

## KODAK'S DECLINE-A CASE STUDY

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### INTRODUCTION

This is a case study on Kodak's rise and fall, what really happened and who was responsible for it. We travel back in time to their very first camera and talk about what made them the 4th richest company in the world. We look into their journey today and analyse their profit and loss account for the years 2007, '08, '09 and '10 and what really went wrong. We do a comparative study of Kodak with its competitors and lastly we look into what they're doing now for reconciliation and damage control.

### THE JOURNEY BEGINS

With the slogan, "You push the button, we do the rest", George Eastman, 'The Great Yellow Father', put the first simple camera in the hands of consumers all over the world in April 1888. Eastman Kodak Company or "Kodak" has its company headquarters in Rochester, New York, USA and incorporation in New Jersey. On January 1, 1881, Eastman and a businessman Henry A. Strong formed a partnership called the Eastman Dry Plate Company. In 1884, The Eastman-Strong partnership was dissolved and the Eastman Dry Plate and Film Company formed with 14 shareowners. The Eastman Dry Plate Company was responsible for the first cameras suitable for non-expert use. Kodak had become a household name after he replaced glass photographic plates with a roll of film that Eastman believed was successful because it was a user-friendly product that would be "as convenient as the pencil". Kodak has always been recognised and praised for this great marketing tactic all over the world. A manufacturing unit of diversified photographic

imaging, equipment and supplies, evolved with the motive of bringing photography to the greatest number of people at the lowest possible price.

From 1888-1950, Kodak focused on the 'Razor and Blade' strategy of selling. Eastman sold the cameras at very low price but sold the films, without which the cameras are useless at a very high price. This is considered as one of the most successful business strategy of all time and termed as the "The Yellow Strategy", in respect of George Eastman. This very year, Eastman registered the trademark "KODAK". Starting from 1902, when Kodak brought to this world a new device which enabled film processing without the requirement of a dark room, Kodak started emerging as a success baron. From the year 1912, when the 16 mm Kodak colour motion pictures films and the Kodascope projector to the year 1932 when amateur photography reached a milestone of films, cameras and projectors, Kodak kept on rising to new heights. In 1958, it introduced the first completely automatic projector called the famous 'Kodak Cavalcade'. Kodak became the 6th largest company in the year 1985 and the 4th richest company in the year 1990. With the commencement of every new-year Kodak was reaching new heights.

## THE JOURNEY TODAY

By the end of the year 2008, Eastman Kodak's revenues increased by only 3% to US\$10.07bn and the net-loss from continuing operations totalled US\$1.32bn, versus an income of US\$139m. Last month, film sales for Kodak fell 37% for rolls and 13% in single-use cameras, and despite similar shocks affecting the rest of the industry Kodak's declines were the steepest – versus Fuji's declines of 28% in roll and 5% in single use cameras and other private label's decline of 12% in role and gain of 5% in single use cameras. Share loss at Kodak appears to be driven by price as it grapples to increase revenues from an outdated industry, as Big Yellow's roll price increased 5% compared to declines of 9% and 11% for Fuji and Private Labels.

From the year 2007 the fall in the net income has been very steep. In the year 2007, the net income was 676 million USD, where as in 2008 it was down to -727 million USD. In the year 2010 the net income was -687 million USD.

