In 2016, the iPhone 7 started at $649.

Three years later, Apple's flagship iPhone

cost 54% more.

It's even more dramatic for the Mac Mini.

When Apple released its new model,

the price increased by 60%.

These prices bring in huge profits for Apple.

As the US's first trillion-dollar company,

Apple's market cap is higher than the GDP of Switzerland.

So, what makes Apple products so expensive?

Mohan Sawhney: Apple has, over the years,

built a reputation for quality

and the industrial design of its products.

Narrator: That reputation has created

millions of loyal customers.

Marco Pierre White Jr.: I've been here about 36 hours now.

Man, I'm super excited, I'm not even going to lie.

Can't wait to get my hands on mine.

It's only 1,000 pounds, man. Eh.

I'm probably getting two, man!

Sawhney: So that brand loyalty translates into a premium

that they're able to extract from customers

who are unwilling to switch out of the Apple ecosystem?

Narrator: That premium is also known as the "Apple tax,"

or paying more simply because it's an Apple product.

The 256 GB MacBook Air, for example,

costs $1,299,

but you can get a more powerful Windows laptop

for over $100 less.

Apple's high prices reached meme proportions

during the announcement of its Mac Pro in June 2019.

Claps turned to gasps when John Ternus unveiled

a $1,000 monitor stand as an add-on

for the $5,000 Mac Pro display.

John Ternus: And the Pro Stand: $999.

And like the Mac Pro, they'll all be available in the fall.

Narrator: In truth, $6,000 for a professional

reference monitor of this quality

is comparable to the competition,

but that didn't matter.

Apple had botched the messaging,

and its $1,000 stand became infamous.

Sawhney: Apple does something else that's a bit sneaky,

which is that when you're buying the iPhone,

you can't add memory to it.

So if you want more memory,

you have to pay more Apple tax.

Narrator: With Apple's computers, these upgrades

get even more expensive.

If you want a 13-inch MacBook Pro

with 512 GB of storage,

you have to pay $400 more than the base model.

And Apple's accessories also have high premiums

compared to non-Apple products.

Like its $129 keyboard

or its $79 mouse.

Even Apple's cables cost more.

Apple has kept its proprietary lightning connector

while removing useful ports,

like the headphone jack and the SD card reader,

forcing consumers to buy expensive dongles

like its $39 SD-card-to-USB-C reader.

But are these products worth the premium?

Apple loves to talk about its innovation.

Narrator: And iPhones have added great features,

like OLED displays, faster processors, and thin bezels,

but competing products have many of the same features.

Sawhney: The components that go into making

a smartphone are fairly standardized.

For example,

Sony competes with Apple in smartphones,

but all of the camera sensors that go into an iPhone

are made by Sony.

Narrator: And those components cost a lot less

than a new iPhone.

Sawhney: The bill of materials is about $490

for a phone that is priced at $1,099.

As a comparison point, the Galaxy S10 Plus

is about $420 below materials

for a price of $999.

Narrator: Something changed when Apple

released the iPhone 10.

Not only was it more expensive, but the difference

between the bill of materials and the retail cost

was much greater.

Obviously, Apple wants to make a profit,

so the bill of materials has to cost less than the device.

What makes Apple special is its ability

to pull larger profits than its competitors.

Instead of a technology company,

think of Apple as a luxury brand.

As with Gucci or Hermès, customers pay more

because the logo is a status symbol.

That handbag isn't a more functional bag,

but customers still value it more.

Sawhney: So, all our products become an extension

of our personality. "I value elegance, I value design,

I value simplicity, I value, 'It just works.'"

And that is what inspires a lot of loyalty

and allows Apple to extract a premium for their products.

Why are Apple products so expensive?

'Cause the design's very sleek.

I think because they make premium hardware

and people are willing to pay

for a simple, seamless experience.

They're catering to people that really love

ease of use and user-friendliness,

and I think that probably

that layer of design probably costs a little bit,

and I'm happy to pay for it.

They are expensive because

they know we will buy all of their things

no matter how expensive it is.

Samsung,

Android,

Apple, thank you.

Sawhney: I think that customer loyalty is hard to earn,

but when you do earn the customer loyalty,

love is blind.

Narrator: But this strategy might not work forever.

Competition with less-expensive Android phones

has gotten steeper,

and that's put the iPhone's market share at risk.

Sawhney: Apple's performance in India is pathetic.

Pathetic to the point that their market share

has now slipped to less than 2%,

has become completely irrelevant,

and the primary reason there is that the price points

are simply unaffordable for the Indian market.

Narrator: If Apple can't sell more iPhones,

it might have to sell fewer iPhones for more money.

Charging a premium allows Apple to keep

increasing its revenue,

even if its biggest category,

the iPhone, is declining.

Sawhney: See, whenever you create a new product,

what you want to do is to extract all of the

premium that you can from the higher-end customers,

people who are willing to pay a premium.

Narrator: That means the customers who buy the iPad Pro

or the $5,000 iMac Pro.

Apple does offer cheaper models,

like the iPhone 11

or the 11-inch iPad,

but those aren't always the models customers choose.

Sawhney: This is called extremeness aversion,

because you don't want to buy the cheapest,

you don't want to buy the most expensive,

so the middle one looks like a compromise.

Narrator: But Mohan pointed out that Apple

has a disadvantage compared to true luxury brands.

Sawhney: A luxury product is like a Rolex, right,

that you'd keep it for a lifetime.

Well, you can't keep a smartphone for a lifetime.

So, premium. Perhaps not luxury.

Narrator: For now, Apple's reputation remains strong.

And the customers who don't want to spend

$1,000 on a new phone?

Apple has a plan for that.

Keep the old models around,

just at a very slight discount.

But if Apple wants to keep its loyal customers,

its innovation will have to keep pace with its premiums.