

# [Eastman kodak essay](https://assignbuster.com/eastman-kodak-essay/)

Harvard Business School 9-594-111 Rev. May 8, 1995 Eastman Kodak Company: Funtime Film On January 25, 1994, George Fisher, Kodak’s recently appointed chief executive officer, met with analysts and investors to set out Kodak’s new strategy for film products. During the past week (between January 17 and January 24), Kodak stock had lost 8% in value on rumors of a price cut on film.

While Kodak continued its overwhelming domination of the photo film market, its market share in the United States had eased from about 76% to 70% over the past five years “ as competitors like Fuji Photo Film Co. and Konica Corp. wooed consumers with lower-priced versions. ” 1 Previously, Kodak had attempted to blunt share-gaining attempts by such rivals and private label products by introducing a superpremium brand, Ektar. Now Kodak proposed to introduce a brand at Fuji and Konica’s price level, 20% below the price of Kodak’s flagship Gold Plus brand.

The new brand, Funtime, was to be available only in limited quantities during two off-peak selling seasons. While some viewed the move favorably, others were more skeptical. One analyst termed the strategy “ seemingly a long step down the slippery slope that ends in private label trial. ” The U. S. Photo Film Market In 1993, approximately 16 billion color exposures were made—the equivalent of 670 million 24-exposure rolls. Typically, a consumer paid between $2. 50 and $3. 50 for a 24 exposure roll. Over the past five years, the market’s annual unit growth rate averaged only 2%.

Major suppliers were Kodak, Fuji of Japan, Agfa of Germany, and 3M. Kodak and Fuji sold only branded products. Because of a 1921 consent decree still in force, Kodak could not sell film on a private label basis. Both Agfa and 3M sold their film to consumers as branded product and to other firms for sale under a private label. Polaroid entered the market in 1989 with its branded product, which it sourced from 3M. Film was intensively distributed through discount and department stores (32% of sales), drug stores (24%), camera shops (14%), supermarkets and convenience stores (13%), wholesale clubs (9%) and mail order (2%).

Analysts’ estimates of unit market shares by manufacturer are shown in Table A. 1Wendy Bounds, “ Kodak Develops Economy-Brand Film That Is Focused on Low-Priced Rivals,” Wall Street Journal, January 26, 1994, p. A3. Professor Robert J. Dolan prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Copyright © 1994 by the President and Fellows of Harvard College. To order copies or request permission to reproduce materials, call 1-800-545-7685, write Harvard Business School Publishing, Boston, MA 02163, or go to http://www. bsp. harvard. edu. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Harvard Business School. 594-111 Eastman Kodak Company: Funtime Film Table A Approximate Unit Market Shares in 1993 (U. S. Market) | | | Kodak | 70% | | Fuji | 11% | | Polaroid | 4% | | Private label | 10% | | Other | 5% | Fuji and Kodak were locked in a global battle for dominance of the worldwide photographic market.

Both sold cameras and other imaging products as well as film. Fuji’s worldwide sales of $10 billion made it half Kodak’s size. Fuji started its serious incursion into Kodak territory in 1984, when it captured consumers’ attention, particularly in the United States, by becoming the official film of the 1984 Summer Olympics in Los Angeles. Both Fuji’s and Polaroid’s U. S. dollar sales grew at over 15% in the past year, compared with Kodak’s 3% growth rate. An industry expert opined, “ Fuji’s gains can be largely attributed to the marketer’s ability to keep the line on price, an area where Kodak has suffered. 2 Private labels as a group grew about 10%. Category Pricing Kodak’s Gold Plus brand was the standard of the industry. Exhibit 1 shows the average retail prices for a single 24-exposure roll of ISO 100 film. (ISO refers to the “ speed” or light sensitivity of the film. Amateurs typically use 100, 200, or 400, with 100 being the most popular. Higher-ISO films performed in lower light conditions, but were more expensive. ) As shown in Exhibit 1, there were four price tiers in the market. Kodak Gold Plus, the largest-selling brand by far, set the Premium Brand price at $3. 9. Kodak’s gross margins were believed to be about 70%. Both Kodak and Fuji offered superpremium brands targeted very narrowly at advanced amateurs and professionals. These products were distributed mainly through camera shops and were not major sellers. Fuji’s key brand, Fujicolor Super G, anchored the Economy Brand tier at 17% below the Premium tier. Fuji’s gross margin was believed to be about 55%. Konica and 3M’s ScotchColor brand were other competitors in this tier. Finally, film procured from either Agfa or 3M and sold under another name made up the Price Brand tier.