In Millions of USD (except for per share items)	12 months ending 2010-12-31	12 months ending 2009-12-31	12 months ending 2008-12-31	12 months ending 2007-12-31
Revenue	7,187.00	7,606.00	9,416.00	10,301.00
Other Revenue, Total	-	-	-	-
<b>Total Revenue</b>	<b>7,187.00</b>	<b>7,606.00</b>	<b>9,416.00</b>	<b>10,301.00</b>
Cost of Revenue, Total	5,236.00	5,838.00	7,247.00	7,757.00
<b>Gross Profit</b>	<b>1,951.00</b>	<b>1,768.00</b>	<b>2,169.00</b>	<b>2,544.00</b>
Selling/General/Admin. Expenses, Total	1,277.00	1,302.00	1,606.00	1,802.00
Research & Development	321.00	356.00	478.00	525.00
Depreciation/Amortization	-	-	-	-
Interest Expense(Income) - Net Operating	-	-	-	-
Unusual Expense (Income)	790.00	115.00	904.00	441.00
Other Operating Expenses, Total	1.00	4.00	2.00	6.00
<b>Total Operating Expense</b>	<b>7,625.00</b>	<b>7,615.00</b>	<b>10,237.00</b>	<b>10,531.00</b>
<b>Operating Income</b>	<b>-438.00</b>	<b>-9.00</b>	<b>-821.00</b>	<b>-230.00</b>
Interest Income(Expense), Net Non-Operating	-	-	-	-
Gain (Loss) on Sale of Assets	-	-	-	-
Other, Net	10.00	1.00	-19.00	-6.00
<b>Income Before Tax</b>	<b>-561.00</b>	<b>-117.00</b>	<b>-874.00</b>	<b>-257.00</b>
<b>Income After Tax</b>	<b>-675.00</b>	<b>-232.00</b>	<b>-727.00</b>	<b>-206.00</b>
Minority Interest	0.00	-1.00	0.00	-2.00
Equity in Affiliates	-	-	-	-
<b>Net Income Before Extra. Items</b>	<b>-675.00</b>	<b>-233.00</b>	<b>-727.00</b>	<b>-208.00</b>
Accounting Change	-	-	-	-
Discontinued Operations	-	-	-	-
Extraordinary Item	-	-	-	-
<b>Net Income</b>	<b>-687.00</b>	<b>-210.00</b>	<b>-442.00</b>	<b>676.00</b>
Preferred Dividends	-	-	-	-
<b>Income Available to Common Excl. Extra Items</b>	<b>-675.00</b>	<b>-233.00</b>	<b>-727.00</b>	<b>-208.00</b>
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A company that was the 4th richest company in the world in the year 1990 was pulled down to bankruptcy by the end of the year 2010. The following section will analyse as to what was responsible for this avalanche fall of the “Founder of Photography”.

## THE BEGINING OF THE DOWN FALL

The journey downwards began from the year 1986. In 1986, Kodak scientists invented the world's first megapixel sensor, capable of recording 1.4 million pixels that could produce a 5x7-inch digital photo-quality print. In 1987, Kodak released seven products for recording, storing,

manipulating, transmitting and printing electronic still video images. By the end of the year 1990 Kodak had 981 patents regarding digital cameras registered under its name. Despite having invented the digital cameras, why is it that Kodak's decline began in the same era?

### SUO MOTTO: A HURDLE TO INNOVATIONS

Even though digital camera was born in Kodak, it was brought up by its competitors. The management of Kodak thought that this innovation would sway with time and failed to realise that it was here to stay.

Kodak never encouraged digital cameras since the management thought that it would lead to internal competition between the digital cameras and the films. The sales of films being very high, the film industry was seen more stable and so was protected, thus allowing the digital technology to become a disruptive technology to Kodak.

### THE ADVENT OF DISRUPTIVE TECHNOLOGY



With digital devices, a significant shift in mind-set occurred in the meanings associated with cameras. Rather than being identified as a piece of purely photographic equipment, digital cameras came to be seen as electronic gadgets. The implications of this shift were enormous.

With digital devices, newcomers such as Sony were able to bypass Kodak's dominance on the photo industry. Kodak was now playing on Sony's and other entrants' turf rather than its own. Similarly, Kodak's brand came to be associated with traditional photography rather than digital and slowly but steadily the traditional photography was fading away from people's mind and subsequently from the markets. The change being very slow failed to get recognition from the TOP BRASS of Kodak.

CONDESCENSION: CURTAINS TO CHANGING TIMES AND NEEDS

Kodak's top management never fully grasped how the world around them was changing. They hung on to now obsolete assumptions about who took pictures, why and when.

“Digital” disrupted Kodak's neat equilibrium in yet another important way; women were no longer the main customers, men were. With women giving way to men as primary users of cameras, Kodak—which excelled at marketing to women—lost its footing. Kodak was in uncharted territory and rather than accepting it as the new reality, it kept trying to recreate the photography universe of yesteryear, one based around sentimental images taken by women at family reunions and vacations.

Kodak always thought that people would never part with hard prints and that people valued film-based photos for their high quality. In other words, they saw digital as a direct substitute for film based photography. For Kodak, the severing of the link between taking photographs and hardcopy prints was a serious concern. In the end, digital cameras came to dominate not because they offered higher quality or because everyone was able to or inclined to get a set of hard prints easily, but because they did not feel the need to.

Its digital imaging division, locked up in its headquarters in Rochester, always appeared to be under pressure to create synergies between film and digital.

