

Success Secret of Apple: How Does It “Manipulate” Consumers’ Behaviors

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Abstract. Apple is one of the most successful companies in the electronic products industry. Its success is indispensable to its effective marketing strategies. This paper focuses on analyzing the psychological trick it used in its marketing strategy, mainly the endowment effect and status quo bias. It investigates how Apple uses these cognitive biases to attract newcomers to use its products and how it cultivates loyal consumers. The endowment effect refers to a circumstance to which an individual attaches higher importance to the object that they own than the same object they do not own. Apple's showroom enables consumers to play around with its products which gives the consumer a sense of ownership that make consumers become more painful to relinquish its product. Status quo bias describes the circumstance where people prefer to maintain the current state and are reluctant to change. It helps Apple to keep the existing consumers around, which also gives Apple more incentive to constantly upgrade its products and induce consumers to buy. Lastly, this paper will discuss what consumers could do to avoid being “manipulated” by Apple’s marketing strategy and falling into the consumption trap.

Keywords: Apple Inc, endowment effect, status quo bias, marketing strategy.

1. Introduction

There is no doubt that Apple is one of the most successful retailers in the electronic products industry. Its huge success is inseparable from its effective marketing strategy. iPhone has increased its market share from 4% to 30% only within 2 years since it has been firstly launched [1]. However, Apple went through massive failures before it became successful. In the 1990s, many of the retailers refused to market or stock Apple’s computer because of its weak brand. But how did it become one of the most influential brands in the world afterwards? How did it entice so many loyal consumers? Why there are so many “Apple addicts” nowadays? This paper tries to explore the success secret of Apple by mainly focusing on the marketing strategy that Apple adapts: More specifically, how it uses the cognitive bias such as endowment effect and status quo to market its products. In addition, the study will also explore what are the potential ways for consumers to get away from this marketing tricks.

2. Literature Review

The discovery that people usually demand more compensation to relinquish an object they own than they would be willing to pay for it is referred to as the “endowment effect” [2]. The endowment effect is a crucial issue for economists since it violates the Coase theorem. Coase theorem states that resources will be allocated efficiently and optimally regardless of the initial ownership, given perfect competition and information [3]. The endowment effect fails the Coase theorem since people are unwilling to agree on a price trade even though they are arbitrarily assigned to be buyer and seller. Their willingness to pay and willingness to accept do not coincide. There is a broad spectrum of opinions on the causes of the endowment effect. In general, the endowment effect was interpreted as a manifestation of loss aversion. It argues that it is psychological ownership rather than loss aversion causes the endowment effect [4]. In the experiment conducted, half of the participants were given a mug as in the experiment before. Then all participants were asked whether they wanted to receive either a second mug or money. It found out that people who had mugs were more likely to ask for a

second mug than those who do not have mugs, which suggests that they value the mug more than people without a mug valued a first mug. This experiment separates the feelings of ownership from the feeling of loss. Since the participants in the experiment will never give up the mug, it indicates that ownership leads to the endowment effect instead of loss aversion.

The status quo bias refers to an emotional inclination for the current situation. It happens since people tend to consider changes as costly and risky [5]. It has been pointed out that the four main causes of the status quo bias are: anticipated regret, preference stability, selection difficulty and cost of change. In the following sections, the study will discuss how Apple uses status quo bias to keep the loyal consumers around.

3. Cognitive Bias in Apple's Marketing Strategy

3.1. Endowment Effect

Endowment effect is widely used in Apple's marketing strategy. Rather than attempting to control the buying experience tightly, Apple relinquishes control to its customers: its showroom is entirely open to the consumers, and consumers are encouraged to play around with the products on display. Since their employees are trained not to expel or rush the consumers, there is no time limit for consumers to play around with the products.

How does this marketing strategy successfully promote sales? One may argue that this is achieved through promoting the psychological ownership. It shows that interaction with the good could trigger a higher level of psychological ownership [6]. Touching the screen is found to cause the increased perceived ownership, and this increased perceived ownership would result in an increase in the valuation of the product. Hence consumers are more likely to make a payment. Other than that, this strategy could also be explained by loss aversion. The longer consumers play with the product, the more painful it is for them to part with it as they would ascribe more value to it, therefore it will be more likely for them to buy [7].

