

Amazon Kindle Fire Claims an Important Market Position

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Introduction

In 2007 Amazon's original entry, the Kindle bolstered a newly growing product class (Anand, Olson & Tripsas, 2009). The media quickly named the product an e-reader, a limited use mobile device designed for downloading and storing content from online. Barnes & Noble jumped into the market in 2010 with their product, the Nook. These e-readers had the ability to upload books, magazines and even some newspapers almost instantaneously, but they were not in full-color nor did they have email, video and word processing capabilities like tablets, such as the iPad, HP Touchpad and Samsung Galaxy. As more tablets came to market, some mused about whether Amazon, the successful e-tailer, could credibly compete in the tablet war. Jeff Bezos, Amazon's founder and CEO seemed to think so.

By early Fall 2011 Apple thought they had the tablet market all wrapped up for the upcoming holiday season with their popular iPad tablet posting record sales. That was until Jeff Bezos, CEO of Amazon, the Internet retailer, surprised the mobile computing industry with his late September introduction of the Kindle Fire, a fully loaded "e-reader's tablet" for a mere \$199 compared to iPad's \$499. The leading e-tailer had unexpectedly introduced a new mobile device that promised to be the first credible threat to the leading iPad. That was, if Amazon could smartly position itself in the fast-changing tablet arena where iPad dominated.

History of the Company

Jeff Bezos launched the Amazon.com bookstore website in 1995 based upon a vision to "establish a virtual community where visitors could hang out." (Anonymus, 10/10/2008). Bezos called it Amazon, for the world's second largest running river, (Byers, 2006). The site delivered a user-friendly interface that streamlined the "needle in a haystack" process of bookstore shopping along with free shipping and lower prices to help penetrate the market in the untested segment of online book sales. True to its advertising tagline, "The Earth's Biggest Book Store," Amazon.com offered over 1 million titles. This is more than any single traditional bookstore could stock at the time. This winning strategy of low price and easy access quickly paid off in sales as word spread from among a computer savvy target market of book lovers to eventually all readers.

By the early 2000's, Amazon quickly expanded beyond books to sell a full range of products that appealed to the new online purchaser as the marketplace continued to evolve. Products included

consumer electronics, toys, CDs, DVDs, electronic games, tools, housewares, and clothing. Struggling with profitability in the newer product categories, and nearing the brink of bankruptcy in early 2001 (only Books, Music and DVDs were generating profit), Amazon began hosting physical and online logistics services to online companies such as Toys R Us, Target, Drugstore.com and The Bombay Company. This effort was successful and parlayed their core strengths in global distribution, fulfillment, inventory management and customer service network into a “Logistics Services” business model (Applegate 2010).

Amazon.com quickly became the go-to site for many consumer goods. Major retailers Best Buy and Wal-Mart watched carefully as Amazon upgraded and innovated the site’s user interface with new search and navigation capabilities, customer reviews, Shopping Cart, 1-Click purchase feature, and later the Amazon Prime \$89 dollar-a-year, two-day delivery program.

By 2007, Amazon introduced the first Kindle e-reader for \$359, their first foray into selling a tangible product under their own brand. Perpetuating a successful, yet deceptively simple business model, the Kindle e-reader made “online [book] shopping so easy and convenient,” customers could browse, download and read books, magazines and newspaper content, at the click of a button on the Kindle (Brandt, 2011). Amazon unveiled the product just before the 2007 holiday season for purchase exclusively online at the Amazon.com website. The e-reader market perked up as Amazon offered an affordable price point of \$9.99 for book downloads and blended it with an easy to read e-ink, glare free device along with a simple user interface and operating system. Kindle’s launch success became the catalyst that opened up the e-reader market for big box book retailers, Barnes and Noble and Borders bookstores who shortly followed with introductions of their own e-readers and content libraries.

“The Kindle Fire...a real market disrupter.”

In addition to e-readers, another product class of mobile devices was heating up, the tablet. Tablets were lightweight, general-purpose hand held computers contained in a single panel. They were most distinctive for their mobility, touch screen interface, virtual touch keyboard, plus web interactive capabilities. The market leader, Apple Inc., launched the iPad tablet in 2010, and had quickly garnered an 80 percent share of the North America tablet market, shipping 7.5 million units through the second quarter, 2011 (Strategy Analytics, 2011). With Apple’s stronghold on the newly forming market, competitors, HP and RIM had already announced they would cease production of their tablets due to disappointing sales and an inability to wrestle share away from Apple. Industry pundits speculated that the tablet wars were over before they’d really began (Finch and Oricchio, 2011).

