

HOW

APPLE'S iPhone
6 & 6 PLUS
COULD IMPACT
HOLIDAY 2014



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HOW APPLE'S iPhone 6 & 6 PLUS COULD IMPACT HOLIDAY 2014

With much pomp and ceremony, Apple recently unveiled its iPhone 6 and iPhone 6 Plus, reportedly selling 10 million of the new devices during their opening weekend release (September 19-21)—surpassing the previous record held by iPhones 5s and 5c by about a million units.

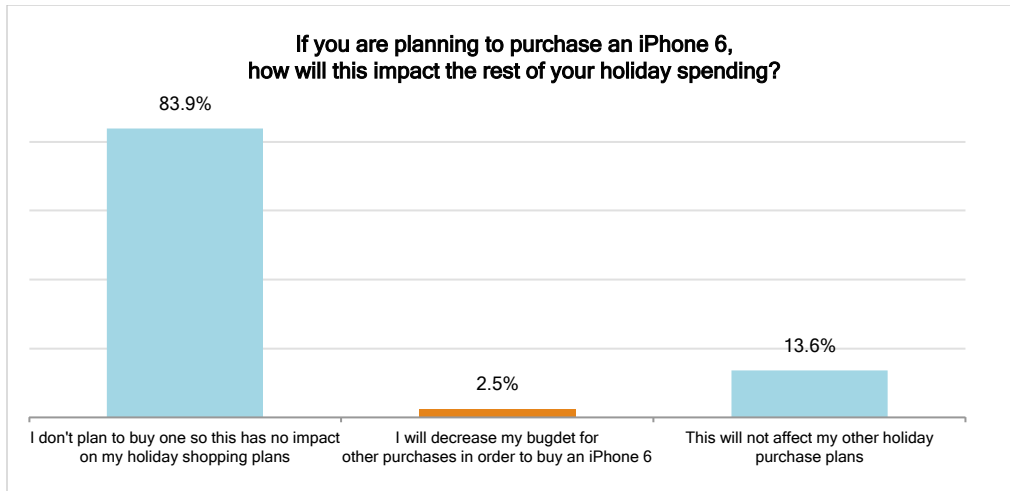
Looking ahead to the holiday shopping season, we've considered whether demand for the new phone could potentially divert spending from other typical gifting categories such as apparel and accessories. According to industry sources and channel checks, retailers are buying to a flattish comp. Specialty is facing challenges, and online is picking up share. Tech gifting has increased dramatically over recent holiday seasons, and as trends continue to move toward a combined fashion/tech statement for must-have gifts, the dollars spent on these high-ticket items could have a significant impact on retailers' results in the all-important holiday season.



HOW COULD THE IPHONE 6 IMPACT HOLIDAY SPENDING?

In a finding that surprised even us, our recent independent survey showed that just short of 84% of our survey respondents don't plan to buy an iPhone 6 this holiday, while fewer than 3% said a purchase of the iPhone would cause them to tighten their gifting budgets this year.

(24% of our survey respondents had incomes in the \$25,000 - \$50,000 range and 32% had incomes in the \$50,000 - \$100,000 range.)



FBIC survey, September 26, 2014

The Ticket Price

While we aren't convinced the new phone's price tag is a main obstacle for consumers, let's look at cost. Advertised pricing for an iPhone 6 ranges from \$199 to \$399, and from \$299 to \$499 for the iPhone 6 Plus with a two-year contract. Both iPhone 6 and iPhone 6 Plus can be purchased contract-free from \$649 to \$849 and \$749 to \$949, respectively. For those contemplating a purchase of the iPhone 6 between now and Christmas, consider that the average family holiday spend in 2013 was \$730 (according to the National Retail Federation—NRF). Without a contract, that could be an entire family's holiday budget!

And this is just to buy the phone. To make this cost more manageable to the consumer, installment payment plans which allow consumers to spread the cost of the phone over two years, are increasingly popular. If you view this as a 24-month, zero-interest loan, the \$27.05 per month price tag (if you go with an AT&T plan) doesn't seem so bad. However, when you do the math you realize you're still paying \$649 for the full 24-month installment contract—almost exactly what you'd pay to buy the phone outright without a contract.

The Real Lifestyle Investment

But the real cost to the consumer is more than just out-of-pocket for the device. An average cost of buying and using this phone for two years (the device plus a basic service plan)—whether purchased outright, as part of an installment plan or with a contract discount—starts at \$1,600 (assuming a 16GB model and a \$60 monthly single-line plan covering 2GB of data).

If we assume that average holiday spend this year is comparable to that of last year, the purchase of an iPhone 6 or 6 Plus could eat up a substantial portion of most people's holiday budget. That could mean fewer sweaters, toys or jewelry under the tree this December.

