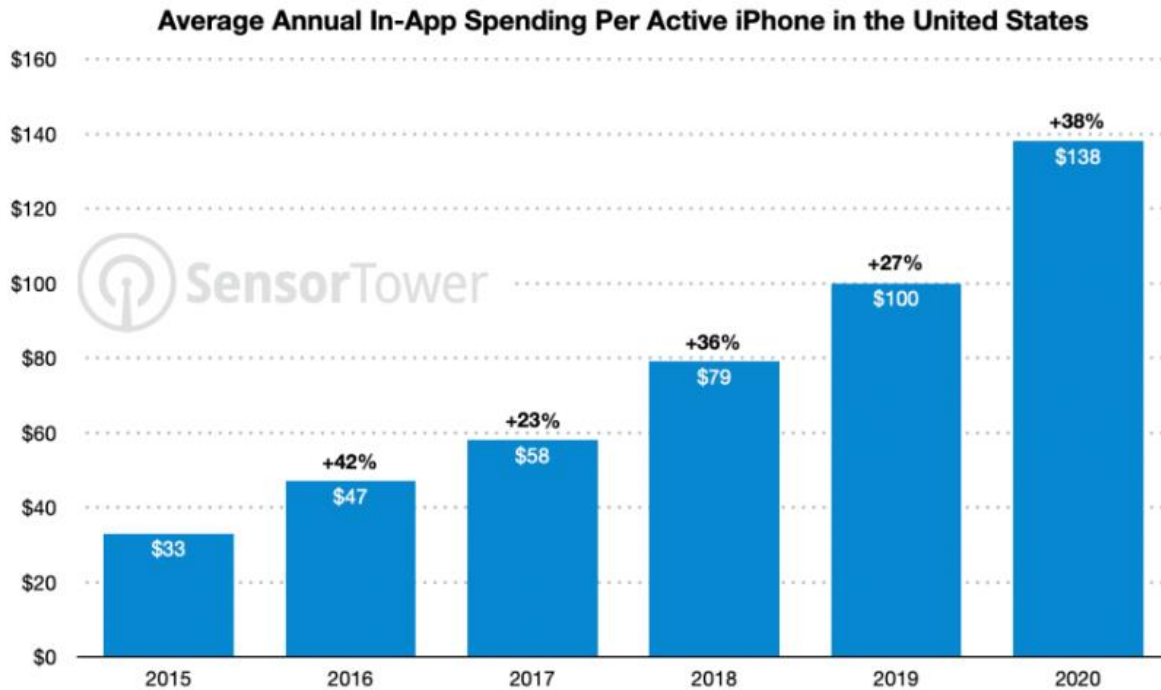
consumer demand with a different brand. It can be said that iPhone might be a substitute for Samsung phones (Theintactone, 2020). Therefore, these products can replace instead of complement each other. From this point of view, increasing the price of the iPhone may rise the substitute product demand as well