However, by fall of 2011, Bezos made his own tablet announcement and Amazon announced a sweeping change to its current e-reader line up. They radically dropped the price of the entry-level e-ink pearl readers and simultaneously introduced the brand new Kindle Fire tablet, at a low price of \$199, less than half the price of the cheapest iPad model. Initial praises cited Kindle as the “first credible response to Apple’s iPad” (Stone, 2011) and the industry predicted the Kindle Fire would become “a real market disrupter” (Milanese, Cozza & Gartenberg, 2011).

Mass retailer Best Buy and other major chains stocked up just in time for peak holiday selling season while Amazon also shipped directly via their website. Analysts had forecast sales of the new Fire to reach 3 million units (Anonymous, 2011) before the season came to a close. “People have been waiting for a tablet for 200 bucks for a long time and this is the best one I’ve seen so far,” (Anonymous, Gartner Group 2011). Fire’s key features included: a 7” color LCD touch-screen, wi-fi plus 3G upgrade, email, memory storage for 6000 books, Android platform for Google Books, Amazon’s content library and free Cloud computing. Cloud computing was a relatively new feature where users could store their reading collection “in the cloud” and access those books on *any* device whether it was a smartphone, pc, e-reader or tablet (Falcone, 2011). While some vendors were charging for the Cloud access, Amazon Kindle Fire included this benefit in its \$199 price.

Amazon also launched a free library of downloadable book titles and video movie streams through the site and local libraries for Amazon Prime subscribers. “Prime” members initially paid an annual subscription fee of \$89 to receive free shipping on all purchases through Amazon’s site and would now benefit with additional access to free downloadable content. This was Bezos way of rewarding customer loyalty and keep customers returning for any purchase.

The basic, affordable Amazon Kindle Fire tablet contrasted with Apple’s iPad, a fully loaded multimedia tablet that “competes with some laptops,” (Gartner Group, 2011). The iPad straddled between a convenient tablet and a laptop with advanced computing features for mobile users. iPad featured a large 10” color, LCD touch-screen, wi-fi, email, camera, microphone, Bluetooth, Cloud storage (only with Apple products) and even a keyboard hook-up and 3G upgrade options at additional cost. The iPad used Apple’s proprietary iOS platform and its many apps allowed users to access all major online bookstores. One tech analyst likened the iPad’s multimedia abilities to be more appropriate for creation of content versus the Fire’s advantage in consumption of content (Gartner Group, 2011).

Other tech analysts agreed that demand for an entry-level tablet would drive sales toward the Fire rather than the more costly iPad. In fact, consumer studies conducted had revealed that consumers were “10 times more likely to buy something that sells for \$200” than pay more than \$500 for an item. “So for a consumer that’s only looking for content consumption, not creation, this [Fire] is going to be the device of choice, or for the consumer who wanted to buy an iPad but couldn’t justify a \$500 purchase” (Sydell, 2011).

Another key player, Barnes & Noble, had already introduced their Nook Color tablet (in addition to their existing e-reader) a year earlier. This product was also an upgrade from the Nook smaller e-reader and featured a 7” color, LCD touch-screen, wi-fi compatibility, and Android platform along with access to its own content from the B&N bookstore. With no Cloud storage, camera or microphone it was priced at \$249. Tech bloggers claimed the Nook was lacking in extra features for its price tag. Nook menus were locked into portrait mode, with no ability to shift to landscape. Navigation and web browsing were cumbersome requiring multiple taps and window changes to get to web pages and it lacked a music player or speakers compared to the Fire (Perenson, 2011).

Well-Positioned or Falling Short?

The question on everyone’s mind that season was, *would the Kindle Fire entry-level tablet really threaten iPad’s sales?*

According to Pew Research, tablet computers were “one of the fastest growing technologies ever introduced.” Since the launch of the original iPad in April 2010, 11% of Americans between the ages of 30 – 49 reported owning some brand of tablet device using it primarily for consuming news and emailing. Most tablet users were educated, employed, earning a good salary (Purcell, 2011). However in contrast, the primary users of web apps and digital content via phone devices were younger (18-29), male 57%; female 45% and more educated when compared with the full U.S. adult population. Amazon’s entry and affordable price point opened up the tablet market to this lucrative, younger demographic. PricewaterhouseCoopers had projected digital entertainment and media spending to reach \$555 billion in the US by 2015.

