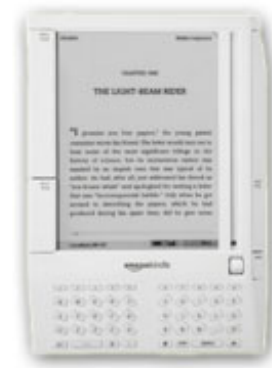




Getting a Read on Amazon's New Kindle

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On November 19, Amazon.com CEO Jeff Bezos announced the launch of an e-book device called Kindle. It weighs 10.3 ounces, costs \$399 and can download books in less than 60 seconds. He acknowledged upfront that the e-book landscape is crowded with other efforts, most of them unsuccessful, but Bezos thinks that he has a winner. Kindle lets users download many new books for \$9.99 and it can be used without a computer -- offering instead a free high-speed wireless data network from Sprint. It can also download newspapers, magazines and blogs for a fee, can store up to 200 books, uses an eye friendly screen and lets readers increase the type size as needed. So, what's not to like?



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We asked marketing professor Peter Fader, Don Huesman, senior director of information technology and management professor Dan Raff to give us their reviews of Kindle. In the interest of full disclosure, we would like to note that Knowledge@Wharton's content is available on Kindle.

An edited version of the transcript follows:

Knowledge@Wharton: So, Pete, Dan and Don: Will Kindle be a best seller or is it doomed to flop, like most other e-book efforts before it?

Fader: Well, how about something in between? I think that this is a great move for Amazon per se. Maybe they won't sell out of these things, but the fact that we're having this conversation; the fact that they are getting some buzz about it, the fact that they've found a way to integrate this hardware technology with what they do -- selling books -- and reminding people that they are a big online book store -- and can add value to readers in ways that other book stores can't - I think that's all terrific.

How much money will they make off of it - off of this device, per se? Not much. But, maybe the subscription service... there are other ways of making people more engaged with the things that they sell -- I think that it can be successful.

Raff: It has striking elements of continuity with Amazon's initial operation strategy. As a business, the great problem of retail book selling over the entire history of the American Republic has been having the retailers investing in inventory, which the customers who come to them don't want, in hopes that someone will eventually walk into the store looking for just that book.

In the very beginning, Amazon had physical possession and ownership of only a tiny fraction of the total number of titles it sold. It was essentially an attempt to run a retail business in books without running inventory risk. And, again, this is a way of selling book content without actually owning a lot of physical books.

Huesman: I've very skeptical of the physical device itself; a limited purpose, relatively bland, uninteresting handheld device doesn't seem to me to be compelling in today's market. On the other hand, there are two hidden gems here. One of course is the force and personality of Bezos himself, who is on the short list of people who could legitimately claim to have invented e-commerce in the first place.

But in addition to that is the subscription service which I think is very interesting in a lot of dimensions.

The concept that you could have [and Bezos hopes to put into play] access to any book, both in print and out, within 60 seconds, in your hands, is interesting. The ability for any subscription service to *The Wall Street Journal* or for *The New York Times* to appear in a device that's handheld is also interesting. Much of this has already been available of course, through existing handheld devices. I get news regularly on my BlackBerry. People can read 20,000 titles on their iPhone's today. So, I don't think that the marriage to the device... I see the point of it - but I don't see that as a long-term sustainable approach.

Knowledge@Wharton: Let's turn to your point about Bezos. It's absolutely true that when he launched Amazon.com, Bezos reinvented the Book Store. But now he is trying to reinvent the book. Is he insane or is he just incredibly innovative?

Huesman: Well, he certainly is incredibly innovative. I do think however, that this particular device doesn't show that innovation. It has a single use; it doesn't have the collection of features that would make people want to carry around an additional device, I don't think, in their briefcase, after an initial flurry of interest in the device - just for its innovative side.

So, I do think that in the longer run the real value that he has and the interesting thing to exploit is this relationship with authors and with titles. And, I'm looking forward to what's next [at least what I'm expecting to happen] when the device fails.

Fader: In some sense, Bezos is giving people what they want. They want digital content. They want to have 'it' - whatever it is, when they want it, where they want it. While it is possible to do some reading on a BlackBerry, it's not quite the same thing. So, whether or not this device will bring digital content to the next generation, who knows? At least though, it means that we are moving there and that it will be more important for other devices to deliver the goods, in a better way than current devices have done so.

Raff: And to pick up on another point, that was just raised. You can see the appeal of such a device, such a distribution channel to publishers, publishers of books, publishers of newspapers -- all of whom would like to have readier access to willing consumers of their goods.

