**INTRODUCTION**

This case is about how Amazon started to compete in the tablet market from the perspective of its founder Jeff Bezos. It provides an overview of the strategic entrepreneurship process under his vision, emphasizing the entrepreneur mind-set and innovation. Bezos was able to formulate and utilize the entrepreneurial opportunities presented to him.

The case opens with a history of Amazon, describing how Bezos started out his company in a 400-square foot garage. By 1999, Amazon became the largest online bookstore, and by 2001, it turned its first profit. While other brick-and-mortar-based competitors struggled to transit to e-commerce, Amazon was able to succeed by many innovative strategic moves, such as user-based reviews of products and 1-click ordering on the website. All the while, Bezos tried to be innovative and be the first mover. As he stated in his 2010 annual letter to shareholders, “invention is in [Amazon’s] DNA.” Amazon continues to offer more innovative products such as cloud-based services. This case focuses on one particular product from Amazon, the Kindle Fire. The Amazon Kindle was launched in 2007 and went through many product development phases. Bezos believed that the e-book ecosystems can bring Amazon many potential revenue streams, and thus Amazon Kindle was selling at cost (or below cost as some analysts believed). Kindle Fire was previewed in 2011 and referred as “the culmination of the many things we’ve [Amazon has] been doing for 15 years.” The strategies of Kindle Fire are examined and the competitors (mainly Apple and Barnes & Noble) are analyzed.

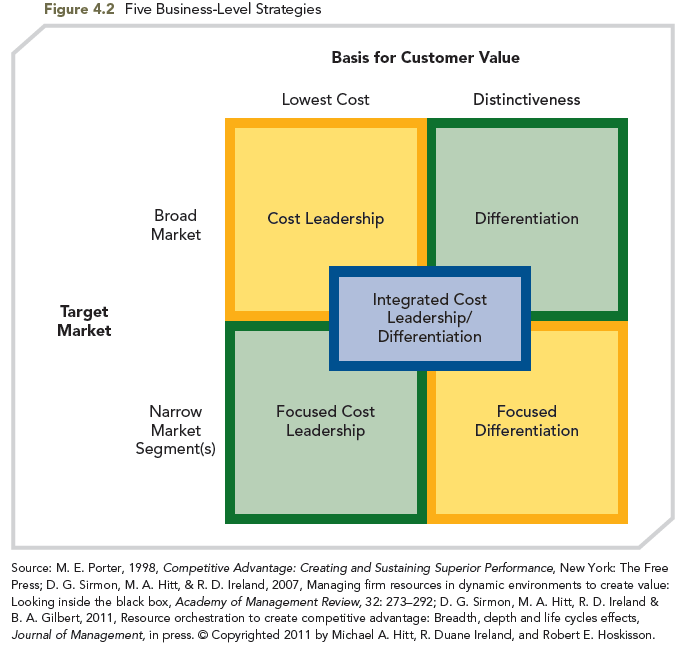
This case is ideal for demonstrating the importance of the business-level strategy, competitive rivalry, and strategic entrepreneurship. The following points are to guide a review and discussion of these important concepts.

* Define Amazon’s business-level strategy. Based on the analysis, what changes should Bezos make in his efforts to significantly differentiate the company?
* How does Amazon’s Kindle Fire strategy stand up against competitive rivalry in the industry?
* Describe the entrepreneurial characteristics of Amazon. How has Bezos promoted innovation within the organization?
* Is the current strategy for Amazon’s Kindle Fire suitable for the existing market? What recommendations can be made to address strategic concerns and safeguard Amazon’s growth and market share?

**ANALYSIS**

* ***Define Amazon’s business-level strategy. Based on the analysis, what changes should Bezos make in his efforts to significantly differentiate the company?***

The purpose of a business-level strategy is to create differences between a firm’s position and those of its competitors. Base on the target market and basis for customer value, there are five business-level strategies as shown below:



For Amazon, most of its products target broad market and focus on lowest cost possible. Thus, Amazon implements a cost leadership business-level strategy. For example, even though a Kindle device cost a lot in R&D and many efforts in terms of bringing in publishers to convert their books to e-books, a Kindle device was sold at a profit margin of barely 5%. Amazon believes that once a customer has a Kindle device, the device will become a tool for brining in the customer into Amazon’s ecosystem of content. Over the years, Kindle 6” e-readers’ price has dropped significantly. The table below shows the price change from 2007 to 2012.



