



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

"Nobody is going to sit down and read a novel on a twitchy little screen. Ever."¹

– Annie Proulx, American Journalist and author

"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."²

– Boris Kachka, Journalist, *New York*

"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."³

– Peter Crawshaw, Co-founder & Director, Lovereading.co.uk

The publishing industry is undergoing transformation and is into blues with the proliferation of broadband. By the turn of 1990s, e-books entered the market as consumers by large started preferring them over the traditional printed books. Adding to the woes of the publishing industry, in the first decade of the 21st century, new devices for reading known as e-readers entered the markets threatening the survival of the publishing industry.

In 2007, US-based Amazon.com (Amazon) launched an e-reader called 'Kindle'. Within 2 years, by 2009, the company launched two more versions of e-readers, namely Kindle 2 and Kindle DX (DX stands for Deluxe). While on one side, e-reader is considered as a possible replacement of a book in terms of convenience, others are sceptical about the benefits provided by the e-reader and opine that e-readers cannot totally wipe away the publishing industry. However, keeping the prospects of the e-readers and the publishing industry in view, the big question is, can the two survive together or would one replace the other.

¹ Levy Steven, "The Future of Reading", <http://www.newsweek.com/id/70983>, November 26th 2007

² Kachka Boris, "The End", <http://nymag.com/news/media/50279/>, September 14th 2008

³ Crawshaw Peter, "Beautiful, perfect, supreme chunk of paper", http://news.bbc.co.uk/2/hi/uk_news/magazine/7619303.stm, September 17th 2008

This case study was written by Swapna Pragada and P. Girija, under the guidance of Dr. Nagendra V Chowdary, IBSCDC. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. The case was compiled from published sources.

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Impact of Technology: e-Readers vs Publishing Industry

Publishing industry has been thriving on three major inventions – writing, paper and printing.⁴ Even before writings, in the 4th millennium BC, during the era of the Sumerians, knowledge was disseminated through word of mouth. Most of the learning happened through memorisation. Gradually, knowledge was preserved in writings, but was not passed on to the common man. The writings were only confined to fix religious formulations or secure codes of law, genealogies and other socially important matters.

Dating back to the era of Assyrian and Babylonian kingdoms, writings were engraved on clay and stone tablets. However, it is believed that back in 600 BC, scrolls made of papyrus⁵ were used to make books. Also, these papyrus rolls are considered as the direct antecedents of paper, bearing a similar resemblance with the latter. In 213 BC, Chinese produced books using strips of wood or bamboo bound together with cords. Later, books were produced using materials such as codex⁶, vellum and parchment⁷. In the 2nd century CE⁸, the Chinese invented paper, which became a viable alternative to vellum and parchment to make books. Multiple copies of books were produced by manual writing, until the concept of printing evolved.

The invention of printing brought in a radical change that extended the scope of written word. In the 6th century AD, Chinese invented the process of printing known as block printing. In the 11th century AD, they invented movable type woodblock printing, but did not exploit it fully. Analysts opine that, “Chinese innovations in ink, block printing and movable clay type all fed the technological push toward expanding the written word’s range of influence.”⁹ The usage of paper spread from China to the Islamic world and finally reached Europe in the 12th century.

In Europe, rapid cultural change fueled a growing need for cheap production of written documents. Though printing had its roots in China, it was in Germany that the major breakthrough in printing took place. In the year 1450, Johannes Gutenberg (Gutenberg), a jeweller in Mainz, Germany, identified enormous business potential in book publishing. He invented a movable metal type for printing books (Books printed during that time were mostly paperback) making printing of books much easier.¹⁰

The invention of the printing press ushered in a new trend of mass communication. It helped to disseminate ideas and information to a large and far-ranging audience who were literates emphasising on exchange of knowledge. Printing thus became a part of Renaissance and Reformation in Europe.

⁴ “History of publishing”, <http://www.britannica.com/EBchecked/topic/482597/publishing#>

⁵ Paper made from the papyrus plant by cutting it in strips and pressing it flat; used by ancient Egyptians, Greeks and Romans.

⁶ Constructed from folded leaves bound together on one side – either the right or the left, depending on the direction of writing.

⁷ Used interchangeably since the Middle Ages, both parchment and vellum were prepared using animal hides (though Vellum is a finer quality material).

⁸ Common Era (CE) is the calendar system commonly used in the Western world to number the year part of a date. The year numbers are the same as those used for Anno Domini (AD).

⁹ “Printing: History and Development”, http://karmak.org/archive/2002/08/history_of_print.html

¹⁰ Cope Bill and Mason Dean, “The Changing Business of Manufacturing Words”, *Digital Book Production and Supply Chain Management*, Common Ground Publishing, 2001, page 1

Between the 16th and 18th centuries, the demand for books increased its market, due to the growth in the literacy rates. Education that was earlier confined exclusively to the clergy was being imparted to the emerging middle class. Book trade flourished well and the publishers benefitted. However, in the 19th century, free public libraries came into being. Many publishers feared that this trend would end the book trade, but on the contrary, it picked up vigorously as the libraries acted as a steady market for books. The cost burden of paperback compelled the market to sell hard bound books that were lesser in price, triggering its sales. As a result, by the end of the 19th century, paperback books were replaced by hardbound books.

The first half of the 19th century was the era of mass production of books and magazines. The invention of cylinder press in France paved way for bulk production of books catering to the growing demand of readers. The popularity of books thus paved way for the growth of publishing houses.

Structural Changes in Book Publishing Industry

Business of publishing saw many ups and downs over the centuries. Until the 19th century, the structure of the publishing industry was simpler as it solely relied on the traditional publishing houses (consisted of printers and booksellers). All the functions of publishing such as selecting, editing, designing the material, arranging its production and distribution and bearing the financial risk was borne by the traditional publishing house.

According to Lewis A. Coser¹¹, “Until the rise of the mass market for books in the late eighteenth and early nineteenth centuries, book publishing was a simple cottage industry. An author would approach a bookseller-printer – these two roles were not yet differentiated – and contract for the printing and selling of his book. Frequently the costs were borne, wholly or in part, by a patron of the author, who thus ensured that the book would reach its intended audience among the cultural and social elite of the day.”¹²

