



TEACHING NOTE

Amazon.com's Kindle: Publishing Industry's iPod?

Prerequisite Conceptual Understanding

- To understand the concept of strategic inflection points – Burgelman Robert A. and Grove Andrew S., “Strategic Dissonance”, *California Management Review*, Volume 38, No.2, Winter 1996
- To understand how industries transform – McGahan Anita M., “How Industries Change”, *Harvard Business Review*, October 2004
- To understand the structural changes in the book publishing industry – Keh Hean Tat, “Evolution of the Book Publishing Industry Structural Changes and Strategic Implications”, *Journal of Management History*, Volume 4, Issue 2, 1998
- To understand the concept of ruthless competitor – Morehouse Jim, et al., “Are You More Capable Than Your Competitors Are Ruthless?”, http://www.atkearney.com/images/global/pdf/Are_You_More_Capable.pdf

Synopsis of the Case Study

The case study, ‘Amazon.com’s Kindle: Publishing Industry’s iPod?’, deals with the publishing industry that is undergoing a drastic transformation due to many technological changes that are affecting it from time to time. Publishing industry flourished well up to the last decade of the 20th century. However, it gradually started losing its lustre due to the proliferation of broadband. In the first decade of the 21st century, new technology in the form of e-readers came into being, challenging the survival of the publishing industry. In 2007, Amazon.com (Amazon) came up with an e-book reader, Kindle. Kindle is developed using e-ink technology, considered to be of high quality than the printed versions. It is also viewed as a saviour and iPod of the publishing industry. To what extent would this be a reality is still a dilemma. Also, with many new trends such as self-publishing, on-line libraries, digitalisation of documents, increase in storage of capacities, etc., evolving, the major question is what should be the course of action for the publishing industry and the e-book readers: compete or collaborate with each other?

This teaching note was written by Swapna Pragada and P. Girija, under the guidance of Dr. Nagendra V Chowdary, IBSCDC. It is only an illustrative orchestration of the case study ‘Amazon.com’s Kindle: Publishing Industry’s iPod?’. It is never meant to limit the learning outcomes.

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Pedagogical Objectives

- To understand the business model of publishing industry and make an objective assessment of its strategic inflection points
- To examine and debate on whether the emergence of e-readers would transform the publishing industry
- To analyse Kindle's business model and assess its disruption potential and debate on the competitive threat posed by Kindle to the traditional publishing industry
- To debate and discuss in the light of the previous objective's outcome, whether e-book companies and publishing industry should compete or collaborate. Which makes better sense in the long run?

We have prepared the following table wherein we have detailed how each pedagogical objective can be achieved. We have briefly highlighted the possible flow of discussion in the class. Since the first objective of the case is to understand the business model and the various strategic inflection points of the publishing industry, the discussion can be initiated by discussing how the publishing industry came into being and how it operates. Accordingly, we suggest the following teaching flow. **Annexure (TN)-I** at the end of the teaching note can be used as a guide for this teaching flow.

Pedagogical Objective	Classroom Deliverables
To understand the business model of publishing industry and make an objective assessment of its strategic inflection points	<ul style="list-style-type: none"> • To understand the first pedagogical objective, students should know the working of the traditional publishing industry and also the major developments that took place in the publishing industry over the last several decades. This helps the students to identify the strategic inflection points of this industry and the factors that drive the structural changes of the industry. Using the frameworks of: <ol style="list-style-type: none"> (a) Strategic Inflection Points and (b) Michael Porter's Five Forces, faculty can drive home the industry structure and industry attractiveness.
To examine and debate on whether the emergence of e-readers would transform the publishing industry	<ul style="list-style-type: none"> • First, the students are supposed to understand how digitalisation has changed the way of doing businesses. Then, the discussion can be carried on about digitalisation of publishing and its negative effects on the traditional model of book publishing. Exhibits I and II of the case study can be used to compare and contrast the changes taking place in the publishing industry. The students must then examine the pros and cons of the e-book readers on the publishing industry. The session can be concluded by debating whether the emergence of e-readers would transform the publishing industry or not.
To analyse Kindle's business model and assess its disruption potential and debate on the competitive threat posed by Kindle to the traditional publishing industry	<ul style="list-style-type: none"> • To discuss this objective, students must be given an idea about the nature of Amazon's business. Then, the students must be told how Amazon is pricing its product and the competitive advantage it has over its competitors. This can be referred from Exhibits VII and IX of the case study. Finally, it can be debated on how Kindle is posing a threat to the traditional publishing industry.
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<p>To debate and discuss in the light of the previous objective's outcome, whether e-book companies and publishing industry should compete or collaborate. Which makes better sense in the long run?</p>	<ul style="list-style-type: none"> To meet this objective, students should thoroughly understand the working of the traditional publishing industry and e-book readers and then debate on what should be the necessary course of action for both of them.
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To achieve these pedagogical objectives, the faculty can come up with the following questions to trigger the discussion in the class.

