

# Why did Tim Cook launch the Apple Watch?

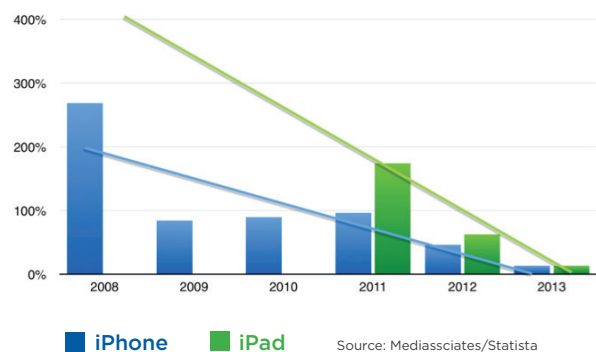


The most unremarked thing about Apple's launch of its new Watch and larger iPhone 6 models is how these devices were required to save Steve Job's company from the train wreck it approached in sales. Unit sales growth, as measured year over year, was plateauing for both the iPhone and the iPad — creating an enormously dangerous position for Apple as investors began sizing up Google, Samsung and even Microsoft mobile device alternatives. Investors want annual growth — because if you can't beat 8% or 10% growth year over year, you might as well put your funds in a Vanguard index — and Apple was not delivering.

Yes, both the iPhone and iPad were smash hits, and total sales were inching upward. iPhone sales skyrocketed from 270,000 in the first quarter of shipment (3rd quarter calendar year 2007) to 35.2 million in the April-June period of 2014. But iPhone global unit sales growth, measured as units bought in one year over the prior year, had plummeted from 268% in 2008 to a measly 13% in 2013. iPad sales growth cooled even more rapidly, from 174% in 2011 over year prior to only 13% in 2013 — basically following the same stall of the iPhone, but in only three years instead of the iPhone's five.

Did you catch that? iPad sales growth stalled in almost half the time as that of the iPhone, despite the numerous tablet design upgrades. Growth was getting dangerously close to the 10% threshold where you might push your investment over to... anything. Yikes.

**iPhone and iPad global unit sales growth, year over year**



The scary thing for Apple is all of this was driven by a basic form fact: glass tablets are becoming commodities, making the brand that designs them less meaningful. The iPhone had a good head start in the mobile-glass-pane business; the first iPhone model officially went on sale in June 2007, two full years before similar [CONTINUED](#) ➔

touchscreen Android-based HTC (Hero) and Samsung (Moment) went to market. That explains why the iPhone held on for so long, because for the first two years no one was there to challenge it. But today, screens are everywhere. Amazon is practically giving away its Fire phone.

So, will the iWatch and larger iPhone 6 screens save Apple from stalling in a glass panel world? If design alone were its strategy, absolutely not. No matter how much we love Jony Ive, his miracles of design tend to fade quickly (Are you still enraptured by the parallax features of the iPhone 5 operating system? Didn't think so.). So Apple is shifting strategy to one of multi-device and information-platform entanglement. The vectors of desire connecting you to your future Apple Watch (you won't buy one now, but you know maybe you want one next year), the mobile systems' new health and home control centers, and the larger units of the iPhone 6 models will accelerate Apple sales of commodity flat touchscreens in the near future. Apple wants you to regret leaving any

one shiny piece of its ecosystem, and by combining the pieces together more tightly, your switching costs (what you give up if you leave) go up. The Apple Watch, really, is a simple loyalty strategy.

But only for the near future. The competitive cycle is accelerating. Smart watches can also be emulated, Samsung is good with glass, and Google has an advance on both map locations (required to make wrist devices most useful) and home intelligence systems (having already bought Nest, the innovative thermostat/alarm/home monitoring company).

The tagline for the first Apple iPhone was "this is just the beginning." We wonder if Apple was referring to its competition.

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