How Valuable is Apple's New iPod?

By Khan Klatt
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Product development requires not only that you have a great idea, but also an economical way to get it to market.

Create a best-of-breed MP3 player or portable hard drive, or solve a problem, and do it while building or maintaining the value of your existing products. The new iPod from Apple (NASDAQ: AAPL) does all of these, with the company's traditional style and elegance, in my humble opinion.

As a product designed solely around current or future Macintosh owners, Apple does have its finger on its customers' collective pulse.

Price was never the primary factor in Apple's product development strategy, and rightly so. Certainly, you could buy one t-shirt at an upscale store such as Nordstrom or the Gap where you'd expect to buy four packs of 3 t-shirts at Kmart for the same price. Each of these pricing strategies simply caters to a different market.

This is a concept lost on many people who for the past twenty years have cited Apple's market share as evidence that the company would go out of business. Indeed, by the simple fact that they own Macs, Apple customers show they are willing to pay more for value.

These people aren't foolish with their money, as some critics of Apple's pricing strategy seem to imply. Instead, they have a different perspective on value than their PC-buying counterparts.

History Repeats Itself?

I don't want to see the iPod go down the same road as Apple's Cube -- a great technical idea that unfortunately targeted a demographic that was either nonexistent or too small to keep the company's boxed computer afloat.

Product development requires not only that you have a great idea but also an economical way to get it to market, so that your customers appreciate the value proposition your product offers. This is really the only area in which the iPod falls short.

What if Apple were to modify the iPod to contain a 10GB or 20GB hard drive, while retaining its existing price? This will most likely happen at some time in the future due to product price fluctuation. The same price that Apple paid for a 2GB drive last year buys a 5GB hard drive today.

Perhaps this was Apple's plan from the outset: to upgrade the iPod in a few months' time, similar to the transitions computer hardware goes through.

Exploring Add-Ons

The biggest curiosity is why Apple chose to use a sub-2.5" drive in the iPod. The most likely drive appears to be a 1.8" micro-drive from Toshiba, which retails for $400 in itself, and doesn't come in capacities larger that 5GB in any large or affordable quantities. If Apple had made the iPod slightly larger, it could have used 2.5" laptop drives.

My own research shows that the retail price difference between a 5GB laptop hard drive, and a 10GB model is only US$40. The difference between the 5GB and 20GB model is only $50. Had 2.5" drives been used, the iPod could have cost $300 for twice the capacity at the same profitability as the announced iPod. Similarly, since Apple's customers are willing to pay for quality, the company could have provided a 20GB model for $400, and make even more profit!

Thanks to the 32MB data cache, the increased power draw from the laptop drive wouldn't have a significant impact on battery consumption. Weight and volume might increase as much as 30%, but cost would drop 50%, and capacity would skyrocket as much as 400%!

Price is Right

Yes, the iPod is a breakthrough device -- it's smaller, faster, and better than its competitors in just about all areas, assuming you either knock the price down and keep the drive as-is or increase the hard drive capacity and do not alter the price. If we don't see one or both of those options in the next few months, it is my belief that the iPod may go the way of Apple's Cube.

What do you think? How much more likely are you to buy a cheaper, stripped-down version? How about a 20GB model for $50 more? Let me know.

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