Kodak: digital camera industry

Business, Strategic Management

Kodak Case Study and Analysis February 27, 2012 1. Has Kodak followed the same generic strategy before and after 1993? What do you feel is the best generic strategy for the digital imaging business? Printer industry? Prior to 1993 I would say that Kodak's generic strategy was broad differentiation. They were a well established company in business for more than 100 years, had a very strong brand identity, very strong reputation for their research and development, and a very broad distribution network. Kodak was known for getting into many different projects, products, and industries. The company was a dominant competitor for many years in all of the industries they served. They also held a large number of patents for technology that they developed as market leaders. I believe this shows how they differentiated themselves from their competition. They acquired vast amounts of cash and assets as well. This is part of the reason that I did not see them as more of a low-cost provider. They were more focused on technology and innovation. As with any technology driven industry things began to change, and although still a dominant force, Kodak was beginning to decline in strength. They were getting lost in the middle with their strategy due to a lack of focus. They involved themselves in too many industries/markets. A new CEO, George Fisher, was named to head the company in 1993. Portions of the company were sold off, focus was placed on drastically cutting costs, and the main focus was on the digital imaging industry. Under Fisher digital print stations, new digital cameras, and thermal printers were introduced. The company had its new strategy — focused low cost provider. The generic strategy that I feel works best for the digital imaging business is that of narrow cost focus. I feel this is the best fit because the market is mature, has been deeply penetrated, and has a number of strong competitors to battle with, has low barriers of entry for new competition, and substitute products are easily obtained and the differentiation gap has closed as the market has matured. Although there may still be some room for a focused differentiation strategy to try and identify unmet consumer needs or untapped markets, I don't see this being the best overall approach. I feel that the same generic strategy would work for the printer industry as well. Kodak had some key developments in the printer industry that could be used as a differentiation tool, but there seemed to be too much focus on cost and price wars that supposedly were not being engaged in. One of the largest consumer dissatisfactions with home printers was the cost of ink. Kodak addressed that concern by offering more expansive printers and lower cost ink. 2. In doing a five forces competitive industry analysis for the digital camera industry, which force is the strongest and would you project the industry to be more or less profitable during the next five years? Which forces would cause this to be true? Rivalry Among Present Competitors - Rivalry is high because many well known brands such as Cannon, Sony, and Olympic are the dominant players of the industry. And these competitors are trying to differentiate their products through new features and functions. Rivalry is really unfavorable in the camera industry. Threat of New Entrants - Threat of new entrants is low. Since rapid pace of technological change, new entrants will need large amounts of financial support to do development and research. Therefore, threat of new entrants is low and it is favorable for the camera industry. Bargaining Power of Suppliers - Supplier power is medium in the camera industry because the number of suppliers is limited due to the fulfillment of government requirements for electronic products. Under this force, the camera industry is moderately unfavorable. Bargaining Power of Buyers - Buyer power is medium, which makes the camera industry moderately unfavorable. Customers have many choices to choose from, so they can easily change their mind and buy camera from other competitors. Threat of Substitute Products - Threat of substitutes is medium. Many people like to use cellphone as a photograph device because the photograph functions of cellphones are become more alike to actual digital camera. Lastly, threat of substitutes is moderately unfavorable to the industry. Due to technology improvements and existing competition in the industry four out of five forces of the digital camera industry are unfavorable. I would say that bargaining power of buyers is currently the strongest force. The digital camera industry does not appear to be attractive at this time, and I foresee the industry being less profitable over the next five years. 3. As of 2011/2012 what market share does Kodak enjoy in the printer market, digital camera market? Do you feel this is a large enough share/volume to keep Kodak profitable and not in Chapter 11? If you were Kodak’s CFO how would you analyze this problem to arrive at your conclusion? Kodak’s share of the printer market has continued to grow since beginning sales of printers to consumers in 2007. By 2010 the company held 3% of the all-in-one inkjet printer market worldwide, up from 1% in 2008. Revenues in this market continued to grow for Kodak from sales of printers and ink. Kodak offered ink at a lower cost than the competition and sold the printers for more. As for the digital camera market, Kodak held 8. 8% of the digital camera market in 2009. That number dropped to 7. 4% in

