

The Big Problem for the Apple Watch is the Apple Store

Too Few Stores May Constrain Sales

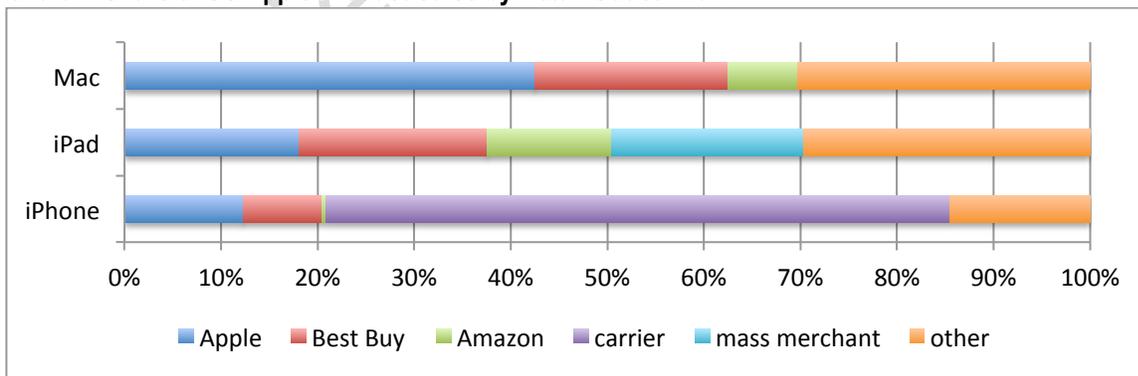
The Apple Store has served Apple well. In 2001, the new Apple Stores helped consumers understand and buy Mac computers, at a time when buying personal computers had devolved into a confusing, time-consuming hassle. Since then, Apple Stores have become the intellectual center and public face of the Apple product experience.

Product launches feature images of long, cheerful lines of patient customers waiting for the newest Apple device. Friendly, helpful Geniuses demystify the latest technology. Sleek, subtle design elements help sell millions of smartphones, tablets, and computers.

Apple confronts inherent limits in selling new products, such as the Apple Watch, through this retail enterprise. With only 265 US stores (453 worldwide) only so many units can pass through a given location each day. A significant percentage of consumers – even iPhone owners – do not live near an Apple Store.

This footprint affects sales of other products, which are widely available through other retailers. Among the three major product lines (iPhone, iPad, and Mac computers), other retailers outsell Apple's retail division (physical stores and website) by a wide margin (Chart 1).

Chart 1: Share of US Apple Product Sales by Retail Outlet - 2014



In 2014, Apple Stores (and website) accounted for 12% of all US iPhone sales, while the thousands of mobile phone carrier stores and their websites sold almost two-thirds of US iPhones.

Among other products, Apple retail sold 18% of all US iPads, slightly behind Best Buy, as other retail outlets divide the remainder of the US market. The Apple Store and website leads only in Mac computers, with 43% of all US sales.

At launch, Apple Watch will only be available for physical inspection at Apple Stores. In fact, some observers call this a calculated attempt to drive more customers into Apple Stores, where they can eye new iPhones, iPads, and Mac computers, and perhaps buy an Apple TV. Investors will hear about inventory limitations and stock-outs of specific models.

It is not clear whether Apple watch will sell like an iPhone accessory; sell like iPads, as an additional screen in one's personal Apple eco-system; or sell like Macs, requiring a consultative sale. In any case, a major limiting factor will be Apple's retail footprint.

Look for Apple Watches at a Best Buy near you, sooner rather than later.

Disclaimers

CIRP bases this analysis on its quarterly surveys of US Apple customers and US mobile phone customers since 2012. This analysis is based on 2,000 US Apple customers that bought an iPhone, iPad, or Mac computer in 2014.

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Consumer Intelligence Research Partners, LLC

111 West Washington Street, Suite 900

Chicago, IL 60602

(312) 344-3664

info@cirpllc.com

www.cirpllc.com