Consumer Income



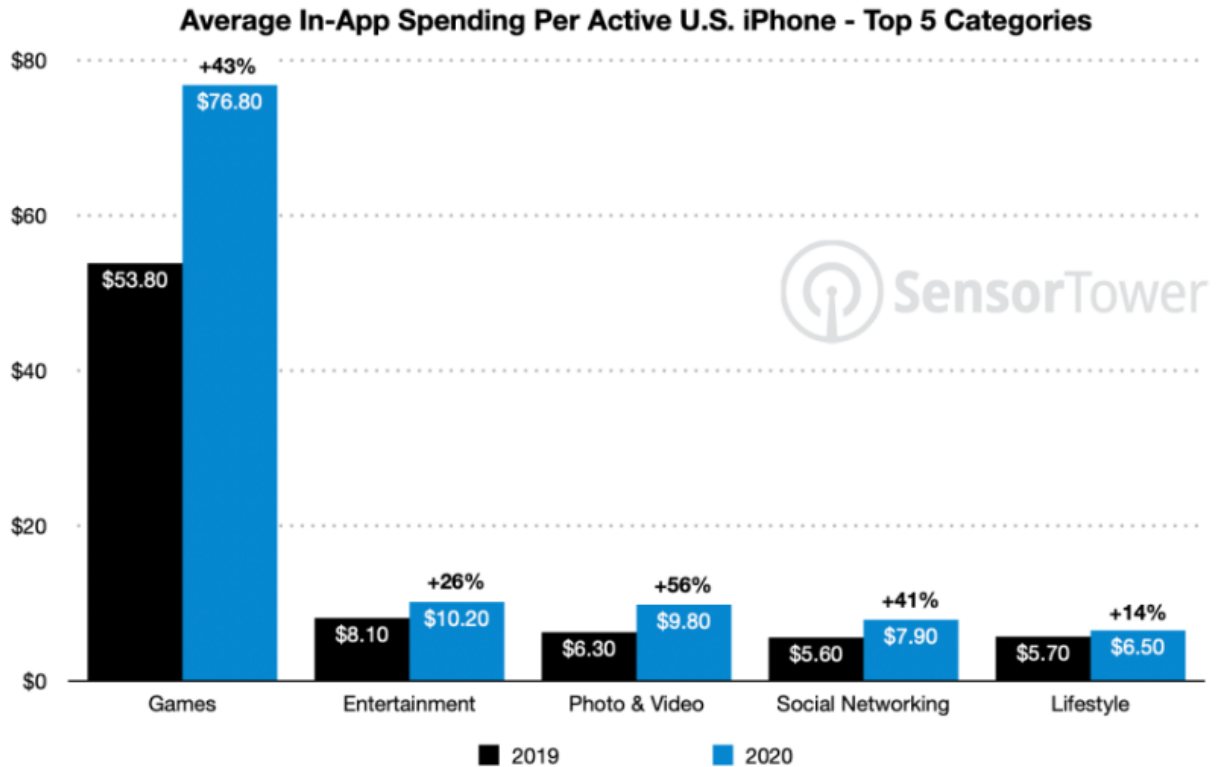
Source: World Economic Forum, 2022

The above diagram is provided information that consumer spending in the US is increasing which means the consumers are spending money on their products. Meanwhile, the services are also increasing at a 2.8% annual rate (World Economic Forum, 2022).



Source: Chan, 2021

This diagram shows the increasing spending number of consumers per active iPhone mirrored trends at the global level which also saw the overall spending power of consumers based on last year as they switched their phones for large reasons array during a pandemic. It can be said that the average in-app spending per US, in 2020, iPhone reached a new record and saw higher annual growth when it grew 42% (Chan, 2021). Customers also use this product to play mobile games due to covid-19 because the good system of iPhone apps boomed during this crisis.



Source: (Chan, 2021)

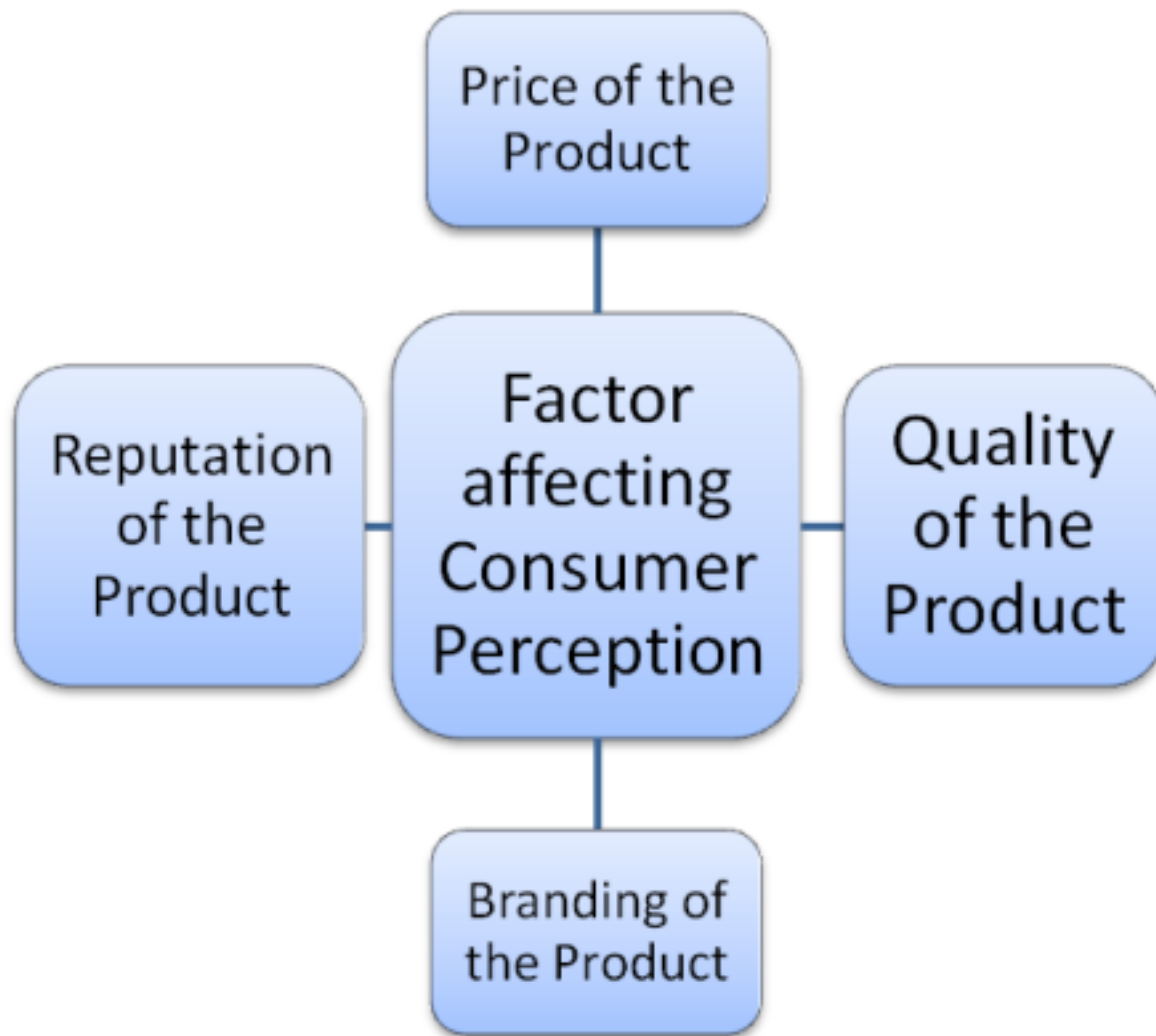
This analysis also provided information that iPhone user in the US spends more on Puzzle games and in this context, it also saw the next highest spending averaging \$13.10 also saw a surge in the last year of revenue and an average of \$12.30 per spender of iPhone user (Chan, 2021).