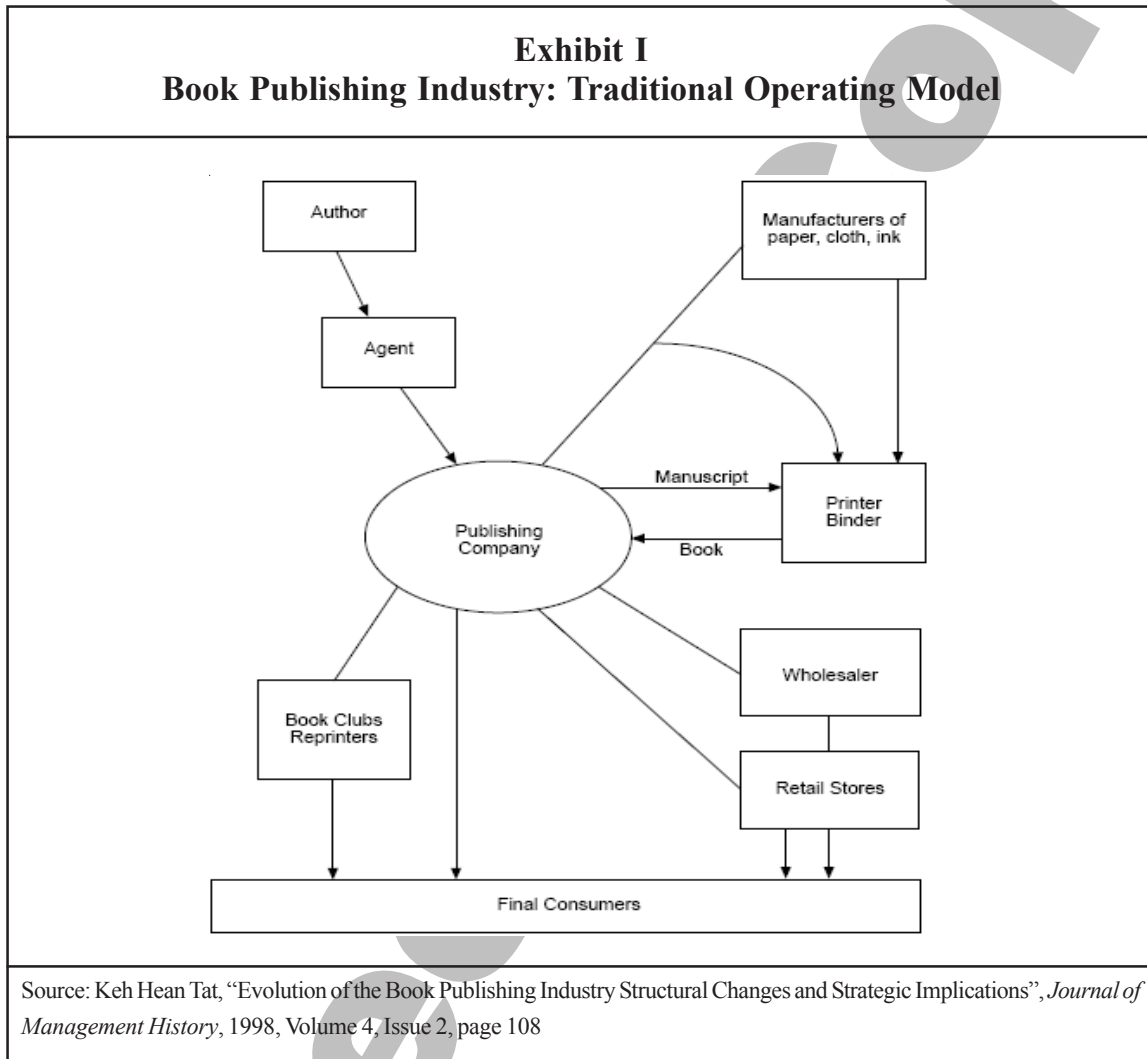
The expanding market for books, however, resulted in the evolution of modern publishing houses who replaced the traditional printers-booksellers. In the 19th century, many publishing houses such as Harper Collins, Houghton Mifflin Harcourt, Macmillan, Doubleday, etc., came into being. These publishing houses flourished due to the demand for all kinds of books ranging from novels, academics, books for kids, etc. Published matter also constitutes both periodicals (newspapers, magazine and articles) and non-periodicals (books).

With changing time, publishing evolved as a specialised function involving more critical aspects such as selecting content, editing and finally approving the content for printing. Though, the process of accepting the manuscript and editing is the same, publishing process became a bit sophisticated with technological advancements. Because of the increasing complexities, publishing and book selling became two different entities. Book houses solely handled the process of publishing and selling of the published matter therefore became the activity of wholesale dealers, individuals and corporate

¹¹ First sociologist who tried to bring together structural functionalism and conflict theory.

¹² Keh Hean Tat, “Evolution of the Book Publishing Industry Structural Changes and Strategic Implications”, *Journal of Management History*, Volume 4, Issue 2, 1998, page 106

retailers. Many of the publishers thus obtained manuscripts from the authors, outsourced printing services and finally distributed the printed versions to purchasers through shops, mail order or direct sales (Annexure I) and thereby benefitting from the vertical relations that existed among them (Exhibit I).



In the normal course, large publishers such as MacMillan, etc., had their own sales force for selling books. Published matter moved from the publisher to bookseller through wholesale distributors. By the onset of 20th century, large chain stores and book clubs dominated the book selling segment. These stores charged large discounts from the publishers and in the course small book stores lost their identity. Nevertheless, this entire scenario started changing by the advent of the 20th century.

Impact of Technology on Publishing

During the 20th century, publishing industry saw a sea change in terms of technological advancements and became much more sophisticated during the era of industrial revolution. In the late 1930s and early 1940s, a new printing model known as Platen Printing Press capable of printing 2,500–3,000 copies per hour was invented. In 1970s, the role of computers in typesetting¹³ enhanced the process. Many other inventions such as lithography, offset printing, desktop publishing, electronic publishing, computer printer, composing stick, etc., changed the scope of printing thereby the publishing.

Technology changed the way of book writing, editing, printing, binding and distributing. Unlike manual writing, technology made the authors work easy as they began using PCs to save their work. Technology improved the readability and professionalism of the manuscripts. Manuscripts being available as soft copies enabled the editorial staff at the publishing firms to easily edit them using a floppy disk. Much significant impact was felt on the publishing firms with the introduction of CD-ROM (Compact Disc-Read Only Memory). In the year 1993 alone, the installation of the CD-ROM machines by the publishers grew to 4.5 million units, and it was projected that the demand would reach 10 million by 1995.¹⁴

In 1993, CD-ROM titles of about 62 publishers reported sales of \$202 million (from 8 million discs).¹⁵ Most of the publishers adapted to the changing technology especially CD-ROM though few of the publishers gradually accepted them. “For instance, at Penguin USA, the subsidiary rights department began fielding so many calls from CD-ROM specialty companies looking to license Penguin’s books for their projects that it finally spun-off an electronic publishing department of its own.”¹⁶ Many significant trends that threatened the existence of publishing industry also evolved during this period. Although in circulation since 1950s, audio books gained prominence only in the 1990s contributing to the shift in consumer demand and thus affecting the publishing industry.

Demand Shifts of the Consumers

Consumers who are more exposed to computer technology explored new technologies for their reading needs with easy inputs from the increasing use of computers both at work and home that enabled them to generate, process and store the information required. Ease of access to information accentuated the need for change in product offerings from the publishing houses. The demand for books on specialised topics gradually started picking up though books covering topics of general interest also flourished. According to former US-based *Times Mirror* group (it now merged with *Tribune*) vice president Jerome Rubin, “... Gutenberg’s movable type enabled such mass distribution of identical copies upon its implementation in the fifteenth century, the twentieth century’s ‘electronic technologies allow the creation of infinite variations’.”¹⁷

¹³ Typesetting involves the presentation of textual material in graphic form on paper or some other medium. Before the advent of desktop publishing, typesetting of printed material was produced in print shops by compositors or typesetters working by hand, and later with machines.

¹⁴ “Evolution of the Book Publishing Industry Structural Changes and Strategic Implications”, op.cit., page 111

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Ibid., page 113

Mergers & Acquisitions (M&As) in the Publishing Industry

Many undercapitalised small firms were acquired by large companies that had other media businesses such as motion pictures, television and music recording. Small publishers, though being undercapitalised, known for their innovativeness in terms of publishing works, were continuously acquired by major publishing houses. The competitive structure of the industry was completely altered due to the M&As (Annexure II).

