

# Apologizing Strategies in International Trade: A Micro Perspective on Cost-Benefit Analysis and Consumer Responses

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**Abstract.** With the deepening of economic globalization, apology strategies have received increasing attention. There is still a relative lack of research on the cost - benefit analysis of the apology strategy in international trade from a micro perspective, as well as on consumers' reactions to it. This study aims to fill the gap by using the method of analyzing the fluctuations of the supply and demand curves before and after Apple's apology. In the Apple's trilogy of apologies to China case, Apple failed in its previous two unconscionable apologies, finally, in the third apology, Apple adopted a positive and sincere attitude and successfully resolved the conflict. This led to the integration and consolidation of China's market growth potential, enabling Apple to achieve long - term growth in China. Therefore, in the intricate international trade, it is best to maximize one's cost - effectiveness by adopting a positive, sincere and responsible apology strategy. This is not only conducive to the resolution of international trade conflicts and the alleviation of cultural conflicts, but also to the long - term development of both parties.

**Keywords:** International trade, apology strategy; cost-benefit analysis.

## 1. Introduction

With the deepening of economic globalization, international trade has emerged as a pivotal driving force for the development of the world economy. Nevertheless, diverse countries often exhibit markedly different communication styles, thought patterns, and value systems. Taking Sino - Western trade as an illustrative case, the Chinese approach to thinking typically centers on a holistic examination of issues, emphasizing the essence of problems. In contrast, Westerners frequently break down complex problems in trade negotiations into a series of smaller sub - problems, and then address them separately [1]. As a result, international trade conflicts occur with alarming frequency. However, existing research remains a relative dearth of research regarding the cost - benefit analysis of apology strategies in international trade from a micro perspective.

Therefore, the apology strategy, being an important tactic, has garnered increasing attention. It helps to fill the gap regarding the apology strategy for the in - depth reconstruction of consumer psychology and behavior and highlights the significance of the apology strategy.

By taking the case of Apple's trilogy of apologies to China in 2013, this study will elucidate, from a micro perspective, the unique value of a positive and responsible apology strategy. This will be achieved by using case study method and supply and demand curve analysis method. This study attempts to offer a basis for multinational enterprises when confronted with disputes arising from cultural differences.

## 2. Organization of the Apologizing Strategies in International Trade

### 2.1. Theoretical foundation

#### 2.1.1 Price elasticity of demand

Price Elasticity of Demand (PED) was first conceptualized by Alfred Marshall in his seminal work *Principles of Economics* (1890). As a fundamental construct in microeconomics theory, PED

quantifies the responsiveness of quantity demanded to changes in price, measured as the percentage change in quantity demanded relative to a 1% change in price.

The price elasticity of a good is positively correlated with the availability of substitutes, as consumers can more readily switch consumption patterns when viable alternatives exist [2].

### 2.1.2 Transaction costs

Transaction costs were first conceptualized by Nobel laureate Ronald H. Coase in his foundational work *The Nature of the Firm* (1937). Transaction costs denote the economic costs incurred by economic agents during market exchanges. In resource allocation processes, price discrepancies arise from factors such as information asymmetry and inventory management inefficiencies. To mitigate these market frictions, economic agents engage in contractual arrangements through bargaining processes, which inherently incur costs to ensure the smooth operation of market transactions [3].

### 2.1.3 Strategies for Apologizing

Once a certain speech or behavior has violated a social convention (whether the violation is real or potential), the violator is required to apologize to the other party for his or her speech or behavior [4]. Whether the violator realizes that his or her words or actions have violated the social norm and what factors influence the violator's attitude towards apology. Pragmatics usually refers to this category of questions collectively as apology strategies [5]. In international trade and business negotiations, the apology strategy used by business people is summarized in the following four main types: Apologize for taking responsibility; Apologize for not taking responsibility; Denial; Counter the Complainer.

### 2.1.4 Cultural differences

Cross-cultural disparities in values, languages, norms, and religions significantly impact international trade, rooted in divergent environmental, historical, and cultural heritages. Mitigation strategies involve developing cultural intelligence, establishing bicultural governance, and adopting adaptive contracts. Integrating cultural analysis into business strategies enhances mutual understanding, reduces frictions, and fosters sustainable partnerships for mutually beneficial outcomes [6].