Consumer tastes & preferences

- **Price:** The customers have a high probability of favoring a service or product that is economically period. The main pricing strategy of Apple covers overcoming MAP, retail strategy, and advised price to ensure the price never drops along with maintaining the popularity of this product (Sharma and Verma, 2018).
- **Quality:** If the quality of the product is effective, so it will satisfy the customer and also help to enhance consumer perception. To develop the product popularity, Apple promises elegant and simple smartphones, and most consumers of this company also live up to this promise to perceive the good quality of products consumers.

- Packaging and branding: It affects the perceptions of consumers depending on how it is presented during buying and display and attractiveness quality also develops perceptions (Hokky and Bernarto, 2021).
- Reputation: It increases over time and depends on product experience and intensive campaigns of marketing that develop brand and status identity as well as determine perceptions of the product. Apple brand generally has a positive image among consumers and they also like the product loyalty and are willing to recommend this to their family and friends.

Factor affecting Consumer Perception



Source: Sharma and Verma, 2018

Demographic Data Analysis

Demographics	No. of Respondents	Percentage of Respondents
Age Group		
Below 18 Years	7	7
19 to 23 Years	75	75
23 to 27 Years	10	10
Above 27 Years	8	8
Total	100	100
Gender		
Male	81	81
Female	19	19
Total	100	100
Profession		
Students	63	63
Employee	16	16
Business Man	15	15
Other	6	6
Total	100	100