It is interesting that different cultures and religions may result in differences in the presences of the endowment effect, which may also be one of the reasons for the variation in Apple's sales revenues in the world. Based on Apple's consolidated financial statement in 2022, Figure 1 is generated to help analyze the Apple's revenue proportion by region. It is shown that in 2022 Apple's revenue generated in Western countries (America and Europe) was about two times more than the revenue generated in Asia Pacific (China, Japan and rest of Asia Pacific). Apart from the financial factors that causes this difference, it may also be because Apple's marketing strategy tend to be more effective in western regions. It argues that endowment effect tends to be significantly stronger among the Western people, since people grow up under the individualistic cultures are likely to think very highly value of themselves, thus they will tend to value of their things too [8]. Therefore, it infers that it may be more painful for the western people to part with the product after playing with it for a period of time, thus it is more likely for them to make the purchase.

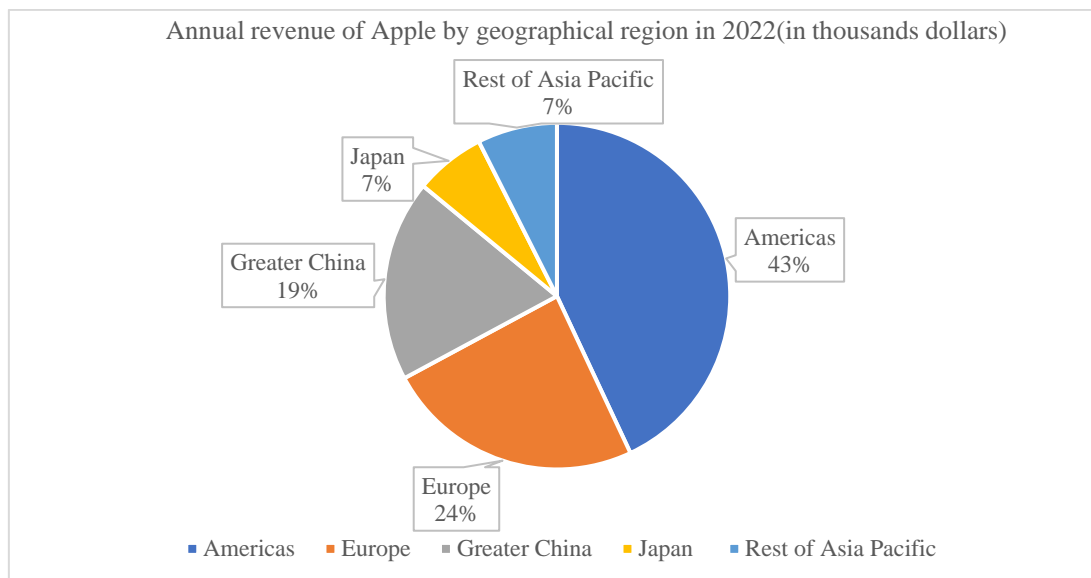


Figure 1. Apple Inc. revenue from 2012 to 2022 by regions

Apple also provides a free return policy within 14 days for any online purchases, which is also an effective marketing strategy to promote sales. Consumers face uncertainty and incomplete information when place the order, free return policy guarantees the consumers against having regret after purchasing. Therefore, this strategy could effectively induce consumers to place an order [9]. However, once the consumers receive the good, the longer consumers possess the good, the less likely that consumers would return the good since they are attached to it and hence value it more than that is when the endowment effect kicks in [10]. This statement is also proved through the experiment conducted by Wang (2009), and the study examines the impact of the leniency of the return policy on the return rates. In the experiment, participants are divided into sellers and buyers, and buyers are divided into three groups that face long-return policy, short-return policy, and no-return policy respectively. It shows that the net purchasing rate (Initial purchase minus the number of returns) for marker under the full-return policy was 50%, which was almost twice statistically significantly higher than the net purchasing rate under the no-return policy. However, one of the factors that may undermine this conclusion is that the saample size is only 30 students which is small.

