

Apple Watch, Value, Price, and Frame of Reference

In this article, the author examines Apple's approach to market competition, specifically in relation to the upcoming launch of their new line of luxury watches, and outlines how companies can mimic Apple's strategies to move away from commodity status and stop competing with the cheapest players in the market. Reuben Swartz is President of Mimiran, LLC, a PPS CPP Faculty member, and a frequent PPS contributor and conference presenter. His online pricing training courses can be accessed at www.PricingSociety.com and he can be reached via www.mimiran.com or at reuben@mimiran.com. Mimiran's online proposal application lets sales teams execute pricing strategy without sacrificing time to create and close proposals.

John Gruber recently had an in-depth piece about Apple Watch over on DaringFireball. It's well thought-out, but what's particularly interesting is his guess at the prices of the three different tiers. Apple announced that the watch would start at \$349, which clearly is for the sport version. The regular edition and the "Edition"-edition will be more. Gruber thinks much more:

My guesses for starting prices:

- Apple Watch Sport (aluminum/glass): \$349 (not a guess)
- Apple Watch (stainless steel/sapphire): \$999
- Apple Watch Edition (18-karat gold/sapphire): \$4999

In short: *hundreds for Sport, a thousand for stainless steel, thousands for gold. Most*

people think I'm joking when I say the gold ones are going to start at \$5,000. I couldn't be more serious. I made a friendly bet last week with friends on the starting price for the Edition models, and I bet on \$9,999.

The lowest conceivable price I could see for the Edition models is \$1,999 — but the gold alone, just as scrap metal, might in fact be worth more than that.

Gruber knows Apple better than most — although he was slightly off on his projections for the pixel count of the iPhone 6 Plus, not expecting Apple's downsampling — and I think he's right about the pricing. Not just because of the price of the gold, but because as he points out in the article, the market for the more expensive watches is not people who currently wear \$200 smart watches, it's people who do or might wear \$10,000+ watches.

There's a limit here because technology advances will make the Apple Watch obsolete, and thus a worse "investment" than traditional luxury timepieces (although Gruber mentions that it's possible that Apple could upgrade the computer-on-a-chip inside the watch). But the point is that Apple is not interested in making a device that competes on price with the Pebble; they want to make the best watch in the world, at least for some set of people. Gruber points out that Apple never uses the term "smart watch," which connotes a commodity technology product, and the dropping of the "i" moniker is a deliberate move to position the Apple Watch as a traditional watch.

The way Apple has approached this market is probably something only they could do. However, the philosophy of the approach is something that many businesses can and should emulate. In other words, rather than trying to compete on price in a very red ocean, figure

out how to deliver something that part of the market — your part of the market — will find extremely valuable, that you can charge a premium for, to build a great company that can keep delivering cool things to help customers. Let's consider services businesses, who all have to compete with offshore competitors who quote absurdly low rates. Some of the offshore firms also now have to deal with even cheaper competitors. If your hourly rate is the only thing that differentiates you, you're going to get the hourly rate of your cheapest competitor.

However, if you do something valuable for your customers, your hourly rate becomes less important, sometimes even irrelevant. First, because the customer knows you need fewer hours. Secondly, because if the buyer has a million dollar problem, getting it solved next month for \$200,000 is a great deal vs maybe getting it solved in 4 months for \$100,000.

If you're currently charging commodity rates, this might sound absurd, but there are many service-oriented companies who were thrilled to be making \$100/hour and are now confidently charging \$300/hour, their sales higher than ever, because they are delivering great results and getting paid for it.

In addition to simply making more money, which is great, these people have figured out how to solve higher level problems for their customers. They interact with higher-level people. They work on more interesting projects. They enjoy work more.

They have, if I may, "Apple-ified" their business, deliberately moving away from commodity status. You don't have to be the most powerful tech company on the planet to do that. You just have to stop competing with the cheapest players in the market and start competing to solve real problems.