Amazon Announces Kindle Fire
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Amazon today announced its new $199, 7-inch LCD-based Kindle Fire, a well-conceived product that has the potential to radically redraw the media tablet market when it ships in the fourth quarter of this year. The dual-core processor Kindle Fire is a Wi-fi only device with 8GB of storage. It runs a highly modified version of Android, and Amazon claims it will offer about 8 hours of battery life for reading and 7.5 hours for video playback. More importantly, it's the first Amazon-branded device to offer not only access to the company's large selection of eBooks, but also its growing collection of digital music and movies, as well as applications and games. And lest book readers worry Amazon has forgotten them, the company also today announced three new e-Ink only Kindle products. The Kindle Touch 3G ($149), the Kindle Touch WiFi ($99), and the Kindle ($79).

The new E-ink based Kindles are sure to shake up the eReader market, and we believe the new sub $100 products will help fuel that's markets continued growth. But it's the company's blazing entry into the media tablet market that should have Android-based competitors, and even Microsoft with its planned future Windows 8 tablets, taking notice. That's because the Kindle Fire both positions Amazon to be a leading digital media content seller, and dramatically resets expectations about what a media tablet can do and can cost.

We have long maintained that media tablets are additive devices, not replacements for PCs, and that's why media tablet vendors—aside from Apple—have had trouble selling units at $500 and higher. By pricing the Fire below $200, Amazon gives cash-strapped mainstream consumers permission to own a third device (PC, phone, and now tablet) without having to justify its cost by attempting to use it to replace their PC. At that price a tablet can just be a table: A device that's quite good at consuming media, writing short emails, and Web browsing.

And according to Amazon, the Fire will offer an especially nice Web-browsing experience, thanks to its own proprietary browser. Called Amazon Silk, it is a "split browser" technology that resides both on the device and within Amazon's Elastic Computer Cloud (EC2). Silk combines EC2's super-fast Internet connection with cached content from popular sites as well as logic that looks at traffic patterns to predict a person's next page request. The end result, in theory, is a snappier browsing experience.

While the Silk browser looks promising, it's the precedent that it sets that's even more interesting. By offloading a portion of the work required to browse the Web from the device to the cloud, Amazon begins to decouple that experience from the tablet hardware itself. There's no reason why Amazon couldn't do that with other activities and services down the road. Just as interesting, you could also see the company offering these capabilities on other devices that run Amazon apps. So while the company is using the Silk browser as a way to differentiate its hardware today, in the future Amazon could very well offer customers an "Amazon experience," fed by the cloud, on any device, and on any platform.

Beyond Silk, the most notable thing about the Kindle Fire's software is the fact that while it's running Android underneath, the OS is largely unrecognizable under the custom user interface Amazon has built on top of it. In this respect, Amazon has clearly taken a page from the pioneering (and successful) $250 Barnes & Noble Nook Color. Technology snobs will disparage the fact that the Fire won't lets users visit the regular Google Android Marketplace and download standard Android apps. Regular consumers, the people Amazon is targeting with this product, won't care. In fact, they'll likely be delighted by the fact that the number of apps available for the Fire will be limited, and vetted, by Amazon.

The Fire is due to ship in November, and so its direct impact on the media tablet market won't be known for some time. What is clear, however, is that by setting the price of its 7-inch product at $199, Amazon has made life very complicated for the long-list of media tablet vendors who have been trying, and mostly failing, to gain traction against Apple's dominant iPad 2, which starts at $500. One after another we've watched these vendors introduced products at the same price point (or higher). And one after another, with the possible exception of Sony's recently launched Sony Tablet S, we've seen the market respond with indifference. Realistically, even top-tier vendors like Sony, Samsung, and Toshiba must realize that to gain any real traction their 9- and 10-inch products must be priced closer to $300 than to $500. Meanwhile, Research in Motion continues to price its 7-inch PlayBook (by all accounts, the Kindle Fire's hardware antecedent) at $499, a clear recipe for continued irrelevance. Neither Microsoft nor its partners have announced future pricing for Windows 8 based tablets, but chances are they didn't expect to be competing with a $200 device. And that's today's price. A year from now when Windows 8 devices ship, it's possible Amazon may well be selling the Kindle Fire 2 at an even lower price.

While the Fire's market impact will ultimately be measured over the course of the next few quarters, two things became increasingly clear after today's news. First: Media tablets are additive devices, not replacements for PCs, and unless you're Apple they need to be priced accordingly. Second, going forward the media tablet hardware itself becomes less important. Obviously, you need hardware that people what to own, that's comfortable to hold in your hand, and that offers enough local storage and compute to get the job done. But the key to the experience going forward, and where most vendors will find their profits is not in the hardware (again, with the exception of Apple). Instead, it is in delivering the software, content, and services to that device. Apple and Amazon clearly understand this. Sony and Google/Motorola seem close to grasping this important distinction, too. It's not clear, however, that the other vendors in the market today (and those still planning to enter it) understand this reality. We believe those who fail to grasp it, or who do so but fail to act by cutting deals and putting new services in place quickly to make their devices more attractive, will find future success difficult to achieve.