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# Apple pays a price for cost of new iPhone

By Tim Bradshaw in Cupertino and April Dembosky in San Francisco



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Apple's 5C range of iPhones

The launch of two new iPhones next week will help [Apple](#) reach a total of 700m iOS devices sold by next month, Tim Cook confidently predicted on Tuesday.

But even with the new mid-range iPhone 5C added to its line-up, technology analysts seemed doubtful that Apple could match the 1bn Android devices that Google has already sold – or if Mr Cook, its chief executive, even wants to.

Ahead of Tuesday's launch in California, the colourful new iPhone 5C had been trailed as a cheaper alternative to Apple's top-of-the-range model. Based on a mix of profit-margin assumptions, supply-chain leaks and competitive analysis, Wall Street analysts had guessed that it would retail for around \$450, making it free with a contract.

In fact, Apple pegged its price at \$550 in the US, or \$99 with a contract – just \$100 less than the new iPhone 5S. That puts the 5C firmly in the upper tier of the smartphone market, where more than two-thirds of devices sold cost less than \$550, according to IDC.

"The iPhone 5C is more accessible but it's not cheap," said Sarah Rotman Epps of Forrester Research.

Apple's share price, which had broadly remained flat throughout the launch event, lurched sharply downward when news of the price emerged. The stock closed 2.3 per cent lower at \$494.64, back below the symbolic \$500 barrier it had surpassed last month.

Apple investors often "sell the news" of a new phone launch, only for the stock to rebound as sales figures come in. With a simultaneous launch in Japan, with new operator partner [DoCoMo](#), and in China, which usually has to wait weeks or even months after the US and Europe, Apple is guaranteed to have another record-breaking launch weekend after September 20.

But analysts were divided on whether the iPhone 5C would tap new sources of demand in the way that investors had hoped it would.

Francisco Jeronimo, research director at IDC, said the iPhone 5C would attract both a second wave of first-time smartphone buyers in developed markets and a fresh group of consumers in emerging markets, where price has been the main barrier to smartphone adoption.

In the second quarter of 2013, the smartphone segment in western Europe grew only 19 per cent year on year, while in China and the Asia-Pacific region (excluding Japan), smartphones increased 75 per cent from last year's second quarter.

However, Van Baker, an analyst with Gartner, said \$550 was still way too high to be truly market-expanding for Apple, especially in China and emerging markets.

"The 5C is basically a 5 in a different case," he said, referring to the plastic that replaced its predecessor's aluminium. "In a lot of markets they will sell into, there are no subsidies for devices."

Any significant success in China will not happen without a deal with [China Mobile](#), the largest mobile carrier in the country, and not without a subsidised price for the device, he added. Apple has arranged a press event in Beijing on Wednesday morning that has spurred hopes of such a deal but some analysts speculated that the device was not cheap enough to win over the world's largest mobile operator.

Other Apple watchers say that the company is just continuing to do what it has always done: make attractive, upmarket devices backed by a premium brand – and industry-leading profit margins.

“They are on a tightrope balancing profitability and growth,” said Forrester's Ms Rotman Epps. “Apple is not competing head-to-head with the cheapest Android phones but they don't need to.”

Noting the example of the \$330 iPad mini compared with the \$230 Google Nexus 7, she added: “Apple is betting consumers will pay a premium for its products. In the past it's been right.”

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