Source: Sharma and Verma, 2018

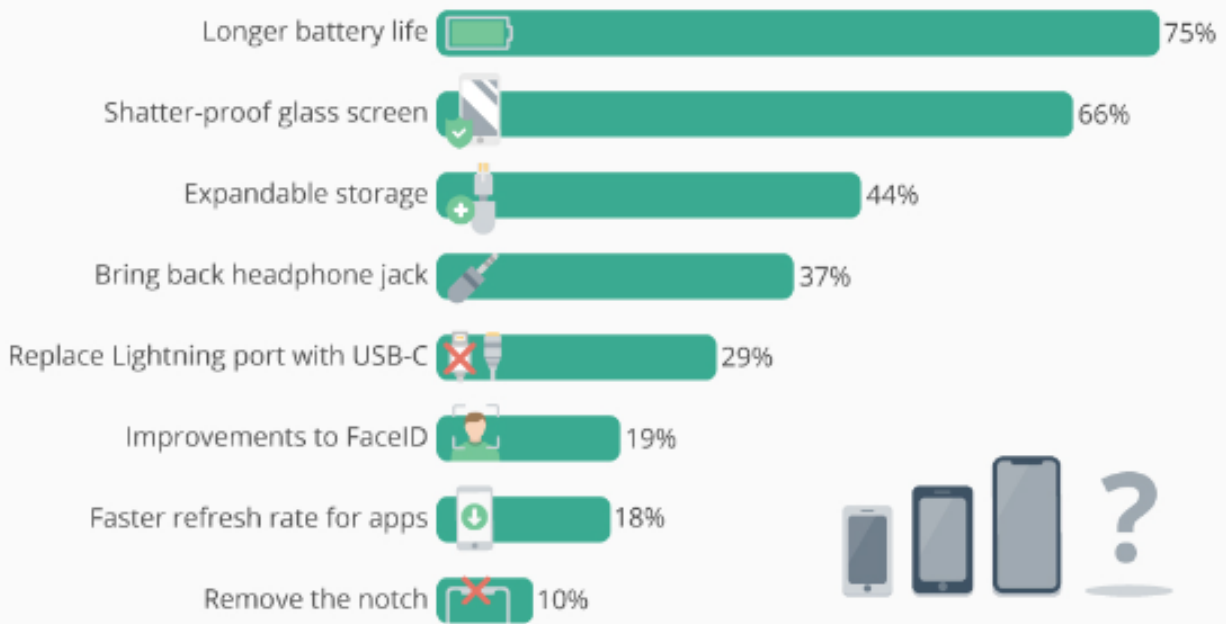
Education Level		
Graduation	72	72
Post- Graduation	26	26
Doctorate	2	2
Total	100	100

From the above analysis, it can be said that these are the main demographic segments of the consumer. Apple understands its customers and even knows them very well. In the case of the Apple iPhone, consumer preferences are changed in terms of whether they want to experience something new and want to use new technology. Some customers affect the company by making a purchase more frequently, returning items than those who don't, and spending less per transaction. Hence, it can be said that consumer preferences can affect its products in terms of popularity, sales, productivity, growth, technology, and others (Aigner-Walder, 2015).

Consumer expectations of price

What Consumers Want From Apple's New iPhones

Most wanted features in Apple's new iPhones to be announced on Sept. 12, 2018



Source: McCarthy, 2018

These features are wanted by the company alone and currently, iPhone 14 Pro is in high demand among consumers because it has such features. In addition, this is a fact that iPhone cost is very high and that is the reason its price is also high which means most iPhones are imported and built from China and others that attract import duties and taxes as well. Further, people are also willing to pay higher more for this company's product because of its exclusive ecosystem, marketing costs, privacy policy, and high value of resale (McCarthy, 2018). This gives a significant influence on the company to sell out more products in the market.

Demographics

There are more than 1.2 billion users around the world in the last year 2022. The number of Apple users is increasing every year (David, 2023).

Total number of active iPhone units 2008 to 2021 (mm)

Year	Units (mm)
2008	10
2009	25
2010	60
2011	115
2012	206
2013	329
2014	442
2015	569
2016	710
2017	814
2018	888
2019	948
2020	1042
2021	1231

Source: (David, 2023)

Based on the above diagram, the number of iPhone users is increasing. Even though device sales of Apple have stagnated in the few years and became more active for users each year. This company has switched its concentration to other sources of long-term revenues and services as customers keep their iPhone devices for longer (David, 2023).

Describe how your main product or service is affected

Substitution effects; luxury vs. necessity

From the customer's point of view, Apple iPhone is definitely a luxury consumer because the consumers think that this company produces phones that cost less than \$1000, but most of the iPhones are over \$1000. They also think around \$900 iPhone in the hands of someone who only receives and make calls is an item of luxury (David, 2023). Here are some reviews of the customers over this matter.



Maureen Barstow · Follow

Former High school educator for 34 years · 2y



I would answer that question by thinking what is considered luxury. A row boat is not a luxury item but a yacht is. Both allow you to enjoy the water and maybe a great day fishing. Driving a Bentley is more luxurious than driving a Kia. A \$39 cell phone vs. a \$900 iphone will do the same job (make and receive calls) but the iPhone is really a mini-computer. There are millions of people who depend on their iPhones to successfully get through their work day, an inexpensive cell phone would not allow for that. A \$900 iPhone in the hands of someone who only makes and receives calls is a luxury item. For the person who needs a hand-held mini-computer that is also a cell phone it is not a luxury item. I think it comes down to what is its purpose?

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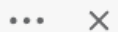


5



Joeann Kim · Follow

Designed my own cars since 6 years old · 2y



Iphone is turning into a luxury product. Apple used to make iphones that cost less than \$1,000, but now, most of Apple's iphones are over \$1,000.

