Final Exam: 15:818

Extract from "With Select Apps, iPad is More Than a Pretty Face", New York Times, April 2010

Travelers can download 1,000 Experiences from Lonely Planet ($10), a graphically rich look at a wide variety of trips. Lonely Planet cut the price for its app in half after a few days, which is a telling development. IPad developers started with prices that were often much higher than iPhone versions of the same software, based on logic that no one has yet unearthed. As competition builds in the App Store, that logic should fade quickly.

Additional Background facts to the case:

6 weeks after the launch of the iPad:
- 1 million iPads and 85 million iPhone devices had been sold in total.
- There were 196,000 iPhone applications and 5,700 native iPad applications

People can use iPhone applications on their iPads but the resolution is not as good as an iPad application. Both iPhone and iPad applications are displayed in the application store in order of their popularity, so that the most popular application is always the first one that any customer sees.

Specific Data for Case:

These data cover the first 6 weeks after the launch of the iPad, for an application that allows users to access information and reviews about restaurants in cities across the US on their iPad and iPhone.

	iPad Price	iPad Downloads	iPhone Price	iPhone Downloads
Week 1	9.99	700	0.99	10,500
Week 2	9.99	500	1.99	1500
Week 3	4.99	1200	1.99	700
Week 4	4.99	1000	0.99	9,000
Week 5	2.99	1200	2.99	1000
Week 6	2.99	1000	2.99	900

Questions [Total 28 points]

1) Calculate the price elasticity for both the iPad application and the iPhone application, using the Excel "slope" methodology we covered in class. [2 points]

2) How would you explain the difference between the elasticity for the iPad and the iPhone application? [4 points]

3) Do you agree with the New York Times when it says that the decision to price iPad applications higher than iPhone applications was "based on logic that no one has yet unearthed"? Why or why not? [2 points]

4) Calculate the price elasticity of the iPad application in weeks 1-3 and then again in weeks 4-6. How would you explain the difference, if any? You are welcome to list multiple explanations. [6 points]

5) Do you agree with the statement, "As competition builds in the App Store, that logic [pricing higher on iPad applications than iPhone applications] should fade quickly."? Why or why not? [6 points]

6) Do you think that product-based price segmentation is possible here? How would you adjust the iPad application to price-segment the iPad application market? [Remember the methodology we used in class.] [8 points]

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