Henry Blodget comments on Apple's Greed in his blog Business Insider

Let me start by saying that I'm a loyal Apple customer and shareholder.

I have a lot of respect for the folks who are running Apple, but I think they are making a big mistake.
I think Apple is letting its obsession with short-term profits blind it to the current realities in the mobile industry.
And I think that Apple's emphasis on short term greed instead of long-term investment will end up hurting the company *and its shareholders and customers* over the long haul.
Five years ago, when Apple introduced the iPhone, it had the market to itself. Apple was so far ahead of its competitors that, for the next three years, the iPhone was by far the best phone available. Apple's manufacturing prowess and volume advantage, meanwhile, enabled it to produce and sell iPhones at the *same or lower price than its competitors*. This combination--best product, best price, and lowest unit cost--produced astounding profits for Apple, giving the company a mind-boggling ~30% profit margin and allowing it to amass a staggering $150 billion in cash.
But in the last two years, several things have changed:

- Apple's competitors have caught up: The iPhone is no longer obviously the best phone on the market
- Apple's competitors are now selling their excellent iPhone competitors for much less than Apple is selling the iPhone, allowing them to capture the extraordinary growth in emerging markets
- Another smartphone platform, Google's Android, has taken

over the world, rendering Apple's iOS a niche platform in many markets

If smartphones and tablets were not a platform--if the only thing that mattered to the value of the product and a customer's purchase decision was the gadget itself--then Apple's loss of market share would not make a difference. Apple zealots would be correct when they smugly assert that what matters is Apple's "profit share" not "market share."

But smartphones and tablets *are* a platform.

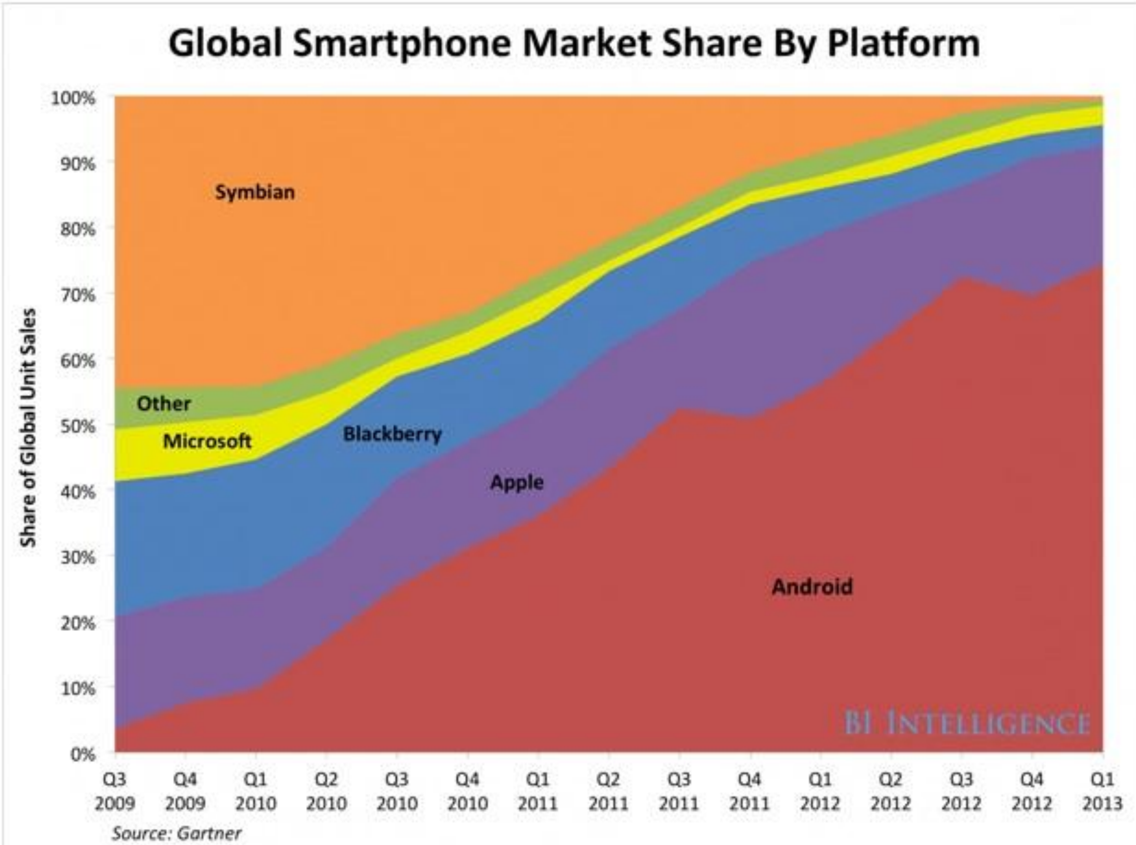
Third-party companies are building apps and services to run on smartphone and tablet platforms.

