

Your Next Phone Will Probably Cost \$1,000

● Apple, Samsung, and wireless carriers are dancing around that fourth digit with leasing and other offers

When U.S. wireless carriers started winding down their heavy smartphone subsidies a few years back, many Americans kicked the new-model-every-two-years habit that had become routine early in the iPhone era. Those who didn't had to accept prices ticking slowly higher as Apple Inc. and Samsung Electronics Co. try to outdo one another with cooler features. But both companies have been loath to cross one price barrier in particular—until now.

On Sept. 12, Apple introduced the iPhone X (as in “ten”), which will cost \$999 for the model with 64 gigabytes of storage; the 256GB model will run \$1,149 when the phones go on sale in early November. A few days after the iPhone unveiling, Samsung's Note 8 goes on sale for a comparable amount. The iPhone X is made from stainless steel and more glass than usual, while the Note has an exceptionally large, bright screen with a metal-and-glass case. New features for the iPhone include upgraded cameras and the ability to unlock your phone with a 3D scan of your face. (No fingerprint scanner, though.) All that stuff has pushed up prices, and it remains to be seen how many longtime early adopters are willing to lay out four figures, including tax.

“A thousand dollars is a line in the sand,” says Ramon Llamas, an analyst at researcher IDC. “There's going to be a comparison of what \$1,000 is to people's everyday lives and whether or not that purchase is justified. For some people, \$1,000 represents a single paycheck. For others, it represents several weeks of groceries.”

The phone makers are dancing around this psychological price barrier. Samsung lists its cheapest Note 8 at \$929.99, but right below it on the company website is the installment price, \$38.75 a month for two years. (That zero percent interest rate is a significant subsidy.) Apple charges \$969 for the most expensive iPhone now on store shelves, the 7 Plus with 256GB of storage, and over the past year has been heavily promoting its \$40-a-month plan. Samsung is also emphasizing ways to defray the cost of a new model. Customers trading in their old phones can get as much as \$300 toward a Note 8 or Galaxy S8, up from \$200 before the Note 8 was announced.

Carriers are pushing their own installment plans, which spread the costs over 12 to 30 months. And even before the new phones' release, the wireless companies have been going to greater lengths to disguise hardware costs or sweeten their deals.

T-Mobile US Inc. will pay for Netflix subscriptions for customers who have two or more phone lines on unlimited data plans and is offering a \$300 trade-in toward the iPhone X for customers handing over a 6 or newer. AT&T Inc. has a buy-one-get-one plan for people who want the iPhone 8 or 8 Plus, the two cheaper, more staid models Apple showed off on Sept. 12. Sprint Corp. offers a similar deal to people on monthly leasing plans who want last year's iPhone. Verizon Communications Inc. is offering free accessories and discounted tablets to customers who choose monthly payment plans.

These giveaways are much cheaper for the carriers than subsidizing every phone. In 2008 new customers who signed two-year contracts typically paid about \$200 upfront for an iPhone with an official base price of \$600, with carriers picking up the difference. In 2013, AT&T Chief Executive Officer Randall Stephenson said it no longer made sense to do that given his company's sizable market share. Starting with T-Mobile in 2013, all four big U.S. carriers ended their plans with the two-year lockup and hardware discounts. Instead, carriers now charge customers more on a monthly basis to pay off their phones over time, plus a premium if they want to trade up to the newest model each year. Apple's and Samsung's own plans largely followed from this example.

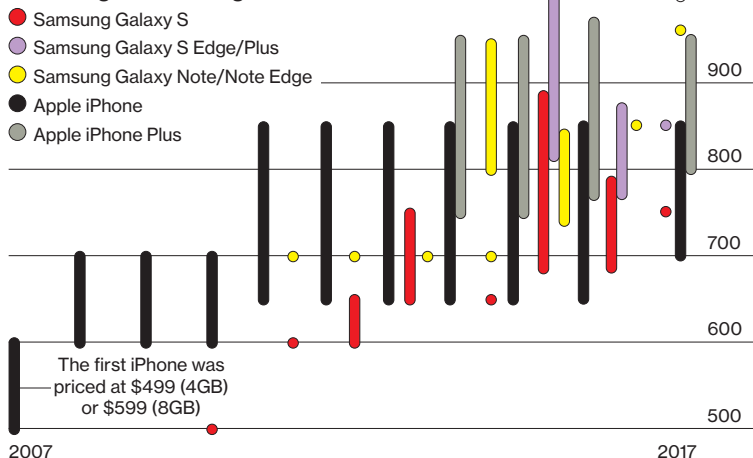
That is to say, new high-end smartphones have been expensive for a while, notes Brian Blau, an analyst at researcher Gartner Inc. “If you're a premium phone buyer, you're already paying a lot of money, in the \$700 to \$800 range, and if you're on a payment plan, in terms of dollars per month, it's not much more,” Blau says. A \$1,000 iPhone would likely cost customers less than \$50 a month over two years. If you absolutely have to have the latest hardware, that's a lot easier than telling your friends you paid \$1,000 for a phone. —Mark Gurman

THE BOTTOM LINE Phone makers and carriers are going to greater lengths to disguise the rising costs of their phones, which are about to cross a big psychological threshold.

“A thousand dollars is a line in the sand”

On sale starting Nov. 3, the iPhone X is priced at \$999 (64GB) or \$1,149 (256GB)

Reaching for Four Figures



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