OnLine Case 10.3

Kodak

Eastman Kodak started out in 1888 and pioneered the ‘snapshot’ camera. Kodak’s growth and success over many years has consequently been heavily dependent on photographic film and printing paper. But in recent years the world has changed, allowing stories along the following lines. *A man in Shanghai catches a fish with a simple bamboo pole. He digs out his mobile phone (complete with camera lens) and photographs his fish. He then rings a contact in his local market and secures a sale. He now has money to feed his family with something other than the fish.* During the 1980s Kodak realized that it faced a possible future threat from digital photography, which had the potential to make traditional film redundant. Half-hearted attempts to develop expertise in digital photography were relatively unsuccessful and consequently Kodak changed to a diversification strategy. In 1988 Kodak bought a pharmaceutical company, Sterling Drug.

Synergy was not forthcoming – the move was not seen as a success – and a new chief executive, George Fisher, was eventually recruited from the electronics company Motorola. Fisher divested peripheral businesses to focus on those related to *imaging*. He rationalized that even when digital cameras were successful and popular, people would still want hard copies of their photographs. Clearly, digital offered important new opportunities; customers could experiment alongside a technician who would be able visibly to enlarge and crop images before a final picture is printed. The technology has existed for a while; the challenge is making it affordable for typical consumers.

In 1998 Kodak acquired Picture Vision, a leading software company which specialized in digital photography. The intention was jointly to develop a strategy that would allow customers to drop their films off at a store and then the developed images would be posted on the Internet for them to download digitally. With this technology customers could then send their pictures electronically to friends and family for them to download as well.

By 2003 Kodak was visibly running down factory space and jobs as digital photography continued to bite in to traditional photography markets. Partly thanks to the acquisition of a Japanese company, Kodak was manufacturing and selling digital cameras – it has since added a specialist printer into which its cameras can be docked. But competition remained intense, especially from Japanese companies. Sanyo, Canon, Fuji, Olympus and Sony produce cameras; Hewlwtt Packard, Sony and Canon dominate in printers. In 2004 two thirds of Kodak's revenue was down to 'old' products with one third coming from digital. It was, of course, an issue that although digital photography was growing rapidly, many people do not print their pictures. They simple store them digitally.

Kodak bought another business – PracticeWorks, which produces dental imaging X-Ray software. Related technology but for a radically different market. It also linked with Nokia and Cingular Wireless to develop a new range of mobile phones with in-built digital cameras. Using radio waves, the digital images can be sent to Kodak retail kiosks which will print them. Customers need only make one trip – to collect their pictures. As a consequence Kodak increased the number of dedicated kiosks in the US. Throughout this period jobs were being lost as the company downsized.

2007 was being forecast to be the year when the percentage of households owning and using digital cameras would exceed those using conventional film. Kodak remained well ahead of its main rival, Fuji, for conventional 35mm film, but it needed a winning strategy for a declining industry to run alongside one for the rapidly growing digital industry. In one it was the leader; in the other it most certainly was not.

In 2005 Europe's leading electronics retailer Dixons stopped selling traditional 35mm cameras. At around this time Kodak appointed a new CEO, Antonio Perez, who joined from Hewlett Packard. Kodak also acquired a commercial printing business, allowing it to offer multiple printed products from digital mimages. This industry is crowded and competitive but Kodak believed it could find valuable niches.

In 2006 Kodak launched a dual lens digital camera but declared its future lay in software and not hardware development - in storing, searching, sharing and playing images.

The company was structured into four business areas: consumer imaging (digital cameras), commercial printing, medical printing (X-Rays) and ‘old’ film. It was willing to sell medical printing, which it did in January 2007 for US$2.35 billion.

Kodak then extended further into inkjet printers. As well as printers with docking stations it launched more generic models – but its business model was based around relatively high priced models and lower cost replacment ink cartridges, not the normal revenue model for the market. The company was also doing well with the increasingly popular digital picture frames.

Question Do you think the strategies followed by Kodak have done enough to secure the future of the business? What is the business model of Kodak? What do you think the company should do in the next five years?

Kodak http://www.kodak.com