

Kindle Fire Business Model Analysis

Context

Amazon launched the Kindle Fire in November 2011. Priced at \$199, it was a way to sell the hardware close to its cost, but make money from increased content and commerce sales. This would encourage Kindle customers to purchase more devices and services in the Amazon ecosystem. This is called the “Razor-Razor Blade” business model.

We will now analyze Amazon’s decision to introduce this revolutionary business model into the market.

Competitors

Some of the competitors of the Kindle Fire are as follows:

1. Apple iPad (\$499)
2. Barnes and Noble book (\$259)
3. Kindle E-reader
4. Various Android tablets

Revenue Streams

Amazon has four main revenue streams for the Kindle Fire. They are as follows:

1. Hardware

This includes revenues earned from sales of the device itself. It refers to the “razor” part of this business model. Finally, it is often sold at a discounted price close to its cost of manufacturing.

2. Content Revenues

This includes revenues from services such as Music, movies and eBooks.

Some assumptions for music and movie content revenues are as follows:

1. The average customer will purchase \$10 per month in content.
2. Movie and music content revenues will increase 10% annually for the next two years.
3. Amazon’s gross margin on music and movie content is 30%.

Moreover, some of the assumptions made for eBook revenues are as follows:

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1. The average customer of eBooks will purchase 3 eBooks per quarter.
2. The average price of each eBook purchased is \$10.
3. eBook revenues will increase by 10% annually.
4. Amazon's gross margin on eBooks is 20%.

3. Incremental Commerce Revenues

Some assumptions made for incremental commerce revenues are as follows:

1. The average Kindle customer will purchase \$50 per month in incremental Amazon products and services.
2. Commerce revenues will increase by 5% each year.
3. Amazon's gross margin on commerce revenues is 20%.

4. Applications revenues

- This includes revenues from applications on the tablet.

Some of the assumptions we make for app revenues are as follows:

1. The Amazon app store logged approximately 180 million app downloads in 18 months.
 - a. Of these downloads, 10% were paid apps.
2. Applications on the app store generated an average revenue of \$1.29.
3. Amazon's share of these App revenues is 30%.
4. App revenues would increase by 20% annually.
5. 1 million devices were sold in year 1 and device sales would increase by 20%.

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Analysis

Amazon's Kindle Fire Contribution Analysis (per device)	YEAR 1 (\$)	YEAR 2 (\$)	YEAR 3 (\$)
REVENUES			
Hardware Revenues	\$199.00	\$-	\$-
Content - Movies and Music	\$120.00	\$132.00	\$145.20
Content - eBooks	\$120.00	\$132.00	\$145.20
Incremental Commerce Sales	\$600.00	\$630.00	\$661.50
Apps	\$15.48	\$18.58	\$22.29
TOTAL REVENUES	\$1,054.48	\$912.58	\$974.19
COSTS			
Hardware Revenues	\$199.00	\$-	\$-
Content - Movies and Music	\$84.00	\$92.40	\$101.64
Content - eBooks	\$96.00	\$105.60	\$116.16
Incremental Commerce Sales	\$480.00	\$504.00	\$529.20
Apps	\$10.84	\$13.00	\$15.60
TOTAL COSTS	\$869.84	\$715.00	\$762.60
CONTRIBUTION			
Hardware Revenues	\$-	\$-	\$-
Content - Movies and Music	\$36.00	\$39.60	\$43.56
Content - eBooks	\$24.00	\$26.40	\$29.04
Incremental Commerce Sales	\$120.00	\$126.00	\$132.30
Apps	\$4.64	\$5.57	\$6.69

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TOTAL CONTRIBUTION (\$)	\$184.64	\$197.57	\$211.59
CONTRIBUTION MARGIN (%) (Total Contribution/Total Revenues)	18%	22%	22%