

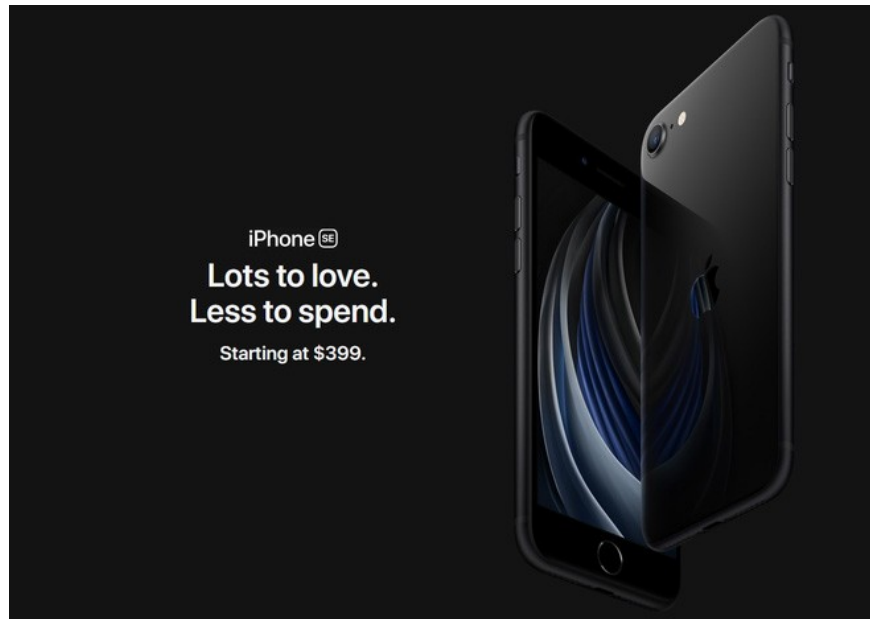
iPhone SE, Covid-19 and iPad 3 March: The future of Apple is no longer a bet on the iPhone

In difficult times, Tim Cook continues to take steps that can lower the profit rate of the Apple.

Compared to all the smartphones that Apple has revealed in the past four years, the iPhone SE has a very noticeable feature: the price of \$ 400. At this price, the iPhone SE becomes Apple's first 4.7-inch smartphone to fit into the mid-range segment, bringing the A13 chip's super speed experience to those who can't afford to buy the iPhone 11 or iPhone 11 Pro.

Another new point in the Apple product strategy that has just been revealed in March is the iPad Pro. Previously, Apple's March event was usually reserved for "regular" iPads while iPad Pro was "reserved" until September. Apple's goal is always to launch more important products by the end of the year to take advantage of maximizing purchasing power of users, thus optimizing profits. This year, the iPad Pro was pushed to less important March, while the September event was used to launch the "regular" iPad priced at \$ 330.

Sacrifice profits



The iPhone SE is only part of Apple's hardware price trend.

Also at the event last September, Apple has brought the starting price of the iPhone 11 to \$ 700, 50 USD lower than the iPhone XR when launched. The MacBook Air line after many years of estrangement last year has also been completely refreshed, starting at just \$ 1,000, lower than \$ 300 compared to the previous flagship (12-inch MacBook). After the Apple Watch S5 was launched, the Series 3 also dropped to \$ 200 - the lowest genuine sale in the history of Apple watches.

It's clear that Apple is favoring "soft" products more than ever. These are particularly rare steps for a brand that is as famously expensive as Apple. Please note that the profit before tax ratio of Apples Beans is usually at 35% to 40%. An iPhone 11 Pro sold will bring in \$ 400 in profits. An iPhone SE costs \$ 400 will not be profitable \$ 400.

Which iPhone SE buyers will definitely not buy iPhone 11 Pro (or iPhone 12 Pro) anymore. When selling SE, Apple will certainly have to sacrifice profits. The same thing happens with regular iPads or MacBook Airs - they replace expensive seniors to become the most important Apple product. No hardware manufacturer will suddenly change the pricing policy in the direction of such users unless they have found a new source of revenue.

A new source of revenue



The revenue we are talking about is digital services. In the fourth quarter of 2019, Apple Music, iCloud, App Store and other Apple services brought in \$ 12.72 billion. Currently, this is Apple's 2nd highest revenue, surpassing both Mac and iPad. Only iPhone revenue is still higher than Apple service revenue.

Yet, with the iPhone SE, Apple has expressed its willingness to sacrifice profits from the iPhone to focus on services. With 1 year of TV + donation, iPhone SE will be the bridge to bring users into the Apple content ecosystem. With the same powerful configuration as the iPhone 11 Pro, iPhone SE is an excellent lure for the Apple Arcade, a free play service > 50 titles monthly. At \$ 400, the iPhone SE is also a great tool to popularize Apple Pay or Apple Card, making Tim Cook's company a part of the consumer shopping experience.

So do all other affordable hardware products. Low-cost iPads or MacBook are all tools to boost content revenue. Apple Watch is a popular tool for Apple Pay. Old fox Tim Cook is sacrificing temporary hardware revenue, to create software revenues / content that lasts . permanently.

Vision for the future



Covid-19 is a testament to why Tim Cook needs to pursue the vision of putting services on hardware. When the outbreak in Europe and the US in March, Apple has cut down the quality of Apple TV + broadcast. This undesirable step represents one thing Tim Cook has long wanted: Apple's demand for digital services is real.

In a special year like 2020, there is no doubt that the role of the service segment will increase further. When Apple Store stores are closed, when the supply chain in China is in turmoil, Apple can still charge money from digital services. That is, Apple is holding a revenue that can beat even the most difficult circumstances.

No wonder Tim Cook is slowly reducing profit from hardware to software. An old fox will certainly not be afraid to sacrifice short-term revenue to create a "permanent" and stable revenue: Apple's future is now not the iPhone, but digital services!

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