

Research firm: Amazon sells \$199 tablet at a loss

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This file photograph taken Sept. 28, 2011, shows the Kindle Fire at a news conference, in New York. Research firm IHS said the Amazon.com Inc.'s Kindle Fire tablet, which started shipping this week, costs \$201.70 to make, \$2.70 more than Amazon charges for it. (AP Photo/Mark Lennihan, File)

(AP) -- Amazon.com Inc.'s Kindle Fire tablet, which started shipping this week, costs \$201.70 to make, a research firm said Friday. That's \$2.70 more than Amazon charges for it.

The analysis by IHS indicates that Amazon is, at least initially, selling the tablet at a loss that it hopes to cover through sales of books and movies

for the device. The manufacturing cost of a new gadget usually comes down over time as chips become cheaper.

Amazon CEO Jeff Bezos told The Associated Press in September that the company's goal was to make a small profit from the hardware, but as a retail company, Amazon was willing to live with a smaller margin than most electronics companies would.

"We want the hardware device to be profitable and the content to be profitable. We really don't want to subsidize one with the other," Bezos said.

IHS's estimate includes the cost of components and assembly, but not the costs of development, marketing or packaging. The most expensive part of the Kindle Fire is the 7-inch color touch screen, which costs \$87.

Amazon kept the cost of the tablet low compared to Apple Inc.'s iPad and similar tablets by making it smaller - the screen is half the size of that for the iPad - keeping the amount of memory low and excluding a camera and microphone.

But the difference in manufacturing cost is much smaller than the difference in retail price: IHS puts the cost of the basic iPad 2 model at just under \$300, while Apple sells it for \$499.

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