

Amazon Kindle Fire Cost Leadership and Differentiation

Posted on January 8, 2020

The external analysis points to the direction of opportunity that an organization might be able to seize and generate profit. The internal analysis further assesses the match of the organizational capability to see if it is realistic for the organization to pursue the particular opportunity. In the case discussion of Amazon Kindle Fire (Hitt et al., 2017, page C-13), we further assess the business opportunities and how Kindle Fire needs to formulate an effective business-level strategy to take advantage of the emerging market of reading digital content. Internal analysis reveals that Amazon has superior capabilities in its supply chain management function, which has contributed to its success in implementing a cost-leadership strategy, which is defined as “an integrated set of actions taken to produce goods or services with features that are acceptable to customers at the lowest cost, relative to that of competitors” (Hitt et al., 2017, p. 118).

However, such core competence is not a guarantee for sustainable competitive advantage because the competitors are able to either imitate the business model, such as Barnes & Noble’s Nook device, using the same large-scale delivery to capitalize on the profit margin of digital content; or find substitutable strategic alternatives such as Apple’s superior capability in producing a better device, iPad. Apple is a prime example to illustrate differentiation strategy, which refers to “an integrated set of actions taken to produce goods or services (at an acceptable cost) that customers perceive as being different in ways that are important to them” (Hitt et al., 2017, p. 122).

How do we decide on business-level strategy?

Both cost-leader strategy and differentiation strategy are taking a customer-centric approach. Successful firms need to be able to identify and satisfy a sizable customer base whose decisions to purchase are the lifeblood of all business organizations. Hence, the formulation of a business-level strategy should be based on identifying the target market. A successful firm actively manages the relationship with the customers to identify 1) *who* will be served, 2) *what* needs those target customers have that it will satisfy, and 3) *how* those needs will be satisfied.

Sometimes, corporations may find their unique competitive advantage in serving the needs of competitive segments and utilizing a focus strategy (Hitt et al., 2017, p. 127). Examples of specific market segments include 1) a particular buyer group (e.g., youths or senior citizens), 2) a different segment of a product line (e.g., products for professional painters or the do-it-yourself group), or 3) a different geographic market (e.g., northern or southern Italy by using a foreign subsidiary). Once a unique market segment is identified, the firm will further decide on whether to use focused cost leadership or a focused differentiation strategy (Hitt et al., 2017, p. 117).

Reference Amazon Kindle Fire Case, what are the potential target markets? Which target market will be most ideal for Amazon's cost-leadership strategy? Why?

The Kindle Fire is a unique device with enhanced e-reader type features and functionalities, at the same time, it has a tablet like features and functionalities. Although the product has differentiating features from a tablet, Amazon's strategy to snatch market shares from Apple and other companies dealing with tablets is apparent. Amazon is not known for producing software and hardware products. They can increase their market by venturing into such lines to increase their market instead of media products such as CDs, books, appeal and household staff. The company produced its first Kindle product in 2007, which was then followed by Kindle Touch, Keyboard and 3G versions of Kindle Fire. This case describes an earlier generation of Amazon's Kindle Fire product and its content ecosystem. Amazon now markets the device family as Fire tablets, while its current services use separate catalogues—for example, Amazon Music Unlimited advertises more than 100 million songs and Kindle offers millions of titles—so the combined figure of 18 million items should be treated as a historical marketing claim. The product's features include innovations such as Amazon's App for Android games, Amazon Silk web browser and free cloud storage for content relating to Amazon.

The product has a competitive price as compared to tablets. Its features classify it as a device for an average consumer who is seeking the best value of the devices with both price points, a tablet-reader. It is positioning as a tablet- reader and opening up as a blue ocean, the trend should be reversed for opportunities for Amazon and the Kindle File. The company should assess and identify its customer's attitudes and behavior.

Based on Porter's Five Force model, what are the major advantages and disadvantages of using cost leadership and differentiation strategies (Hitt et al., 2017, p. 118-125)?

Porter's Five Force model creates and sustains superior business performance. The generic strategies, Cost leadership or no frills, differentiation- unique, desirable products and services and focus – specialized services identified in a market gap put the business in a better competitive position. Further, the focus can be divided into cost focus and differentiation focus. Cost focus minimizes cost in a focused market, whereas differentiation focus pursues strategic differentiation in a focused market. Production firms with cost leadership strategy sell standardized products and services; however, competitive differentiation level identifies the most typical customers. With specialization,

process innovations, distribution methods, and techniques for efficient operation are critical in the adoption of these methods. The cost leadership method encourages the sourcing of low-cost suppliers who bring in various operation methods, such as manufacturing, for low cost (Hitt et al., 2017, p. 118). Cost leaders who are seeking competitive, valuable ways to minimize cost concentrate on primary activities of outbound and inbound logistics.

Cost leadership strategy has a competitive advantage; it develops edges that get sold to a firm and deducted from competitors. In a cost leadership strategy, competitive advantages can be achieved by increasing profit by reducing costs as well as charging industry-average prices. Also, by increasing market shares via low price charges while making a responsible profit on sales due to low cost. Leaders who are using this strategy carefully examine all support activities to spot additional potential cost reductions. They come up with new systems to identify low-cost combinations and acceptable differentiation levels in raw materials for production. (Hitt et al., 2017, p. 122).

Cost leadership strategy involves leaders in terms of cost in an industry or market. It is not good enough being among lowest cost-cost producers, the company may be left wide open and prone to attacks by other low-cost producers who may undercut a firms' prices hence blocking the firm's attempt of increasing market shares. As a leader, one is therefore required to be confident enough to achieve and maintain the top position before engaging in a cost leadership strategy. Those that are achieving this strategy have access to capital for investment in technology that will reduce cost; they also have efficient logistics, a low-cost base, and a means of sustainable low cost below their competitors.

The strategy is risky as cost reduction sources are not unique, and other competitors are implementing the same cost reduction strategy. Hence, the a need to continue coming up with means of reducing every cost by adopting Japanese Kaizen's continuous improvement.

Differentiation differentiates a product or service from and more attractive than competitors. The process follows the nature of the industry and the product and service themselves. Typically, they will involve functionalities, features, support, durability, and image brands that customers value. A successful differentiation strategy needs good research, innovation, and development. Organizations should have the ability to deliver high-quality services and products. They are also required to be effective regarding sales and marketing to understand the benefits of differentiation. All this process may be demanding, especially for upcoming companies.

Large firms executing differentiation strategies are agile regarding new product development processes; otherwise, such companies are at risk of attacks on several fronts by firms that are carrying out Focus Differentiation strategies in various market segments. Through this method, the differentiated product produced satisfies customers' needs. Also, a successful differentiated strategy demands a consistent upgrade of numerous differentiated features that clients like or coming up with features that are not available in the market. Firms are constantly changing their lines of production and may come up with portfolios of complementing products. Such firms are offering products at

subsidized prices (Hitt et al., 2017, p. 122).

Since there are pros and cons associated with each generic strategy, a firm may potentially maximize the benefit of both strategies by adopting an integrated cost-leadership and differentiation strategy. However, such a strategy requires complex organizational capabilities that strive to maintain low costs through efficient production as well as creating unique value through differentiation.

Reference:

Hitt, M. A., Ireland, R. D., & Hoskisson, R. E. (2017). Strategic management cases: competitiveness and globalization. Cengage Learning.