## 2.2. Apple's trilogy of apologies to China Case Description

### 2.2.1 Case background

In 2013, China emerged as Apple's second-largest consumer market globally and its fastest-growing sales region, despite premium pricing sustained by technological innovation and design aesthetics. However, the company's after-sales practices in China were publicly scrutinized during the annual '3·15' consumer rights broadcast, where three systemic issues were disclosed [7]. Legal Non-Compliance. Apple's repair protocols for iPhone 4/4S devices adopted a 'partial replacement' strategy retaining the original back cover, which contradicted Chinese consumer protection laws. Deceptive Repair Practices: The company utilized refurbished components in post-warranty repairs without explicit consumer consent. Discriminatory Policy Implementation: While markets such as South Korea, Australia, and the UK received full-device replacements including back covers, Chinese consumers received refurbished units with retained original covers.

### 2.2.2 Three apologies

On March 15, 2013, International Consumers' Rights Day, CCTV lashed out at Apple for its after-sales service in China. CCTV criticized Apple for 'not playing smart, but instead should assume more commercial and social responsibility'. Apple's initial response to CCTV's accusations was a brief statement in Chinese on the company's Web site, saying it would 'provide consumers with an unparalleled user experience.'

On March 23, 2013, Apple issued a formal statement addressing mounting public concerns, asserting compliance with Chinese consumer protection laws and claiming its service standards for

Chinese consumers aligned with global benchmarks. However, the tone of the statement was perceived as dismissive, triggering significant public backlash. As a result of continued criticism and harsh condemnation by major Chinese media and government agencies, consumers have experienced a crisis of confidence in Apple products, and Apple's business performance in China has declined severely, with quarterly profits falling year-over-year for the first time in a decade.

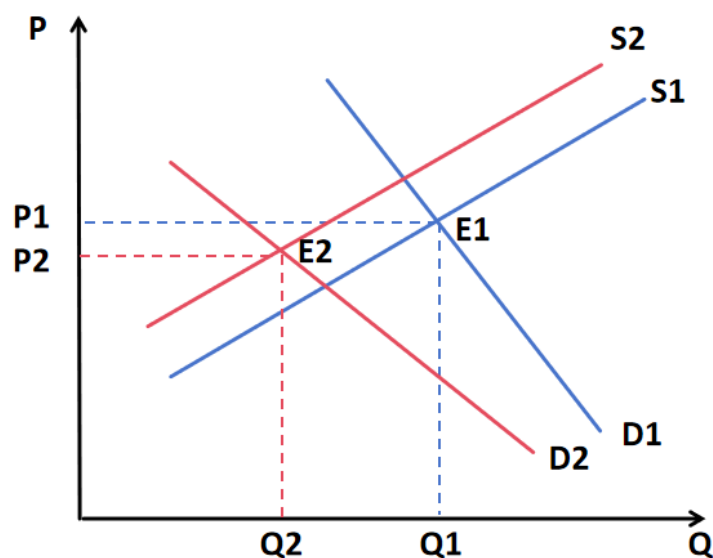
On April 1, 2013, Apple CEO Tim Cook issued a formal apology to Chinese consumers via the company's official Chinese website, titled *A Letter to Respected Chinese Consumers*. The apology yielded mixed market outcomes: Apple's stock price experienced a 3.11% decline on the announcement date, resulting in a \$12.9 billion reduction in market capitalization. Share prices recovered within one week, indicating investor confidence restoration. Despite the crisis, Apple's China revenue grew from ¥6.7 billion to ¥6.8 billion in fiscal year 2013, maintaining a 13% contribution to global revenue (Apple Inc., 2013 Annual Report).

### 2.3. Analysis on Apple's trilogy of apologies to China

#### 2.3.1 Analysis of the demand and supply curve before Apple's third apology

This study conducts a cost-benefit analysis of Apple's three-stage apology strategy in China through the lens of demand and supply curve dynamics. The vertical axis (P) denotes the price of Apple smartphones in China, while the horizontal axis (Q) represents the quantity transacted in the market. The demand curve (D1) intersects the supply curve (S1) at the initial equilibrium point E1 (Q1, P1), reflecting the pre-crisis market state. The demand curve (D1) denotes the quantity of goods consumers are willing to purchase at various price levels. The supply curve (S1) reflects the quantity of goods producers are willing to supply at corresponding price points [8].