Representative products are shown in Exhibit 1. While most of the film in this group was “ branded” with the name of the retail outlet selling it (e. g. , Kmart, a major mass merchant, and Walgreen’s, a major drug chain), Polaroid, the dominant firm in instant cameras and film, marketed conventional film it sourced from 3M in this tier. On average, these “ Price Brands” were priced about 30% less than Kodak Gold Plus. Dealer percentage margins were typically higher for private label products. 3 2Ricardo Davis, “ Fuji Makes Gains in 35MM Film Sales Using Price Strategy,” Advertising Age, October 18, 1993, p. 8. 3Casewriter Note: For purposes of calculations in the case analysis, a good approximation is that dealer margins on Kodak film averaged 20%; other suppliers’ film yielded a 25% dealer margin. 2 Eastman Kodak Company: Funtime Film 594-111 Consumer Behavior Film usage rates varied widely across households with a mean of 15 rolls per year. The Wolfman Report4 estimated that 20% of households bought less than 5 rolls per year, 22% bought between 5 and 9 rolls, 28% bought 10 to 15 rolls, 16% bought 16 to 25 rolls, and 13% bought more than 25 rolls.

Often, these rolls were purchased in “ multipacs” containing 2-3 rolls of film. Kodak advertised heavily, e. g. , spending approximately $50 million on camera and film supply advertising in the United States in 1993. (This was about 4 times Fuji’s U. S. advertising spending. ) Kodak advertising was typified by presentation developed for use on the 1994 Olympic Winter Games television broadcast. Contrasting against the Olympic competition from Norway broadcast around the world, the ad portrayed a young boy in his own competition in his backyard falling into a snowbank to make a “ snow angel. The voice-over noted, “ Some of the best events happen in your own backyard . . . why trust them to less than Kodak film. ” Actual quality differences among films were unclear. Both Kodak and Fuji tried to position themselves as providing superior quality film through their advanced technology. However, Consumer Reports5 conducted a test of films and reported, “ We found most films to be no better or worse than their competitors of the same speed. The top six ISO 100 films scored so similarly that we think all will yield prints of comparable quality. In order of overall quality score (score out of 100 in parenthesis), these top six films were: | 1. | Polaroid High Definition |(95) | | 2. | Fujicolor Super G |(94) | | 3. | Kodak Gold Plus |(93) | | 4. | Konica Super SR |(93) | | 5. | Kodak Ektar |(92) | | 6. | ScotchColor |(92) | ScotchColor was also sold as private label from Kmart, Kroeger, Target, and York, among others as shown in Exhibit 1.

Fuji Superpremium brand Reala had a score of 90, and Agfacolor XRG scored 88. Consumer Reports regarded score differences of less than 5 points as “ not significant. ” According to a 1991 survey cited in Discount Merchandiser, more than half of the picture takers in the United States claim to know “ little or nothing about photography. ” 6 As a result the article claimed, “ Consumers tend to view film as a commodity, often buying on price alone. ” The article also quoted Jim Van Senus, Kodak’s manager of general merchandise marketing: “ The importance of brand name in consumer decision making is still strong.

On the other hand, there is a growing body of price-sensitive consumers there. We are seeing growth in private label film activity. ” Kodak research had shown that 50% of buyers were “ Kodak-loyal,” 40% were “ samplers” relying heavily on Kodak, and 10% shopped on price. 7 The Funtime Strategy For 1994, Kodak planned a major repositioning of its film product line. A new emulsion technology would increase exposure latitude. Three films would be offered: 41992-93 Wolfman Report on the Photographic and Imaging Industry in the United States, p. 1. 5Consumer Reports, November 1993, p. 712. 6R. Lee Sullivan, “ Photogoods on the Upgrade,” Discount Merchandiser, September 1991, pp. 64 ff. 7G. Khermouch, “ Kodak Reorganizes Its Film Line,” Adweek, January 31, 1994, p. 14. 3 594-111 Eastman Kodak Company: Funtime Film 1. Gold Plus—to remain the flagship brand at a price unchanged from 1993 levels. Gold Plus would receive 60% of the dollar advertising support. 2.

