

# Assignment kodak

Technology



## Unit 10: Assignment #3

1. A corporate strategy is used by a company in order to determine what its position should be in the marketplace. Companies use it as a guide to make decisions and to determine which path to take. Most importantly, it focuses the company on answering the basic organizational questions, such as where to compete, how to use revenue effectively, how to expand without using up available capital, and where to draw the line between expanding one's business and acquiring other companies (Bryan, et. al., 1998). Kodak took advantage of the concept of economy of scale, the theory of which states that as a business increases production of one product, its costs for that product decrease. Prior to the 1970's, Kodak's corporate strategy was to focus on the following objectives: 1) mass production to lower production costs, 2) technological superiority, 3) advertising, 4) worldwide expansion. (Jones, C413)

The first strength of this strategy is that Kodak was able to establish itself worldwide as the brand leader in photographic equipment. By producing in mass quantities, Kodak achieved economy of scale and had minimal costs for its products. Additional strengths during this time were supplying its own parts and expanding worldwide in order to firmly establish Kodak as the leader in the photographic industry. Its main weakness was not anticipating competition; the Japanese were easily able to break into the market with Fuji by cutting costs. Its worldwide expansion strategy also proved to be a problem as producing film in many countries added to Kodak's costs. Finally, by concentrating 75% of its profit base on color film and paper, Kodak did

not immediately have the resources to compete with Fuji's technologically-advanced production strategies.

2. When the environment changed in the 1970's and 1980's, Kodak was presented with new opportunities for products and production. The main opportunity during this time was to introduce new products on the market. They originally had the idea to mass produce easy-to-use, inexpensive 35mm cameras, but did not pursue the opportunity at the time. The Japanese managed to introduce the cameras first and to gain market share. However, there was still ample opportunity for Kodak to produce its own 35mm cameras, and thus be able to produce and sell different types of film. Kodak's main threat during this time was not being able to seize the right opportunities. During the 1980's, Kodak introduced the disc camera. It anticipated a great demand, but the 35mm camera from the Japanese became its main threat and most of the disc cameras remained unsold. Kodak experienced yet another threat when it "lost its patent suit with Polaroid Corporation." (Jones, C414). Once again, Kodak failed to seize an opportunity when it opted not to enter the instant photograph market. Polaroid took advantage of this technology and became the leader. When Kodak attempted to compete with its instant camera, they were sued by Polaroid and lost the case. Thus, they experienced the threat of losing significant capital when they a) had to close down this division and exchange the cameras that were already sold; b) paid a settlement to Polaroid Corporation for patent infringement.

Kodak experienced three additional threats. The first was the foreign manufacturers who produced photographic paper and entered

the photoprocessing market. They were able to use less expensive equipment, achieve comparable quality, and produce paper at a competitive price. As a result, Kodak lost market share. The second threat was entering the maturation stage and experiencing market saturation; by 1980, “ 95 percent of all households owned at least one camera.” (Jones, C415). Finally, the introduction of the videotape and video camera eliminated the market for Kodak’s film-based home movies.

Porter’s model explains four generic strategies that a business must use in order to cement its position within an industry. The first is that it needs to have a cost leadership strategy. Kodak achieved this by mass production of its products prior to the 1970’s. The second strategy is differentiation, in order to set itself apart from products produced by other companies. Kodak achieved this initially by producing inexpensive and easy-to-use cameras, but failed to maintain this differentiation in the 1980’s. Porter’s third strategy is cost-focus, which means that the company lowers prices and controls expensive in a narrow market segment. There is no evidence that Kodak used this strategy, though they did keep costs down. Finally, Porter’s fourth strategy is differentiation focus, which means that Kodak should have had different product offerings for a few markets. They could have used this strategy to do a test run of the instant cameras in the 1940’s or the 35mm camera in the 1970’s, but Kodak did not use this strategy.

3. Colby Chandler became chairman in 1983 and immediately saw a need to update Kodak’s failing corporate strategy. He was faced with updating a company with antiquated ideas. Kodak began as an innovative market leader; when Chandler took over, the Japanese had a significant foothold in

the photographic industry. The old strategies were no longer effective. Mass production had resulted in the focus on products that no longer enabled Kodak to compete; technological superiority dissolved in the 1970's when the Japanese capitalized on the 35mm camera; worldwide expansion had spread Kodak's resources too thin, they needed to focus on the areas in which they were successful. One of those areas, of course, was advertising. At this point in time, Kodak had established itself as a quality brand name and a name in which customers could easily recognize and place their trust. Keeping all of these factors in mind, Chandler adopted a new corporate strategy. The new strategy was as follows: 1) to increase control over the chemical-based imaging business; 2) establish Kodak as a leader in electronic imaging; 3) diversify Kodak into new businesses; 4) reduce costs and improve productivity (Wong, 2005). Chandler delved wholeheartedly into this new strategy. Realizing that Kodak had plenty of cash and little debt, he decided to venture into acquisitions. By the time Chandler and Kodak had acquired a number of new businesses, they were able to entirely restructure Kodak into four departments: imaging, information systems, health and chemicals.