Publishing Business at Doldrums

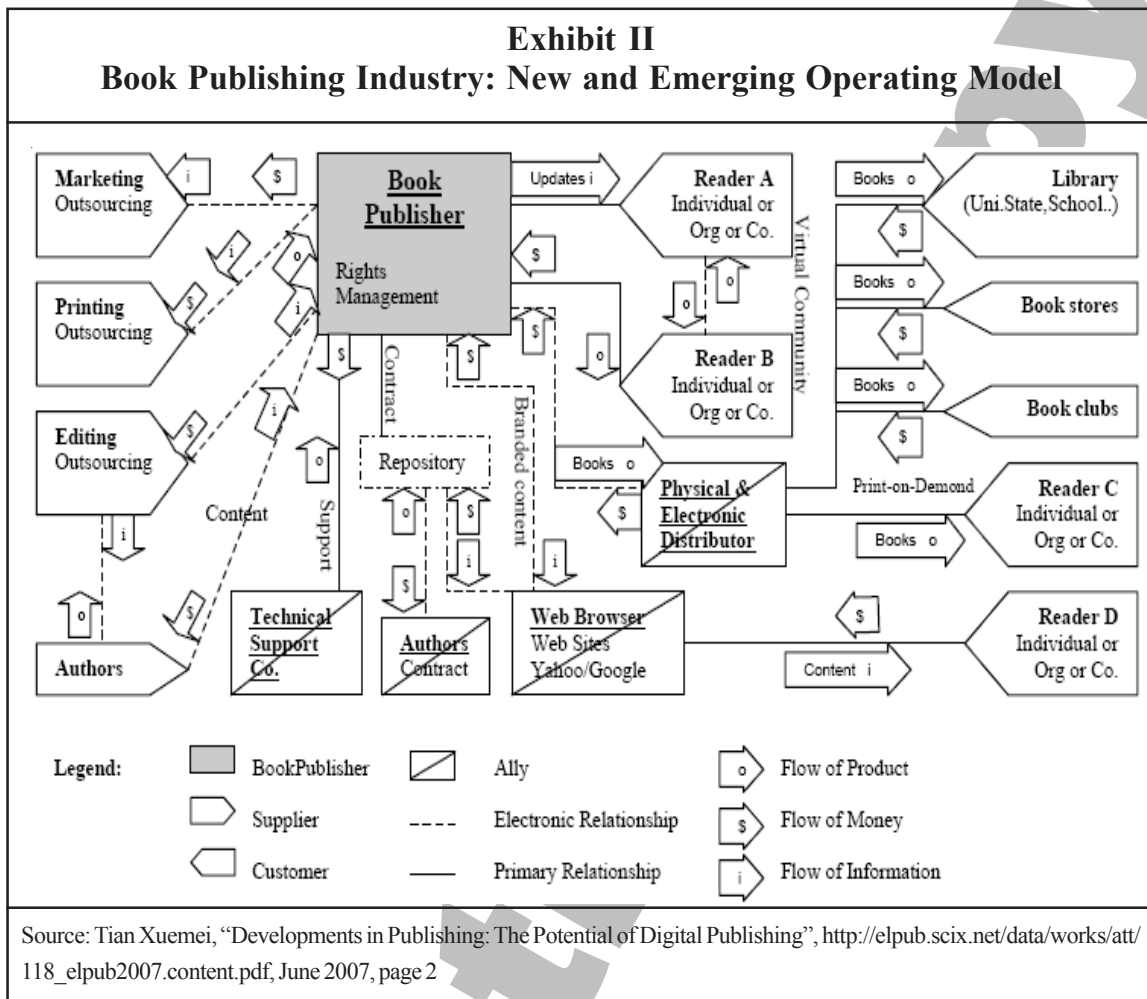
By the end of the 20th century, proliferation of internet changed the landscape of publishing industry to a large extent and has brought it to the verge of decline. Internet affected the prospects of the print media as more and more readers preferred free content available on the net. Many companies such as Amazon started selling books and also e-books through the internet. There are also companies like Google that offer free on-line books on the internet. These trends affected the business model of the traditional publishing industry in which several channels function to deliver the book from the publisher to the end-user, thus paving way for a new operating model of the publishing industry (Exhibit II).

The diminishing demand for print resulted in the deceleration of the revenues of the publishing industry. Publishers usually bear lot of costs in the process of printing, to and fro shipping and pulping the merchandise which result in less profit margins of the publishers.

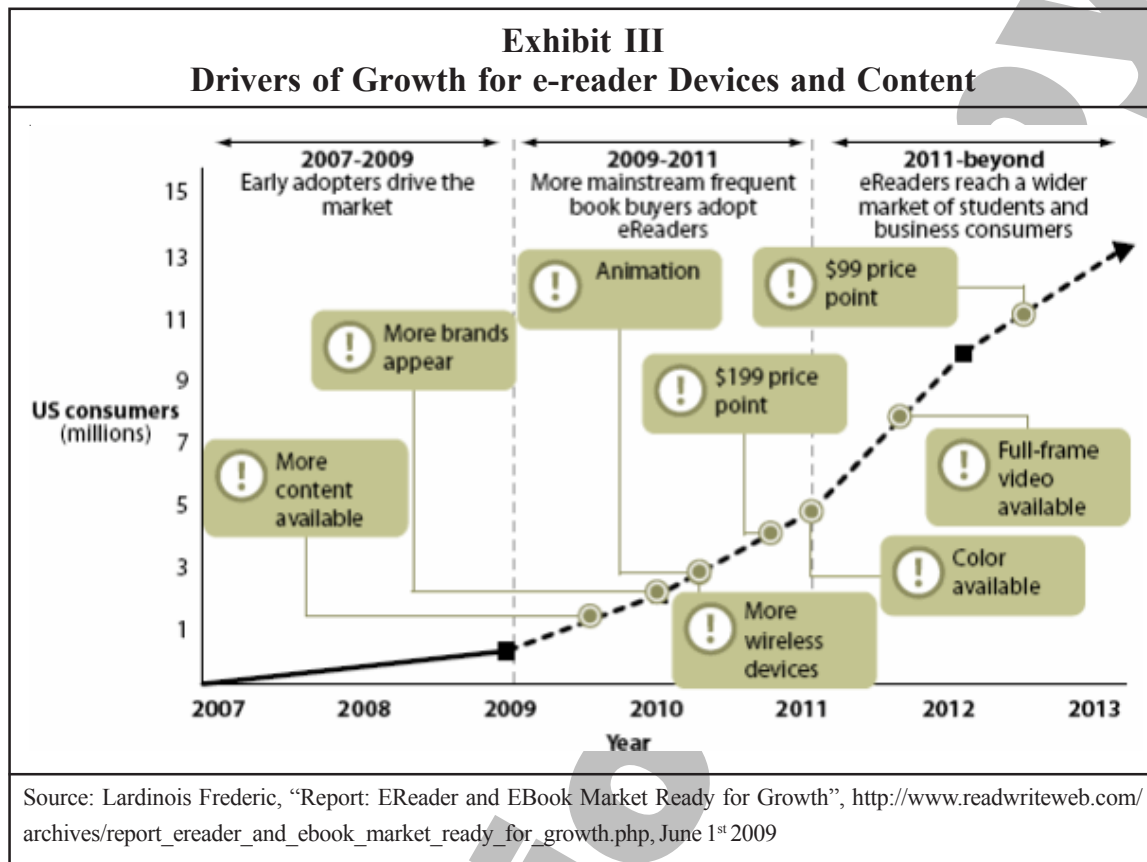
Many established publishing houses – Simon & Schuster, Macmillan, HarperCollins, Doubleday, Houghton Mifflin Harcourt, Borders; Barnes & Noble, etc., – are undergoing the strain of liquidity crunch as their revenues are diminishing. Though there is demand for college text books and professional reference books, the sales of trade books¹⁸ are comparatively less. The lack of profitability in trade book publishing made the publishers strongly believe that book publishing industry itself is an unprofitable business. Even the newspaper industry is suffering because of the vast free online content available on the net. A service called Pathfinder, allows users to read articles from *Times*, *Sports Illustrated*, *Entertainment Weekly* and *Vibe*. The revenues of the industry are hampered as more and more advertisers are shifting to the net where the fees for placing the ads is very less when compared to the print editions.

In the 21st century, the high costs incurred on manual publishing became a disadvantage for the publishing industry paving way for new breakthrough innovations. A more advanced technology known as e-readers evolved to threaten the future of the publishing industry which is in the declining state. The introduction of e-readers set a new trend that heralded a new era of reading. E-reader enables access to a wide range of books, articles and magazines.

¹⁸ Trade book is another way of describing published literature, the kind often referred to as library books.



In 2006, Sony launched an e-book reader 'Sony PRS 500' followed by Amazon which launched an e-book reader named 'Kindle' in 2007. Their emergence pushed the survival of the entire print industry into chaos. The demand for e-readers which is still in the nascent stage is expected to grow in the near future (Exhibit III). Few analysts, however, opine that e-readers, though on one hand are considered as the cannibals' of the publishing industry; are indeed devices that would change the face of publishing. Though the number of readers has not declined in the era of computerisation, the way people are reading has taken a drastic shift. People are opting more and more to read of the screen rather than from a printed copy.



