

Apple's iPhone Launch: A Case Study in Effective Marketing

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ABSTRACT

When CEO Steve Jobs announced in January 2007 that Apple would be releasing a revolutionary iPhone five months hence, consumers waited with bated breath for a phone that would deliver all the features of their iPods as well as a smart phone. Anticipation grew, just as Jobs knew it would, as June approached. The launch would become one of the most heralded technological product splashes Apple, known for its masterful media build-up, had ever planned. How the iPhone was developed, priced, promoted, and distributed is lesson for marketers around the world. Apple investors were pretty happy with the outcome as well.

INTRODUCTION

One year after Apple Inc. CEO Steve Jobs announced the company's industry-changing iPhone on January 9, 2007, at the Macworld convention in San Francisco, the share price of Apple's stock has more than doubled to a January 9, 2008, value of \$179.40 (See Chart 1). This stock price incorporates all of Apple's business, but a large part of the rise in value can be attributed to the launch of the cutting-edge iPhone, of which four million have already been sold through mid-January 2008 (Carew, 2008). Based on this simple observation of the stock price, the iPhone can so far be declared a success, at least from a shareholder standpoint. This paper will explore both the pre- and post-launch activities surrounding the iPhone to explain why it was such a success for the stockholders and why Apple's reputation for unparalleled marketing success is deserved.



Chart 1: This chart depicts the astounding growth of Apple's stock from January 9, 2007, to January 9, 2008.

THE ANNOUNCEMENT BY CEO STEVE JOBS

Jobs' announcement was an example of the intelligent use of trade shows and Apple's experience with generating press coverage and buzz about new products through them. The conference capped off the two-year development period for the iPhone, a period during which Jobs embarked on a campaign to sign a wireless company as the exclusive carrier for the iPhone. Eventually, he was able to convince AT&T to abandon almost all control over the development of the iPhone to the point where only three executives at AT&T had seen the iPhone before it was announced (Sharma, Wingfield, and Yuan, 2007). This situation gave Apple the liberty to develop its product on its own terms and to keep its features under tight wraps. In an industry that changes as rapidly as the wireless communication industry, the ability to be as autonomous and secretive as possible is very important in the development of a product like the iPhone, and Steve Jobs was able to recognize and use it to Apple's advantage.

THE PRODUCT AND TARGET MARKET

The iPhone could be described as a combination of Apple's popular iPod music player and a smart phone designed to surf the Web. Its highly-touted feature is a 3.5-inch, touch-sensitive screen that consumers use to make calls, navigate their music collection, and write messages on a virtual onscreen keyboard (Wingfield and Yuan, 2007). At the time of the announcement this innovative feature set the iPhone apart from the competition in the wireless-phone market. Apple parlayed the strong reputation of the Apple brand and the iPod's success to enter a lucrative cell-phone market, a step that may ward off a potential threat to Apple as other companies introduce devices that have strong music-storing and playback capabilities.

All of these benefits and features of the iPhone come for a price though; the initial price of the 4GB model was \$499 and the 8GB model cost \$599. Aimed at the high-end, tech-savvy consumer, who is often a business user, the iPhone is marketed to a sizable, fast-growing market. Before the recent fears of a pending recession, analysts predicted that the aim to sell 10 million iPhones through 2008 would be an attainable goal (Yuan and Bryan-Low, 2007).

THE AGREEMENT WITH AT&T AND OTHER STRATEGIC PARTNERS

In addition to the hefty price tag, iPhone customers are required to commit to a two-year wireless agreement with AT&T Inc. to make calls or use the phone's other features. (One caveat: owners may choose to use the phone as an iPod, in which case they do not need to activate the device through AT&T.) This set-up creates some unique difficulties that Apple and AT&T will have to address. Any potential customer of the iPhone must be prepared to sign a contract with AT&T as their service provider. People who do not like AT&T's service or are not in an area where it is provided may be hesitant to purchase an iPhone, which narrows the potential market.

