

New product development



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Need in the Market

The need for an eBook in the market was evident. In the information age, where volumes of data and information need to be exchanged, created, examined and organized, there was a huge void to be filled by a handy device capable of being carried around, having an interface big enough like a book, but not the limited capacity of a paper book.

The books were omnipresent, even though depleting in number – with the internet coming up. But for extended reading, the computer screen was too inconvenient. It took too much time to load up. It was unwieldy to carry around. Not everything was available in a format you'd want it in.

To look into what exactly the need was, let's look deeper into some specific points. To fill the current void, the market needed a product that:

- Was not heavy on the environment, like books. There was too much paper and ink being used for relatively miniscule amounts of information.
- Replicated the book in terms of readability. The computer screen was strenuous to look into for too long. Further, the computer screen could not be seen in sunlight. It also was very hard to read at angles.
- Facilitated exchange of information without necessarily the constriction of holding a device and keeping the user's eye fixed on it. For example, in the ultra – mobile culture that is emerging, many users are either driving a vehicle for a big fraction of the day. They may be users who are working around the house too. Books, because of the undivided attention they required, were slowly being drifted away from.

- Did not require storage space. Books took up a lot of space. There's only so much information that can be kept in the library in the form of books.
- Was not heavy. Books are heavy if you realize that just to move from your living room to the park outside with a few big books is not inviting. If you're travelling, it's almost impossible.
- Was updated in real time. Books can't be, and computers are, as we saw, unwieldy.

We now see how the Kindle fulfilled these needs.

The Amazon Kindle and how it filled the gap

The answer was an eBook reader. One such product is the Amazon Kindle. A quick glance at its features, benefits and how it fits with the market demand identified above is presented.

Amazon Kindle: a software/hardware platform by Amazon. com for displaying e-books and sometimes, other digital media. The 3 versions are: " Kindle", " Kindle 2", and " Kindle DX". The Kindle First Generation, which was Amazon's first device, was released in the US in 2007 (on November 19).

The Kindle uses an E Ink brand electronic paper display. It downloads content using Amazon's Whispernet (propriety online store) using mobile networks.

The Kindle 2 devices use the American AT&T's service and some roaming partners that give wireless access internationally. Kindle does not have to be connected to a computer, and Amazon Whispernet does not require a subscription. All Kindles come with free access to the Internet over mobile networks in the US.

Here is a look at the features and benefits you can find with Amazon Kindle. The screen looks like real printed paper. Kindle also became desirable because of its 3G connection service in more than 100 countries. Users are able to get the first chapters of books before purchasing them. The actual download takes 60 seconds.

The Kindle DX features a larger screen and more memory to hold more e-books. The screen size is 9.7 inches' which is pretty large for comfortable reading. Even the available memory of 3.3 GB is enough to keep to the tune of 3500 books.

The screen boasts not having any glare or illumination. This doubles up as a major power saver. In addition, the words of the book, once displayed on the kindle, remain that way without consuming any power. So, in the domain of utilization of power, it is very efficient.

About 500,000 book titles are available at its Kindle Store for international customers.

Competitive analysis

Porter's analysis for the eBook industry

Entry

Entry barriers to the e-book industry are few, if any. The manufacturing process is relatively simple; except for the screen, the technology is well developed. The Kindle uses an electronic paper display manufactured by E-Ink Corporation and this same display can be found in the Sony Reader, the iLiad, the Cybook Gen3, and the Readius.

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However, there is a challenge of signing agreements with publishers so that the material can be released as an e-book. Perhaps the biggest obstacle that all the companies are facing right now is the lack of growth in the industry. Jinke has been in the business since 2000 but has sold only 150, 000 readers, the most of all the companies.

Rivalry

The e-book market is still in an early stage and because of this, market price levels are still uncertain. There are significant variations in price between different producers of e-book readers. Amazon entered the market at a significantly higher price than Sony and many other competitors, but there are also other readers selling at \$700 or more. Because the consumer base is so small, all producers would rather see it expand than steal customers from other manufacturers. Consequently, there is more incentive for manufacturers to improve their product and increase interest in e-books than to compete on price.