The key of implementing a cost leadership business-level strategy for Amazon is to offer relative standardized products with features acceptable to most customers at the lowest competitive price. In order to remain a cost leader, Amazon has employed process innovations that facilitate extremely efficient production and distribution methods. It has also successfully controlled production costs and overheads and minimized costs of sales and service. Bases on Porter’s five forces of competition, the analysis is as below:

* The threats posed by new entrants: The treat is high because Amazon usually is the leader in innovation and also the first mover in many products. For example, soon after Kindle was introduced, Barnes & Noble also came out with a similar product called the Nook. Apple also released the iPad, which was proven to be very successful.
* The power of suppliers: Because Amazon is a very big online retailer, suppliers do not have very much bargaining power. In fact, if a supplier cannot offer a competitive price, it will eventually be driven out of the competition.
* The power of buyers: The customer base for Amazon demands lowest price, and most of them know how to shop online for the best price. Thus, Amazon has to remain a cost leader in order to keep its customers.
* Product substitutes: There are many substitutes for the products that Amazon offers. For example, the Nook Tablets and the iPads are substitutes for the Kindle devices.
* The intensity of rivalry among competitors: It is hard for other companies to compete with Amazon because of Amazon’s size and efficient distribution methods. Rivals are usually hesitant to compete on basis of price.

Based on the Five Forces analysis, it will not be easy for Amazon to remain a cost leader unless Bezos continues to innovate and cut cost. The main issues with implementing a cost leadership business-level strategy are obsolescence, cost reductions, and imitation. In order for Amazon to remain a cost leader, it will need to constantly improve its products and services, and come out with newest technology and solutions; at the same time, Amazon has to offer all these at a very competitive price.

* ***How does Amazon’s Kindle Fire strategy stand up against competitive rivalry in the industry?***

The Kindle Fire was previewed in 2011, and it came preloaded with a modified version of the Google Android OS. It has 7” color LCD touch screen, a Wi-Fi radio, a powerful dual-core processor, a fixed 8 GB of internal storage, and a free cloud storage. In 2011, the global top media tablet brands are:



As the table demonstrated above, Amazon’s Kindle devices do not even compete well against Apple’s iPads. Kindle Fire’s direct competitors are the Nook Tablets by B&N, and the iPad 2 by Apple. Apple has been extremely successful in terms of the tablet market. The iPad 2 is bigger than a Kindle Fire (in terms of screen size) but thinner than a Kindle Fire (though also heavier). A Kindle Fire targets media junkies, children and mobile gamers, and higher education. How does amazon compete against Apple and B&N?

* *The Kindle Fire against the iPad*: The iPad was the first mover in the tablet market. Apple has very royal customer base because it has successfully implemented a differentiation business-level strategy. The late Steve Job became the face of Apple that signified innovation, simple but yet sleek design, and perfection to details. The iPad is a perfect device in between a smart phone and a laptop. It serves as a multipurpose, Swiss army knife–type device. However, it is also 3 to 4 times more expensive than a Kindle Fire. If Amazon can secure its content offerings, for example, making the Amazon TV selections significantly larger than its competitors, the Kindle Fire may be able to take away Apple’s iPad market because of its substantially lower price.
* *The Kindle Fire against the Nook*: The Nook and the Kindle Fire are very similar in terms of the hardware specifications. However, B&N was selling the Nook with heavy promotions that might have been ultimately responsible for the profit loss of B&N (it was selling the Nook for $99 if a customer subscribed to the *New York Times*.) The Nook and the Kindle Fire offer different user experiences: Amazon’s focus was on its own content and services, whereas B&N focused on providing its own text-based content and allowing third parties to deliver the rest. If Amazon can continue to offer a full package, including a better browsing experiences and cloud-based services, the Kindle Fire can remain ahead of the competition against the Nook.
* ***Describe the entrepreneurial characteristics of Amazon. How has Bezos promoted innovation within the organization?***

Strategic entrepreneurship is composed of entrepreneurial actions (exploiting found opportunities in the external environment) through a strategic perspective (innovation efforts). The key is to identify opportunities to exploit through innovations and determine the best way to manage the firm’s innovation efforts. Jeff Bezos started his company in a 400-square-foot garage. By 2011 (fifteen years later), Amazon reported $50 billion in revenues, and controlled 10 percent of the North American e-commerce market. Amazon fosters entrepreneurship through the following:

