Marketing Approaches To Stop Sales Plateauing In The Smartphone’S Market

Nowadays, “everyone who is anyone” already possesses a large smartphone. The consequence of this is that the smartphone’s market, where Apple is one of the biggest players, has entered in the maturity stage. There’s not much more possibility of attracting new phone’ consumers nor to make very significant innovations. As a matter of fact, the data shows iPhone sales are plateauing, as are sales around the world. Given that, for producers to increase their surplus they would have to go for the usually pursued marketing strategies at this stage of the life of the product: to lower prices, borrowing the more price sensitive costumers from their competitors, or begin to approach a narrower set of consumers who could be willing to pay more for the specific features of the good they offer (of its brand, product, services..).

The first approach benefits from a big price elasticity of phones, because the gain comes from the increase in the demanded quantity, whereas the latter can only be succeeded if the demand is highly inelastic to price, making it possible for the producer to uphold a leveraged price without a big fall in quantity sold. Hence, that explains Apple’s pricing strategy concerning its high-value consumers1 as Apple understood they were actually characterised by an individual whose preferences for iPhone arise not really from the product features or particular innovations, but from the luxury of buying “premium brand”. They’re status seekers, so to speak. That given, the company saw a wide range to attempt high prices, which turned out pretty accurate with the acceptance iPhoneX had even with the “bigger leap than usual” in prices. The quantity of sales remained stable despite the greater pricing, a proof that Apple’s high value consumers aren’t price sensitive, their individual demand curves appear to be close to vertical. That realization, aligned with the fact the market had become saturated, was the change that pointed Apple into that high-price strategy towards its most faithful group of consumers, the high-end ones.

The classical consumer model presupposes individuals’ decisions are rational, which generally takes us to assume as granted the postulate that the bigger the price, the smaller would be the demanded quantity. However, in some circumstances we doubt that assumption, as in the case of Apple’s iPhone consumer’s response to the price increase. The demanded quantity (sales) did not decrease as expected by following the rational consumer model. However, that was because it was directed to the set of consumers referred above, who have an inelastic demand (close to vertical), as they have a relatively small (or even null) sensitivity to price. Hence, Apple isn´t properly “desensitizing” them, that group of individuals is simply less sensitive to price by nature, in other words, their preferences are what make them want nearly the same quantity of iPhones as they would with a smaller price. So, in fact, they may be doing what’s rational according to their preferences or having a “bounded rationality”. But, besides Apple’s high-value consumers are of that kind, actually it has an all other range of consumers more price-sensitive, who look for the lower priced iPhones’ branch. So, that makes us question: Why didn’t they demand less (the sales were stable)? Were they actually “desensitized”?

The response to this can be found in the fact that, at the same time Apple launched the high priced new and “innovated” product, also decreased the price of the previous iPhone it had launched, therefore responding to all the different consumers (regarding preferences and budgets). And, in fact, the two iPhones can nearly be seen as the same homogeneous good. The new features aren´t that noteworthy, they can be seen as nearly sharing the same production cost function. The difference is in the demand. Therefore, Apple’s strategy seems to be what’s named “Price skimming”, a product pricing strategy by which a firm sets the highest initial price that some customers would be willing to pay and lowers it over time. As the demand of the first individuals is satisfied and competition (urged by the large margin) enters the market, the firm lowers the price to attract a more price-sensitive segment. It is often used in the high tech markets, where the innovations are frequent and have short life-cycles and benefits from the effect of price in buyers’ perception. High value consumers are the ones on whom the survival and profitability of the producer depends on the most.

“Bounded rationality is not irrationality.” The theory of bounded rationality does not try to explain trust in lucky numbers or abnormal behavior of mentally ill people. In such cases one may speak of irrationality. However, behavior should not be called irrational simply because it fails to conform to norms of full rationality. A decision maker who is guided by aspiration adaptation rather than utility maximization may be perfectly rational in the sense of everyday language use.”