Supplier Bargaining Power

Supplier bargaining power is derived from the number of suppliers, availability of substitutes, and costs associated with switching to alternative inputs. There are two main inputs to the Kindle: screen and network technology. The technology used to create the specialized display on the Kindle is manufactured by the E-Ink Corporation. E-Ink is the leading firm in the electronic paper market and is a supplier to a variety of companies, including Sony and other e-book manufacturers. Since the electronic paper market is relatively new and does not consist of many firms, substitutes are

limited. Given the state of the electronic paper market and the fact that electronic paper is a recently developed technology, E-Ink needs customers and hence E-Ink does not have much supplier bargaining power over Kindle. This could change in the future, depending on the popularity of the Kindle and the development of the electronic paper market. Amazon uses EVDO network technology, supplied by the Sprint network. Kindle users do not need to pay to connect to the network, as Amazon covers the cost. Large EVDO network providers also include Verizon and Alltel, with other competing networks using a standard other than EVDO. This means that Amazon's choice of networks for Whispernet is fairly limited. While not an issue now, if Kindle becomes much more widespread in the future, the company could face a holdup problem with Sprint if Sprint wants more of Amazon's profits. Thus Kindle's display and network suppliers currently do not have much bargaining power, but it is highly likely that if Kindle succeeds, supplier bargaining power will increase and may become a problem for Amazon.

Publisher bargaining power is also important to consider since the Kindle is fairly useless without e-books. To increase the size of Amazon's e-book library, it needs to obtain publisher permission for each book it converts. Publishers have a great deal of bargaining power in this respect; while there are many publishers, for each title one publisher has a monopoly. Thus, if Amazon wants a specific book for its Kindle, it will have to pay monopoly prices to the publisher. This effect can already be seen in the market for printed books, where much of the profit on a book is retained by the publisher. For a large publishing company like Random House, its profits are

on the order of 10% of its revenue. On the other hand, a book retailer like Barnes and Noble has drastically lower profitability, with profits less than 1% of revenue. Thus publishers have a great deal of supplier bargaining power since they essentially decide which books become e-books and whether those books will be available for the Kindle. Publishers can also require that Amazon sell only versions of their books that include Digital Rights Management (DRM), an attempt to prevent illegal copying of the content. Consequently, all books sold through Amazon on the Kindle are available only in the proprietary AZW format. Most competing readers also specialize in their own DRM format.

Buyer Bargaining Power

Kindle buyers have little bargaining power. Bargaining power is derived mainly from the ease of switching to a competing product and the value of the product to the buyer. Because both the Kindle and competing readers use DRM schemes, books purchased for the Kindle cannot be transferred to other manufacturer's devices and vice versa. This is not the primary reason for DRM, but it is advantageous from Amazon's point of view because it increases switching costs and helps to create buyer lock-in. The market for e-book readers is still young and small, so the majority of e-book reader buyers do not have a significant existing electronic library. Existing libraries are not yet an important factor in shaping consumers' purchasing decisions. However, once the market matures a significant portion of sales will be to existing owners of e-book readers. Thus buyer bargaining power will decrease over time and be very weak in the mature market.

Substitutes

The main substitutes for Amazon Kindle are libraries, both brick and mortar and online bookstores, and Google Books. However, unlike the online bookstores and Google books, Kindle does not require a computer. Kindle's free wireless connectivity which uses the same network as advanced cell phones enables buyers to shop from the Kindle Store directly from the Kindle device. Instead of having to travel to the local library or waiting for books to arrive from online bookstores, this wireless network can download a book in 60 seconds providing customers a more efficient and direct access to books. Although Kindle does not yet have access to as many books as some of these substitutes, it is progressively adding more books. Also, the Kindle stores everything a purchaser buys online; in this way, if a customer loses the Kindle, the reading material will not be lost, as would be the case if you had a paperback. The readers also do not have to deal with heavy or numerous books because of Kindle's light portability. The Kindle display looks like ink on paper, which is easier on the eye than LCD screens and comparable to printed media. It can also increase text size which is a clear advantage over books. Physical bookstores allow customers to browse books before purchasing. Amazon attempts to emulate this feature by allowing users to download and read the first chapter of any book for free. E-book versions of new releases and New York Times Best Sellers are \$9.99, saving on average 60%, and many other books can be found for less. As for Google Books, Google's aim is to help people find and discover books and learn where to buy and borrow them. Although there are books that can be read online from start to finish, this is only the case for books in the public domain