Assignment Questions

- I. Assess the strategic inflection points of the publishing industry and discuss the attractiveness of the industry using Porter's Five Forces Model.
- II. Analyse the effects of digitalisation on the publishing industry.
- III. Evaluate how Amazon.com's Kindle would be a competitive threat to the traditional publishing industry.
- IV. Examine how the publishing industry and the e-book readers are competing for the future.

Case Analysis Flow

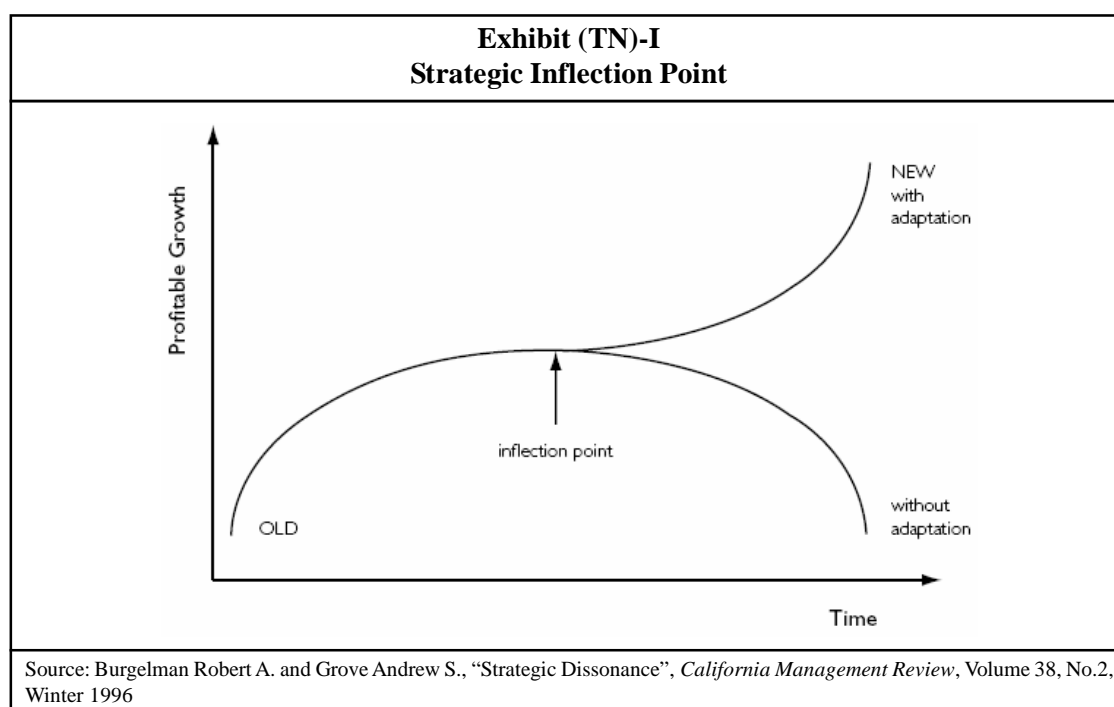
The basic issue that needs to be remembered while orchestrating the class is at what stage a company would think of expanding itself. To gauge whether the students have been able to understand the basic issues, the following set of questions can be used. Each set of questions, when answered, accomplishes each of the pedagogical objectives respectively.

