

Amazon and the future of the Kindle 2012

Introduction

Jeff Bezos peddled hard on the stationary bike he kept in his personal office at Amazon's Seattle, Washington headquarters. He often used it when working out tough issues facing the company he founded in 1996. Today he was peddling particularly hard, intensely reviewing the myriad issues that surrounded the electronic book market and the great success of Amazon's Kindle Fire electronic book reader. His particular focus was on the go-forward strategy for the Kindle Fire. Competition was increasing, both from Apple and from tablets designed to run Google's Android operating system.

Market Background

There are plenty of Android tablets on the market, but none have captured a portion of market share that can come close to rivaling the iPad. Right now, it looks like the most successful of all of them will be the Kindle Fire, which Amazon has modified so much that it's hardly recognizable as an Android tablet at all.

Competition

A new report from the Taiwanese tech site Digitimes has sparked the idea that, perhaps, Google will try for its own super-cheap tablet priced to compete with the \$199 Kindle Fire. Right now, there are basically two models for tablet success: Apple's and Amazon's. Fire really isn't supposed to be an iPad killer; it's supposed to be a neat device that just so happens to get people to buy a ton of things from Amazon.

As evidence of this, [Amazon](#) is actually losing a couple bucks on every [Kindle Fire](#) tablet it sells. According to [iSuppli](#), a market research firm, the cost of the components required to build a Kindle Fire tablet – from the battery to the memory to the plastic shell – totals approximately \$185. Add in manufacturing and assembly fees, and that figure rises to \$201.70. That's \$2.70 more than the \$199 price tag on the Fire. By way of comparison, the 32 GB version of the [iPad 2](#) costs about \$326 to build. But [Apple](#) sells the device for \$599, turning a nice \$175 profit on each machine. Apple, gunning for the luxury market, has produced a beautiful, successful tablet.

As one critic wrote recently, the Kindle Fire is "perhaps the best, tightest integration of digital content acquisition into a mobile device that we've yet seen. Instead of having a standalone shopping app the *entire tablet* is a store –at which users can purchase a sea of premium content. It is a promising look into the future of retail commerce." In this way, the Kindle Fire can be viewed as a series of extremely profitable sales portals. Additionally, the Amazon Cloud Drive rivals Apple's iCloud for digital content storage.

The Strategic Offsite Meeting

Jeff Bezos had a strategic offsite scheduled in two weeks and needed to plan and prioritize the agenda. He wanted to ask his team to be open minded about a series of issues. Most importantly he wanted the team's recommendation for the Kindle strategy, including resource allocation, profitability, and partnerships. He began drafting a list of questions for his team to consider.

Study questions

- 1) What business is Amazon in?
- 2) Is the strategic view correct that the Kindle Fire is not a money-making device in itself, but instead, a portal into the vast Amazon ecosystem?
- 3) Which path will Google choose? Will the company further its competition with Apple or take on Amazon Fire directly? Can Google simply follow exactly what Amazon's done?
- 4) Will Amazon need to compete with smartphones? If so, how?
- 5) What other initiatives should Amazon consider? One member of his team is even suggesting the idea that Amazon should sell off or license the Kindle.
- 6) How should these questions be prioritized?

Exhibit 1:

12/31/11 Amazon financial summary

Number of Employees	21, 700
Sales (FY 2011)	\$34,204,000
1-yr sales change	39.56%
Net Profits after tax	\$1,145,000
Cash+ Equivalents+Investments	\$11,747,000
Debt + Long term Liabilities	\$641,000

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