

With Kindle Fire, Amazon's Digital Ambitions Burn

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SAN FRANCISCO (AP) — Amazon's unveiling of the Kindle Fire tablet computer sends a bright-hot message: The online retailer is ready to rival iPad maker Apple in an effort to be the world's top digital content provider.

It may sound odd coming from a company that pioneered online sales of physical products, selling its first book, Douglas Hofstadter's "Fluid Concepts and Creative Analogies: Computer Models of the Fundamental Mechanisms of Thought," in 1995. But since it first entered the digital market in 2006 with its video download store, Amazon has bet consumers will pay for high-quality digital content.

In addition to the millions of actual items it sells, which range from toys to toothbrushes, Amazon's trove of digital content now includes more than 1 million e-books, 100,000 movies and TV shows and 17 million songs. This is about 1 million fewer songs than iPad maker Apple Inc. sells, but more than twice as many e-books and many thousands more TV shows and movies.

Amazon.com Inc. CEO Jeff Bezos is confident that its content is what will help the Kindle Fire do better than others who have trotted out tablets.

"The reason they haven't been successful is because they made tablets. They didn't make services," Bezos said in an interview after his company unveiled the tablet at a New York media event Wednesday.

Bezos, a 47-year-old former Wall Street money manager, built Amazon on exactly this sort of confidence. He started the company on the theory that a Web-based book store would resonate with consumers, since it seemed like the easiest way to browse millions of titles at once.

He was right. The company grew rapidly and Amazon began trading publicly in May 1997, despite never having turned a profit. It took five more years — and the addition of product categories like CDs, DVDs and consumer electronics — before the online retailer reported any net income. These days, Amazon consistently reports strong growth: In the most recent quarter, it earned \$191 million on \$9.91 billion in revenue.

It was Apple that moved into digital content first, however. With the arrival of Apple's iPod digital music player, which first came out in 2001, Apple figured consumers would be willing to pay for legal, high-quality digital music they could download to the devices. Apple became a major player early on, making deals with major record labels to sell digital tunes through its iTunes Store in 2003. Soon the iPod became more multimedia-savvy: Apple added TV shows in 2005 and movie

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downloads a year later.

Amazon soon entered the market itself, rolling out its own digital video downloading service in 2006 and music downloading service a year later.

It was in 2007, though, that things really heated up. That's when Amazon rolled out its first Kindle e-reader, upending the book market once again by turning the focus from costly paper books to electronic ones that could be delivered quickly and cheaply to customers on a reading device.

The Kindle rapidly grew the company's e-book business, and Amazon said in May that it was selling more e-books than physical copies of books. But the Kindle Fire's ability to show e-books, surf the Web, stream movies and TV shows and support apps positions it as an even better catalyst for Amazon's digital goods sales.

The price will probably help, too: When it goes on sale Nov. 15, it will cost \$199, which is less than half of the \$499 you'll pay for Apple Inc.'s cheapest iPad and \$50 less than book seller Barnes & Noble Inc.'s Nook Color e-reader. This leaves buyers with plenty of money left over to spend on content.

"It's important to remember at the end of the day that Amazon's core business is retailing and this is a way to sell more digital media on a sort of 7-inch vending machine," NPD Group analyst Ross Rubin said.

The Kindle Fire, which runs Google Inc.'s Android software, is clearly meant for gobbling up Amazon's digital media in particular. While most Android tablets include access to Google's Android Market for downloading games and apps, the Fire will eschew that in favor of Amazon's own app store. And while the tablet doesn't have much storage space — 8 gigabytes, compared with 16 GB on the cheapest iPad — Amazon is offering users free Web-based storage for any digital content they buy from Amazon.

Another weapon in Amazon's arsenal: In hopes of keeping Kindle Fire users purchasing both digital and actual items, the tablet includes a free month of Amazon's premium shipping service, Amazon Prime. Prime, which costs \$79 per year, gives users unlimited two-day shipping on any items they buy from Amazon, as well as free access to a library of 11,000 streaming movies and TV shows. This is about half of what Netflix Inc.'s streaming library has.

Amazon has never said precisely how many Kindle e-readers it has sold, but its higher sales of e-books than print books indicates it's a strong performer. Given this, and the general popularity of tablets, expectations are high for the Fire.

Rubin thinks consumers will become fans of the tablet, saying it offers a more complete media consumption experience than what Barnes & Noble has provided with the Nook Color, which came out last year.

Forrester Research analyst Sarah Rotman Epps thinks Amazon could sell as many as 5 million Fires by the end of the year, but thinks it will probably be closer to 3

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million since it's coming out so late. Apple, by comparison, has sold nearly 29 million iPads since it released the first one in April 2010, and over 9 million in the June quarter alone.

Of course, in addition to being the new tablet on the block, the Kindle Fire faces other challenges. On the content side, the Amazon Appstore currently includes more than 16,000 apps, but this is just a small fraction of the 425,000 apps in Apple's App Store, over 100,000 of which are tailored specifically for the iPad. On the tablet side, the device's screen is on the small side, which means less space for watching movies and more panning around when surfing the Web. And it will only be able to access the Internet over Wi-Fi, not over wireless carriers' high-speed data networks.

Still, Epps believes Amazon's decision to lead with content and services, rather than hardware, will help it prosper with the Kindle Fire.

"Apple will still be the clear market leader, but Amazon will still be a clear number two because of that strategy," she said.

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