It was clear the Fire did not possess all of the hardware features of Apple’s iPad. However, reviewers and bloggers gave the Fire high marks for its overall compatibility of its content ecosystem and library. In addition to the Kindle Fire tablet, Amazon allowed consumers to read/watch/stream/download on any iPhone, iPod Touch, all Android devices, Mac/PC, Roku streaming boxes, smart TV and Blu-ray players. In contrast, Apple permitted downloading and streaming of music and videos through its iTunes ecosystem, which only worked on Apple devices. Bloggers cited three critical attributes in which Amazon reigned supreme: 1) Amazon prices for content were generally cheaper on Amazon.com 2) Amazon’s ecosystem offered greater compatibility with all brands of mobile devices and 3) Amazon Prime allowed consumers to watch/read music/movies/TV shows/eBooks + get Free 2-day shipping on purchases for a \$89/year fee (see Table 1).

Table 1 - Content Library Comparison

	Kindle Fire	Apple iPad
Compatibility	<ul style="list-style-type: none"> In addition to Kindle, read/watch/stream and download content on iPhone, iPod Touch, all Android devices, Mac/PC, Roku streaming boxes, Xbox 360, PlayStation 3 and a variety of smart TVs and Blu-ray players. 	<ul style="list-style-type: none"> iTunes only works on Apple devices; Apple TV, iPad, iPhone, iPod Touch, Mac or PC with iTunes installed with a 5 device limit per account. Streaming is not an option
Music	<ul style="list-style-type: none"> Songs (\$0.45 and up) and albums (starting under \$5) were generally cheaper on Amazon.com. 	<ul style="list-style-type: none"> Song prices ranged \$0.99 to \$1.29 for singles and albums starting from \$7.99 and up (with occasional sales of \$5.99 per album).
Movie Rentals	<ul style="list-style-type: none"> \$0.99 to \$4.99 	<ul style="list-style-type: none"> \$3.99 - \$4.99
Movie Purchases	<ul style="list-style-type: none"> \$9.99 - \$19.99 (with occasional sales of \$4.99 per movie purchase) 	<ul style="list-style-type: none"> \$13.99 - \$19.99
Stream/Download	<ul style="list-style-type: none"> Stream or Download to all devices 	<ul style="list-style-type: none"> Streaming is not an option
Other	<ul style="list-style-type: none"> Amazon Prime – allows users to watch/read thousands of Movies/TV shows/eBooks + get Free 2-day shipping for \$89/year. 	<ul style="list-style-type: none"> Podcasts iTunes University – education audio and video content

Source: Amazon and Apple websites (2012)

The iPad was “by far the dominant tablet with 68% of the market share and constituted over 2% of U.S. Internet traffic” (Piaastro and Sampour, 2011). The good news for Amazon was that by controlling proprietary hardware, platform (customized Android) and content Amazon benefited

from greater control in not only the user experience, but also the up-sell of its e-books and multimedia content. “Amazon gets to create the rules and keep all the profits” (Parr, 2012). In summary, with the Kindle Fire, Apple faced its first credible threat in the tablet computer industry. Apple required use of Apple-only devices for iTunes access. In doing so, Apple had not staked as strong a claim in the content world as well as Amazon.

With the Kindle Fire closely linked to Amazon’s online offerings of e-book store, movie and music service and a redesign of its shopping website to make it easier for mobile consumers, the Fire funneled users directly into Amazon’s “meticulously constructed world of content, commerce and cloud computing.” Market analysts reported that tablet purchases accounted for 20 percent of all mobile e-commerce sales. As mobile and tablet-based e-commerce activity increased, so would the demand for an affordable device to provide such access (Epps, 2011). There were many mobile devices beginning to crowd the market; smartphones, e-readers, tablets and laptops. It was speculated that as each became more similar in its look and offerings, some of their personal distinctions would likely disappear.

“After watching competitors stumble for the last two years,” Bezos recognized the growing mobile opportunity and the importance of his e-commerce, open ecosystem advantage (Wingfield, 2012). With this very new product Amazon had introduced, had Bezos and his team positioned the Kindle Fire adequately in the tablet product class by comparing itself to Apple’s iPad? In addition to offering an entry-level alternative, how might Amazon differentiate the product and maintain a place in the market against iPad for the long term?

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