The two-year wireless agreement may also be a deterrent for those people who are already locked into a wireless contract with a different provider, but at least one study reported that 12 percent of respondents indicated they postponed their wireless phone or MP3 player purchase to wait for the release of the iPhone, evidencing that this obstacle can be overcome (Sharma and Wingfield, 2007). This contract also means that Apple does not have to deal with network problems and all of the consumer complaints that often go with them, but instead focus on a top-notch hardware and software design.

AT&T is not the only company that stands to benefit from the production of the iPhone. The companies that supply the parts and assemble the iPhone, many of which are speculated to be Taiwanese, may enjoy financial success as well. By hiring overseas manufacturing specialists to make the iPhone, both Apple and the suppliers win. The suppliers are able to benefit through the revenue generated by increased business, and Apple is freed from running complicated, labor-intensive manufacturing operations (Dean and Piling, 2007). Additionally, third-party companies who produce accessories for the iPhone stand to profit from its introduction as customers will pay a premium to protect and show off their new investment.

Apple also struck deals with Viacom, Disney, Google and Yahoo, all strategically selected to bring internet features to the iPhone. Although primarily highlighted in iPhone TV ads that show internet search features (google) or the ability to view movies such as Pirates of the Caribbean (Disney), Apple sagely chose visible and powerful partners for the iPhone.

REVIEW AND JUSTIFICATION OF IPHONE FEATURES

The Wall Street Journal's technology guru, Walter Mossberg, finally published his review of the iPhone only two days before its launch. Overall, he described the iPhone as a breakthrough handheld computer despite some shortcomings (Mossberg and Boehret, 2007). The iPhone's design is creating problems with some iPhone accessories. For example, the headphone jack is deeply recessed on the multimedia device, meaning an adapter will be needed in order to use certain headphones with the iPhone. Secondly, the device does not have the ability to cut, copy, and paste text, which could be extremely annoying if people are going to use the device to send and receive emails throughout their workday. The iPhone is also missing instant messaging software, but it still has the ability to send and receive standard text messages. Though the phone has a two-megapixel camera, it lacks the ability to record videos, a common feature on competing smart phones. Finally, when the iPhone is first released it will not have the ability to play most video on the Internet because it does not utilize Adobe's Flash technology.

Mossberg still has plenty of features to brag about on the iPhone, starting with the gorgeous 3.5-inch screen. Most importantly, during the two-week test the device lacked any protection, and it never received a single scratch on the screen or on any other part of the device. This is potentially very important to the early majority adopters because the iPod plastic screen scratched easily. The highly touted virtual keyboard lived up to the hype as Mossberg found it to be functional during the test. One important question mark regarding the iPhone is its battery life; consumers are concerned the battery will not be sufficient to last all day and still utilize all of the iPhone's capabilities. But Mossberg writes that the battery is adequate and gave him seven hours and 18 minutes of continuous talk time while retrieving email constantly (Mossberg and Boehret, 2007).

Apple is still trying to justify to consumers why the device will use AT&T's EDGE network instead using 3G, which is the fastest wireless technology from AT&T. Jobs is quick to admit the iPhone will not surf the internet as fast as most users would like, but just as quickly he says that is why the device has the ability to seamlessly switch to WI-FI, giving the consumer the best of both worlds. AT&T's CEO and Chairman Randall Stephenson says the utilization of the EDGE network is common among smart phones. He notes, "EDGE is the only ubiquitous nationwide broadband network deployed today" (Wingfield and Sharma, 2007). The two executives believe users will find the EDGE network to be sufficient, at least initially.