The first part of the discussion is meant for students to have an idea about the way publishing industry operates and the impact on it due to technological changes. The following set of questions will be helpful in understanding the attractiveness of the publishing industry.

1. According to journalist Boris Kachka of *New York*, "The demise of publishing has been predicted since the days of Gutenberg. But for most of the past century – through wars and depressions – the business of books has jogged along at a steady pace." (2nd **introductory quote of the case study**). How did the business of books survive? What are the changes it underwent?
2. "Publishing industry has been thriving on three major inventions – writing, paper and printing." (page 2, para 1 of the case study). Using the concept of *Strategic Dissonance*, assess the various strategic inflection points of the publishing industry.

Strategic inflection points are the key turning points that an industry would encounter which might take the business of the industry to new heights or bring it down [**Exhibit (TN)-I**]. According to Andrew S. Grove, author of *Only the Paranoid Survive*, "Strategic inflection points can be caused by technological change but they are more than technological change."¹ They can be caused by many other factors affecting the industry.

¹ Grove S. Andrew, "Only the Paranoid Survive: Book Preface", <http://www.intel.com/pressroom/kits/bios/grove/paranoid.htm>



The publishing industry also encountered many strategic inflection points that changed the face of industry over the centuries.

- In 1450, creation of first printed book by Johannes Gutenberg took publishing to new heights which led to evolution of modern publishing industry
 - Invention of cylinder press in the first half of the 19th century made the mass production of books and magazines a reality, thereby revolutionising the publishing industry
 - In 1970s, the usage of computers in type setting enhanced the process of publishing
 - In 1990s, audio books gained prominence
 - By the end of 20th century, broadband hindered the revenues of the traditional publishing industry
 - In the first half of the 21st century, the emergence of e-book readers posed a threat to the survival of the traditional publishing industry.
3. "The invention of printing brought in a radical change that extended the scope of written word." (**page 2, para 3 of the case study**). Analyse the attractiveness of the industry using Michael Porter's Five Forces Model.

According to Michael Porter, the attractiveness of an industry can be analysed using five competitive forces. The same concept can be used to discuss the competitiveness of the publishing industry.

Entry of Competitors: Publishing industry across the globe is in turbulence. Even very well-established players are finding it difficult to sustain their business. In such a scenario, there is very little chance of new players entering the traditional publishing industry.

Result: Low

Threat of Substitutes: Publishing industry which constitutes the printed versions is now facing threat from substitutes such as audio books, e-books, free content on the web and e-book readers. These substitutes in a way challenge the survival of the traditional publishing industry.

Result: High

Bargaining Power of Buyers: The bargaining power of the buyers is high as the customers have many choices to select apart from the printed versions. The internet is bombarding the customers with free online content and e-books. In this scenario, the customer has the final say.

Result: High

Bargaining Power of Suppliers: Suppliers always have an advantage in the traditional publishing industry. Publishers supply books to the book sellers on consignment basis. This system allows them to return back the unsold books to the publisher. Finally, the publisher has to bear the costs of shipping and all the other costs that are involved in the production process.

Result: High

Rivalry among the Existing Firms: Rivalry among the existing firms is high. With the increasing threat from the substitutes, everyone is struggling to keep themselves moving.

Result: High

The following questions help to understand how digitalisation affected the traditional publishing industry.

4. “During the 20th century, publishing industry saw a sea change in terms of technological advancements.” (page 5, para 1 of the case study). Did the traditional players benefit due to digitalisation? Analyse the impact on the traditional publishing industry due to the emergence of e-book readers.

The following questions help to understand how Amazon.com's Kindle posed a competitive threat to the traditional publishing industry.

5. “Since inception, Amazon has been innovating continuously to expand its business.” (page 9, para 1 of the case study). Examine the business model of Amazon.com.
6. “Amazon thus extended its profile from e-tailing to e-reading.” (page 9, para 4 of the case study). What was the rationale behind launching Kindle? To what extent is it feasible for Amazon to diversify from retailing to manufacturing?
7. “Within a span of 2 years, in February 2009, Amazon unveiled the second version of Kindle – Kindle 2.” (page 10, para 2 of the case study). Analyse how Amazon is banking on the differentiation-based advantage.

