

Something is wrong with Apple's international app pricing

Written by The Conversation

Apple's App Store is a global platform for software developers to distribute apps to iPhones, iPads and Macs. As an institution it is phenomenal, reducing transaction costs and opening up many markets that were previously impenetrable to developers. Last week Apple [reported that the App Store](#) made \$15 billion for developers in 2014. But at the same time, a problem arose.

To understand it, consider the anchor price for an app – US\$0.99. Why 99 cents and not \$1? No one really knows except that it turns out that it can make a big difference. In likelihood this is something psychological but it may be that it just connotes [how cheap the good is](#) and that the buyer may be getting a deal. In fact, it makes so much of a difference that there is nothing you can buy in terms of software from Apple that doesn't leave a penny change off a rounded dollar.

What is more significant is how Apple determines the prices in all of its App Stores around the world. The idea is to make it easy for developers to make their apps available as widely as possible.

For instance, if a developer were to sell an app for 99 cents in the US, up until yesterday it would be listed as 99 cents in Canadian dollars in the Canadian App Store but AU\$1.29 in Australia. Based on current exchange rates, the equivalent price of the app was US\$0.84 cents in the US and AU\$1.04 in Australia.

This, however, disguises a tax issue. The Australia \$1.29 price includes a 10% sales tax, and thus we need to factor that in to get equivalent prices (taxes are added separately in the US and Canadian app stores). Without the tax, the app would cost AU\$1.17, or US\$0.95. Thus, from a developer's perspective, the US store is more lucrative than its counterparts in Australia or Canada.

It would seem, therefore, a good idea for Apple to change things.

Now, of course, there is nothing to stop an app developer from charging different prices by releasing different versions of apps in different stores. So a developer could charge more than 99 Canadian cents. But because Apple uses pricing tiers (\$0.99, \$1.99, \$2.99 and so on), the

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developer would be forced to charge CA\$1.99, which may make its app too expensive. So rather than doing that, Apple has raised the Canadian app prices on its own. [As of January 8](#), this previously 99 cent app is listed as CA\$1.19 (a 20% price hike). And these increases occurred not just in Canada. The minimum app price is now 99 euro cents (up from 79) in Europe and 79 pence (rather than 69) in the UK.

If you're counting, based on the new Canadian price, the app developer will now earn the equivalent of US\$1.01. In other words, what Apple has done is make prices in all markets look almost the same from a developer's point of view.

Now exchange rates affect pricing all of the time. The US dollar has appreciated, and so it could be expected that the price of goods produced in the US will rise. But these are digital goods and so there is no simple supply and demand equation driving those movements. In fact, the App Stores are localized and it is difficult – [although not impossible](#) – to purchase digital goods outside of your jurisdiction. [Ma
ny years ago I even used this to provide an alternative to The Economist's Big Mac
Index to examine whether currencies were under or over-valued](#)

Why might you want prices to differ between jurisdictions? After all, shouldn't digital prices be the same as there are no transportation costs? First of all, to consumers they are not the same because of differences in tax rates. Above I was reporting the prices net of sales taxes, but in the US sales taxes are 6% to 8% while in Canada they are 13.5%. That's a big difference.

But, second, and this plays out at the "micro" end of app payments, by raising the international base prices of apps, Apple is also increasing the minimums for in-app purchases, which is the same as for the app itself. The latter have been significant for developers and when they are below one dollar, they can trigger a stronger response than when they are above one dollar. After all, if 99 cents is significant compared with \$1, imagine it compared with \$1.19?

My point here is that while Apple may seem to be equalizing margins for developers by these adjustments, it is also potentially taking away a revenue-making opportunity to exploit non-economic but significant changes in price sensitivity around \$1 regardless of your currency. That is, while developers will end up earning more for each app download, overall sales could fall because fewer people will be willing to pay more than the magical 99-cent threshold, let alone part with an extra 20 cents.

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There is an easy way around this. If Apple wants to keep things simple for developers, it could give them the option of real equivalent pricing (as it does now) or “behavioral” pricing that would allow them to set all in-app purchase prices at the sensible 99 cent equivalent in each currency. This may help consumers but it would, more importantly, likely help developers in keeping those app store revenues high.

Joshua Gans does not work for, consult to, own shares in or receive funding from any company or organisation that would benefit from this article, and has no relevant affiliations.

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