IPhone Owners Crying Foul Over Price Cut

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SAN FRANCISCO, Sept. 6 — In June, they were calling it the God Phone. On Thursday, it was the Chump Phone.

Jeff Zelevansky/Reuters
An early adopter left an Apple store in Manhattan in late June with one of the first iPhones. He might wish he had waited.

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People who had rushed to buy the Apple iPhone over the last two months suddenly and embarrassingly found that they had overpaid by $200 for the year's most coveted gadget.

Apple, based in Cupertino, Calif., has made few missteps over the last decade, but it angered many of its most loyal customers by dropping the price of its iPhone to $400 from $600 only two months after it first went on sale. They let the company know on blogs, through e-mail messages and with phone calls.

On Thursday, in a remarkable concession, Steven P. Jobs acknowledged that the company had abused its core customers' trust and extended a $100 store credit to the early iPhone buyers.

"Our early customers trusted us, and we must live up to that trust with our actions in moments like these," Mr. Jobs wrote in a letter posted to Apple's Web site.

The rebate, at least, was enough to mollify some early iPhone customers like Kevin Tofel, a blogger in Telford, Pa., who writes about mobile phones at a blog called jkOnTheRun. Mr. Tofel was so annoyed with the surprising iPhone price drop that he was planning to make T-shirts that read, "I was a $200 iPhone beta tester for Apple."

"I just felt so used as a consumer," he said. "They hyped up the iPhone for six months and built up our expectations, and then they grabbed our extra $200 and ran."

But Mr. Tofel was pleased to hear about the store credit. "I think it was probably the best compromise from a P.R. standpoint and the right thing to do for consumers," he said. "I'm sure they are taking a lot of heat but they are listening to their customers."

Mr. Jobs defended the price cut as the right thing to do and, referring to his 30-year history in the high-tech business, lectured his readers about the risks and rewards of buying into a fast-changing and volatile market for consumer technology products. "This is life in the technology lane," he wrote.

While the iPhone price cut follows the general pattern of falling prices, quickly knocking a third off the price of a high-profile product is unusual for any consumer electronics company, let alone Apple.

The price of consumer electronics is always going down thanks to intense competition and the steady decrease of the cost of electronic parts. The pricing is largely determined by Moore's Law, the

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observation made by Intel's co-founder Gordon Moore that the number of transistors on a silicon chip doubles roughly every 18 months. Because this rate of change is described by an exponential curve, it dictates not only that prices fall, but also that they fall at an increasing rate.

For example, the average price of a 42-inch high-definition television has declined to $1,522 from $1,844 so far this year, an 18 percent drop, according to the research firm iSuppli. Analysts said they expected a 25 percent drop for the year, but it has been more in years past.

Mobile phones tend to be more prone to price declines because the pace of product introductions is faster than for televisions or DVD players. Motorola, for instance, introduced the ultrathin Razr phone for $499 with a two-year service contract in early 2005. Six months later, Motorola realized it had a hit on its hands and dropped the price to $199 in an effort to aim at more mainstream buyers. By the end of 2005, the price was $99.

Ken Dulaney, a vice president at Gartner Research, said that in general starting high and dropping the price slowly was a smart strategy. By starting the price high, manufacturers can gauge early demand and reap greater profit from early adopters who are willing to pay any amount to be the first with a particular device. "It's probably a formula taught in business school," Mr. Dulaney said.

That must have been what Apple was counting on. But the size and speed of the price cut alienated some of Apple's most loyal supporters.

"My love affair with Apple is officially over," wrote one iPhone owner on the Unofficial Apple Weblog site.

Mr. Jobs said the cuts were precipitated by a desire to build demand aggressively for the product in the coming holiday shopping season. Analysts, however, wondered if it was indicative of sagging demand for the expensive phone.

"I don't think it's a stretch to deduce from this that maybe the rate of sales weren't meeting expectations, so they decided to drop the price," said Charles Golvin, an analyst at Forrester Research. "Bear in mind that Steve Jobs said at the last earnings call that they expected to sell a million devices in the following quarter. Maybe they recognized the trajectory wasn't going to get them there at that price."

For many customers, though, all was forgiven after learning of the $100 store credit. "My first reaction was 'Grrrr,' " said Lou Hawthorne, an early iPhone buyer in Mill Valley, Calif. "Then again, I want Apple to be successful. I'm also tempted to say I've gotten $200 in value since the release."

Rob Enderle, president of the Enderle Group, a market research firm in San Jose, Calif., was skeptical of the store credit.

"A $100 credit could be perceived as adding insult to injury," said Mr. Enderle, noting that store credits are seldom well received. "It's a way to make you go buy something else, and gives the company a chance to make more money."

But Mr. Enderle might be underestimating the sheer power of Apple loyalty. The company's fans have in the past overlooked overheating computers, iPods that are easily scratched and batteries that cannot be replaced easily or inexpensively.

"I'll forget about the unexpected credit long before I forget Jobs's letter, which I found thoughtful in both senses of the word," Mr. Hawthorne said. "Gestures like this remind me that Apple's success is not an accident."

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