And, this will enable demanders to have much easier access than they would if they were to simply rely on bricks and mortar sorts of sources, news stands which only ever have today's papers....If you go away for Thanksgiving, you miss the news.

This really brings libraries, major library scale collections of books and periodicals and so forth, within very easy access. And, maybe people won't want to slip such a thing into their pocket. But you can easily imagine them slipping it into their suitcase as they pack for a trip.

Knowledge@Wharton: Bezos told *The Wall Street Journal* that "Kindle is designed for people who really love reading." How many people are there out there who really do love reading, is that number dwindling and are they really more interested in being on the social networking sites and playing games?

Raff: Well, if you've been reading the newspapers recently, you'll be aware that that number is in secular decline. On the other hand, it's probably concentrated in parts of the income distribution that are willing to pay for content.

Fader: I think that people are interested in reading or at least having content brought to them. Who's to say what the next generation of this device is once this kind of device converges with other digital doodads to bring content to people in places where they weren't reading the content, because it was inconvenient or they were busy with other things. Now, maybe I'd rather read the paper than write postings on other people's Facebook walls, or something like that. And so, I think it levels the playing field a little bit. It doesn't necessarily stop the decline, but slows it down.

Huesman: And I would also discount some of the reports about the decline in reading. To some extent, it is reminiscent of the discussions about the decline in serious news, because of the decline in newspapers. In truth, I think the generations younger than I get their news from a multiplicity of sources, not just the evening news and not just newspapers, but from blogs, from RSS feeds, from text messaging. And, I think that in many ways a lot of reading happens in that format as well.

One of the things that I think is interesting in this sort of emerging model that Amazon is playing with is the possibility of seeing that sort of diversity in distribution of fiction and in what we would have traditionally turned to a hardback book for, through additional streams. For instance, I found it very interesting that I would be able to get a chapter of virtually any book that Amazon currently provides, available in my hands now, at no charge, for sampling. I think that this is very reminiscent of some of the things that we have seen in the digital music sphere in that regard.

Raff: If I were the manager of a local public library system, I would read these articles about the Kindle device with some alarm, because part of what this device will mean is that people don't have to wait in the queue to get the book from the library, if that was how they're going to read it.

Knowledge@Wharton: You mentioned the librarians. What about people who run Barnes & Noble and Borders? Should they be afraid?

Raff: This is an interesting question. People who run Borders, as of this morning, have more proximate things to worry about. Their largest private shareholder just substantially increased his stake in the company. In general, the people who run these very large channels of distribution for the major book publishers are very important customers of the publishers.

And, I would be surprised if the negotiations between the publishers and Amazon, over the pricing of these were going on in complete isolation, from conversations between for example, the Riggio Brothers and those publishers, or the people who run Borders.

Fader: And, who is to say that they are shut out of this process completely. Again, we're just seeing version one of this new business model and it's quite conceivable that they'll find some way of either jumping on the bandwagon or come in with something that is competing, if not better.

Don mentioned the point of giving out chapters for free. In that sense, it's going to stimulate interest in reading. It could be that you'll read the chapter on the Kindle and then you'll go out and buy the book. So, there are a lot of ways that they can come out even better after this Amazon announcement.

Raff: You can imagine sophisticated pricing schemes -- the point of which would be to encourage one sort of transaction or another, that being one obvious possibility.

Huesman: In fact, I would suggest that perhaps a book purchase from Amazon.com would include immediately a digital version of the same book available instantly on your handheld device. Again, I have, to return to the issue of the device... I do have a bit of a problem with the fact that at some level through the new model, I need to be paying for a new infrastructure for this high speed distribution.

I'm already paying for a high speed distribution infrastructure with my other handheld devices. I'd rather not have to pay for two. I would rather that Bezos make an arrangement with other providers, so that what he's actually offering is a service and not a packaged product and service.

Fader: I think that along those lines... if he had only announced the service and not the device, he wouldn't have gotten nearly the attention. So, I think that using the device is, in some sense a loss leader...just to get people thinking about this business model. Even if the device goes away, I think that the business model will be here to stay.

Raff: But it's an interesting question whether the extent to which the business model will stick to Amazon, which has no particular comparative advantage that I can see, in delivering the service.

Fader: This may be exactly why they are doing it -- to create some differentiation.

Knowledge@Wharton: Do you think that at some point they will put ads on this?

