

# Aragon Research

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**Topic:** Mobile

**Issues:** What are the best practices for harnessing the power of mobile computing?

What are the trends impacting mobile computing?

## Amazon Escalates the Tablet Wars

**Summary:** Amazon announced three new Kindle Fire HD tablet models and two new e-ink readers as it escalates the tablet wars.

**Event:** On September 6<sup>th</sup> Amazon introduced the new Kindle Fire HD, and expanded into the high-end tablet segment with the Kindle Fire HD 8.9 4G LTE with 32Gb of memory and 4G LTE capabilities.

**Analysis:** With upgraded and larger form factors for its tablets that leverage a customized Google Open Source Android 4.0, Amazon is positioned to play a larger role in the rapidly expanding tablet market. Amazon introduced the Kindle Fire less than a year ago and has gained strong market success, claiming to have 22% of U.S. tablet sales in nine months. With the new Kindle Fire HD and updates to other devices in its lineup, Amazon has a wider range of tablets than any competitor. Amazon's pricing will challenge Google's Nexus 7 and other Android devices on the low end of the market, and Apple's iPad at the high end with a \$499 price.

Amazon's device strategy is aimed at the user experience for readers and media consumers. Its new displays have improved glare-reducing technology, and resolution of 254 pixels per inch for the Kindle Fire HD 8.9" that approaches Apple's Retina display specs (264 ppi). The inclusion of Dolby Digital Plus adds high quality stereo output from the devices even without headphones. Inclusion of a front-facing camera, dual-band, dual-antenna,

MIMO Wi-Fi, HDMI and the option for 4G LTE create specs that compete with high-end tablets. The Kindle Fire HD 8.9 4G LTE has GPS, but the other HD models rely on Wi-Fi for location-based services.

The aggressive pricing of the Kindle Fire HD models is declaration of a tablet market price war. Amazon has a Kindle to compete at a lower price than the Google Nexus 7 on the low end with HDMI and faster performance. The Kindle Fire HD 8.9" 4G is \$230 less than a comparable iPad 3. Amazon's broad line, low price points and attractive ecosystem demand action from the competition.

### It's All About the Ecosystem

The key to vendor success in the tablet wars is the strength of its mobile ecosystem. For Amazon, the content and storefront aspects are its strengths and key differentiators.

The OS for Kindle is built on Android and leverages its apps and developer ecosystem. The Kindle's are differentiated from Android itself in that Amazon uses a highly customized version and also curates the apps that are provided in the Amazon App store.

Amazon's leadership in e-books, its growing media ecosystem of music, audiobooks and videos, and the combination of its Amazon Appstore for Android and its amazon.com storefront create a compelling foundation for consumers.

### Competing With Apple

Amazon has put significant pressure on Apple

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with its aggressive pricing. With an inexpensive basic data plan (\$49.99 to get 250Mb per month for 12 months) and integrated support for email such as Gmail and Hotmail, and Microsoft Exchange integration for mail, calendar and contacts, the Kindle Fire HD 8.9" 4G is competitive with the new iPad at a much lower price.

However, the buyers attracted will differ in their uses and needs. For Amazon, it will be tablet buyers who primarily value consuming movies and other media including e-books and who find their tablet demands satisfied by Amazon's curated subset of Android apps. For Apple it will be the overall user experience and extensive apps available from the highly functional tablet and extensive app ecosystem. In addition, Amazon has left room for Apple, as its larger Kindle Fire HD models will not be available until late November.

Amazon can offer lower prices for its tablets with the expectation of increased revenue from its media and shopping services, and from advertising revenue through the special offers and sponsored screensavers on the Kindle Fires. These offers are only shown on the lock screen and part of the home screen, but create a highly valuable ad channel for Amazon.

The Kindle Fires can access email and Amazon provides many popular apps in its Amazon Appstore, but only a fraction of the Android apps available. Consumers looking for a solid tablet that can let them access corporate email will make the Kindle Fire a popular BYOD device, but those seeking access to the entire base of Android apps will find it less desirable.

### **Amazon's Kindle Lineup**

Amazon has a range of different tablets, from a basic \$159 device to a high-end model pricing at \$599. The Kindle Fire line has special offers that display on the lock screen and home page. Customers can opt-out of the special offers for an additional \$15.

- Kindle Fire: improved model of the original Kindle Fire; 7 inch display; 8G; \$159
- Kindle Fire HD: 7-inch 1280x800 display; 16Gb; \$199 (32Gb for \$249)
- Kindle Fire HD 8.9": 8.9-inch 1920x1200 display; 16Gb; \$299 (32Gb for \$369)
- Kindle Fire HD 8.9" 4G: 8.9-inch 1920x1200 display; 32Gb; 4G LTE; \$499 (64Gb for \$599)

The new Kindle Fire and Kindle Fire HD will ship in September, with the larger 8.9-inch versions not shipping until November. The later ship date for the larger tablet leaves open a hole that Apple could fill if it offers a similar priced tablet that is available sooner.

**Aragon Advisory:** The Kindle Fire HD will add to Amazon's tablet success, and enterprises will face increased demand to bring those devices into the BYOD fold.

At the high end, Apple will likely respond with some pricing action, but the \$499 Kindle Fire HD will make limited inroads against the iPad. The use cases and target buyers differ, and the Amazon Appstore and app ecosystem does not compete with Apple's tremendous app support. The primary use case for the Kindle Fire line is for enjoying content – movies, music, books, game, apps and the web as well as increasing use for email and other connectivity, and success will predominantly come in the lower priced models.

**Bottom Line:** Amazon has escalated the tablet wars with its new Kindle Fire HD models. Its lower price will be supported by its extensive content and shopping ecosystem, and will prove to be a competitor that can play well in BYOD environments.