* Risk-taking: Bezos has been willing to take risks in the world of e-commerce. First, Amazon was one of the first online retailers to offer Amazon Prime express shipping subscription services. For an annual fee of $79, subscribers to Amazon Prime can enjoy unlimited 2-day express shipping, making the customers more motivated to shop at Amazon. In addition, Bezos founded Lab126 hardware development group, which developed the e-reader, the Kindle. Bezos took a lot of risks because the R&D cost a lot of time and money. It took Amazon six years to become profitable because of its commitment to innovation and Bezos’ willingness to take risk.
* Committed to innovation: Bezos stated in his 2010 annual letter to shareholders that invention is in Amazon’s DNA. Under his leadership, Amazon has gone from a small online retailer to the world’s largest bookstore by 1999, and by 2011, controlled 10 percent of the North American e-commerce market. Under Bezos strategic entrepreneurship, Amazon has been repeatedly been at the forefront of the e-commerce market by pushing out new products and services, such as cloud-based services and the Kindle device. Amazon also promotes a “service-oriented architecture” the “fundamental building abstraction” for all Amazon technologies. This focus on internal technology development had led to a culture of innovation for Amazon.
* Proactive in creating opportunities rather than waiting to respond to opportunities created by others: As described above, Amazon was in the front of innovation and created its own opportunities by offering new services and products. Amazon has a long history of investing in emerging opportunities years ahead of revenues or profitability.

**STRATEGY**

* ***Is the current strategy for the Amazon’s Kindle Fire suitable for the existing market? What recommendations can be made to address strategic concerns and safeguard Amazon’s growth and market share?***

The Amazon’s Kindle Fire was previewed on 9/28/2011. It was an improved version of the Kindle device that Amazon had offered before. It had a 7-inch, color LCD touchscreen, a Wi-Fi radio, a dual-core processor, an 8 GB of internal storage, and free cloud storage for content purchased from Amazon. It also featured Amazon Silk, a cloud-accelerated web browser that can handle the computation necessary to render webpages in the cloud. Other featured included:

* Tens of thousands of preapproved apps and games available for purchase and download through the Amazon app market
* Movies, TV shows, songs, and magazines available for streaming or download

(Prime subscribers received streaming access to more than 13,000 movies and TV shows for free)

* The Kindle Fire came with a free one-month subscription to Amazon Prime to encourage a customer’s integration into the Amazon ecosystem of content, goods, and services

The Kindle Fire was speculated to have been sold at cost or even below cost. The Kindle Fire would soon face competition from Apple (iPad 2) and B&N (The Nook). There are several customer segments for the Kindle Fire:

* Media Junkies
* Children and Mobile Gamers
* Higher Education

In terms of Positioning, the Kindle Fire’s biggest competitor is the iPads. The iPad was the first mover in the tablet market. Apple has a very royal customer base because it has successfully implemented a differentiation business-level strategy. However, it is also 3 to 4 times more expensive than a Kindle Fire. The Kindle Fire’s second largest competitor is the Nook. The Nook and the Kindle Fire are very similar in terms of the hardware specifications. However, the Nook and the Kindle Fire offer different user experiences: Amazon’s focus was on its own content and services, whereas B&N focused on providing its own text-based content and allowing third parties to deliver the rest. The Kindle Fire also faces the traditional Kindle E-readers as a competitor. Though they are different in terms of hardware specifications, it is possible that the Kindle Fire can cut into the traditional Kindle E-readers’ business.

In terms of pricing and business model decisions, there are several revenue streams: hardware, content, commerce, advertising, and application marketplace revenue streams.

Considering the Kindle Fire’s current strategy, below are the recommendations to address strategic concerns and safeguard Amazon’s growth and market share.

1. Challenging leading competitors: Amazon’s leading competitor, Apple, is known to bringing the best personal computing, mobile communication, portable digital music, and video experience to customer segments through innovative hardware, software, peripherals, services, and Internet offerings. In order for Amazon to gain market share from Apple’s, it needs to strengthen its cost leadership position. Amazon needs to keep the Kindle Fire’s price low and affordable, while offering the best customer user experience. In doing so, other competitors, such as B&N, will not be able to compete with Amazon.
2. Innovation: Amazon needs to invest heavily in R&D, with a broadly defined competitive scope. By constantly improve the Kindle Fire, it will be very easy and convenient for users to learn and use the Kindle Fire.
3. Personalization: Amazon can offer users the opportunity to turn the Internet into a unique and personal online portal by displaying specific content, pages, and applications chosen by the user. This way, the Kindle Fire can turn into a lifestyle product that a user can depend on and become used to it (instead of switching to the competitors’ products).