and out of copyright. For these reasons, Kindle compares favourably to these substitutes.

Complements

The size of the e-book library, other file types such as . pdf, . doc, and . jpeg, and the service to convert files to Kindle format are all complements of Amazon Kindle. The most important compliment required is the number of books offered to Kindle users. The day Amazon Kindle was released last year, the Kindle Store had more than 88, 000 digital titles available for download and now has over 115, 000 Books, newspapers, magazines, and blogs. Amazon also offers an email-based service that converts . html, . doc, . jpeg, . gif, . png, and . bmp documents to their Kindle format, AZW, or can load unprotected Mobipocket or plain text content. This AZW format is only for the Kindle which is a good strategy on Amazon's part to tie the complement to the product. Kindle also supports formats for audio in the form of MP3s and Audible 2, 3, and 4 audiobooks, which must be transferred to the Kindle over USB or an SD card. With a variety of book options and supported formats to accommodate more customers and their various needs, the Kindle is a simple and convenient alternative to reading a paper copy book.

Major Competitors

This competitor analysis only compared the products on the basis of the technology but to sell the product, there is much more than mere technology which has to be projected. That is where marketing steps in and that is the area where Amazon has been at the forefront with its clear marketing

strategy and it's proactive and subtle innovations which keep them at the forefront of the E-book reader industry.

Marketing strategy

The marketing strategy of Amazon Kindle can be seen through the STP (Segmentation, Targeting and Positioning) analysis of the Kindle which would give way to the marketing mix followed by the brand. A typical buyer of a Kindle can be perceived as a businessman/businesswoman who does not have enough time and space to carry along the pile of books and newspapers when they go out on a trip or a business meeting. They want multipurpose equipment with no frills attached so that they can browse their favourite book whenever, wherever they can. The popularity of the Kindle can be seen in countries such as America and Europe where these kinds of users are easy in good number. The Kindle is sold on the website of Amazon that saves Amazon a lot of cost due to a direct supply chain. The communication is basically through a series of adverts whenever one goes to the website of Amazon. Amazon has positioned the Kindle as a book carrier for the people on the go. The product is marketed heavily in America and not so much in Europe as books have an aesthetic value in the Europe. It considers book as a form of art which is not a case with Americans.

Methodology

The methodology consists of both the primary and secondary research methodology. The basic aim of the methodology is to gauge the consumer perception of the Amazon Kindle and to analyze the gap between the Brand identity portrayed by the product and the brand image which is actually

created in the mind of the consumer of an Amazon Kindle. Generally, it is seen that a new product has problems filling this gap and it is one of the major threat whenever the product is launched in the market. There is a need for the company to portray itself in a manner that the gap is minimized. In order to see the success of the Kindle we tried to visit the various blogs and the website of the Kindle to look for the consumer perception and the post purchase analysis. This methodology was validated by the questionnaire floated on various internet sites and the blogs in order to get maximum responses from the people. The scope of study was narrowed down on to finally three types of units:

- Users of Amazon Kindle
- Non-Users of Amazon Kindle
- People who haven't heard of Amazon Kindle

It is very important to gauge all the three responses in order to get the bird's eye view on the product and the concept delivery. While hundreds of responses were analyzed in the secondary research, we came up with 54 responses in the primary research which was covering the geographical areas of USA, India, France, Germany, Greece, Australia, South Africa, Spain, Argentina and many more nations which make the study geographically significant.

