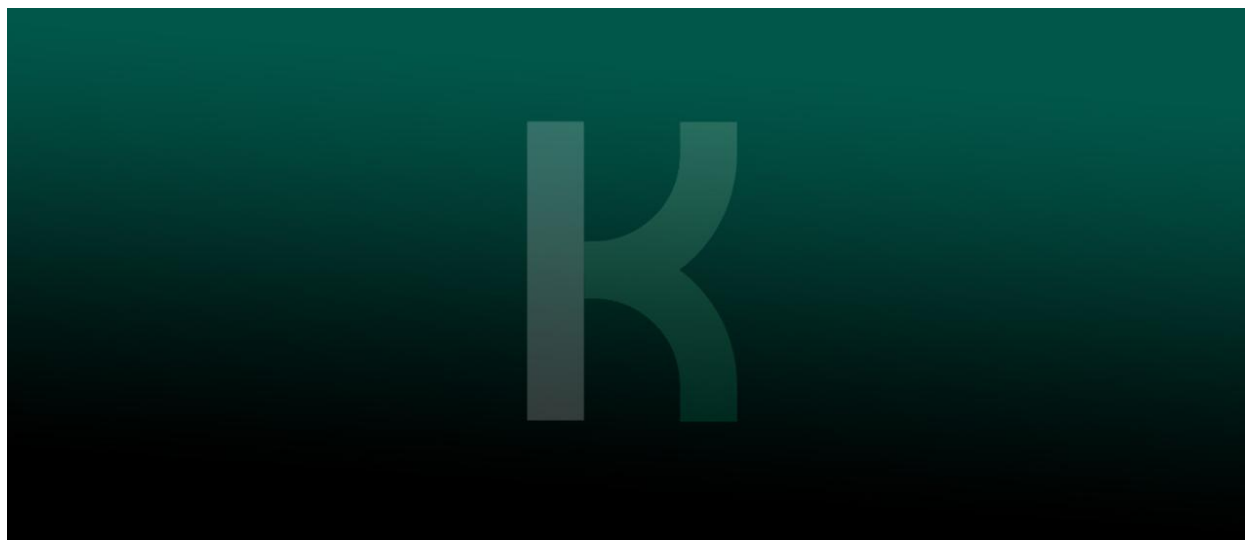


## The Fuel for Kindle's Fire: Ecosystem Strategy



By Ron Adner , Tuck School of Business at Dartmouth College

**The most viable rival to Apple's iPad isn't produced by a traditional hardware firm. Where Samsung, Motorola, Toshiba, HP, RIM and HTC have hardly made a dent in Apple's dominance, it is online retailer Amazon with its Kindle Fire tablet, that has emerged as the lead contender.**

The innovation game is changing. Delivering great products is no longer sufficient for success. And as the Fire's limited memory, ho-hum processor, and missing camera demonstrate, great products may not even be necessary. Rather, what matters is delivering great solutions.

This shift from products to solutions matters to everyone. In industries ranging from consumer electronics to construction and from media to mining, the firms seizing the leadership are those that can best align ecosystems of offers and partners. While consumers benefit from new

options and conveniences, firms, their managers, and their investors must all revisit their approach to innovation and competitive advantage.

In the past, product-focused success depended on exploiting capabilities – in branding, manufacturing, distribution – to deliver the best product. In contrast, today's champions focus on carrying over relationships – with both consumers and partners – to deliver the best experience.

For example, when Apple expanded from music players to phones, it carried over to the iPhone not just the technology and software that powered the iPod but also users' entire music collections and its music store's entire supplier base. This is not about creating switching costs: (iPod users could continue to listen to their iPod while using Nokia phones). Rather, it's about leveraging existing relationships to create enhanced offers: (by porting over your iTunes collection, Apple made the iPhone more valuable – for you). Carrying over elements from the iPod ecosystem, Apple gave the iPhone a running start.

In the rush to match the pieces, most of Apple's rivals have missed the critical connections that draw the entire ecosystem together into a coherent whole.

The big exception is Amazon. With the Kindle Fire, it is pressing forward with a full-fledged ecosystem strategy. It is pairing substantial carryover (the entire range of its ebook activities coupled with current users' ebook libraries) with substantial investment. Amazon is sacrificing hardware margins to position the Fire as a low priced tablet, and subsidizing the participation of book publishers to movie studios to bundle a media package of book and video access with the device to their core Amazon Prime customers.

It pursued this very same course – with great success – when it launched the original Kindle in 2007. The big difference is that the eReader market of 2007 was an open field, whereas the tablet market of 2012 has a dominant giant. Jump starting a competitive value proposition this time around requires a significantly larger ecosystem footprint and, as Amazon's investors know all too well, a significantly larger scale of investment.

Amazon is differentiating itself from Apple in terms of both its footprint and its profit model. Apple captures the bulk of its profits the moment an iPad is sold, while its partners capture value over time as users consume services.

In contrast, Amazon's profits accrue over the lifetime of the customer with every on-platform purchase. In this regard, Amazon's incentives seem more aligned with those of its media partners (we win together over time) than do Apple's ("I win first; you later... maybe").

Aligning, enticing, and – occasionally – subsidizing partners are the new ante in the ecosystem game. Amazon and Apple will go down as case studies in alternative strategies for succeeding in ecosystems. Their product-focused rivals will illustrate what it means to be "stuck in the middle."

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