

# Kodak funtime case

Business



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**Problem Definition** The problem in this case is Kodak's steadily eroding market share and shareholder value in the film rolls market.

This is especially undesirable given the fact that the market has been growing at a tepid 2% annual rate and the steadily increasing threat from competition. Kodak needs to come up with a strategy for corrective action so as to arrest this decline, regain market share and increase shareholder value. Kodak's strategy is to reposition itself by targeting a new segment of price sensitive customers and re-segmenting the super premium customers' space by including a wider segment of special occasion customers.

Supporting facts for the problem statement: Kodak has overwhelming market domination, but its US market share has eroded from 76% to 70% in the last 5 years. Kodak's market share increased at an average annual rate of 0.334% even when the market grew at an average of 2% (See Appendix A).

The stock price declined by 8% in one week in Jan 1994, on rumors of a price cut – displaying a decline in investor confidence about the company's profitability. Kodak is in direct competition with Fuji for global dominance in the world photographic market.

A cause of concern for Kodak is that while Fuji has only 11% of the market share in the US, globally, it is 50% the size of Kodak. Also, Fuji ; Polaroid are also growing in the US at 15% annually whereas Kodak only grew at 3%. A 1991 survey in the "Discount Merchandiser" found that price sensitive consumers were increasing. Also, a large percentage of consumers tended to view film as a commodity, differentiating on price alone.

Kodak's research showed too that 10% of consumers bought solely on price. It also showed that 50% of the consumers (40% samplers, 10% shopping on price) did not just buy on brand loyalty alone.

Currently, Kodak doesn't have any product in the economy brands segment. Due to a 1921 consent decree, Kodak cannot expand in the private label market, forcing it to find a solution in the branded market. Problem Analysis ; Recommendations If we were responsible for solving the problem, we would go ahead with Kodak's proposed strategy, with minor modifications, of introducing Funtime film rolls to target the price sensitive customer segment and replacing Ektar with Royal Gold, repositioning Kodak in the super premium segment to target a broader audience.

Analysis of the Strategy Funtime and Royal Gold are viable products targeting specific untapped market segments, with a good potential of achieving the stated objectives of increasing Kodak's market share.

Rationale behind agreeing with Funtime Kodak currently does not have any product in the economy segment. Kodak's research has shown that 10% of consumers shopped on price. Also, a 1991 survey claimed that US consumers tended to view film as a commodity. In 1993 Fuji's increase in dollar sales of 15%, compared to Kodak's 3%, was largely attributable to lower priced products.

Kodak can therefore increase its market share significantly by introducing a lower priced product. Funtime will give Kodak a presence in the growing economy tier at a price 20% below Gold Plus.

Rationale behind agreeing with Royal Gold Ektar targeted a niche segment of professionals and advanced amateurs. By replacing Ektar with Royal Gold, Kodak plans to target a broader audience with a latent need for super premium brands. It wants to target the market of films for very special occasions that require better picture quality and enable enlargements.

Consumers who buy Gold plus will probably buy Royal Gold for certain important occasions, encouraging movement up the value chain.

Competitive Advantages of the New Strategy Funtime: Within the economy space, Kodak has definite competitive advantage. Kodak can not only capitalize on its established brand name but also provide value with increased exposure latitude because of its new emulsion technology.

With increased exposure latitude (film with higher tolerance) it becomes easier to take better pictures. The Funtime “value packs” will also appeal to price sensitive consumers who tend to buy in bulk.

At 70% market share, Kodak enjoys unrivalled brand awareness. Moreover, its research showed that 50% of film buyers were Kodak-loyal and an additional 40% relied heavily on Kodak. Royal Gold: With a price less than that of Ektar, heavy advertising (40% of total budget) and a wider consumer base, Royal Gold seems to be perfectly positioned to exploit the super premium product space. It is of course, offering superior quality and sharper, richer pictures as well as increased exposure latitude.

Disadvantages and Potential Risks of the New Strategy

Introduction of a lower priced film might result in brand dilution and thereby risk reducing customer loyalty (which is at least 50% currently). Introduction of Funtime might cannibalize sales of Gold Plus – especially amongst Kodak loyalists. Consumers may buy Funtime in bulk and this could eat into Gold Plus sales even when Funtime's not being sold. This is especially undesirable as Funtime has lower margins than Gold Plus. The maximum cannibalization of sales by Funtime of other Kodak brands could be as high as 29.

% (See Appendix C) The limited ; intermittent availability of Funtime, coupled with a possible increased appetite for low priced film, might encourage customers to switch to competitors' products in the absence of Funtime. Within the Economy brands, ScotchColor is priced lower than Funtime (\$2. 69 versus \$2. 79. see Appendix C for retail price calculation of Funtime) making marketing to price sensitive customers difficult.

In the absence of any advertising and promotion of Funtime, there is risk of customers not understanding the technological edge and brand advantage Funtime has over its peers Our Recommendations to modify the strategy

Engage in consumer education initiatives in photography to achieve awareness of product differentiation based on unique value propositions & encourage usage. Unawareness was identified as a key reason for viewing film as a commodity (Discount Merchandiser, ' 91) Develop in-store advertising and point of sale placement strategies (targeting department and drug stores) to promote Funtime and to educate the seasonality of the product. Develop different television advertisements targeting multiple

customer segments within super-premium and premium brands. Other

#### Available Alternatives

Instead of introducing Funtime, Kodak can reposition Gold Plus in the economy space by lowering prices by 20%. Even though it is the main alternative available, we believe this is unviable because Kodak has to sell 41% more Gold Plus units compared to last year to maintain last year's profitability (See Appendix D). With market growing at only 2% and with economy brands still priced below lower priced Kodak's Gold Plus, achieving a 41% hike in sales seems unrealistic.

So given our main strategy, this is not recommended. Kodak can focus on developing a foothold in all major market segments.

It can develop marketing strategies to develop individual product recognition and to achieve maximum market penetration. The risk with this strategy is that there might be extensive cannibalization of the higher priced and more valuable brands by the lower priced product – Funtime, since the brand loyalty may really be for the brand Kodak instead of for Gold Plus. Though Kodak still has a pre-eminent position and brand prestige in the market, a drastic measure like heavy promotion of Funtime runs the risk of doing damage to its flagship product.

#### Conclusion