The responses were analyzed by the statistical tools such as excel and SPSS in order to come up with the impact analysis of Amazon Kindle and finally the recommendations that we came up to make this process of marketing the Kindle much more efficient and focused.

Observations and analysis

Secondary research observations:

The secondary research was performed on the following web blogs and websites:

- inventorspot. com
- ireaderreview. com
- www. wired. com
- www. bestebookreaders. com
- reviews. cnet. com
- crunchbase. com
- blogs. techrepublic. com
- www. computerworld. com
- wiki. mobileread. com
- www. hanselman. com
- www. macworld. com
- gadgets. boingboing. net
- arstechnica. com
- www. digitaltrends. com
- Amazon's Website

The blogs are the major technology blogs which constantly receive the comments of the users and the non users and are a fair indicator of the trends and perception of the new product in the market. This is majorly significant in the case of the Kindle as the marketing mix of the product significantly enhances the importance of the blogs and reviews online. The

product is sold online only and thus all the users or the people who are interested in the product are more likely to be avid internet users. The first step for adaptation of any new product is the search of the information about the product and the information, in case of Amazon kindle is majorly available on these websites and the Amazon's site. The user therefore pays a lot more attention to these blogs in this case. Thus these blogs are very powerful in forming the perception about a product which is sold online.

The E-Paper screen is slightly smaller than that on its primary competitor, the Sony Reader, but is still quite legible and roomy

E-Paper has a long way to go before it replaces ink on paper, but it's comfortably on the right path

You'll need to use the Kindle in the same sort of well-lit environment that you'd read a normal book or magazine

Some of the features such as the expandable memory and the wireless services truly make using a Kindle an unforgettable experience. However, we can never call the Kindle a radical innovation as the concept was already put in to the market by Sony via their Sony reader. But as compared to its counterparts, it is perceived as a pioneer in innovation and technology. With the latest launch of the I-PAD, there has been a lot of speculation while we compare the I-PAD to the Kindle. While both Apple and Amazon maintain that the products are not in competition but there has always been a comparison made which can be unfair to the Kindle as it is not a multipurpose device as compared to the Kindle. But Kindle has been very proactive in ensuring that they come out with the subtle innovations that would keep their nose ahead

at all times. This can be seen when they launched the Kindle application for the IPAD very recently just after the launch of the IPAD.

Primary Research Observations

The primary research was conducted on 51 respondents who were spread all over the globe on all continents of the world. The respondents were divided into 3 categories and the perception mapping was performed.

The results show high involvement of Americans over the rest of the world. This can be easily explained by the history of the Amazon Kindle which launches the new version in America first and then another version is launched in the rest of the world. There is always an international version of the Kindle which is meant for the rest of the world except America. The research had 61 percent female respondents and 39 percent male respondents. There were many avid readers among the Americans who answered the questionnaire. The total avid readers were 55 percent and out of those, 80 percent were Americans. The value sought in the Amazon Kindle was very high among these groups of people which tell us that the Kindle is very popular among the people who love to read a lot. The people were mainly fond of the fact that the kindle is very compact and easy to operate. The people's response was mainly hinting that the Kindle is surely a device that they would like to buy but the barriers that they have put either on the initial price and on the subsequent running costs is deterring them from having a Kindle with them. According to them, there is a special place of books in there and Amazon should not compete with them. The testimony of the fact is that the 90 percent of the people preferred paperback books instead of an electronic book if given a free choice. The reason given is that <https://assignbuster.com/new-product-development/>

the book looks much more real and there is a sense of possession when we have a book in our hand rather than when we have an eBook in our laptops or our Kindle for that matter. The Kindle had the biggest advantage over the rest of its competitors due to its wireless capabilities which actually allow you to get your favorite books within a few seconds from anywhere in the world and anytime in the world. While Americans and Australians preferred the Kindle because it saved a lot of shelf space which in other cases would have been taken by the books, the Europeans preferred Kindle because it was supposed to save a lot of paper and it looked elegant in the hand of the possessor.

