

Title:

iPod Domination

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Summary:

iPod contributes 12-14% of total company revenues, a number industry experts believe will continue to increase. With this increase comes pressure on gross margins, as the blended

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Article Body:

iPod Is Dominating the Market, and There Is More to Come

iPod contributes 12-14% of total company revenues, a number industry experts believe will continue to increase. With this increase comes pressure on gross margins, as the blended iPod gross margin of 20% compares unfavorably with Apple's corporate average of 27-28%. The iPod helped augment Apple's growth by expanding its addressable market from the core computer market, which continues to grow, but at slower rates. To increase penetration of the rapidly growing MP3 player market, Apple launched the iPod Mini internationally in July 2004, and HP's iPod launch is scheduled for later in summer.  
<http://www.ipodreviewforum.com>

Apple's entry into the digital music player market (MP3 market) with its popular iPod expanded the company's addressable market and signaled a turn in Apple's strategy. The iPod is a cultural phenomenon that is capitalizing on the convergence of digital consumer electronics and the computer, and Apple's position as an early mover enabled it to achieve the number-one position in the marketplace. iPod adoption continues to accelerate, with little indication of a slowdown. It took Apple approximately 18 months to sell its first million iPods, but its second million came in six months and its third million came in four. In fact, it appears that only its suppliers can slow it down, in particular the hard-drive vendors, which are having a difficult time meeting demand. Industry experts believe that iPod's growth will remain strong in the foreseeable future and do not expect any significant customer fallout stemming from Apple's inability to meet demand.

An analysis of the launch of the Sony Walkman in 1979 indicates the market opportunity for a revolutionary portable music player will remain strong for several years to come and Apple is expected to maintain a strong share for the next few years (unlike Sony's experience with the Walkman).

While iPod and iTunes generate significant awareness of the Apple product, they have done little to grow Apple's core Mac business. Experts attribute this mainly to Apple's aboveaverage pricing, along with continued ignorance on the part of consumers regarding the compatibility of Windows and Mac. With regard to pricing, the average consumer desktop PC retails for \$1,019, which is \$280 below Apple's low-end price point on Apple's now, discontinued flat-panel iMac. Furthermore, the industry ASP is falling as most of the growth in the market is taking place in the sub-\$1,000 market.

With regard to the compatibility of Windows and Mac OS X, even though Apple made a concerted effort to educate consumers about the ease with which these two products work together, it has fallen on deaf ears for the most part. Apple made some progress through its retail stores, where it estimates half of Mac purchases are from first-time buyers, but for Apple's stock to work over the long term, the company needs to maintain share against Windows, at a minimum. Understandably, Apple wants to avoid selling PCs at a loss, but unfortunately the growth prospects for \$1,000-plus PCs are limited. This presents a conundrum for Apple longer term, but for now it maintains its current strategy. Incidentally, Apple's revenue share has held much better, and while this is not an often-discussed topic, revenue share is probably more important than unit share. <http://www.ipodreviewforum.com>