Royal Gold—to replace Ektar in the Superpremium segment. Whereas Ektar had been targeted to professionals and serious amateurs, Royal Gold would be targeted to a broader audience for “ very special” occasions. Offering richer color saturation and sharper pictures, it would be positioned as especially appropriate for those occasions when the consumer may wish to make enlargements. Royal Gold would be heavily supported by advertising (40% of the total film budget) and by promotion and would be priced lower than Ektar was selling to the trade at a 9% premium over Gold Plus.

Cooperative advertising allowances were to be offered to the trade to provide the incentive to maintain Royal Gold retail prices at 20% above Gold Plus, thereby offering superior trade margins. 3. Funtime—to give Kodak a presence in the Economy Brand Tier at a price 20% below Gold Plus on a per roll basis. Key aspects of the Funtime marketing plan: No advertising support Offer only twice a year at off-peak film use times, viz. for 2-3 months beginning in April, and again for 2-3 months beginning in September. Available in limited quantities.

Offer in only the two most popular speeds, ISO 100 and 200. (In contrast, Royal Gold would be eventually offered in five speeds. ) Available to all classes of trade. Packaged only in “ value packs,” specifically in two forms: 1. 2 rolls of 24 exposures 2. 4-roll package (3 rolls of 24 exposures, 1 roll of 36 exposures) Alexander Wasilov, vice president and general manager of Kodak Consumer Imaging in the U. S. and Canada, explained the strategy: This repositioning is intelligent risk taking that will drive both our market share and earnings . . . it] will allow us to be more selective in targeting certain customer segments. We now have Royal Gold film for those very special memories— the birth of a baby, the graduation. We continue to offer Gold film, for capturing those unexpected moments—the baby smiling, the father and son playing catch in the backyard. And now we will offer a special promotion twice a year, featuring a modified version of Gold film at a slightly lower price than our other films. 8 Commenting on the strategy, Konica’s director of marketing said, “ There will be an opportunity for us at Konica.

It seems like a desperate move to regain market share. Not a way to make the industry more profitable. ” 9 8Wendy Bounds, “ Kodak Develops Economy-Brand Film That Is Focused on Low-Priced Rivals,” Wall Street Journal, January 26, 1994, p. A3. 9Ibid. 4 Eastman Kodak Company: Funtime Film 594-111 Exhibit 1 Price Tiers in Film Market Defined by Average Retail Price Paid Superpremium Brands | Fujicolor Reala |— |$4. 69 |(134) | | Kodak Ektar |— |$4. 7 |(122) | Premium Brands | Kodak Gold Plus |— |$3. 49 |(100) | | Agfacolor XRG |— |$3. 49 |(100) | Economy Brands | Fujicolor Super G |— |$2. 91 |(83) | | Konica Super SR |— |$2. 91 |(83) | | ScotchColor |— |$2. 69 |(77) | Price Brandsa |(S) | Polaroid High Definition |— |$2. 9 |(71) | |(S) | Kroeger |— |$2. 49 |(71) | |(A) | Walgreen’s |— |$2. 49 |(71) | |(S) | York |— |$2. 40 |(69) | |(A) | Clark Color |— |$2. 35 |(67) | |(S) | Kmart Focal |— |$2. 9 |(66) | |(S) | Target |— |$2. 19 |(63) | Source: National Survey reported in Consumer Reports, November 1993, pp. 711-715. Note: Numbers in ( ) are indices indicating price relative to Kodak Gold Plus. a (S) designates the film was procured from 3M and was equivalent to ScotchColor. (A) designates the film was procured from Bayer’s Agfa and was equivalent to AgfaColor XRG. 5 ———————– [pic] ———————– 1