Amazon's Product Extension: From e-tailing to e-reading

In 1994, Jeff Bezos (Bezos) gave up an attractive career as a financial analyst in D.E. Shaw & Co. with an ambition to start business. Realising the revenue-generation potential of the World Wide Web (then in a booming stage), he came up with a novel business plan of selling books online. In 1995, he launched Amazon.com, an online vendor of books that enlisted books under all categories to be sold through its website. This website provided the necessary information regarding the publishing house, price of the product, etc.

In the beginning, Amazon sold hard copies of books at lower rates. It maintained a large inventory of books in its warehouses. Through its warehouses, it supplied books to its customers as and when they placed an order without any time lag. Later, as the technology developed and more content being published online, it came up with the digital versions of the books.

Initially, the website of Amazon did not gain recognition. Many customers did not revisit the site after buying books. In order to attract more web traffic, Amazon included a new feature to its site wherein customers were allowed to post their comments and reviews of the books. This idea clicked well as more customers began visiting the website assuming it to be an online community. Gradually, the business of Amazon gained momentum.

Since inception, Amazon has been innovating continuously to expand its business. Bezos banked on the internet to strengthen business. Speaking on the strength of Amazon, Bezos said, "A huge fraction of our effort historically has gone into building the infrastructure that lets a Web-scale business run."¹⁹

By 1998, the company diversified into selling CDs and DVDs. It soon expanded into dozens of other product categories like – auto parts, toys, electronics, home furnishings, apparel, health and beauty aids, prescription drugs and groceries – and thus revolutionised the concept of e-retailing/commerce. Being an online book retailer in the beginning, its business model was confined to the sales of products and services available within the company's portfolio. Given the range of products available, it gave a unique web-using experience for its customers like shopping convenience, ease of purchase, decision-enabling information, a wide selection, discounted pricing and reliability of order fulfillment to the customer.

Over the years, it ventured into unrelated businesses (Exhibit IV). It even transformed itself from an online retailer to a leaser of web space to other retailers. By 2001, Amazon provided a platform for third party to sell their products through Amazon. Through this extended feature, it helped the customers to find whatever they want through their site. Amazon had the experience of selling all kinds of electronic goods like phones, cameras, PCs, laptops, etc., through its site. It moved into new categories and new markets with more dexterity and creativity. It consistently banked on its core capabilities and came up with potentially disruptive businesses.



Over a period of time, it planned to foray into manufacturing. For the first time in 2007, challenging the existence of the traditional publishing industry, it launched an e-book reader – Kindle – a home product of Amazon. Amazon thus extended its profile from e-tailing to e-reading. With its latest initiatives, Amazon proved that it wants to transform its potential capacity into profit centres by strengthening its overall business to generate disruptive blockbusters.

Exhibit IV Varied Businesses of Amazon		
Amazon has quietly launched a flurry of new businesses, many in the past year, that are seemingly unrelated to its core retail store. Here's a sampling:		
<p>COMPUTING</p> <p>Amazon's Simple Storage Service and its Elastic Compute Cloud offer startups such as photo-sharing site SmugMug a way to store data and run their programs on Amazon's computers over the Internet.</p>	<p>CROWDSOURCING</p> <p>Amazon Mechanical Turk is a market place for piecework. CastingWords pays "Turkers" to transcribe snippets of podcasts that it then assembles for clients. Amazon takes a 10% commission.</p>	<p>MEDIA</p> <p>Launched in September, Amazon Unbox is software that lets customers download and play movies and TV shows. Amazon.com is also hosting a show with Bill Maher and buying a movie option on a book.</p>
<p>SEARCH</p> <p>After watching Google quickly become a dominant force on the Web, Amazon launched its own search site, A9.com, in 2003. But it never caught on, and Amazon recently cut many of its novel features.</p>	<p>DISTRIBUTION</p> <p>For years, Amazon has run e-commerce operations for the likes of Target and Borders. In September it launched a test of Fulfillment By Amazon. Smaller merchants plug their products into Amazon's distribution system.</p>	<p>WEB MEASUREMENT</p> <p>Alexa Internet Services provides free Web traffic rankings and other paid services, such as detailed reports on specific sites for 15¢ per 1,000 requests. It is becoming a popular alternative to other measurement services.</p>
Source: "Out of the Jungle", http://www.businessweek.com/magazine/content/06_46/b4009004.htm , November 13 th 2006		

¹⁹ "Amazon Wants to Run Your Business", http://www.businessweek.com/magazine/content/06_46/b4009008.htm, November 13th 2006

Kindle – Amazon’s e-Reader

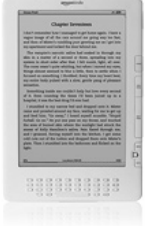
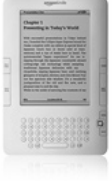
Kindle is an e-book reader into which people can download and read books, newspapers and magazines. The product was well received on its launch and the initial consignment was sold out in just 5 hours (Exhibit V). However, the drawbacks in the initial model of Kindle soon surfaced as customers criticised Kindle for its hardware design, disapproving its large size and uncomfortable placement of buttons on the device. Also, the device did not have a back light that would enable the reader to read even in poor lighting conditions. Based on the customer feedback, the company started working on the drawbacks of the product. To rectify its flaws, it took 6 months for Amazon to come up with its second consignment.

Exhibit V First Year Sales of the Famous Gadgets Launched						
						
Amazon Kindle (2007)	Apple iPod (2001)	Apple iPhone (2007)	RIM Blackberry (1999)	Palm Pilot (1997)	Motorola Razzr V3 (2004)	Nintendo Gameboy (1989)
189,000–600,000	376,000	5.4 million	165,000	0.5–1 million	23 million	2.8 million
Source: Buchanan Matt, “First Year Kindle Sales vs. iPod, Palm Pilot and Other Famous Gadgets: How’s It Doing?”, http://gizmodo.com/391848/first-year-kindle-sales-vs-ipod-palm-pilot-and-other-famous-gadgets-hows-it-doing , May 19 th 2008						

Within a span of 2 years, in February 2009, Amazon unveiled the second version of Kindle – Kindle 2. It appealed to the consumers largely because of the added advantages and its user-friendly features, an improvised version over its predecessor in terms of display, battery life and operation, but retained the price as the earlier version at \$359. Kindle 2 is comparatively bigger in size and much sleeker than the earlier model and hence user-friendly.²⁰ The product has advance features such as ‘text to speech feature’ which enables the readers to listen to text displayed on screen. Amazon continued with its improvisation of Kindle 2 and aimed at better features for its customers.

In May 2009, to increase its target customer base, Amazon released Kindle DX by including additional features to Kindle 2 (Annexure III). Unlike the previous versions, Kindle DX came with a screen that is two and a half times bigger than its predecessors (Exhibit VI). Kindle DX also has an in-built Adobe Reader Mobile PDF capability which enables reading of business memos and other documents. This version of Kindle enables readers to download personal and professional documents, newspapers, magazines and textbooks.

²⁰ MacMillan Douglas, “Meet the New Kindle”, http://www.businessweek.com/the_thread/techbeat/archives/2009/02/meet_the_new_ki.html, February 2009

Exhibit VI Comparison between Kindle DX and Kindle							
	Kindle DX	Display	9.7" diagonal E Ink®			Display	6" diagonal E Ink®
	Size	10.4" x 7.2" x 0.38"	Size			8" x 5.3" x 0.36"	
	Storage	3,500 books	Storage			1,500 books	
	PDF Support	native PDF reader	PDF Support			via conversion	
	Rotating Display	✓	Rotating Display				
	3G Wireless	✓	3G Wireless			✓	
	Books in Under 60 Seconds	✓	Books in Under 60 Seconds			✓	
	Text-to-Speech	✓	Text-to-Speech			✓	
	Whispersync	✓	Whispersync			✓	
	Price	\$489.00	Price			\$359.00	
	Source: "Kindle DX: Amazon's 9.7", Wireless Reading Device (Latest Generation)", http://www.amazon.com/Kindle-DX-Amazon-Wireless-Generation/dp/B0015TCML0/ref=kin2w_ddp						

Kindle DX is priced at \$489 which is \$130 more than the earlier versions.²¹ It also has the feature of changing the display from portrait to landscape when rotated, a feature resembling an iPhone. Besides the positive features, Kindle DX faces a major drawback wherein e-ink technology used in the device was not able to fix the discharging flash that comes out of the reader while navigating from one page to another. Despite this drawback, Amazon firmly believes that the additional features of Kindle DX would enable it to target a huge customer base.