DIFFERENTIATION FROM COMPETITORS

Apple has been working hard since Jobs made the announcement to differentiate itself from other smart phone on the market. Newspaper articles are constantly mentioning the 3.5-inch screen as an industry first. Also, Mr. Jobs has been obdurate from the beginning that the phone must have a touch-sensitive keyboard because he dislikes the keyboards on Research in Motion's BlackBerry and Palm's Treo (Sharma et. al., 2007). Since January, Apple has worked hard to make sure that their iPhone stays on the front page of newspapers across the country. This has severely limited competitors from fighting back with their new smart phones. Nokia is selling the N95, which is a smart phone geared to compete against the iPhone with its ability to play music and DVD-quality video (Yuan and Sharma, 2007). The N95 has more features than the iPhone, but it lacks a major U.S. partner for widespread distribution and carries a \$749 price tag in the U.S. market. Other competitors such as LG Electronics are also rushing high-end smart phones to the market in an attempt to keep customers using their devices instead of switching to Apple's iPhone.

Software compatibility is one smart phone aspect in which competitors have a definite edge over the first generation iPhone. Software developers currently must develop programs that are optimized for

the iPhone's Safari Internet browser and wireless capabilities, which severely limit their ability to introduce to the device applications in high demand. At the top of consumer's wish lists is access to Microsoft's Outlook and Exchange server. The absence of Outlook and other communications software, such as chat applications like AOL's AIM, has limited the iPhone's appeal to corporate customers, as many companies rely on these applications for secure corporate messaging. To address this issue, Steve Jobs has announced that in February 2008 Apple will release a platform to give third-party programmers access to the iPhone's locked software (Rosmarin and Greenberg, 2007). The rationale provided by Apple for locking the phone's software in the first place was largely security related, but Jobs has said that the security of the iPhone is planned to be overhauled and the software platform provided to programmers will have features that protect the iPhone from malicious programs. Although viruses are a legitimate threat to the iPhone, bigger threats may come in the form of Research in Motion, Palm, and Motorola if new applications for the iPhone do not materialize soon.

APPLE UPSETS EARLY ADOPTERS AND INNOVATORS

Though Steve Jobs' introduction of the iPhone to the world was nearly flawless, the recent price cut on the iPhone upset many of his most loyal customers. After being on the market for only two months, Apple cut the iPhone's price tag by 33 percent (\$200). Jobs received hundreds of emails from angry customers who purchased the iPhone because they did not believe Apple would reduce the price so quickly. As a response to the overwhelming amount of negative reaction on the part of iPhone owners, Jobs released a short letter describing the sound reasons for the reduction in price. He systematically went through the reasons for the price cut and expressed to the customers how important they are to Apple's success and future. Jobs' attempt to quell the outrage came in the form of a \$100 store credit that customers can use to purchase any product at an Apple Retail Store or the Apple Online Store (Jobs, 2007). Although Jobs quickly suppressed customer outrage regarding the price cut, his reaction and subsequent store credit to customers may set a precedent that could come back to haunt Apple when it releases new technology in the future.

Innovators became further upset when, in January, Apple announced that the storage capacity for the highest-end iPhone would be doubled to 16 GB for an additional \$100. But at least one journalist does not feel sorry for the first purchasers of the iPhone and admonishes consumers not to purchase an iPhone now if they will regret it when a better version is released. "The signs are all there," says Brian Caulfield, speaking of the rumblings that Apple will release an iPhone that works on AT&T's faster 3G network. "If anyone complains when Apple introduces faster, better iPhones later this year, they'll have only themselves to blame" (Caulfield, 2008). These issues highlight the problem faced by Apple and Jobs of quickly and effectively bringing improved iPhones to market without rankling innovators. As Caulfield points out, consumers should be aware of the looming 3G upgrade, but moves like the \$200 iPhone price cut and January's unexpected software update for the iPod Touch that cost owners \$20 may result in consumer distrust toward the Apple brand.