Some of the other findings include the fact that while 39 percent of the respondents were actually Kindle users, there were 21 percent of the respondents who were not aware of the Kindle at all. The reason that we could think of was that it has something to do with the less popularity of Amazon in the countries of these people as most of these people were from India (50 percent) and Thailand and other parts of Asia. This throws light on the fact that for a product which mainly sells from the internet, it is very important for the parent company to have an established base of consumers who can then communicate with them and participate in the offerings given to them in the form of products such as the Kindle. There is no distribution channel where we can push the product. The other respondents who had heard of the Kindle but never thought of buying it thought that the price of the Kindle is the major factor that deters them from even thinking of having one. For the ones who want to buy it and do not have it as of now, the major reason is that the people associate a lot of hidden costs with the product.

This was a major finding as the company never projects the actual cost to consumer throughout the life of the consumers. While the possessors liked the fact that the Kindle has good connectivity which we too found out as the point of difference of the Kindle from its competitors, the non users liked the read without glare feature the most attractive one. This lead us to one more observation that the most attractive feature is not the unique feature of the kindle so the Kindle may or may not be the first choice of the people when they go on to buy an eBook reader. This is kind of disheartening for the company as the product is highly placed on the price and the technology table and the users may not find value for money once they look to buy a Kindle. There were some serious observations made in the value that the consumers attach regarding the price of the Kindle and that comes out to be around 140 Euros that is way less than the actual price of the kindle i. e. 250 Euros. This leads us to the observations is that the barrier is too high for a large amount of potential users which can be exploited if they agree to lower the initial cost. The people were very apprehensive of the actual cost to customer and Amazon can do well to enlighten the customers about the same.

Success of the product to date

The Amazon kindle is unarguably the best selling product for Amazon and the adverts on the website of Amazon are a testimony of this. It is the most wished for, most desired and most searched for product on Amazon site which tells us that the product is doing very well on the international scene as well.

Some of the factual data released by Amazon can also be seen below. It tells us that the product is doing wonderfully well on the international scene.

The product is a very successful one and the continual improvements that it has come up with are a major factor contributing towards such a success. The revenue percentage of Amazon is as high as 2.6 percent that tells us that it is the star performer for Amazon. The fact that is not taken into consideration is that there are huge running costs that are related to each Kindle that are unfortunately not mentioned in the data. But it is clear that the Kindle is doing very well in the market since its launch in 2008.

Recommendations

Amazon should focus on advertising to attract new customers to the e-book market. A large potential for growth in its base of consumers is with commuters and business travellers, who will benefit from the convenience of the Kindle's portability and also possess the disposable income to afford the device in its current price range. As Ron Hawkins, vice president for portable reader systems at rival Sony, points out, Digital readers are not a replacement for a print book; they are a replacement for a stack of print books. That is where we see people, on the go, in the subway and in airports, with our device. The Kindle delivers newspapers directly to users for, on average, \$10/month. This enables commuters to easily read the newspaper on a smaller medium without the unwieldiness of the print version. Similarly, businessmen will find the Kindle appealing to avoid carrying multiple books while travelling. By targeting these consumers through increased advertising in subways, airports, and on airplanes, Amazon can expand the market and reach out to new adopters of e-books.

In coordination with this advertising effort, Amazon should attempt to negotiate deals with major newspapers. At a time when newspapers are struggling with declining numbers in readers and revenue, Amazon can seek to capitalize on their situation. For example, the LA Times started a task known as the ‘Manhattan Project’ seeking ‘to investigate solutions to reinvent the paper for the future. Amazon has the opportunity to approach them with the Kindle as a new venue to revive their business through a younger tech-savvy audience.