Kindle users can have access to 300,000 titles available in Amazon and can store up to 3,500 books on Kindle DX.²² Apart from books, Amazon is also offering access to online versions of newspapers for its Kindle users. Around 37 newspapers are available for subscription via Kindle which costs \$10 per month/subscription.²³ Speaking on the availability of newspaper, Guy Kawasaki, managing director, Garage Technology Ventures²⁴, said, "It's a beautiful thing to wake up and get on a plane with a Kindle, not have to sync it with a computer, and know your newspaper is on it."²⁵

Of late, Kindle lured the customers because of its hassle-free system for downloading books. Although, Amazon did not reveal Kindle's sales and revenue data, it observed that since the launch of Kindle, the demand for e-book readers has been gradually picking up. Mark Mahaney, analyst, Citigroup estimated, "Since Amazon launched Kindle in 2007, it has sold 500,000 at \$399 a pop (now \$359) – roughly a \$200 million business."²⁶

²¹ Stone Brad and Rich Motoko, "Amazon Introduces Big-Screen Kindle", <http://www.nytimes.com/2009/05/07/technology/companies/07kindle.html?scp=8&sq=amazon's%20kindle&st=cse>, May 6th 2009

²² "Kindle DX: Amazon's 9.7" Wireless Reading Device (Latest Generation)", http://www.amazon.com/Kindle-DX-Amazon-Wireless-Generation/dp/B0015TCML0/ref=kin2w_ddp

²³ Stone Brad and Rich Motoko, "Turning Page, E-Books Start to Take Hold", <http://www.nytimes.com/2008/12/24/technology/24kindle.html?scp=9&sq=amazon's%20kindle&st=cse>, December 23rd 2008

²⁴ An early-stage venture capital firm.

²⁵ Jana Reena, "Kindle 2: More Than a Pretty Face", http://www.businessweek.com/innovate/content/feb2009/id2009029_980088.htm, February 9th 2009

²⁶ Copeland V. Michael, "The end of paper?", http://money.cnn.com/2009/03/03/technology/copeland_epaper.fortune/index.htm, March 3rd 2009

Meanwhile, Amazon has a road-block of selling Kindle out of US as it has to still enter into agreements with the mobile operators in other parts of the world to enable wireless downloading of books. However, Kindle can be used and content can be read on it anywhere in the world bearing the constraint of the unavailability of the device and downloading new material into the device outside the US. In spite of this, Amazon is very much confident that its business would flourish.

Competition to Amazon's Kindle

The launch of Amazon's e-reader triggered competition from other players like Sony. Even before Amazon launched its e-reader, Sony introduced its own e-reader into the market. The competition between Amazon and Sony exists to a certain extent as Sony's e-book readers are priced lesser than that of Amazon's Kindle. Sony's another version of e-reader PRS 700 launched in 2008 is available at \$350.²⁷ When Kindle got outsold soon after its launch (in 2007), Sony utilised the opportunity to go on an exhaustive publicity campaign in order to increase its sales. However, Kindle has a competitive advantage over Sony in technological aspects (Exhibit VII).

Exhibit VII		
Comparison between Amazon Kindle DX and Sony Reader PRS 700		
Features	Amazon Kindle DX	Sony Reader PRS 700
Screen Size	9.7"	6"
Weight	Heavy weight (compared to smaller devices)	Medium weight
Storage	4 GB internal, no expansion slot	512 MB internal, 36 GB SD expansion slot
File Format	Kindle (AZW and TOPAZ), PRC/MOBI, TXT, PDF, Audible (format 4, Audible Enhanced (AAX)), MP3	BBeB (LRF/LRX), PDF, EPUB, TXT, RTF, JPG, BMP, GIF, PNG, MP3, AAC
Pros of Amazon Kindle DX and Sony Reader PRS 700		
Amazon Kindle DX	Sony Reader PRS 700	
<ul style="list-style-type: none"> • Huge screen • Native PDF support (finally, Amazon) • Built-in free wireless with Amazon's 'Whispernet' • Adjustable font size • Built in keyboard • Can switch between portrait and landscape by simply turning it. 	<ul style="list-style-type: none"> • Touch screen • Can display and zoom both PDF and Word files • Built-in LED for reading in the dark • Sleeker than the Kindle 2 	
<i>Contd...</i>		

²⁷ "Google backs Sony Reader against Amazon Kindle", <http://ereadgizmo.com/category/ebooks>, March 19th 2009

Cons of Amazon Kindle DX and Sony Reader PRS 700	
Amazon Kindle DX	Sony Reader PRS 700
<ul style="list-style-type: none"> • Weight • No expansion slot • Battery is not removable • Expensive 	<ul style="list-style-type: none"> • Touch screen is more prone to glare and has worse contrast • No software for Mac users • No built-in wireless • No support for audio books
Compiled by the authors	

The major breakthrough of Amazon's e-book reader when compared to its competitors is its wireless connectivity through a technology called Whisprnet²⁸. Unlike the case of Sony e-reader, customers using Kindle need not connect to the internet to buy e-books. This feature is the Unique Selling Proposition (USP) and an added advantage for Amazon to be a notch ahead of its competitors. According to Bezos, "The vision is that you should be able to get any book—not just any book in print, but any book that's ever been in print—on this device in less than a minute."²⁹

Speaking on the changing trend, Steve Haber, president of Sony's digital reading division, commented, "The perception is that e-books have been around for 10 years and haven't done anything. But it's happening now. This is really starting to take off."³⁰ The competition between e-readers and the traditional publishing industry is intensifying questioning the future of the publishing industry.

Kindle and the Future of Publishing Industry

After the advent of the e-book readers, the sales of e-books gained momentum. According to book publishers like HarperCollins, Random House and Simon & Schuster, prior to the emergence of e-book readers, the sales of e-books for any device including laptop was a meagre 1% of the total book sales.³¹ However, the demand for e-books increased gradually over the years (Exhibit VIII). Speaking on the emerging trend of e-book readers, Steve Kessel, senior VP for worldwide digital media at Amazon, declared, "We knew we couldn't out-book the book. We needed to do things that books couldn't do. We have 3G [wireless], which allows you to look up a word or go directly from a passage to Wikipedia."³²

²⁸ Whisprnet is a wireless delivery system for Kindle that allows the user to surf the web and download books and other Kindle content without the use of an outside internet provider.

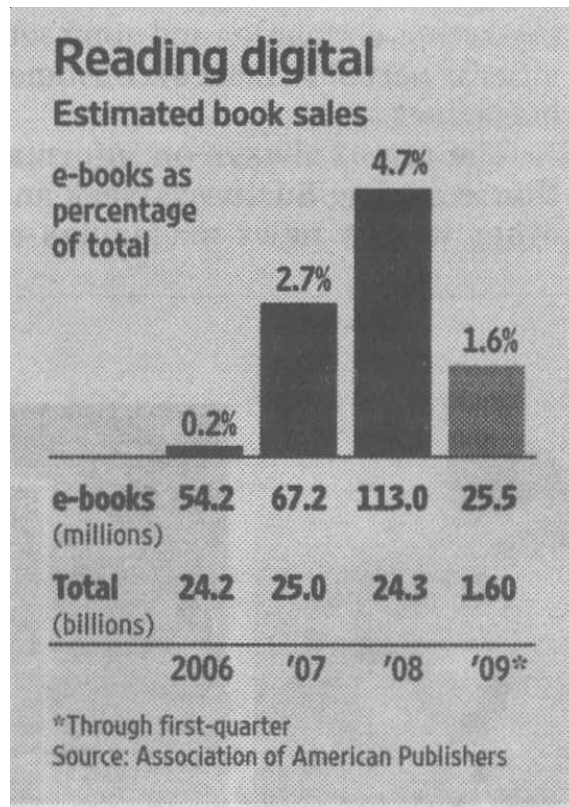
²⁹ "The Future of Reading", op.cit.