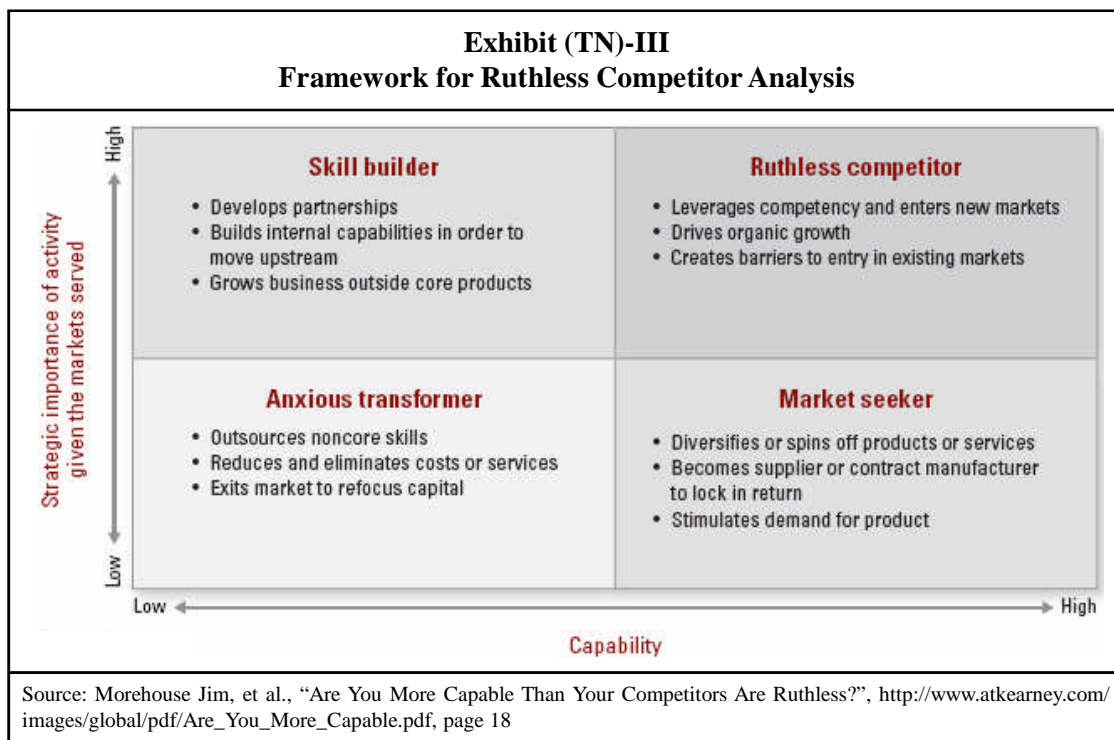
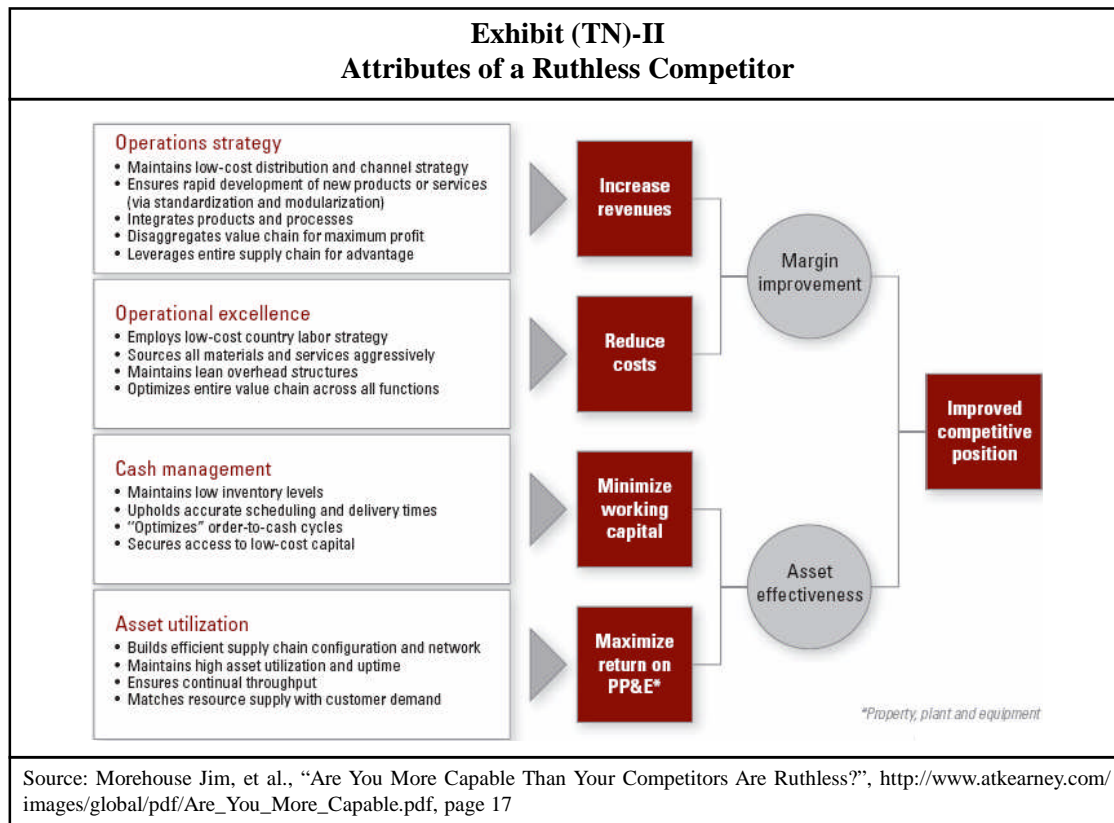
Specifically, the students should be advised to use the framework for ruthless competitor analysis [Exhibits (TN)-II and III] to identify what kind of competitor is Amazon Kindle?