2010, and continued to decline moving into 2011. The main reason I see that Kodak was not as successful in the digital camera market as they were with the printer market is that they simply moved too slow. In the past they controlled the value chain, they held numerous patents, they focused on research and development, all of which gave them an advantage over the competition. As they got lost along the way much of the value chain control moved to overseas competitors, competition moved more quickly in utilizing technology and innovation, and processes were just too slow at Kodak. The company was strong in this area for a number of years originally, but has gradually lost its strength to more agile competitors. But, the market is quickly eroding due largely in part to advancement of smart phones. In less than a month or so from filing for bankruptcy in January 2012, the company has announced a move to exit the digital camera market. There were many missteps on the road to filing bankruptcy and I don't believe market share was going to save them from filing Chapter 11. As the CFO, I would have wanted to review the company mission and vision statements, to see if they were in line with where the company was trying to go. This may have helped identify more quickly how they were stuck in the mud. It also could have been an opportunity to rewrite these statements and keep the company more focused. I also would have conducted a financial, internal, external, and key success factor analysis for the company. This would have helped keep the company focused, as well as identified strengths, weaknesses, and opportunities for improvement. 4. For many years, Kodak was a consistently profitable film and chemical company, had one of the early digital camera technologies and patent protection, was reputed to have excellent engineers, managers, and processes, brought in new management as needed, ran a conservative financial ship, had a positive culture, and had been in business over 100 years. Why was it not possible to make the transition to become the leader in the digital camera field? Kodak did not keep its tried and true business model fresh. They focused on too many different products, markets, and industries. The company did not innovate well across their business model. They were less agile than some of their competition. They lost a lot of the control they had over the value chain to overseas competitors, and they simply did not transition well into the new areas of business. Although they had amassed large amounts of capital, held many patents, had an excellent reputation in research & development, ran a tight financial ship, they moved too slow. Their processes were slow. So, even though they were now much more focused, they were not able to make up lost ground. 5. Do a key success factor analysis for the digital camera industry and compare Kodak versus Canon. What would you see as the positive and negative variances for Kodak? Do you believe Kodak could overcome the negative variances and grow the positive during the next 3 years to significantly improve their competitive position? Industry driving forces ï�® Rapid decline in demand for traditional photography equipment in developed economies ï�® Rapid growth in demand for digital cameras in developed economies ï�® Steady decline in demand for film and photo processing ï�® Development of new imaging technology such as photo-enabled wireless telephones and high-megapixel digital cameras ï�® Convergence of technology (PDAs, wireless phones, digital cameras, web browsers) ï�® Declining prices and profit margins in digital cameras Key success factors in the digital camera industry ï�® Technological capabilities ï�® Rapid design-to-market cycle times ï�® Reputation for producing high-quality consumer electronics ï�® Reputation for producing high-quality optical devices (cameras, binoculars, microscopes, medical equipment) ï�® Distribution network that includes large electronics chains and local camera retailers ï�® Involvement in multiple segments of the industry value chain– camera production and sales, printing supplies, professional photo processing Canon was more agile than Kodak in this market. Kodak was off to a much slower start in the area of digital cameras. I believe they held on to long to the film and photo processing businesses instead of focusing their attention and effort on digital cameras and printers. They were too concerned with hanging on to the profits they were getting from the other businesses. This allowed companies like Canon to move past Kodak in the digital camera market. Some positives for Kodak were their technological capabilities, brand identity and their reputation for high quality. Some negative variances were slow processes in R&D, slow design to market cycles, and loss of dominance in the industry value chain. As we know now, Kodak was not able to overcome the negatives. The market was becoming more and more mature while simultaneously becoming obsolete due in part to the technological advancements in the smartphone industry. The market was too unfavorable for Kodak to recover, and profitability was going to decrease for all competitors in this market. 6. As a bright MBA from DeSales, would you invest in Kodak at this time? Why or Why not? Recently Kodak has filed for protection under Chapter 11 bankruptcy while it reorganizes. There are a few things to consider when thinking about investing. One, Kodak recently decided to get out of the digital camera market. This leaves the company primarily focused on the printer market. Two, even if Kodak liquidated its vast amount of assets they'd still owe over $1billion in debt. Three, when the company decided to try and catch up in the digital camera market they filed over a thousand patents. Investing in Kodak now would be largely making an investment into the value of those patents. Kodak is selling some of the patents, and with others they are suing to enforce the patent rights and raise capital. On top of all of this, it is still crucial that they cut costs and increase sales of both new and old products. Investing could be a great long-term play at a low cost, or the company could languish again. In order to turn a long term profit an investor would have to rely on Kodak making one of its business segments profitable. They also have a very substantial pension obligation annually (which could be reduced in the bankruptcy though). At this time the risks for me are too high, and there are too many uncertainties. As a more conservative investor, I say no.

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