

Business News

Apple chief apologizes in price furor

He offers a \$100 store credit to mollify early iPhone buyers riled over a \$200 price cut.

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SAN FRANCISCO -- Steve Jobs bowed to the cult of the Apple faithful.

Apple Inc.'s chief executive issued a rare *mea culpa* Thursday for slashing the iPhone's price this week, only two months after the company's most ardent fans waited in line for hours to buy the \$600 gadget.

Apologizing for "disappointing" those initial buyers, he offered \$100 store credits to anyone who had paid full price for the much-hyped product that combines a cellphone, a Web-surfing device and an iPod.

"Our early customers trusted us, and we must live up to that trust with our actions in moments like these," Jobs wrote on Apple's website.

Apple, based in Cupertino, Calif., has built its business on the goodwill of a devoted band of customers who can't wait to buy the latest Mac, iPod or software. They know something cheaper, faster and cooler is always on the way, but they're willing to pay a premium because Apple generally doesn't cut prices on products for six to eight months, when it has fancier versions to show off.

That long-standing compact was broken Wednesday when Apple cut the price of the high-end iPhone, to \$399 from \$599. Jobs had also said Apple would discontinue a \$499 version with half the storage capacity because customers preferred the other.

Apple lets customers return products for a full refund within 14 days. Those who bought iPhones earlier appeared to be out of luck.

Jobs said the discount, timed to boost sales during the holidays, showed that Apple intended to "go for it" with its first entry to the cellphone market. Some investors worried that the price cuts signaled that sales had slowed since the June 29 launch. They sent Apple shares down nearly 6% on Wednesday and a further 1% on Thursday, to \$135.01.

The discounts appeared to achieve their intended effect Thursday -- shoppers seeking the cheaper iPhones packed Los Angeles-area Apple and AT&T stores. AT&T Inc. is the iPhone's wireless carrier.

"I was going to get the phone anyway, but the price drop brought me in sooner," said Andrew Hines, 25, who bought an 8-gigabyte iPhone at an AT&T store near West Hollywood.

But they were joined by disgruntled customers who had paid full price and wanted some money back. The disillusioned also complained on Apple's online message boards, swearing they would be more circumspect the next time the company released a new product.

"It feels like you're being punished for being brand-loyal," Jonte Richardson, a 36-year-old filmmaker who tried to return his iPhone at the Apple Store in the Grove shopping center, said early in the day. "If they're going to change their price and policies, then they should at least take into consideration the people who made them who they are. And I think Steve Jobs forgets that."

Jobs soon showed that he hadn't forgotten.

In his message posted around midday, the Apple co-founder said he had received hundreds of e-mails from upset customers since announcing the discounts.

He reminded Apple fans that being early adopters of new technology isn't always easy and said all would benefit by having more iPhones in use.

"This is life in the technology lane," he wrote. "If you always wait for the next price cut or to buy the new, improved model, you'll never buy any technology product because there is always something better and less expensive on the horizon."

But he acknowledged that Apple's efforts to win new customers shouldn't come at the expense of its loyal fans.

"We apologize for disappointing some of you, and we are doing our best to live up to your high expectations of Apple," he wrote.

The \$100 credits, which can be used in Apple's online or retail stores, are expected to total more than \$27 million but less than \$100 million -- Apple has said it sold 270,000 iPhones in the first two days and was on track to sell 1 million by the end of September. Customers, of course, may apply the credit to a more expensive Apple product and pay the difference.

iPhone owner Cory O'Connor, 51, an assistant professor of advertising and public relations at Chapman University in Orange, said early Thursday that he felt "very cranky about the iPhone price cut" and would think twice about buying brand-new Apple products.

But he said later that Jobs' damage control made him feel better.

"This is why Steve Jobs is loved by us Apple geeks," O'Connor said. "He said all the right things, and I'm not mad anymore."

The blow-up highlights how emotionally attached to Apple products many of its customers are, said Joe Priester, 47, president of the Society of Consumer Psychology and an associate professor of marketing at USC's Marshall School of Business.

"It's almost like a good friend, and for some people, a best friend," he said. "If they make a mistake, it can trigger anger, especially if you think the reason for the mistake was controllable. And in this case, it was."

Jen O'Connell, a wireless consultant in Atlanta, said consumer gripes about *lowered* prices were a first. She attributed them to the elitism that iPhone owners feel.

"It was a sign of prestige to have spent the money on this," she said. "Now this thing that was supposed to be something special is a mass-market product."

Marketing experts said it could take time for Apple fans to get over their disappointment, even with the store credits, after the company broke from its pattern of protecting early adopters from buyer's remorse.

"With this one move, they threw out years of communicating to loyal customers," said Eli Portnoy, 52, an iPhone owner and chief brand strategist with consulting firm Portnoy Group in Los Angeles.

Peter Sealey, an adjunct professor of marketing at Claremont Graduate University's Peter F. Drucker Graduate School of Management, owns two iPhones. He said the discount "angers me like nothing Jobs has ever done before" but predicted that the Apple chief would bounce back quickly.

Some iPhone owners were not ready to forgive.

"I still think it's ridiculous," Richardson, the filmmaker, said after hearing about the store credit offer. "A \$100 gift certificate to buy more Apple products is a bit of a heartless corporate solution."

But many rejoiced that Jobs listened to them. They called the store credit a nice gesture.

"I do feel better about Apple," said Jim Sanger, 75, of Irvine, who bought an iPhone more than a month ago. "It's a big deal to take money out of their pockets and give it back."

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