THE MERGER AND ACQUISITION FAILURES

In 1992, Kodak purchased Verbatim Corporation. But sold it after 4 years of disappointing sales, worst of all bring 1994 where they had to bear the burden of 10% workforce reduction due to the class action lawsuit and an order by the court to leave instant camera business as a result of Polaroid patent infringement case.

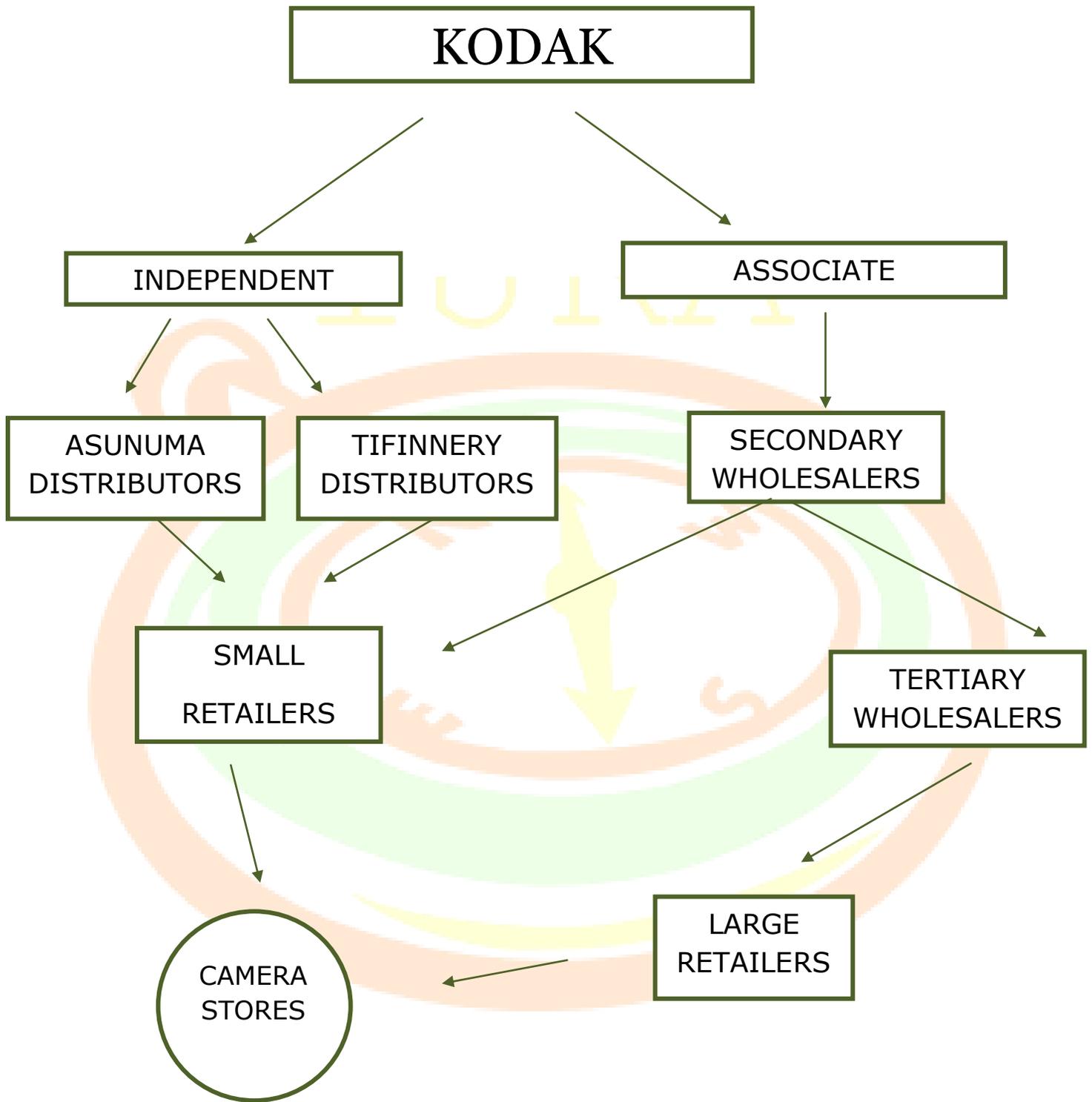
In 1997, Kodak completed the acquisition of Scitex Digital Printing, and later sold it to ITT Industries. The company later also acquired voting rights in Chinon Industries, through its Japanese subsidiary, and in May also completed the acquisition of two business units from Heidelberger Druckmaschinen, with a 50% stake in Nexpress Solutions, and a stake in Heidelberg Digital in an attempt to enter the territory of Fuji Films.