8. “Many companies fail to recognise a ruthless competitor until it's too late.”² What are the attributes of a ruthless competitor? Is Amazon a ruthless competitor?

A ruthless competitor is mostly a new start-up which comes into the industry all of a sudden and poses a threat to the existence of the well-established players as well. On the other hand, it can also be an existing player who leverages on its core competency. The major attributes of a ruthless competitor are that they use their assets efficiently and also have the ability to improve their margin when compared to their competitors [Exhibit (TN)-II].

A RCA clearly shows whether a player in the industry is a ruthless competitor or not [Exhibit (TN)-III]. The RCA analysis of Amazon indicates that it is a ruthless competitor as Amazon's capabilities are high and the strategic importance of manufacturing e-readers given its thriving and demanding on-line book selling business is also high.

² Morehouse Jim, et al., “Are You More Capable Than Your Competitors Are Ruthless?”, http://www.atkearney.com/images/global/pdf/Are_You_More_Capable.pdf, page 18



The final set of questions helps to debate on how the publishing industry and the e-book readers are competing for the future.

9. “The e-books offered by Amazon to its Kindle users are also much cheaper than the printed versions which are available at \$25. Analysts opine that this would certainly lure the book lovers and in a way kindle the growth in sales of the e-readers.” (page 14, para 1 of the case study). Evaluate the likely impact on the future of the publishing industry due to e-book readers and analyse its impact on the industry?
10. “...e-book readers will not only save publishing industry but also the environment in the process as publishing require a lot of paper.” (page 15, para 1 of the case study). Discuss how the environment has a threat from the traditional publishing industry?
11. “Amazon is paying publishers more than \$10 for a book. It is paying more than the price at which it is selling.” (page 15, para 3 of the case study). Examine how Amazon is trying to protect the interests of the publishers. Will it be able to continue the same in the future?
12. “Publishing industry is prone to yet another threat in the 21st century i.e., self-publishing.” (page 18, para 1 of the case study). In the light of the above statement, discuss the importance of transformation of an industry over a period of time and discuss where the publishing industry stands in terms of industry change.

