

Amazon fights to keep Kindle on top of e-book crowd

October 26 2009, By Dan Gallagher

The threat of growing competition in the e-reader market does not seem to have cooled demand for Amazon.com Inc.'s Kindle, but the online retailer will likely face its toughest test in the coming holiday season.

Amazon surprised many on Thursday when it disclosed that the [Kindle](#) is now the most popular product on its heavily trafficked Web site.

This came as the company reported strong results for the third quarter late Thursday. Earnings soared 69 percent, beating expectations. The results and accompanying forecast helped propel the company's stock more than 26 percent to close Friday at a new record high of \$118.23.

Part of the sales growth appears to have been powered by the Kindle. The company did not disclose specific sales figures, keeping to a long-standing policy. But in its [earnings](#) statement, CEO Jeff Bezos said the Kindle "has become the No. 1 bestselling item by both unit sales and dollars -- not just in our electronics store but across all product categories on Amazon.com."

He also disclosed that the company lowered the price on its recently announced international edition to \$259 -- effectively phasing out the original version of the device that only worked on wireless networks in the U.S.

Amazon has slashed the price on the Kindle by \$100 just over the last three months. This comes as the device faces new competition in the

coming months, both from startups as well as big rivals like [bookseller](#) Barnes & Noble and electronics giant Sony Corp.

"We believe the competition is expected to heat up further over coming months, from existing competitors such as Sony and iRex and with product launches expected from Plastic Logic and Samsung," said Youssef Squali of Jefferies & Co. in a note to clients Friday.

Despite its statement Thursday, analysts still have no real idea how many Kindles the company has managed to sell, though some are willing to guess.

The device was first launched in late 2007. Many analysts believe more than 1 million units have already been sold. Mark Mahaney of Citigroup thinks the company will sell 1.5 million units of the device this year. He increased that estimate from 1 million earlier this month, with the company cutting the price of its original Kindle to \$259.

Justin Post of Bank of America believes Kindle sales will total 1 million units this year. But he believes unit sales of the device have less of an impact on total company revenues than do sales of electronic versions of books that are used with the product.

"Because Kindle has such a small impact on to Amazon's business, the company is able to keep product costs down without hurting margins noticeably, helping to fend off offerings from smaller competitors," Post wrote in an Oct. 7 report.

Following Amazon's disclosure on Thursday, Sandeep Aggarwal of Collins Stewart believes the company has not suffered a drop in sales from news of new devices coming to the market.

"In our view, Kindle has likely hit the tipping point during the quarter,"

Aggarwal wrote in a report Friday. "Though Q3-09 was characterized by news flow full of mounting competition for Kindle, given that the eBooks Reader market is at an early stage of development and Kindle has a first mover advantage, the competition had no impact on Kindle shipments."

The Kindle's toughest competition may come from Amazon's long-time rival Barnes & Noble Inc.

Earlier this week, Barnes & Noble lifted the wraps on its own e-reader device called the Nook. Like the Kindle, the Nook uses an E-Ink screen and can download books over [wireless networks](#). But the device also uses a second touch-screen for navigation, and sports a "book-sharing" feature that allows users to share books with friends for a period of 14 days.

Sony Corp., which actually had an e-reader on the market before the Kindle, recently upgraded its line, including a new device that sells for \$199.

Other companies like Silicon Valley start-up Plastic Logic and Irex, a European company that is a spinoff of Phillips Electronics, are planning to debut [e-reader](#) devices in the coming weeks. The Irex device is a full touch-screen that will sell at Best Buy stores for a suggested retail price of \$399.

Also, Apple Inc. is widely expected to launch a tablet device sometime next year. It would likely be a full computing device, which analysts believe might test how popular single-use devices such as e-readers might be.

Mahaney of Citigroup believes Amazon will be able to hang on to its leading position, despite the new competitive threats.

"We've studied The Nook from Barnes & Noble, but don't see any real differentiation," he wrote in a report Friday. "We're eagerly awaiting Apple's Tablet and the answer to the question of whether there really is a very large market for stand-alone eReaders. We think there is ... we see people carrying around stand-alone Readers all the time ... they're called books ... "

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