3.2. Consumer Loyalty Based on Status Quo Bias

“Apple addiction” is a new behavioral pattern that was categorized by an overwhelming dependency on iPhone. It also refers to the phenomenon that people stick to iPhone once they have firstly purchased it and becomes unlikely to switch to the other digital brands. This term somehow suggests that Apple possesses a group of loyal consumers. In the experiment the researcher conducted, eight males and eight females were enlisted to test their attachment to iPhones. It argues that interacting with iPhone is linked with a feeling of love and compassion, which makes people to become addicted to it. However, one of the limitations of this experiment is that the sample size is small and choosing the adults only as the participants may not be representative enough since teenagers also counts for a relatively large proportion of iPhone’s market.

How does Apple enable to possess a large group of loyal consumers and what marketing trick does it use? While Apple does not sell product, it sells a kind of lifestyle. Take its advertisement as an example, Apple does not focus on its products in its commercial, but rather consumer can see there are many happy and zestful people dancing or singing in silhouette against the colorful background: it sells a chilling vibe. This is Apple’s marketing trick which manages to make their products as the manifestation of Apple’s lifestyle. Once consumers embrace its concept and started using their products, status quo bias kicks in that makes consumers become reluctant to change to the other brands since they got used to use iPhone and Apps in Apple store, even though other products may be more superior [11]. There are switching cost for the consumers to change to another brand. For

example, data could be easily transferred among iPhones or simply by logging on iclouds, while switching to another brand will make it troublesome. Or their friends are iPhone users as well so they can chat using Apple's messages app. These switching costs make consumers become a loyal fan of Apple, which gives Apple more incentive to constantly upgrade their products and induce consumers to purchase

4. Suggestions for Consumers

While enticing consumers to constantly upgrade and replace old iPhone may cause the consumers to overspend money on products that they may not need or cannot afford, which may in turn causes the lending crisis [12]. Moreover, there are also environmental issues associated with the extraction and manufacturing process, such as greenhouse gas emissions. Apple estimates that each iPhone 14 will generate 61kg of carbon emissions over its lifetime [13]. Therefore, it is worthwhile to investigate what could consumers do to avoid the marketing tricks set up by Apple and to avoid the consumption trap. Below are several ways that consumers could attempt when they want to place the order

4.1. Hand Washing

The study shows that hand washing could effectively reduce the decision preferences that are biased by ownership [14]. They divided the participants into control and treatment groups and each participant was given a soft drink before being disturbed by multiple tasks. Participants in the treatment group were asked to wash their hands before being allowed to exchange their drinks. It shows that the exchange rate in the treatment group was twice higher as in the control group. Due to the endowment effect, the exchange rate in the control group was only about 20%. This experiment indicates that hand washing sets a cognitive reset button, which will induce people to reconsider their decisions and may help them overcome the endowment effect.

4.2. Self-discipline

As stated before, businesses employ the endowment effect in their marketing strategies to develop a sense of ownership that may induce consumers to purchase. To overcome this, the best way for a consumer is to avoid scenarios where marketers want the consumer to feel a sense of ownership, such as free trials.

5. Conclusion

In general, Apple's marvelous success is inseparable from its effective marketing strategy. Apple manages to incorporate some psychological tricks into its commercials and uses these "cognitive biases" to induce consumers and keep them around. Endowment effect and status quo bias are the two primary emotional biases used by Apple, the former helps Apple to attract more newcomers, and the latter helps Apple to cultivate a loyal consumer group. The main trick for Apple to trigger the endowment effects is letting people play around with its products and providing free return policies. To induce consumers to become loyal Apple fans, Apple advertised itself as a chilling lifestyle instead of a product, which made consumers become more likely to try its products. And it invents a series of products, such as the iPhone and iPad, which makes the switching costs become high for consumers and thus less likely to switch to another digital brand. It is crucial for consumers to stay rational and try not to be manipulated by Apple's sales strategy in case of falling into the consumption trap. Probably one of the most straightforward and feasible ways is to wash hands before placing an order. Such behavioral intervention could effectively induce people to reconsider their decisions.

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