These apps and services, in turn, are making the platforms more valuable.

Consumers are standardizing their lives around the apps and services that run on smartphone and tablet platforms.

Because of these "network effects," in platform markets, dominant market share is huge competitive advantage.

In platform markets, as the often-hated but always insanely powerful Microsoft demonstrated for decades in the PC market, the vast majority of the power and profits eventually accrue to the market-share leader.



Niche platforms, meanwhile, get marginalized--just the way Apple's Mac platform was marginalized (and nearly killed off) in the PC market.

Apple understands that the mobile market is a platform market--that's why the company is always emphasizing the strength and value of its iOS "ecosystem."
What Apple does not seem to understand, however, is the fate that almost all niche platform providers eventually succumb to--gradual loss of influence, power, and profitability, followed by irrelevance.
If you don't understand what happens to platform providers that lose momentum and become niche players, just look at BlackBerry. Five years ago, before Apple arrived on the scene, BlackBerry was wildly profitable and basically the only game in town. Now, BlackBerry is fighting to survive.
What Apple zealots who crow about the company's current

profitability should recognize is that BlackBerry was *highly profitable* only a few years ago.

Now, it's losing buckets of money.

And BlackBerry's stock price, just like Apple's stock price, foretold the company's fall long before the company's profits began to tank.

The most frustrating thing about Apple's loss of market share to Google, Samsung, *et al*, is that this loss is entirely due to short-sighted and greedy choices by the company. Apple has more than enough resources to continue to offer the same value proposition in its smartphones and tablets that it offered just after it launched them: *The best product at the best price*.

But purely to protect its already insanely high profit margins, Apple is no longer offering the best products at the best price. It's offering similar (at best) products at *significantly higher prices*. (This is now true in both smartphones and tablets.)

This strategy is fine in the U.S. and other rich countries with carrier subsidies: The difference between a three-year-old phone that is "free" with a two-year contract and a new phone that is $199 with the contract is tiny compared with the total cost of the contract as a whole. So buying the latest, greatest Apple phone for the same price or just a little more than another phone is an easy decision.

But in emerging markets, which is where most of the growth in the smartphone industry is, paying $500-$700 for an unsubsidized Apple phone compared to, say, $150 for an unsubsidized Samsung or Xiaomi phone that does almost all of the same things is also an easy decision.

And it's a decision that has caused Apple's sales in China to tank--while the company hands almost the entire market to Android.

To be clear:

Apple does not *have to* sell parity products at super-premium prices. It does not *need to* make so much money. Apple is so fantastically profitable, and so unfathomably rich, that it can easily afford to reinvest some of its profits in lowering its gadget prices or investing more aggressively in the development of future products.

Apple made $42 billion last year.

$42 billion!
And Apple has ~$150 billion of cash.
With that staggering level of profitability and liquidity, Apple could easily sell the iPhone 4S, the iPhone 5C, or some other product at a price that would beat almost any other phone on the market and allow it to capture a huge amount of market share. It could do this while still selling its top-of-the-line phone to rich people in subsidized markets for $650 or more. And, importantly, it could do this while *still making a ton of money*. (What would happen if Apple made $25 billion next year instead of the $42 billion it made last year? Well, then its cash mountain would grow by slightly less than it did last year. It's stock price would also probably temporarily tank while greedy short-term traders voted with their portfolios and sold the stock. But so what? The stock prices of Amazon

, Facebook, Netflix, Google, and many other companies all tanked when the companies made smart long-term investment decisions at the expense of short-term profitability. Apple would still be wildly profitable. It would still be piling up cash. It would still be paying big dividends. And, over the long haul, it would likely have more sustainable *and higher* total profits.)

This growth of Apple's market share in the middle and low ends of the market would increase the value of Apple's ecosystem and platform. More Apple owners would sign up for iTunes

. More Apple owners would start buying things through their iPhones and iPads. More Apple owners would start using their fingerprints to unlock their phones and pay for things. And more Apple owners would standardize their lives around Apple's platform, which would increase Apple's "lock-in."

The smartphone market is maturing and smartphones are becoming a commodity.

Apple could respond to those facts of life by taking a long-term view and reinvesting more of its staggering profits in its platform.

But Apple is not doing that.

Instead, Apple is clinging to super-high profit margins and the same risky "premium" strategy that almost bankrupted it in the PC market of the 1990s.

Apple, in short, is being short-term greedy.

This greed and stubbornness might make Apple's stock trade at a slightly higher price for as long as Apple can maintain its staggering profitability.

But even if Apple does not get completely marginalized, this strategy will likely hurt the company and its shareholders (and its customers!) over the long haul.

And it could be disastrous.