PROMOTIONAL OUTLAYS

According to Harvard Business Professor David Yoffie, Apple has garnered approximately \$400 million in publicity since Job's announcement in January 2007. Coverage by traditional business publications such as the *Wall Street Journal* to online pundits like Gizmodo to a *Time* writer gushing, "Steve Jobs has said, repeatedly, that this is the best iPod that Apple has ever made, and it is. It's also the best phone that anybody has ever made," have covered the revolutionary phone's introduction and launch (Grossman 2007). Apple also supported the phone in a flurry of television, web-based and print ads designed to show off the disappearing and reappearing touch keypad. Jobs focused on this feature during his Macworld announcement, and subsequent Apple advertising efforts have showcased this feature repeatedly in initial "how-to" TV spots created by TBWA\Chiat\Day (squidoo.com). The first advertisement for iPhone, titled "Hello," aired during the 79th Academy Awards and took place on February 25, 2007, on ABC. The ad featured clips from dozens of notable films and television shows over the last 70 years, showing iconic characters answering phones. The iPhone is shown at the end with the caption: "Hello. Coming in June."

One blogger (www.blogs.business2.com) was so interested in Apple's iPhone advertising schedule, he conducted a Nexis search for newspaper stories that mentioned the iPhone between June 23 and August 18, 2007. During that timeframe, Apple had aired nine new TV ads. The week the iPhone was launched, 1,547 stories appeared in the media, compared to 206 in mid August. Apple's advertising schedule appears to reinforce the iPhone's presence in media during times when the buzz or free media has tapered off. This combination of paid and free media gives consumers the impression that the iPhone is a constant presence in the popular media.

One of the most influential periodicals dedicated to advertising, *Advertising Age*, in 2007 selected Apple as a runner-up for the annual Marketer of the Year award. This status was conveyed because of Apple's "rare accomplishment of successfully bringing a new product into an already crowded and competitive market. Apple's agreement with cellular telephone service provider AT&T gave it an upper hand in their relationship older cellular telephone firms have yet to acquire" (Bulik and Cuneo, 2007).

While Apple's advertising budget and schedule aren't readily available, *Adweek's* Andrew McMains estimated the Apple global account was worth \$250 million in 2006 to agency TBWA Worldwide (2006). Other pundits have guessed that Apple will spend at least \$20 million to launch the iPhone in Europe and easily surpassed that figure in the United States during the summer of 2007 alone.

DISTRIBUTION CHANGES

Apple made some changes in its traditional consumer distribution channels, choosing to eschew third-party dealers/retailers such as Best Buy and RadioShack Corp. when planning where to sell the iPhone. AT&T offers the phones in its roughly 1,800 company-owned stores; iPhones are also available in Apple stores or through Apple's website (Sharma, 2007). While impossible to predict a possible backlash for Apple as it continues to market its entire product line, altering established distribution channels can confuse customers and risk future distribution plans with those retailers who were cut out of the iPhone plan.

THE IPHONE GOES GLOBAL

The excitement surrounding the release of the iPhone was not contained solely in the U.S. Long lines outside stores and enthusiastic countdowns accompanied the iPhone's release in the U.K. and France as well. Apple has chosen to take a marketing and distribution approach in these European countries that is similar to its U.S. strategy. In France, Apple struck a deal with France Telecom's mobile subsidiary, Orange, to be the exclusive carrier in that country (Woyke, 2007). In the U.K., Telefonica's mobile subsidiary, O2, was tapped to be the exclusive wireless carrier, and, as AT&T has done, it is requiring minimum two-year contracts from its iPhone customers (Olson and Laurent, 2007).

This strategy in Europe creates many of the same opportunities and problems found in the U.S. but with a few added complications. As hackers continue to unlock iPhones, the revenue for these exclusive wireless networks is put into jeopardy if customers are able to easily unlock their phones. While this could boost sales for Apple by allowing customers to access more wireless carriers, Apple will still need to protect its partners by countering any new hacks, which takes considerable time and resources. Apple also has to contend with differing consumer protection laws throughout Europe. For example, it is illegal to sell a locked mobile phone through a single operator more than six months after its initial release (Olson and Laurent, 2007).