Any industry or any field, one thing that is permanent is ‘change’. Industries transform over a period of time. The change may be due to many factors such as competition, technological changes, etc. Technological changes transform the industry to great extent. It is quite essential to closely watch the impact of the evolving technologies on the business of the industry. Industries usually undergo four types of changes: Radical, Intermediating, Creative and Progressive [Exhibit (TN)-IV]. For any company to survive, it is very much essential to keep a track of the changes taking place in the industry.

Exhibit (TN)-IV Trajectories of Industry Change			
		Core activities	
		Threatened	Not Threatened
Core assets	Threatened	<p>Radical Change <i>Everything is up in the air.</i> Examples: makers of landline telephone handsets, overnight letter-delivery carriers, and travel agencies</p>	<p>Creative Change <i>The industry is constantly redeveloping assets and resources.</i> Examples: the motion picture industry, sports team ownership, and investment banking</p>
	Not Threatened	<p>Intermediating Change <i>Relationships are fragile.</i> Examples: automobile dealerships, investment brokerages, and auction houses</p>	<p>Progressive Change <i>Companies implement incremental testing and adapt to feedback.</i> Examples: online auctions, commercial airlines, and long-haul trucking</p>

Source: McGahan Anita M., “How Industries Change”, *Harvard Business Review*, October 2004

From the above exhibit, we can understand that the publishing industry is undergoing a creative change wherein the publishing houses are coming up with various strategies to sustain their business.

13. “There will be an appreciative market for electronic reading systems among weight-conscious travellers, but books are not going to disappear in a Gotterdammerung of pixellation.” (3rd **introductory quote of the case study**). Debate whether e-readers and books would co-exist or not.

Once these questions have been posed, students can be asked to summarise the conclusions of the discussion, which should coincide with the big picture of the case.

The Big Picture

What makes sense for the e-book companies and publishing industry – To compete or to collaborate?

Final Thoughts

In the light of the technological changes and the new trends that are cropping up in the publishing industry, it would be advisable for both the traditional publishing industry and the e-book readers to compete than collaborate. This would help both of them to derive benefits from each other in the long run.

Additional Readings

- Porter E. Michael, “The Five Competitive Forces That Shape Strategy”, *Harvard Business Review*, January 2008
- Hamel Gary and Prahalad C.K., “Competing for the Future”, <http://my.execpc.com/~jpurtell/HBR-CompetingfortheFuture.pdf>

Annexure (TN)-I Teaching Plan		
Case Structure	Teaching Note Flow	What I Want to Analyse
<p>I. Introduction</p> <p>II. Impact of Technology: e-Readers vs Publishing Industry</p> <ul style="list-style-type: none"> • Business Model and Revenue Model of publishing industry • Major players in the publishing industry • Emergence of digitalisation • Change in the publishing industry: Impact of technology • Affect on the publishing world • Further trends of digitalisation: Introduction of e-book readers. <p>III. Amazon’s Product Extension: From e-tailing to e-reading</p> <ul style="list-style-type: none"> • Business model of Amazon • Launch of Kindle, Kindle 2 and Kindle DX • Variations in the three versions • Competitors of Amazon in the digital book reader business • Competitive strategies adopted by each of them. 	<p>Prerequisite Conceptual Understanding</p> <ul style="list-style-type: none"> • To understand the concept of strategic inflection points – Burgelman Robert A. and Grove Andrew S., “Strategic Dissonance”, <i>California Management Review</i>, Volume 38, No.2, Winter 1996 • To understand how industries transform – McGahan Anita M., “How Industries Change”, <i>Harvard Business Review</i>, October 2004 • To understand the structural changes in the book publishing industry – Keh Hean Tat, “Evolution of the Book Publishing Industry Structural Changes and Strategic Implications”, <i>Journal of Management History</i>, Volume 4, Issue 2, 1998 • To understand the concept of ruthless competitor – Morehouse Jim, et al., “Are You More Capable Than Your Competitors Are Ruthless?”, http://www.atkearney.com/images/global/pdf/Are_You_More_Capable.pdf <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p style="text-align: center;">The Big Picture</p> <p>What makes sense for the e-book companies and publishing industry – To compete or to collaborate?</p> </div>	<p>Business Model of Publishing Industry</p> <ul style="list-style-type: none"> • What are the strategic inflection points of the publishing industry? • What is the industry attractiveness of the publishing industry? • How did the technology lead to the structural change in the publishing industry? • How did the demand for e-readers increase due to digitalisation? <p>Publishing industry vs e-Readers</p> <ul style="list-style-type: none"> • How did the e-readers affect the publishing world? • What are the advantages and disadvantages of digitalisation of books? <p>Business Model of Amazon’s e-Reader: Kindle</p> <ul style="list-style-type: none"> • What is the business model of Amazon.com? • When did Amazon enter into the business of e-reader? • How did Amazon improvise Kindle 2 from its base model Kindle? • Who are the competitors of Amazon in the segment?
<i>Contd...</i>		