³⁰ Stone Brad and Rich Motoko, "More readers picking up electronic books", http://www.nytimes.com/2008/12/24/technology/24iht-24kindle.18903447.html?_r=1, December 24th 2008

³¹ "Turning Page, E-Books Start to Take Hold", op.cit.

³² Ibid.

**Exhibit VIII
Demand for e-books**



Source: Trachtenberg A. Jeffrey and Fowler A. Geoffrey, "Publisher delays e-book amid debate on pricing", *The Wall Street Journal*, July 14th 2009

On the other hand, the e-books are offered at a lesser price than the printed versions by Amazon and Sony on their e-book readers. Amazon is offering the books for Kindle users at \$9.99 per book. These e-books are cheaper than the e-books which Sony is offering to its e-book readers at \$11.99.³³ The e-books offered by Amazon to its Kindle users are also much cheaper than the printed versions which are available at \$25.³⁴ Analysts opine that this would certainly lure the book lovers and in a way kindle the growth in sales of the e-readers. E-readers, which are developed using e-ink technology³⁵ give customers the same experience of reading from a hard copy. The e-readers are slowly transforming the traditional publishing industry. Without the cost of paper, printing and delivery, the publishing industry can deliver its content to the readers through e-book readers.

³³ "Turning Page, E-Books Start to Take Hold", op.cit.

³⁴ Cornelia De Suzanne, "Google's Entry into E-Book Publishing Will Cut Amazon's 70% Stake in the Growing Segment", <http://ezinearticles.com/?Googles-Entry-Into-E-Book-Publishing-Will-Cut-Amazons-70%-Stake-in-the-Growing-Segment&id=2446957>

³⁵ It is a display technology designed to mimic the appearance of ordinary ink on paper.

Analysts opine that the e-readers are likely to save the publishing industry which is withering away and give it a new life. According to them, e-book readers will not only save publishing industry but also the environment in the process as publishing requires a lot of paper. It is estimated that almost 70% of the industry's emissions are contributed by paper production.³⁶ According to a report released by The Book Industry Study Group³⁷ in 2008, the publishing industry produced carbon dioxide equivalent net emission of about 12.4 million tons in 2006, and a net emission of 8.85 pounds per book sold to consumers.³⁸ In US alone, in 2008, more than 30 million trees are cut down for making books. On the other hand, the newspaper industry devoured 8.7 million metric tons of paper.³⁹ Whereas, in the case of e-book readers, the production of the device is the only process that emits carbon.

Speaking on the significance of publishing and the role of e-book readers in saving the traditional publishing industry, Russell Wilcox, CEO, E INK Corporation⁴⁰, opines, "We can't have meaningful discussions or try to solve the world's problems using blogs and 140-character Tweets. What we need more is calm, prudent thought – more expertise. We're not only going to save publishing, we're also going to save civilization."⁴¹

Few analysts opine that though the e-readers are considered as a salvation for the book publishing industry, it is the business model of e-book readers that is posing a threat to the publishing industry. Some book publishers are sceptical that the players in the e-book reader segment might tend to dominate the publishers in the long run. Amazon is paying publishers more than \$10 for a book.⁴² It is paying more than the price at which it is selling. Aiken, executive director of the Authors Guild, opined that if Amazon becomes a market leader, it might tend to force the publishers to give their content for a much lesser price.⁴³ He also commented that if such a scenario arises, "That would be potentially devastating to the industry."⁴⁴

Coming to the newspaper and magazine publishing industry, the big question is to what extent the e-readers would be able to protect the industry that is struggling to survive. The newspaper industry heavily relies on the revenues generated through reader subscriptions and from advertisements. Their revenues dwindled as more and more advertisers shifted to online advertising which is much cheaper.

Adding to the woes of the newspapers, even the e-readers such as Kindle are not allowing newspapers to display advertisements on the e-reader versions. In a way, e-readers want to make sure that customers enjoy reading newspapers without ads popping up. But, in a survey conducted, the users of e-readers had varying experience while using the e-readers for the first time. They noted

³⁶ "It's Easy Being Green: How to Be a Greener Reader", http://www.americanprogress.org/issues/2009/02/greener_reader.html, February 25th 2009

³⁷ Nonprofit research group comprising organisations from all sectors of the publishing industry.

³⁸ "It's Easy Being Green: How to Be a Greener Reader", op.cit.

³⁹ Ibid.

⁴⁰ Is a privately held manufacturer of Electrophoretic Displays (EPDs), a kind of electronic paper, based on a research started at the MIT Media Lab.

⁴¹ "The end of paper?", op.cit.

⁴² Manjoo Farhad, "Fear the Kindle", <http://www.slate.com/id/2212320/#b>, February 26th 2009

⁴³ Ibid.

⁴⁴ Ibid.

both the positive and negative features of the e-readers though they encountered few problems while using them (Annexure IV).

Sceptics inquire to what extent readers would be ready to pay for content that is widely available free on the net. In September 2009 Forrester Research conducted an online survey on 4,706 US consumers of e-readers to find out the value they would pay for e-reader devices. Most of the consumers felt that an e-reader would be worth if it is priced between \$50 and \$99.⁴⁵ In spite of all these drawbacks, Arthur Sulzberger, Jr., chairman of the *New York Times* said, "We knew for more than a decade that one day an e-reader would be a significant platform of distribution for our content."⁴⁶

While on one side, Kindle is treated as a boon by some of the publishers, on the other hand it is criticised by few publishers who strongly feel that the e-readers are a bane to the book publishing industry. They are contradicting the idea of paying less for e-books. Even, David Shanks, CEO, Penguin Group (US), Inc., said that he does not support the idea of paying less for e-books.⁴⁷ Also, Dominique Raccach, CEO of Sourcebooks⁴⁸, which issues 250 to 300 new titles annually, observed, "It doesn't make sense for a new book to be valued at \$9.99. The argument is that the cheaper the book is, the more people will buy it. But hardcover books have an audience, and we shouldn't cannibalise it."⁴⁹ On the other hand, Bezos is supporting the launch of his product. Speaking on the threat posed by Kindle to the publishing industry, he said, "Stuff doesn't need to go out of print. It could shorten publishing cycles."⁵⁰

Amazon tied up with universities as well to cater text books on e-readers to the students. Amazon launched a pilot programme with six universities namely Case Western, Pace and Princeton among the six to cater Kindle DX as a textbook reader. Speaking on the availability of textbooks on e-readers such as Kindle, Van Baker, analyst, Gartner Inc.⁵¹ said, "If all [a college student's] textbooks were available in e-book format and much less expensive, that would make for a compelling business model."⁵²

Besides all these facts, many analysts feel that Kindle should not be perceived as a mass market product as many other emerging technologies such as smart phones and net phones which are on par with Kindle and Sony are competing for a market share. Michael Norris, senior analyst, Simba Information⁵³ opines, "There are already so many ways for a consumer to spend free time in front of a mobile device or PC. People have no need for an iPod of books."⁵⁴ He also opines that majority of

⁴⁵ "Read It and Weep: Will Amazon's Kindle Succeed in India?", <http://knowledge.wharton.upenn.edu/india/article.cfm?articleid=4426>, November 5th 2009

⁴⁶ Hiday Jack, "Live from the Kindle DX Launch", http://www.huffingtonpost.com/jack-hiday/live-from-the-kindle-dx-1_b_198000.html, May 6th 2009

⁴⁷ "The Future of Reading", op.cit.

⁴⁸ Sourcebooks, Inc. is an independent book publisher outside of Chicago that publishes fiction, romance, children's books, college guides, history, etc.

⁴⁹ Trachtenberg A. Jeffrey and Fowler A. Geoffrey, "Publisher Delays E-Book Amid Debate on Pricing", <http://online.wsj.com/article/SB124744388627630253.html>, July 13th 2009

⁵⁰ "The Future of Reading", op.cit.

