

Case 16-2

Kodak in the Twenty-First Century: The Search for New Sources of Competitive Advantage

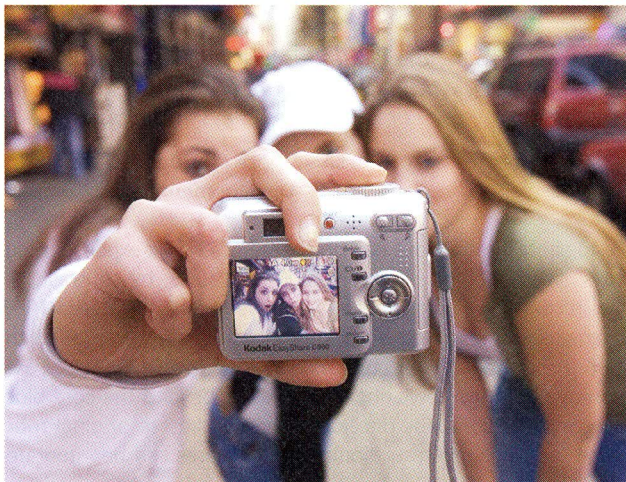
Eastman Kodak Company is at a crossroads. After inventing the famous Brownie camera in 1900, Kodak reigned as the undisputed leader in the silver-halide chemical processes that formed the basis of the photography industry throughout the twentieth century. Kodak's yellow boxes of film were iconic symbols of the brand. Once, the company's color film business was a classic cash cow, accounting for as much as 70 percent of Kodak's revenues.

Sadly, the company's long-entrenched conservative corporate culture, bureaucratic organizational structure, and go-slow approach to innovation resulted in sluggish, ill-fated responses to changes in the photography market. Although management understood that the digital revolution was changing the way consumers take, store, and access photos, the speed of the changeover from film-based photography to digital came as a shock. In the late 1990s, Kodak invested \$1 billion in an alternative film-based format known as Advanced Photo System. It flopped. Meanwhile, the company maintained a premium pricing strategy, allowing competitors such as Fuji to undercut it and gain market share.

Now, management is attempting to remake the company's business model in fundamental ways. After being named president and CEO in 2000, Daniel Carp replaced most of Kodak's executive team with newcomers who worked at technology-oriented companies such as Hewlett-Packard, Lexmark International, and General Electric. To shore up its core film business, Kodak will make private-label film for sale outside the United States. Kodak has also vowed to fight more aggressively for market share with its branded film by cutting prices. Perhaps the most dramatic move is the decision to stop selling film-based cameras for the consumer market in the United States, Canada, and Europe. The only exception is a popular line of disposable single-use cameras. The company continues to market film cameras in China, India, Eastern Europe, and Latin America, where management believes the traditional photography format still has potential for growth.

"The trick is to get the cost structure of the traditional consumer business down. We are a business in transition."

Daniel Carp, former CEO, Eastman Kodak



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By 2005, the year Carp retired and Antonio Perez was named chairman and CEO, the digital camera market in the United States became a key battleground. Canon ranked number one in digital camera sales. Although Canon's cameras are designed and manufactured in Japan, company engineers regularly visit the United States to absorb insights about consumer needs. One analyst noted, "Canon has built on its camera heritage and has been able to get people to believe in them as a digital company." The same analyst was also impressed by Kodak. Although the company's traditional sources of competitive advantage were in film and processing, "In a short period of time they've transitioned into a strong hardware company. They've done an amazing job," he said.

Managing the transition away from film is also requiring Kodak to redefine relationships with key business partners. For example, Kodak was for many years the exclusive supplier of traditional photo processing services for the Walgreens drugstore chain. The relationship, which includes one-hour services, generates about \$500 million in annual revenue for Kodak. Archrival Fuji, which has a close partnership with Walmart, is now making inroads at Walgreens as well. Kodak's minilabs were subject to frequent breakdowns; despite the fact that Walgreens was bound by long-term leases, the retailer began installing Fuji minilabs at a cost of \$115,000 per unit. Presently, about one-third of Walgreens' stores use Fuji's one-hour minilab equipment. The Walgreens photo processing Web site also uses Fuji to process prints.

Not to be outdone, at the 2006 Photo Marketing Association trade show, Kodak unveiled the DSP900, a modular replacement for the minilab that can produce 900 prints per hour at half the price of previous models. Kodak currently has installed about 60,000 self-service photo kiosks in the United States that allow customers to print photos from their digital cameras. Fuji also supplies in-store kiosks bearing the Aladdin brand name.

Now, Hewlett-Packard has entered the retail photo services market as well; it has begun installing \$15,000 PhotoStudio kiosks at stores in the Long's Drugs chain. Kodak has responded by targeting H-P's highly profitable consumer printer business. A new ad campaign is keyed to the theme "Print and Prosper." Print ads proclaim, "The world's most expensive liquid isn't found in the Middle East. It is found in ink-jet printer cartridges." Matt Troy, an analyst with Citigroup Investment Research, summed up the situation by saying, "Kodak has been very successful in cultivating an ecosystem in the digital world. H-P's motivation is to sell more ink." Concludes Troy, "H-P is trying to be the next Kodak."

Discussion Questions

1. Assess Kodak's situation in terms of Porter's five forces model and generic strategies. Which forces are driving competition in the photo industry? What has happened to Kodak's traditional sources of competitive advantage?
2. Do you think the digital photography revolution will spread to China and India more quickly than Kodak's management expects?
3. For decades, Kodak has been known as the world's largest consumer photography company. Today, the company's strategy calls for a shift toward business-to-business marketing with an emphasis on such products as medical imaging systems and digital printing systems. What risks does this change in strategic direction present?

Sources: Suzanne Vranica, "Kodak Ads Get More Aggressive," *The Wall Street Journal* (March 20, 2009), p. B5; Francesca Guerrera, "Kodak Refocuses on Digital Age," *Financial Times* (November 29, 2006), p. 11; William M. Bulkeley, "Kodak Revamps Walmart Kiosks," *The Wall Street Journal* (September 6, 2006), p. B2; Damon Darlin, "Hewlett-Packard Decides Store Photo Printing Is Its Turf," *The New York Times* (February 23, 2006), pp. C1, C17; Jefferson Graham, "Canon, Kodak Face Off in

Digital Arena," *USA Today* (February 23, 2006), p. 3B; James Bandler, "Losing Focus: As Kodak Eyes, Digital Future, A Big Partner Starts to Fade," *The Wall Street Journal* (January 23, 2004), pp. A1, A8; Bandler, "Ending Era, Kodak Will Stop Selling Most Film Cameras," *The Wall Street Journal* (January 14, 2004), pp. B1, B4; Bandler, "Kodak Shifts Focus from Film, Betting Future on Digital Lines," *The Wall Street Journal* (September 29, 2003), pp. A1, A12.