The figure 1 illustrate the demand-supply equilibrium analysis of Apple's market performance before Apple's third apology within a simplified neoclassical microeconomic framework.



**Figure 1.** Analysis of the demand(D) and supply(S) curve before Apple's third apology

The demand curve is first analyzed, a leftward shift from D1 to D2 occurred as negative publicity and trust erosion diminished consumers' willingness - to - pay, leading to a leftward shift in the demand curve. Additionally, the existence of competitive alternatives increased price elasticity, which in turn flattened the slope of the demand curve.

Next, the supply curve is analyzed, a shifted leftward from S1 to S2 due to the escalation of quality - control costs and the constraints on high - end production capacities.

The concurrent leftward shifts of both the demand and supply curves culminated in a novel equilibrium point, designated as E2 with coordinates (Q2, P2). First, the quantity transacted at the new equilibrium, Q2, was lower than that at the initial equilibrium Q1, signifying a reduction in

market activity. Second, the equilibrium price at E2, P2, was lower than the original equilibrium price P1

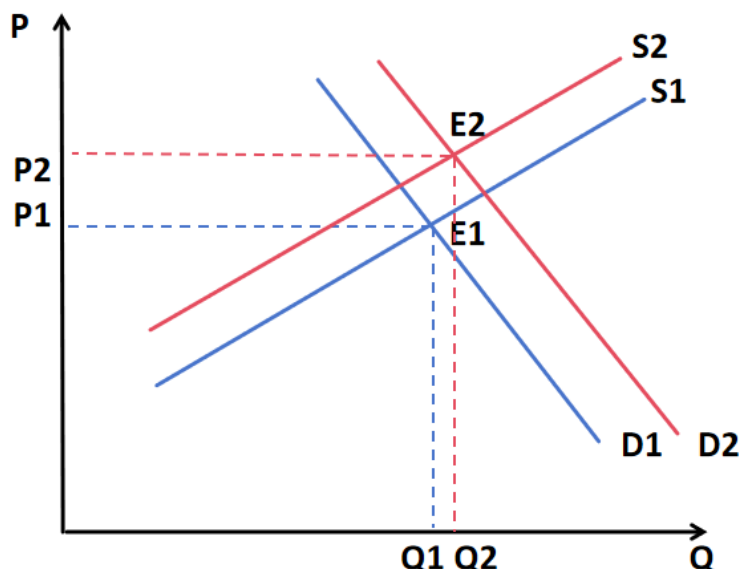
Apple's initial and second apology strategically circumscribed the scope of accountability, aligning with the third apology typology Denial This communicative strategy was characterized by evasive framing of consumer grievances and a noncommittal stance toward post-purchase service obligations.

Persistent failure to address post-purchase service concerns through both apologies resulted in trust erosion. The crisis of confidence reduced price acceptance elasticity, compounded by perceived cultural insensitivity, culminating in a substantial demand contraction as consumers shifted to substitute products.

Apple's premium pricing strategy in 2013, characterized by an iPhone 5s starting price of approximately RMB 5,288 and an average smartphone price of RMB 4,180—substantially exceeding the domestic average of RMB 1,371—significantly influenced market outcomes. This pricing approach augmented price elasticity of demand, heightening consumer price sensitivity and contributing to a downward trajectory in Apple's market share.

### 2.3.2 Analysis of the demand and supply curve after Apple's third apology

The figure 2 illustrate the demand-supply equilibrium analysis of Apple's market performance after Apple's third apology within a simplified neoclassical microeconomic framework.



**Figure 2.** Analysis of the demand(D) and supply(S) curve after Apple's third apology

The demand curve is first analyzed, a rightward shift from D1 to D2 occurred as the consumer satisfaction level of Apple in China recovered after Apple issued an apology and implemented a series of after-sales modifications. Additionally, since the elevated consumer trust in the brand bolstered the acceptance of prices, the slope of the demand curve did not show a substantial steepening.