The primary goal of this advertising campaign is to increase the overall e-book market, rather than to steal customers from rivals, so competitors should not feel threatened by it. In fact, other firms may benefit from the increased awareness of e-book readers. Similarly, parallel campaigns by rivals do not pose a significant threat to Amazon, since the major challenge at hand is to grow the market and provide for future profitability. However, Amazon needs to ensure that rivals do not enter into exclusive contracts with newspapers or other content providers in general. These deals only serve to benefit individual firms in the short run and ultimately hinder expansion of a relatively small, nascent market.

Long Term Positioning

In the long run the market for e-books themselves is unlikely to support significant profits. The main issue stems from the large amount of publisher bargaining power that currently exists in the print book market. Publishers have a significant influence in the supply chain for books, retaining the largest portion of the producer surplus in print media. The retailer only receives a small fraction of the overall profits on the book, so it is

presumable that Amazon will face similar difficulty in extracting profits from e-books. In addition, Amazon's business model is reproducible and thus their current distribution advantage is not necessarily permanent. Amazon's reputation would be their only substantial barrier to new entrants in the e-book sales market. Lastly, competition with free pirated e-books would present problems. Even if Amazon proves more successful than competitors in e-book retailing, as the market grows, piracy will inevitably emerge to erode profits. This has occurred over the last decade in the music industry as digital music and the Internet have matured.

These pitfalls make it unwise for Amazon to pursue a partnership with a hardware-oriented company like Sony, in which Amazon would limit itself to selling e-book reader content. Instead, Amazon should continue to produce the Kindle itself. Due to the nature of the market, the selection of complements will not distinguish the Kindle from other readers. If Amazon can maintain comparable hardware quality to other manufacturers, switching costs and brand identity should allow Amazon to keep a stable customer base and to support some level of sustainable profits.

Pricing

It also might be tempting for Amazon to leverage their current advantage in e-book distribution into greater profits on the e-books. This trades larger short term profits for a weaker future position in the market, which will be much larger than it is now. Thus, Amazon's pricing strategy should be consistent with the long term focus on hardware and a desire to prioritize market share over short term profits throughout the growth phase. Amazon's recent price reduction from \$399 to \$359 reflects a shift from targeting

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quality sensitive early adopters to more price sensitive consumers. It should continue to drop prices in steady increments to attract wider consumer bases.

Consumers are less sensitive to e-book prices than they are to hardware prices, and the decision to purchase a Kindle is more likely to be triggered by the cost of the Kindle itself. Hence, Amazon should not be overly concerned with further reducing e-book prices. These prices are currently lower than most hardbacks and trade paperbacks but higher than most mass market paperbacks. Attempting to compete with mass market paperbacks is infeasible because of publishers' resistance to pricing e-books much cheaper than print versions. It already loses money on most of its e-books, priced 'well below what it pays publishers,' and further price cuts would likely require Amazon to take losses unjustified by the small benefits in market share. However, if the Kindle is able to propel the e-book markets into a fast growing phase, 'publishing executives' anticipate that it will not be long before Amazon begins using the Kindles popularity as a lever to demand that publishers cut prices.' At this point, Amazon's increased bargaining power will enable it to price more competitively without the losses from subsidies.

Questionnaire

- Age
- Sex
 - Male
 - Female
- Nationality
- How much reading do you do in general?

- I am an avid reader, I cant live if I don't read
- I like to read, you would find me reading very often
- I like to read sometimes
- I read rarely
- I hate reading, i have better things to do in life

What according to you is the most attractive feature of Amazon Kindle?

- Its sleek design and light weight
- The concept of an electronic reader
- The easy connectivity(Global 3G wireless)
- Long Battery Life
- Reads like real paper without glare, even in bright sunlight
- Holds up to 1, 500 books
- Saves paper
- Lower prices than paper books
- Over 450, 000 books and the largest selection of the most popular books people
- Other:

What is it that would deter you from buying the Kindle?

- Price
- The concept of buying an E-book and limited number of reads
- Lack of Knowledge(less advertizing)
- Other:

What according to you is the biggest competitor of the Kindle?

- Apple's I-Pad

- The paper books
- Barnes & Noble's Nook The Nook book reader
- Sony pocket touch edition
-