<p>IV. Kindle and the Future of Publishing Industry</p> <ul style="list-style-type: none"> • Repercussions on the business of publishing industry due to the e-readers • Steps taken by Amazon to protect the interests of the publishers • Environmental aspects involved in publishing. 	<p>Assessment of the Strategic Inflection Points (SIPs) of Publishing industry</p> <ul style="list-style-type: none"> • Types of formats in publishing industry and its business model • Examining the attractiveness of publishing industry using Michael Porter’s Five Forces Model • The potential threats for the publishing industry • Strategic Inflection Points (SIPs) of the publishing industry • Emergence of digital era and its mode of operation – Is this an SIP for publishing industry? <p>Digitalisation of Publishing Industry</p> <ul style="list-style-type: none"> • The proliferation of e-readers: The resultant impact on the publishing industry. <p>Amazon.com’s Kindle: A Competitive Threat to Traditional Publishing Industry</p> <ul style="list-style-type: none"> • Business model and revenue model of Kindle • Competitive advantage for Kindle over books • Specifications of various versions of Kindle: Banking on differentiation based advantage – Is it disruptive innovation? • Business of Kindle • Competitive threat posed by Amazon through e-reader • Strategies adopted by other players to counter Amazon. <p>Publishing Industry vs e-Readers: Competing for the future</p> <ul style="list-style-type: none"> • Impact of e-readers on the future of publishing industry • Publishing industry: Environmental threat • Measures taken by Amazon. 	<ul style="list-style-type: none"> • In what way does Kindle have an edge on the e-readers and publishing business? • What are the counter strategies adopted by the players in the publishing industry? <p>Publishing Industry vs e-Readers</p> <ul style="list-style-type: none"> • What is the effect of e-reader on the future of publishing industry? • What are the environmental hazards due to the existence of publishing industry? • What are the initiatives taken by Amazon to protect the interests of the publishers? Can it be a win-win deal for both Amazon and the publishers?
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Pedagogical Objective	Classroom Deliverables
<ul style="list-style-type: none"> To understand the business model of publishing industry and make an objective assessment of its strategic inflection points 	<ul style="list-style-type: none"> Evolving formats of publishing industry Strategic Inflection Points of the publishing industry Industry attractiveness and competitive threats of the publishing industry Influence of technology on the structure of the publishing industry Decline in the demand for publishing industry due to the emergence of e-readers.
<ul style="list-style-type: none"> To examine and debate on whether the emergence of e-readers would transform the publishing industry 	<ul style="list-style-type: none"> A comparison between e-readers and books – The advantages and disadvantages of either of them.
<ul style="list-style-type: none"> To analyse Kindle’s business model and assess its disruption potential and debate on the competitive threat posed by Kindle to the traditional publishing industry 	<ul style="list-style-type: none"> Business model + Revenue model of Kindle → The quality of the material Value proposition Competitors Disruptive Innovation Sustainability Issues The quality of the material Who is going to certify the quality of the material written/published?
<ul style="list-style-type: none"> To debate and discuss in the light of the previous objective’s outcome, whether e-book companies and publishing industry should compete or collaborate. Which makes better sense in the long run? 	<ul style="list-style-type: none"> Effect of e-book reader on the business of the publishing world Initiatives taken by Amazon to protect the interests of the publishers Environmental threats involved due to the existence of the publishing world.
<p>Prepared by the authors</p>	