Fader: Personally, being the marketing guy, I would say sure, why not? People would just cringe in horror at the idea of ads showing up next to some passages from *King Lear*. But, I think that Google has shown that you can have ads in there and people either don't seem to notice or mind. Again, it's great to see new business models emerging and it would be tragic if people didn't try that out to see

if they can make it work.

Huesman: And, the alternative is a little unpleasant as well. I can picture the fact that the current product plan is sort of masking, in a hardware form, the DRM scheme that's protecting the intellectual property of the authors. So, if you decouple the hardware - that means that you have to face up to the fact that there may be a DRM scheme in the interests of the author's share of the revenue stream in play. And if you compare that to the difficulty of dealing with advertising, I think people would prefer the ads to DRM.

Knowledge@Wharton: What kind of business models do you think publishers will adopt to deal with this? With some of the things that I have read... whether they might have different pricing for e-books than they have for hardcover books or as you have just said, books supported by advertising. Might this also mean the return to the kind of Charles Dickens type of serial novels, where you could subscribe to a book and read it a chapter at a time? What kind of business models do you think might emerge?

Fader: Well, I think the subscription model, whether it takes that form, the serial or it could be going back to a *Book of the Month Club* saying, "Here's a chapter of a book that you might enjoy. Click here if you want to get the rest of it." Locking people in with that kind of subscription -- not that they would be formally locked in, but people tend to just lock themselves in with subscriptions -- can be just a tremendous boon for the publishing industry. As hardcopy newspapers go away, this might be a natural way for people to feel that they have a relationship with something that they will find intellectually engaging.

Raff: *The Book of the Month Club* in its early years sold... the numbers of copies of its main selections were typically four to six times the average first printing of that sort of book for major publishers. So, having an intermediary whose selections are trusted as reasonable things to try by a substantial customer base can be just a godsend to publishers. *The Book of the Month Club* was initially regarded by the book trade with some suspicion and publishers very, very rapidly thought it was an enormously good thing.

Huesman: I also think that the value of having a Netflix style arrangement, just an open queue to books of interest to me and perhaps priced at different tiers for different numbers of books that I could have access to instantaneously, could also make a compelling sell.

Raff: Yes, it's like having your own private Library of Congress. It's not quite everything that is copywritten in the United States, but for many, many residents of the mainland United States, it is at least as good as the largest superstore/ bookstore within a hundred miles of them and possibly as good a selection as any within a four hour drive.

Knowledge@Wharton: Do you think that Bezos will lower the price like Jobs did after the introduction of the iPhone?

Fader: Well, that's the natural course of events for this kind of thing. And it's not clear if it's just because it's a classic skimming strategy, where you kind of charge those hardcore early adopters as much as they are willing to pay and then bring the price down for the mass market. When the price comes down, people will jump to the reaction as they did in the case of the iPhone saying, "It's not working; he's desperate." It's hard to say when those price declines occur, what's the real reason behind them. But they will happen.

Raff: And the other question of course is whether it's in the interest of the content providers to produce some competition for Amazon. I don't think that there's been a public announcement of the contractual terms between Amazon and the publishers. It would be interesting to know them.

Fader: That's an excellent point because those details matter in the big picture as much as the retail price of this thing, from the industry's perspective. So, there's much of this story that needs to be told yet.

Knowledge@Wharton: I spent the Thanksgiving holiday weekend looking at all of the reviews of the Kindle on the Amazon site and found that there are more than 600 of them. A lot of the

criticism seemed to focus on the fact that Amazon is charging people to read blogs and other kinds of short-form content, which is available for free on other sources. Do you think that was a strategic mistake for Bezos and Amazon?

Raff: If you think that his potential customers are people who all have high speed internet connections and the computer left on most of the time, I think the answer to that is yes - both in terms of ordinary consumer choice and in terms of the perhaps slightly grumpier looking reactions that were being cited earlier. There's a cheaper way of doing it. It doesn't make Amazon look good and it certainly doesn't seem worth the trouble to that segment of the population.

Huesman: Yeah, the worst headline on that front I think is to charge people for a blog that I know that I can read for free and that I have pushed out already through RSS headlines to my cell phone. It's a bit much. Now, all of that said, I think that the real value here is the 90,000 book collection and the ability of Amazon to extend that much more dramatically than any of the other e-book providers have previously.

I think that it is worth noting here that there are many other e-book device providers, including major companies like Sony, who have failed miserably at this game. I think that the difference here is that Amazon has Bezos and also has relationships that are the key to the success of this venture.