UNLOCKED IPHONES

The allure of Apple's iPhone has become a double edged sword for the company as its popularity has created a huge black market for unlocked iPhones. When Apple announced it had sold 3.7 million iPhones by the end of December, and AT&T reported it had less than 2 million account activations in the same period more than a few analysts took notice. Sales in the U.K., France, and Germany account for part of the variation, but their sales have been sluggish and only account for approximately one-fifth of the

difference. That being said, roughly 1.4 million iPhones are currently unaccounted for. This is a problem for Apple because the iPhone must be activated on AT&T's network in order for Apple to receive the additional revenue. Apple has taken notice and said the number of unlocked iPhones "was significant in the quarter, but we're unsure how to reliably estimate the number (Crum, 2008). If the current trend continues it could have a significant effect on Apple's bottom line for years to come. Research analyst Toni Sacconaghi has said that if Apple meets their goal of selling 10 million units by the end of 2008 and 30 percent of the phones are unlocked it could mean as much as \$1 billion in lost revenue to Apple over the next two years (Crum, 2008).

The problems created by unlocked iPhones do not stop with Apple. Instead, every carrier that has signed an exclusive agreement with the company is being hurt. For example, AT&T is also losing out on the monthly revenues from lost iPhones, and they are more likely than Apple to try to stem the flow of unlocked iPhones through legal action. AT&T is more apt to target the companies who are unlocking the devices and then selling them rather than taking Apple to court. Mark Siegel, who is an AT&T spokesman, has said that the iPhone is "meant for use by the person who buys it," and not to be resold for commercial purposes" (Burrows, 2008). After all, AT&T is hurt more by losing account activations because their revenue only comes from one source, monthly fees, where Apple has the profit from iPhone sales to offset the losses from unlocked units.

iPHONE SALES

Since the release of Apple's iPhone on June 29, 2007, it has sold an astounding four million units (Carew, 2008). The hype surrounding its release helped it become the fourth most popular handset in the U.S., and by the end of the October, Apple reported selling 1.12 million units. Additionally, it has become AT&T's most popular handset, commanding nearly 13 percent of its overall sales (Appleinsider, 2007). During Apple's 2008 Macworld keynote address Jobs announced that the iPhone had a 19.5 percent share of the smart phone market in the same quarter (Carew, 2008). Consumer satisfaction with the iPhone has been significantly higher than its competitors, according to a 2008 ChangeWave survey. Additionally, the survey shows the iPhone is the top choice among those planning to buy a new phone in the next six months (2008). Despite the fears of a looming consumer-led economic recession, Apple executives still believe the goal of selling 10 million iPhones by the end of 2008 is attainable.

Reaching this goal, however, will depend on future modifications to the iPhone and marketing efforts in the slowing economic conditions. The normally secretive Jobs let it slip in September that consumers can expect a 3G iPhone in 2008 (Miles, 2007). He expects that improvements in technology will allow for the faster network without affecting the battery life of the device. The recent release of a 16 gigabyte iPhone demonstrates Apple's continued ability to recreate their products and spur sales as market conditions change. Additionally, Apple is releasing a software development kit (SDK) which will allow third parties to market software for the iPhone. This is an excellent example of the emerging two-party platform business model (Eisenman, Parker and Van Alstyne, 2006).

CONCLUSION

Apple created a very strong overall marketing strategy for the iPhone and managed every aspect of the iPhone's launch very effectively. Like almost all products, the iPhone has some flaws and drawbacks, but Apple was able to develop a unique product for tech-savvy consumers interested in a combination smart phone-music player and make those customers aware of the product through well-managed marketing efforts and strong publicity. The iPhone exemplifies Apple's knack for creating excitement about products among its fiercely loyal customer base, who keep attention focused on the company, and then justify the hype by delivering a high-quality, desirable product. In addition to satisfying consumers with a great product, Apple built a powerful partnership with AT&T and also conferred benefits to overseas suppliers of parts and manufacturers. All of these efforts boosted Apple's stock price considerably and further solidified Apple's image as a leader in consumer electronic gadgetry.

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