4. The introduction of four departments allowed Kodak to add value to its portfolio. The first department was that of Imaging, and it encompassed Kodak's entire original product line. The goal of this department was to strengthen Kodak's position in the imaging business. Kodak needed to, at this point, improve its market share once again, and they set out to do just that by introducing new products and licensing its name for Japanese-made products. Chandler reduced the threat of foreign-produced photographic

paper by acquiring photo-finishing companies and becoming the largest wholesale photofinisher. In addition, Kodak one-upped the competition with its one hour photo finishing option. Kodak's most impressive move was to establish the color watch system, which only used Kodak products in its finishing process.

The second department was information systems, and this group was concerned with electronics. Kodak had to compete with Sony's video cameras, as demand for such products was on the rise. They began this group by marketing other companies' products until they could produce their own. They also acquired other companies, namely, Eikonix Corporation, which produces "precision digital imaging systems" (Jones, C418). Kodak also entered the copier business and marketed copier products manufactured by IBM. The next venture was into companies that made computer products, such as floppy disks. Eventually, Kodak was forced to admit that it had less capability in such markets and eventually sold Verbatim to Mitsubishi.

Kodak's third group revolved around health products and began when they designed film for dental and medical x-rays. While this group began with imaging products, they quickly began to venture into other areas. The first was a life sciences division, whose first responsibility was to seek out opportunities in which to invest. Kodak next joined with ICN Pharmaceuticals to form a research institute to develop anti-aging and anti-viral products. Chandler then acquired Sterling Drug as a means of entering the prescription drug market and to open doors in the pharmaceuticals industry.

Kodak had already established itself with chemicals, and this became their fourth group. They had developed the “ PET” bottles, which were used for a variety of products, including soda bottles. In 1986, Kodak introduced three new divisions: specialty printing inks, performance plastics, and animal nutritional supplements.

5. Imaging: using Japanese manufacturers to produce cameras allowed Kodak to sell 500, 000 35mm cameras and obtain 15 percent of the market. Becoming the leader in photo finishing allowed Kodak to take control of the chemical and photographic paper market and to position these products in such a way that Kodak chemicals and paper were considered the gold standard for photo finishing. Eventually, Fuji was forced to raise its prices, thus giving Kodak increased market share. Information Systems: Kodak’s acquisition of other profitable companies increased its bottom line as well as its market share in the digital imaging and copier industries. By entering the computer accessories market, Kodak became “ one of the three big producers in the floppy disk industry”. (Jones, C419). However, being outclassed by companies with greater knowledge of electronics forced Kodak to sell many of these ventures between 1988 and 1989, resulting in a loss of \$360 million. Health: by allowing the life sciences division the freedom to seek out opportunities, Kodak was left with half a million chemical combinations it can use for new products. Its partnership with ICN was eventually disbanded as a means of reducing costs, its residual departments absorbed into the rest of the life sciences division. Chandler’s acquisition of Sterling Drugs proved to be yet another case of entering a market in which Kodak had no expertise, a move that was quickly becoming an unfortunate

Kodak trademark. Many feared that this acquisition was a precursor to a takeover of Kodak; sales in the health group increased but did nothing for overall earnings. Chemicals: the “ PET” products had a good start, but eventually had to compete with other companies. The early market growth was replaced by a reduction in prices in order to compete and eventually, a reversal of earnings in 1989.

Overall, Kodak made bold marketing moves and created or gained market share in many different industries. At last, Kodak was no longer dependent on its photographic products and services. Unfortunately, many of these new industries were those in which Kodak had no previous expertise, and they were forced to sell the departments rather than take a loss. Chandler failed to anticipate much of the competition, and once again this resulted in profit loss in almost every group.

6. Chandler undertook a corporate restructuring in 1990 in order to reduce costs and to position the company to be more competitive and more flexible. These changes were necessary because managerially, Kodak was stuck in 1932 with the presence of the deceased George Eastman still at the helm. Instead of being an innovative company keeping up in an ever-changing technological environment, Kodak continued to plod along the way it had for over fifty years. The most significant problem was that in light of all the changes, the company’s executives did not react quickly. Rather, by the time decisions were made, opportunities had passed.

