Apple Inc. v. Samsung Electronics Co. Ltd. et al
Doc. 1557 Att. 2

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Why Are Apple's iPad Margins Half The iPhone Ones?

I thought this was an interesting little factoid from Reuters. The margins on Apple's US sales of iPads seem to be about half the same company's margins on sales of iPhones. That different products have different margins is not unusual but that is a large difference and I think I've got an idea of why this is so in this case:

> Apple Inc earned gross margins of 49 to 58 percent on its U.S. iPhone sales between April 2010 and the end of March 2012, while gross margins on the iPad were much lower during much of that period, according to a court filing.
>
> The information was revealed on Thursday in a freshly unsealed statement from an Apple expert witness, filed in the company's patent battle against Samsung Electronics Co Ltd.
>
> An Apple representative declined to comment on the court filing.
>
> Between October 2010 and the end of March 2012, Apple had gross margins of 23 to 32 percent on its U.S. iPad sales, which generated revenue of more than $13 billion for Apple, the filing said.

We know, absolutely, that everyone always speaks the truth and nothing but the truth in evidence in court proceedings so we'll take those margins as gospel shall we?

Which leads us to the interesting question: why? My supposition is that it's the way that the two products are sold.

I would emphasise that this is a supposition: also, that even I don't think it counts for all of the margin difference, just that I think it's likely to be a large contributor.

The iPhone, by and large, is sold with an airtime subscription. The airtime companies have always paid subsidies on such handsets. They pay the manufacturer a higher price for the kit than they charge the consumer upfront for it aiming to recoup that initial loss through airtime charges over the life of the contract. This is true of almost all markets and almost all handsets by the way.

The iPad is sold as is. Sure, you can get an airtime contract to go with it but that equipment subsidy is a lot rarer.

Which means that when buying an iPad the consumer sees, upfront, the full cost of the equipment. With an iPhone they don't, some of that being buried in the monthly airtime charge they're paying on their contract. And it's hardly a surprise that you can make a larger margin on something where people don't see the real price in quite the same manner now, is it?

It could be that the iPhone is just an even more desirable product that the iPad, it could be there's less competition in phones than tablets. But I'd still go with my explanation: consumers see the full cost of the iPad upfront, they often or usually don't on the iPhone. Thus margins are higher because of the obfuscation of the total price.

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