⁵¹ Gartner, Inc. (NYSE: IT) is the world's leading information technology research and advisory company.

⁵² MacMillan Douglas, "Amazon's Kindle 2: No iPod for Books", http://www.businessweek.com/technology/content/feb2009/tc20090210_262587.htm, February 10th 2009

⁵³ Media and publishing researcher.

⁵⁴ "Amazon's Kindle 2: No iPod for Books", op.cit.

readers buy less than five books in a year and for them it is not useful to own Kindle that would cost more than buying the books itself. He also says that Kindle is more apt for prolific readers and Amazon had already targeted them. Also, even Kindle has competition from new entrants like Plastic Logic and Cool-er. Plastic Logic is planning to come up with an e-reader that makes reading of newspapers more comfortable. Cool-er e-book readers launched in 2009 are much cheaper than Kindle. These pose challenge not only to Kindle but also to the publishing industry.

In order to boost the sales of e-readers, Amazon slashed the price of its Kindle 2 to \$299 making it available at \$60 less than the previous price.⁵⁵ But a Forrester Report opined, "The maximum addressable market for e-readers as they are currently priced is substantial – but to reach the largest market possible, the prices will need to come way down. And even then, e-readers are never going to be as big a market as mp3 players, which 110 million US consumers own. But they will still have phenomenal social and economic impact as they catalyze a new behavior of digital reading across multiple devices. We're just at the beginning of this revolution...."⁵⁶

Kindle on the other hand is slowly trying to compete with Sony outside the US market as well. Expanding its market base, Kindle e-reader is launched in around 100 countries. In October 2009, Amazon launched the same in India. The product is sold via the company's website and is priced at \$259 (approximately INR 12,400), which is considered expensive in an Indian market. Frank D'Souza, partner, BMR & Associates⁵⁷ opined, "Selling in India will be tougher than a lot of markets, as per capita consumption of books is less and books are cheaper here."⁵⁸ Analysts felt that a physical copy of the book would be less expensive when compared to the e-book. Moreover, people would have a chance of opting out as the company would levy shipment charges of its product if it does not have a base in a country where it is launching.

Although Kindle has 'a very small group of potential buyers' in India, Wharton marketing professor Jagmohan Raju opines that Amazon will not be at loss. According to him, "It seems they are targeting only those who already buy from Amazon, and those for whom this will be a way to signal status... it is better to be there and not have to catch up in case [a competitor] shows up. It's not a costly launch. They are just making it available."⁵⁹

On the other hand, Barnes & Noble Inc., America's largest book store chain entered the e-book arena. It opened its online e-book store with more than 700,000 titles. It is planning to come with more than 1 million titles within a year. It also entered into strategic partnership with Plastic Logic (a UK-based company specialising in polymer transistors and electronics), to compete with Amazon and Sony in the e-book reader segment (Exhibit IX).

⁵⁵ Rogers James, "Amazon Slashes Kindle's Price", <http://www.thestreet.com/story/10538140/amazon-slashes-kindles-price.html>, July 8th 2009

⁵⁶ "Read It and Weep: Will Amazon's Kindle Succeed in India?", op.cit.

⁵⁷ It is a premiere professional services firm that provides high quality services to its clients in the tax and regulatory domains by giving inputs for tax and regulatory issues.

⁵⁸ Prasad Anurag, "Amazing But...", *Outlook Business*, November 2009, page 68

⁵⁹ "Read It and Weep: Will Amazon's Kindle Succeed in India?", op.cit.

Exhibit IX			
Comparison of Product Attributes of Amazon Kindle, Sony Reader, Barnes & Noble Nook			
	Amazon Kindle	Sony Reader	Barnes & Noble Nook
Price	\$259	\$299	\$259
Screen Size	6 inches	6 inches	6 inches
Touch Screen	No	Yes	Yes
Keyboard	Yes	No	No
Storage	2 GB, not expandable	512 MB, expandable to 16 GB	2 GB, expandable to 16 GB
Weight	289 gm	285 gm	317 gm
Connectivity	3G	Broadband	3G + WiFi
Download Options	Only Amazon titles	Sony ebooks + external sources	B&N ebooks + external sources
Web Browser	Yes (only in US)	No	No

Source: Prasad Anurag, "Amazing But...", *Outlook Business*, November 2009, page 69

Publishing industry is prone to yet another threat in the 21st century i.e., self-publishing. Traditionally, books are published through the traditional publishing channels. However, technology paved way to another emerging trend which is backed by the concept of 'Print On Demand' (POD). For example, Jaya Jha and Abhaya Agarwal from India started Pothi.com (in 2006), a web portal which publishers can use to publish their content.⁶⁰ Self-publishing enables the authors to directly publish their content online rather than approaching a publisher. Though the POD is now widely used for corporate printing, the book publishing is still in the experimental phase.

According to Ravi Bapna, associate professor of information systems at the Carlson School of Management, "There are three major forces working in favor of a transformative impact of such technologies at this moment. First, consumers want ubiquitous portable access to their digital media. This is common now for music, and books and print media are the logical next steps. Second, platforms such as Amazon have a critical mass of publishers and buyers, and have worked out the complex economics of two-sided networks such as these to rapidly scale. Third, the Green Revolution is here to stay; cutting trees for paper comes at a high societal cost, and Kindle-like technologies are well suited to this new reality."⁶¹ In the light of all these developments, the major question is, what would be advisable for the e-book reader companies and the publishing industry – to compete or to collaborate.

⁶⁰ Pain Paromita, "Be your own publisher", <http://www.thehindubusinessline.com/ew/2009/06/15/stories/2009061550090300.htm>, June 15th 2009

⁶¹ "Read It and Weep: Will Amazon's Kindle Succeed in India?", op.cit.

Annexure I
Interactions among the Various Parties Involved in Book Publishing

		Recipient						
Provider	Author	Agent	Publishing company	Printer	Book club	Wholesale, retailer	Consumer	
Author		Give commission as percentage of royalty	Manuscript; assigns publication rights					
Agent	Contact with publisher; knowledge of commercial value; copyrights and libel; negotiate on behalf		Screens author; screens manuscript; saves publisher time					
Publishing company	Advance royalty; contract; editorial staff and services; opportunity to publish	Pays money to encourage finding good author or manuscript				Promotional material		
Printer			Printing facility; composition and binding					

Contd...

Book club	Royalty for reprints	Negotiate right to print under club's imprint	Large print runs for assured market	Population not served by bookstores; impose conditions on membership; lower prices
Wholesaler, retailer		Market knowledge; provide shelf space; wide distribution		Browsing opportunity; stocks 2,000–16,000 titles, special orders
Consumer	Readership; loyalty	Demand	Demand	Demand

Source: Keh Hean Tat, "Evolution of the Book Publishing Industry: Structural Changes and Strategic Implications", *Journal of Management History*, 1998, Volume 4, Issue 2, page 109