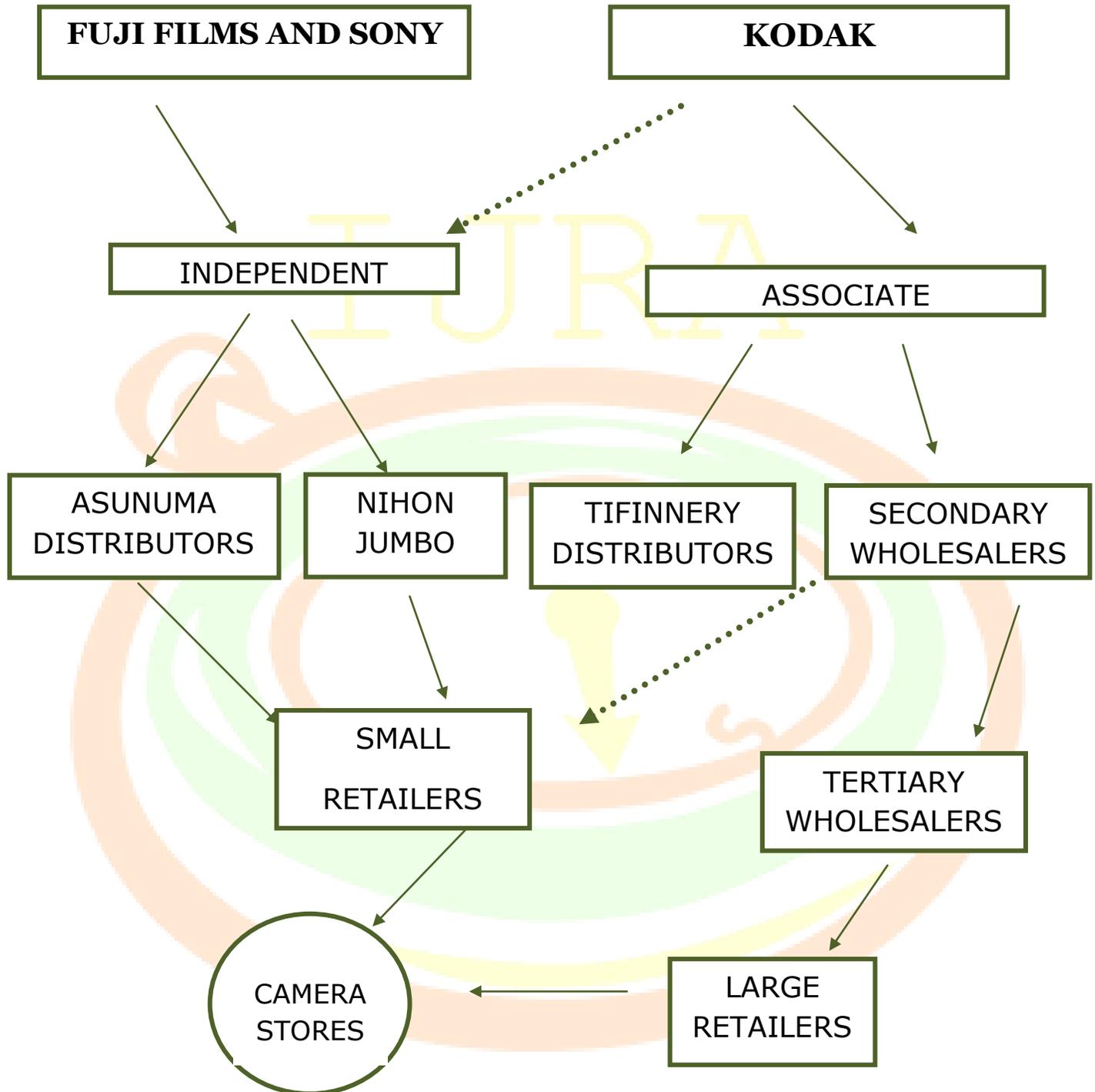
### EXTREME TIMES CALL FOR EXTREME MEASURES

Desperate signals from Kodak's camp first came under the competitive pressure from Fuji Film. Kodak in order to compete with Fuji Films in all aspects ventured into Japanese photo market, a move that backfired due to two reasons. Firstly the Japanese government was very hostile to foreign trade and foreign companies and secondly photography was never that famous in Japan.