This becomes much more than a holiday purchase—it's a short-term investment in a lifestyle. Apple designed the iPhone 6 Plus to be your next all-in-one device that can replace both a standard smartphone and a smaller tablet, a seeming justification for the price. In terms of functionality, you can even pair it with a Bluetooth keyboard for ease when writing a longer





email or document. The iPhone 6 Plus also operates as a sophisticated camera and compact tablet, as well as smartphone.

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WILL EARLY RELEASE SNAFUS DETER THE CUSTOMER FROM BUYING?

Even with the new devices' phenomenal popularity, the iPhone 6 launch has experienced a couple of setbacks, which may give consumers pause.

- "Bendgate". First, there was the minor – but high-profile – "bendgate" snafu. Some customers found that the extra-large, ultra-thin phones tend to bend when sat upon. An Internet video demonstrating as much went viral days after the release. However, Apple reports that of its 10 million-plus sales, only nine customers have actually filed complaints.
- iOS 8.0.1 Update. There were also issues with a software update intended to fix a bug with Healthkit. The iOS 8.0.1 update caused owners of the iPhone 6 and 6 Plus to lose mobile connectivity for a day, and the software was withdrawn on Wednesday, September 24. This and the issue above have been blamed for some of the volatility (4% drop) in Apple shares.

Other Interesting Things

Encryption Technology. Apple has come under criticism by an organization whose bad side you don't want to be on: the Federal Bureau of Investigation (FBI). One of the more interesting aspects of the iPhone 6 is its new encryption technology, which ensures that data secured with a password by the iPhone's owner can't be accessed even by Apple, a measure introduced with some excitement in the wake of recent major security breaches and photo leaks of celebrity pictures through iCloud. Interestingly, this feature came under scrutiny by the FBI because it renders essentially useless any search warrants issued to Apple to collect personal data from smartphones.

What about the Gray Market?

On another note, with the iPhone 6's release in the US ahead of release in China, scalpers had the opportunity to buy phones outside of China and resell to Chinese customers at a significant profit. Less than two weeks and tens of thousands of smuggled iPhones later, the gray market seems to have already dried up, even though we are still weeks away from the iPhone 6's official China release. One retailer in Beijing was reportedly selling the iPhone 6 and 6 Plus for \$1,960 and \$2,450 when first released, and one week later dropped prices to \$1,060 and \$1,436, respectively. While still ridiculously more costly than a single phone purchase in the US, this represents a significant softening of the gray market. But the scalpers' loss could end up being retailers' saving grace. Going into the holiday season, more spending dollars might be allocated back to traditional apparel and accessory gifts.

I WANT THE APPLE WATCH!





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This leads me to the iWatch, or Apple Watch. Since we're talking about a significant investment with the iPhone 6, we shouldn't fail to mention the other must-have item that Apple created with this launch. Although it's not scheduled for release until early 2015, the Apple Watch is a companion device to the iPhone and requires one to work. One of the most appealing aspects of the Apple Watch is that it comes in multiple gorgeous designs—for men and women. It's not clunky like other smart watches, so women—if you want a piece that actually fits your wrist, this is it!



Apps on the device are customizable, creating literally millions of combinations of face options, so you can make your phone uniquely “you.” In addition, the Apple Watch has the utility of health and fitness tracking, giving a new dimension to the idea of wearable tech.

All of this comes at the (anticipated and comparably) affordable cost of \$349. Of course, it remains to be seen how using the paired devices will affect ones data plan and battery life. For those who are anticipating making this secondary purchase, it makes sense that they would buy their iPhone 6 this year.

WHAT WE REALLY THINK

When all is said and done, consumers want more sophisticated tech functionality at their fingertips, and Apple products have solidified their position as bold, trending fashion statements. We believe most consumers who were planning to buy an iPhone 6 or iPhone 6 Plus won't be deterred by cost or early release glitches. Considering that this new phone boasts a much longer battery life (iPhone 6 a full day, 6 Plus battery life for days, depending on usage), as well as advanced photography capabilities (faster “phase detection” autofocus normally found in DSLR cameras, and video and optical image stabilization), a consumer accustomed to the iPhone lifestyle won't want to wait.

As we tally the season's receipts, could the iPhone 6 potentially lift overall spending? We hope so. Consumer sentiment is up and retailers are hopeful for some improvement in holiday transactions. Perhaps as US shoppers increasingly take advantage of installment payment plans, there will be more cash for other holiday spending.

That being said, we believe the bigger impact of the iPhone 6 will be a shift in focus to tech, tech accessories and wearable tech from traditional holiday giftables, and will pave the way for a big splash with the Apple Watch.