Next, the supply curve is analyzed, a shifted leftward from S1 to S2, since Apple adjusted its after-sales policy which led to the incurrence of after-sales costs and brand image restoration expenses.

The combined rightward shift of demand curve and leftward shift of supply curve resulted in a new equilibrium point, designated as E2 with coordinates (Q2, P2). First The actual price did not experience significant fluctuations because Apple managed to absorb part of the cost by keeping the original price. Second, according to the data analysis conducted by IDC, Apple's sales in China in 2013 increased by 12% year-on-year. Thus, as the equilibrium sales volume increased, the equilibrium price was theoretically expected to rise as well.

In the third apology, Apple demonstrated a sincere stance and recognized the cultural disparities. Moreover, Apple explicitly acknowledged its discriminatory policies and committed to improving relevant maintenance and warranty policies to enhance after-sales service levels. Specific measures included replacing devices without retaining the old back cover and providing a two-year warranty

for notebook product motherboards. This apology aligned with the first apology type Apologize for taking responsibility, where Apple admitted its faults and expressed willingness to make amends.

From a long - term vantage point, Apple has been gradually addressing cultural differences and accelerating localization efforts. For instance, in 2016, Apple introduced the 'China Red' special edition. In the fourth quarter of 2013, the iPhone 5S was launched in the Chinese market., The short - term service costs of iPhones are optimized, this, in turn, reduces production and transaction costs over the long run, ultimately resulting in a rightward shift of the supply curve.

After Apple's apology, its brand image has been gradually restored. By providing added value to customers, offering cordial service and enhancing after - sales service, user retention has rebounded [9]. As a consequence, the demand curve also shifts to the right.

Under the combined influence of the demand and supply curves, an increase in volume and price stability are attained. This outcome validates the economic rationality of Apple's apology strategy.

## 2.4. Discussion

In Apple's series of apologies to the Chinese market in 2013. The initial two responses, characterized by negative denials and attempts to shift blame, they intensified public pressure and exacerbated the trust crisis. However, the third instance, in which CEO Cook personally issued a public apology letter and embraced a positive and sincere approach, successfully resolved the conflict. By comparing the first two apology strategies with the third one, the differences in their effects in international trade become more apparent. Negative, blame - shifting apologies can harm a company's reputation and market position, while positive, responsible ones can turn a crisis into an opportunity for growth. This highlights the importance of understanding cultural differences, taking responsibility, and tailoring apology strategies in international trade.

However, the strategy of apologizing is not a panacea. If the apologizing party is suspected of committing a substantive error that seriously infringes on the interests of the other party, the apology strategy is ineffective regardless of the form of apology. In 2018, Delta Air Lines publicly apologized for the serious error of listing Tibet and Taiwan as 'countries', however, the public did not buy it, and since then the Chinese market has been gradually shrinking [10].

## 3. Conclusion

In the intricate international trade, it is advisable to adopt a positive, sincere, and responsible apology strategy to maximize one's own cost - benefit. This is not only conducive to the resolution of international trade conflicts and the alleviation of cultural conflicts but also beneficial for the long - term development of both parties. Although it may increase transaction costs in the short term, it is advantageous for both sides to maximize their benefits in the long run. This can be explained by the following facts. Firstly, in international trade, due to the differences in values, languages, custom, the use of the apology strategy is conducive to avoiding misunderstandings. Secondly, from the perspective of price elasticity of demand, goods with higher elasticity cannot maintain a long - term market presence by pursuing short - term benefits in the face of more substitutes.

This paper analyzes the apology strategy in international trade from the micro - perspectives of cost - benefit analysis and consumer response. This approach is conducive to filling the gaps in the quantification of cost - benefit and formulating suitable international trade marketing for multinational enterprises when confronted with disputes arising from cultural differences.

The cost - benefit data regarding Apple's apology trilogy presented in this paper might be incomplete and lacks specification from the long - term development perspective. Additionally, the processing of the demand and supply curves before and after the apology is idealized, rendering the actual situation more complex. In future research, the manipulation of the above - mentioned relevant variables can be further refined to enable in - depth exploration of this topic.

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