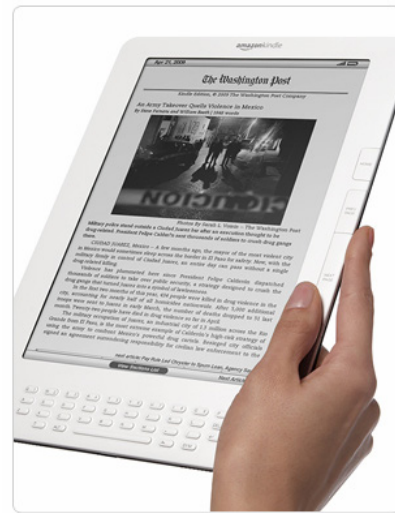
Annexure II Mergers and Acquisitions at Four Major Publishing Groups (1960–1993)				
HarperCollins	Random House	Simon & Schuster	Time Warner	
1960 Harper & Bros.. merge with Row, Peterson to form Harper & Row	1960 Random House acquires Alfred A. Knopf	1966 Simon & Schuster acquire Pocket Books	1962	Time Inc. buys Silver Burdett
1969 Harper acquires Basic Books	1961 Random House acquires Pantheon Books	1975 Gulf + Western (later Paramount Communications) acquire Simon & Schuster	1966	Time Inc. sells Silver Burdett to General Learning Corp.
1977 Harper acquires T.Y. Crowell	1966 RCA acquires Random House	1983 Simon & Schuster acquire Allyn & Bacon	1968	Time Inc. buys Little, Brown
1978 Harper acquires Lippincott	1973 Random House acquires Ballantine	1984 Simon & Schuster acquire Prentice-Hall	1977	Time Inc. acquire Book-of-the-Month Club
1987 News Corporation acquires Harper	1980 RCA sells Random House to Newhouse Publications (now Advance)	1985 Simon & Schuster acquire Ginn & Co.	1986	Time Inc. acquire Scott, Foresman & Co.
1988 Harper acquires Zondervan	1982 Random House acquires Fawcett Books	1986 Simon & Schuster acquire Silver Burdett	1989	Time Inc. merge with Warner
1989 News Corporation acquires full control of Collins (UK), merges it with Harper	1988 Random House acquires Crown Publishing	1991 Simon & Schuster acquire Macmillan Computer Publishing (Sams, Hayden, Que)		Communications (owner of Warner Books)
1990 Harper acquires Scott, Foresman & Co.		1993 Simon & Schuster (now Paramount Publishing) acquire Macmillan	1989	Time Warner sells Scott, Foresman to Harper
1990 Harper sells Lippincott to Wolters Kluwer			1990	Time Warner buys Sunset Books

Source: Keh Hean Tat, "Evolution of the Book Publishing Industry Structural Changes and Strategic Implications", *Journal of Management History*, 1998, Volume 4, Issue 2, page 116

Annexure III Features of Kindle DX



Size: One-third of an inch

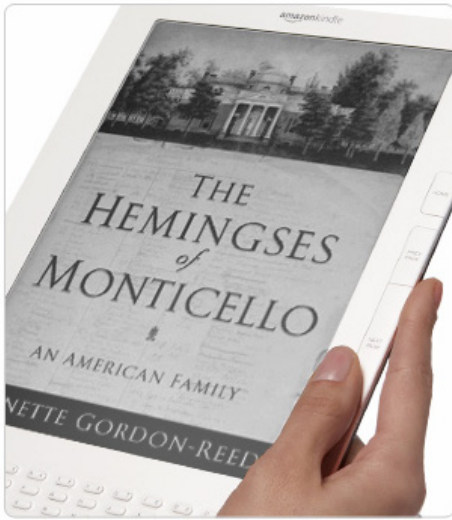


Capacity: Holds 3,500 books



With its unique feature of rotation, content can be read in either portrait or landscape mode

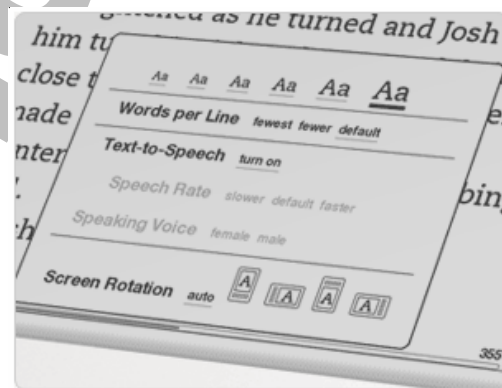
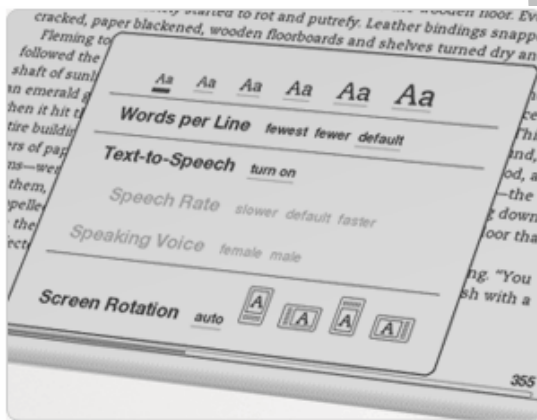
Contd...



Display: Sharp with 16 shades of grey

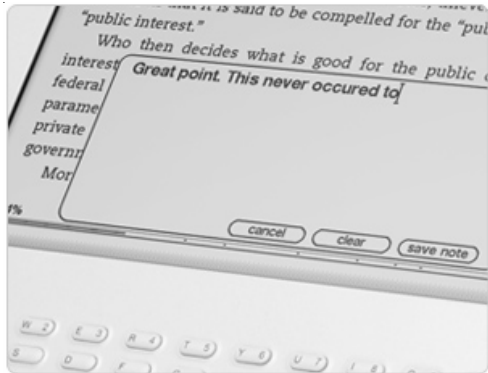


PDF: Built-in reader

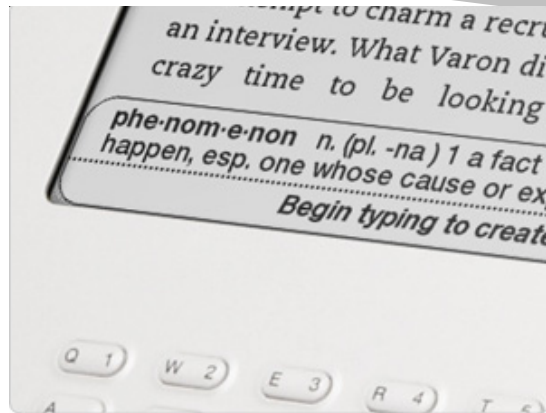


Text Size: Adjustable for comfortable reading

Contd...



Annotations: Can add using keyboard



Dictionary: Built-in with instant lookup



Can access Kindle store without connecting to Computer



Kindle Store: Over 300,000 books, newspapers, magazines and blogs

Source: "Kindle DX: Amazon's 9.7" Wireless Reading Device (Latest Generation)", http://www.amazon.com/Kindle-DX-Amazon's-Wireless-Generation/dp/B0015TCML0/ref=kin2w_ddp

Annexure IV Opinion of First Time Users on e-readers

An identical survey was distributed with e-book readers in libraries in three Wisconsin Library Systems (Eastern Shores Library System, South Central Library System, and Waukesha County Federated Library System). A total of 207 completed surveys were received. The users of the handheld readers (mostly RCA REB-1100s) were given the opportunity to describe their experiences using the readers, to identify specific problems, features that they particularly liked and/or disliked, and to compare their preference for various book formats including the handheld e-book reader.

The following are the scores given by the respondents about their preferences on different formats of books on a scale of 1 to 5 (1 – least preferred and 5 – most preferred):

Format of Books	Rating
Hard-bound books	4.11
Paperback books	3.56
Handheld e-book reader	3.56
Audio books	2.83

Problems Encountered while using e-reader for the first-time	Positive Features of e-reader	Negative Features of e-reader
<ul style="list-style-type: none"> • The battery ran out before finishing a book • The battery died only after a brief period of use • Need to recharge batteries many times in between to continue reading • Inadequate instruction of use • No obvious way to return to the beginning of a book • Difficult to move around the books • Difficult to get all the titles listed • The reader did not respond well to pointer and it took several times to change screen options. 	<ul style="list-style-type: none"> • Ability to carry many books in small space • Multiple books loaded in 1 unit • Back lighting, bookmarks, convenience to change font size • Ability to change orientation • Dictionary, ability to highlight and to insert notes • When turned off/on it stays at same page • Compact, click to advance and- no page turning • Large print. 	<ul style="list-style-type: none"> • Expensive unit • Hard to read in sunlight • Glare from screen • Uneven weight distribution of the reader • Not as interesting as a book with a color picture of the author and a biography • No page numbers • It's too easy to accidentally press an icon or button that you do not want • Cumbersome dictionary.

Compiled by the authors from "Handheld e-book Reader Survey", http://www.wcfls.lib.wi.us/information/pdf_doc_xls/ereadersurvey.pdf