Kodak's market signals came as early as 1991, when the Sony Corporation announced it would launch Mavica, a filmless digital camera that would display pictures on a television screen, and pictures could then be printed onto paper. Despite managers becoming concerned about the longevity of silver-halide technology with one recalling that at the time "it sent fear through the company", many found it hard to believe in something that was not as profitable as traditional film.

Sony entered the domain of Kodak by taking over the distributors of Kodak. This hurt and angered the Top Brass of Kodak. They made defying alterations to the distribution system of Kodak, which till that time was the best in the world, now being called "The Great Yellow Father Distribution System" by many prestigious business schools. These alterations were done on the assumption that the Americans under any circumstances would not buy products from foreign companies, which ultimately backfired.





Flow chart depicts the effect of Fuji Films and Sony on the distribution network of Kodak. The distribution system of Kodak as seen was completely disrupted. The dotted lines denote the breakage in the link.

## JOURNEY IN THE CHAOTIC PHOTOGRAPHIC INDUSTRY

This Section will analyse the Kodak vs. Fujifilm vs. Sony vs. Apple In short, the chaotic Photographic Industry, their strategies and their evident success and failure in the backdrop of serious competition.

Kodak is, admittedly, in trouble. After facing 15 years of competition in the market from fellow camera-makers, Kodak led itself slowly into corporate death. The question is: who all were involved in this and how?

### COMPETING WITH THE ARCH RIVALS

After accusing Fujifilm, its contemporary digital Camera-maker from Japan, under Shigetaka Komori, of Patent Infringement in January, this year, Kodak drew a lot of curious eyes. While Kodak had struggled to maintain its hold over the market, Fujifilm suffered minimum loss and diversified its business over the years. Why the divergent outcomes? It's simple. Though both understood the possibility of the gradual fading away of the Photo film industry; though both knew the digital camera era was soon to set in, they executed their strategies in different ways.

While Fujifilm decided to invest in in-house expertise, Kodak relied on its brand and marketing skills. That became their first major mistake. As quoted by an anonymous source, one of the firm's senior most executives, "Kodak's monopoly was the problem ... It always believed it had a God-given right to 100% of the market," he says. "It never bothered to look over its shoulder at what was coming up from behind." Instead, Kodak relied on its brand.

Kodak still had a way out, which is by installing kiosks to print digital photos. But even there, Fujifilm gave it a hard resistance and shot forward, as, while the latter owned its own industries and could set up its kiosks with Huge Brands like Walmart and reap all the profits, the former couldn't, very well, do the same, because of its limitations of being a partner in all its firms, but never the owner.

It served as a sad example of the effects of bad-decision making, clouded by Brand-egoism; the irony being that this is a stereotype of a Japanese Firm with defeatism attitudes, back then, and not that of a mighty American, the place rightfully taken By Japan's Fujifilm.

#### ON CIVIL SUITS SPREE

Kodak started to clash, not just with Fujifilm, who is, indeed, its greatest rival till-date, but also with Sony and Apple. By the early 2000s, Kodak started accusing every company nameable of stealing or misappropriating its patents. While Sony counter-accused Kodak of infringing on ten of its patents, with the strong base of being the market leader in digital still cameras, a position with Kodak has been trying to challenge. In January, however, Kodak put a stop to its film production in the US and Europe. On the other hand, Kodak won its case with Apple and Research-In-motion, whom it pointed out as contract-breachers. It claimed that Apple and RIM, not only used its patents for digital cameras, but refused to 'pay royalties' for their usage. Due to a fight, Apple sued Kodak for using those disputed patents as collateral. While the first accusation is still pending, The U.S bankruptcy court judge Allen Gropper declared the latter complaint as erroneous.

## CONCLUSION

Kodak teeters on the precipice, and with it stand some of the other once-great businesses of the 20th century, from autos to newspapers. They were immensely successful and proud, but their very success made it difficult to adjust. "The more successfully you use a way of working, the stronger your culture is, which is a great strength right up to the time when you need to change," says Clayton Christensen, a professor at Harvard Business School. All innovation is hard. Reinventing your entire business is the hardest innovation of all. They may have survived, had they adjusted to the market situation in time.

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