In my opinion, I don't think iphones are worth over \$1,000. I could buy 2 gaming computers in that money.

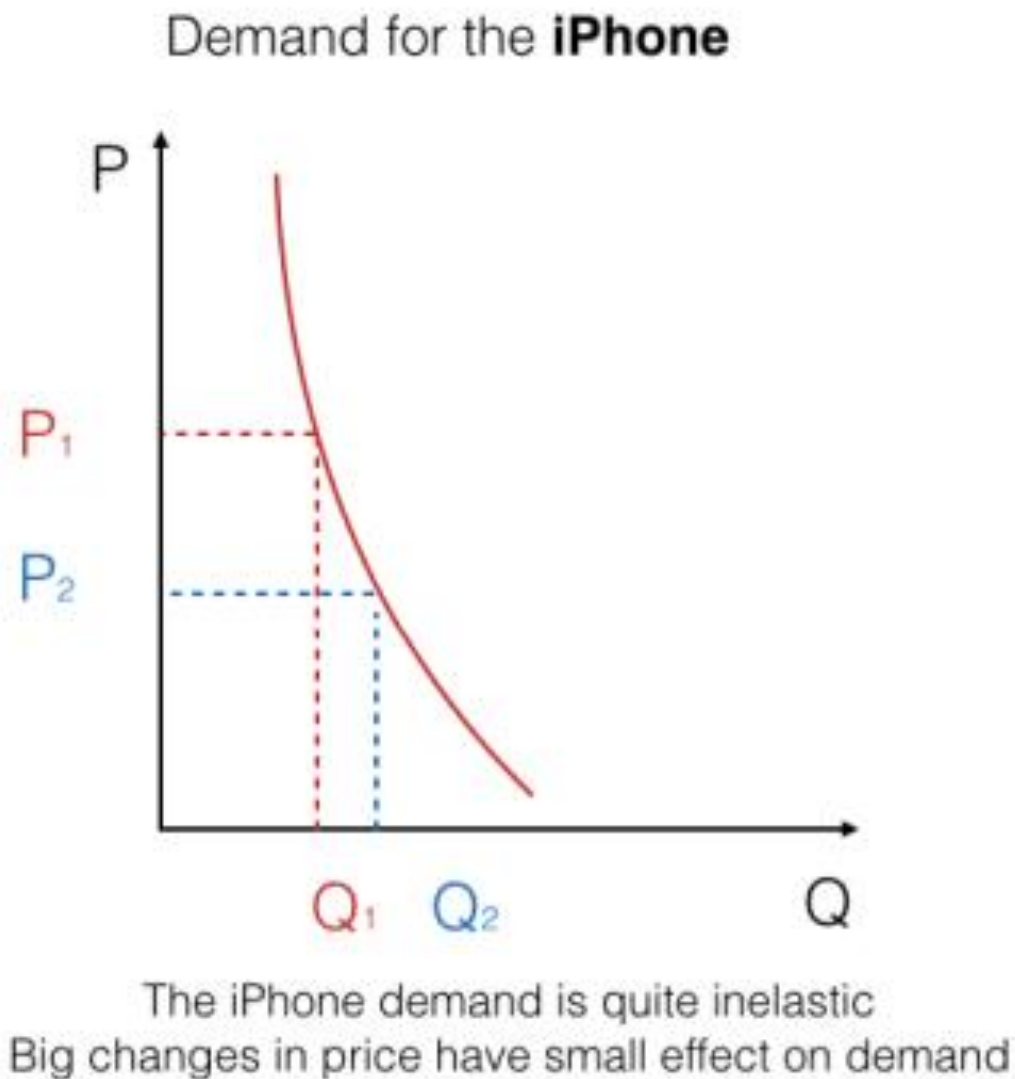
Samsung's galaxy phones are turning into luxury phones too. The newest Samsung galaxy s20 Ultra is more expensive then the Iphone 11 pro max.



2



By determining the luxury factor, the demand is indeed highly elastic compared to the necessary factor. But in the Apple iPhone cases, the demand for this phone is inelastic because a price change has little impact on its devices. Moreover, iPhone's price is also inelastic because of Apple's high loyalty to the brand, and if the price of this device is increased so consumers do not prefer to switch to the other brands.



The price of the demand elasticity for the iPhone tends to be vertical because this implies when there is increasing in iPhone rates or prices, so the product demand is not so much affected. Moreover, the demand for iPhone is also depended on the model and phases of the products.