The different departments did not communicate effectively with one another, and this resulted in a great deal of corporate waste. Kodak’s seniority policy in regard to promotion was a barrier to progress; scientists and engineers



were given greater priority than marketing. As a result of the last problem, products were created at great expense without taking into consideration the potential market for such products. As Kodak's management style was developed during a time that it only produced photographic products, Chandler realized that it would need to be updated in order to keep up with Kodak's restructuring.

Chandler's first move was to downsize its employees and eliminating its former policy of lifetime employment. Divisions cut employment and costs, and eventually this belt-tightening led to a savings of \$1 billion and a resurgence of profits. Next, Chandler worked on Kodak's corporate structure. The imaging group was divided up into seventeen units, each with a different head. His goal in this division of labor was to promote innovation, speed reaction time and to establish clear profit goals (Jones, C422). Chandler also reduced the number of managers at the top and reorganized its management so that there were more middle managers.

Chandler also instituted a venture board to make capital investments and thus exercise a risk-taking approach to business. The individuals in this department screened project proposals for approval. This new department was quite successful and discovered new products.

Kodak began a program of paying employees based on performance. Corporate and middle managers began to receive salaries that reflected the company's overall performance; ordinary workers received dividends according to Kodak's return on assets. Because they still had a need to reduce costs, the worldwide operations were reorganized; this resulted in a

savings of \$55 million. Unfortunately, the rise of the dollar ate up most of these savings.

7. The future of Kodak is uncertain. As a result of the restructuring, the top executives and employees of Atex turned in their resignations, citing not only the management failures, but also Kodak's inexperience in the computer technology industry. Kodak's slow reaction time is inappropriate in the computer industry where innovations are made and patented at an alarmingly fast pace. There are far too many companies in Silicon Valley who are willing to jump on the latest idea or improvement at a moment's notice; Kodak's plodding style gives them little hope of success in this industry (Lewis, 1994). By reorganizing into the four different groups, Chandler was able to focus Kodak's efforts on more than just photography. However, he failed to anticipate the amount of competition or the knowledge required to succeed in these industries. He also failed to realize that it is expensive to enter a new business. In short, Chandler had good ideas but lacked the ability to carry them out.

At present, Kodak focuses its efforts in the following areas: consumer products, professional photography, cinematography, health and dental, graphic communications, and finally, business and government. Kodak's six corporate values are as follows:

“ Respectfor the Dignity of the Individual...Uncompromising Integrity... Trust... Credibility...Continuous Improvement and Personal Renewal... Recognition and Celebration,” (The Kodak Values, 2006). Unfortunately, none of these values reflect a commitment to improve upon Kodak's traditional

weaknesses: inability to compete, acquisition without knowledge, spreading itself too thin, and failure to focus on its strengths.

Whitmore should proceed by tackling Kodak's weaknesses.

A. Kodak needs to keep an eye on the competition and anticipate its competitors' actions. For this reason, Whitmore should establish an action group made up of one individual from each department. These individuals will be responsible for keeping up with their respective industries (chemical, photographic, etc.) and reporting on new innovations, patent filings, and any other developments that will have an effect on Kodak in the near future. They should also participate in as many industry-related events as possible. One such event, The Future of the Company, focused on learning about possible futures for the digital technology industry in general and Kodak in particular. This event led to new ideas and strategies that Kodak can use in the future. Such focused thinking needs to be incorporated into Kodak's strategic goals (Stopper, 1998).

B. When Whitmore or any executive wants to branch into another realm, a research group needs to be assembled in order to determine the feasibility of the new venture. This group can be made up of current employees: scientists and engineers can determine the requirements and costs of developing the new products; marketing experts can evaluate the feasibility of entering the market according to the current conditions; human resources will be able to analyze the staffing needs of the new department and produce employees who would be a good fit for the new venture.

C. Kodak has gone from a photographic company to a worldwide corporation with many departments. Whitmore might want to consider selling off some of its groups in order to focus on a few areas. Rather than trying to do everything, Kodak can focus on doing a few things very well.

D. Finally, Kodak's main strength is in its long-standing position in the photographic industry. When faced with the choice of purchasing a Kodak product as opposed to any other brand name, consumers are more likely to go with the name with which they're more familiar. More often than not, that will be Kodak. Whitmore should seek out ways to expand its photographic, chemical and paper interests in order to capitalize on the Kodak name.

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