Fader: I don't think that it's a strategic error about the blogs. This device... this business model is going to succeed or fail for a lot of other reasons. But, it's a silly point for Bezos to have created. Why bother antagonizing these folks? It would have been better to take the high road, give some of that stuff away for free, maybe to stimulate some more sales of the device. Again, it wouldn't matter much one way or the other. So, just get that one negative off of the table. There are enough other negatives, as Don has repeatedly pointed out, to be dealt with.

Raff: The least of it is that those very Bloggers are very likely going to write a lot about this and it's going to be read by potential customers of the device. On the other hand, it's an interesting fact, which I didn't know, that there is so much critical discussion of this on the Amazon website. That was not true, at least of the editorial matter that they posted about books in the beginning of the life of their website. You got lots of positive commentary and wouldn't really have had much sense that there had been published editorial negative commentary -- at least on the books that I had checked. It's interesting that they are being more open now, if that's what you're describing.

Knowledge@Wharton: So, Pete, I know that you are a marketing professor and also have written a book on marketing. As an author, does Kindle have any impact on your thoughts about people having more access to your book?

Fader: There are a couple of thoughts. One, as an academic, it's "the more the merrier." Anything that we can do to get the word out is a good thing for us. It's not like we have large audiences and it's not like we monetize them very often. But it does affect content creators. If you know anything about the educational market, one would think that there would be a place for this kind of device in the market where textbooks are outrageously expensive.

Students would love to carry a device like this instead of a big and heavy load of textbooks in a backpack. I think that it's going to encourage all of us to think differently about the way that we create books and the interactive content that comes along with them. It's going to be a slow process. But again it's a decent step in the right direction.

Raff: One interesting aspect of Pete's remark is that there are actually two very striking trends in the development of textbooks. One is the dramatic explosion in price; but the other is the explosion in the size of these things.

It's hard to imagine a parent of a junior high school student - where these kids trudge off to school with these backpacks that look like they must weigh two-thirds as much as the kids, and not thinking that this would be a useful thing. I didn't read in any of the articles about this...that Amazon had been in negotiations with textbook suppliers, but it is an obvious development.

Knowledge@Wharton: As you know, Google has had a project to digitize books. How would you

see Amazon's move playing out against Google's initiative?

Raff: Well, the first point to make is to remind you that Google's project has essentially been to digitize the copyright content of a number of leading research libraries in the United States and I believe in the United Kingdom as well. So, I think of that as the English speaking world. And this is giving them access, in the first instance, just for searching purposes, but still an archive of the copyright literature - again an enormous number of titles.

Fader: I think that one difference between the two is that in the Google case, it's that they want to digitize everything. Here, it's less about the breadth of the content and more about the accessibility -- that you can just make this content show up -- wherever you are. So, in that sense it I don't know if it either differentiates this business model from Google's or defends against it....

Raff: And, the fashion forward aspect of the content too. Whatever else Amazon is going to include, they are going to include the popular novels of the day ...

Huesman: On the technology front, I think that it's important to note, too, that Google is interested in leading an effort to develop an open source operating system for handheld phones and devices. I'm sure that Amazon is aware of the possibility that developers in that space might come up with e-book readers.

Raff: The author's peculiar perspective on all of this is as follows: It's easy to imagine that the reading public thinks that physical books are the natural form in which the text of books would take place. But authors know that increasingly they don't submit, to the publishers, manuscripts or typescripts. They submit Word documents -- that is to say, digital files. There was at least for a while, a sense that the reason that books were published in hardcover codex form was precisely to make it harder to copy them. And now, everything is going to be digital from start to finish perhaps.

Huesman: One difference I think for the consumer, though, is that although with music we have been educated to learn a new technology for consuming music over the generations -- with books we haven't. So there's a barrier there to adoption that Amazon faces.

Knowledge@Wharton: If you had to rate thumbs up or thumbs down on this, what would you do?

Fader: Well, I would say thumbs sideways on the device. I'm not going to get one, but I'm not necessarily against it either. I wouldn't castigate anyone for doing so. I would say thumbs up though for the business model -- again, it's still not fully revealed, but just the idea of trying something radically new and different and customer friendly and encouraging others to either try to trumpet or introduce other ideas to bring content to people in an easy way.

Raff: The Amazon holders are not penalizing Bezos and his management team for conducting imaginative experiments. And this seems to fall squarely into the category of imaginative experiments.

Huesman: I would vote thumbs down on the device, but thumbs up on the service and thumbs up on the creativity of the mind that keeps reinventing the publishing business.

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