- Cross-price elasticity: iPhone launch in the market has influenced the product prices of complementary goods and competitors. In the case of iPhones when the company launches a new model of this device, so the users tend to move the old model's usage (Chase et al, 2022).
- Income elasticity (IED): The consumer's income level is a necessary part when understanding the product demand (Griffiths and Wall, 2011). iPhone income elasticity is calculated as the quantity demand change when it comes to increasing consumers' income.
- The cost involved in iPhone production: iPhone production includes labor, research & development, marketing, and material costs. The production strategy of this company increases the cost of the current product compared to the previous one. For example, the latest iPhone soared 20% and even reached an all-time high. iPhone 14 Max Pro costs \$501 compared to the iPhone 13 (Chase et al, 2022).
- Pricing of iPhone: The main pricing strategy of the iPhone is the cost-plus strategy which means the company set out its manufacturing costs of products and then overhead charge add to come up with a price that the device can sell.

The users of the iPhone must be higher income which means 35% of Apple iOS owners have incomes of a household over \$100,000 per year. Further, the users of this device also have 3 times more likely than users of Android that have around \$300,000 per annum household income (Leith, 2021). Hence, it could be said that this product shows a large portion of consumer income. The high income comes with the high increases in the demand quantity. It is one of the types of demand income elasticity. iPhone is a highly inelastic product so it will see its demand of quantity change with changes in income. A high amount of consumer income to spend on products and affecting the elasticity of demand (Chase et al, 2022). For example, If the iPhone prices increased while there is no change in the high-income level of consumers, so they typically reduce the demand quantity.

What pricing policy should the business employ? Why?

Currently, Apple uses the premium pricing strategy and even it also has the better, good, and best line up. From the company's point of view, iPhones are superior compared to other substitutes offer in the market and by competitors. For that, the customers are highly willing to pay a premium price to buy iPhones. But the pricing strategy which should be used by this company for the introduction of its new iPhone, as well as product demand, is price inelastic, a price skimming strategy would be beneficial (Leith, 2021). The main purpose behind this, the company can collect high revenues while the competitors have not entered the market and even the demand of the consumers is also high. iPhone is an inelastic product, so there is a good opportunity for Apple to implement a price skimming strategy because it can help the firm to charge the highest initial customer price will pay and then lowers it over time. As the customer's demand is fulfilled and when the competition starts entering the market, so at that time, the firm starts to lower its price to gain more attention from consumers (Leith, 2021).

CATWOE analysis

This is a technique that can be used for analysing the perspectives of the business stakeholders. This analysis is used below to understand the perspectives of Apple company stakeholders on the iPhone:

CATWOE ANALISYS	
CUSTOMERS	The main Apple stakeholders are suppliers, local communities, competitors, government, customers, and pressure groups. iPhone is heavily affected by the stakeholders because they have a direct impact on the consumer's decisions as they give the capital that is required to build new services and products and even expand the business all over the world (Leith, 2021).
ACTORS	The main stakeholders that are involved in iPhone production include Tim Cook, BlackRock Inc, Jeff Williams, Arthur Levinson, Berkshire Hathaway Inc., and Vanguard Group Inc. These stakeholders give the impact on this company product in form of sales revenues and change in the perception of users.
TRANSFORMATION PROCESS	Five main processes should be considered while manufacturing iPhones such as selection of material, body machining, 3D polishing rotational, completion of assemble, and shipping abroad. Moreover, by considering the continued brand's high value, this company accounts for the stakeholders in policies and strategies (Hokky and Bernarto, 2021).
WORLD VIEW	Apple gives a positive impact worldwide in form of a healthy and clean environment. This company also takes the

	steps to improve its energy use, manufacturing, design, and programs of recycling including a selection of acceptable sustainable and environmental materials.
OWNER	Steve Jobs is the owner of Apple and is known as an entrepreneur designer media of industry and proprietor investor as well. He is responsible to serve the information to the board of directors.
ENVIROMENTAL CONSTRAINS	Apple's gross emissions totaled 23.2 million and it also directly gives impacted the production of what is then considered Apple's greatest and highest products (Leith, 2021).

Conclusion

The report has provided information on economic concepts of price elasticity, demand & supply, and cost analysis with respect to the managerial decisions at Apple. In this context, the report has found that the Apple iPhone product is highly inelastic which means that high loyalty to the brand has been generated by Apple to make the people willing to pay premium prices for the product and even also helped the company to stop them to move towards the other company brands.

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