

Kodak case study

Education



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 1. Executive summary

This essay attempts to analyse the strategic position of Kodak through different models/tools of strategic audit. The first section of this essay describes the context of strategic position and introduces the background of Kodak and its strategic position in present. Three steps analysis are followed in second section to analyse the strategic position of Kodak: Directional Policy Matrix is applied to analyse the competitive environment of Kodak; different types of resources of Kodak are audited and listed in detail; SWOT analysis is applied to identify Kodak's competences. Through above three steps, we can acquire a clear understanding of Kodak's strategic position. In the last section of this essay, it summarises the application of different models/tools of strategic management and international marketing, and points out the disadvantages of these models/tools as well as the recommendation of further application of them.

2. Brief Introduction
 - a. Introduction of Strategic Position Organisations vary widely.

Some are simple and consist of only one business while others are complex, with the group as a whole containing many businesses. Whatever the size or complexity of organisations, they are all faced with the need to manage their survival and development over the long term. “ Strategy is the direction and scope of an organisation over a long term: which achieves advantages for the organisation through its configuration of resources within a changing environment, to meet the needs of markets and to fulfil stakeholders expectations. ” (Johnson, G. & Scholes, K. 1999: 10).

Strategy exists at a range of levels in an organisation and includes Corporate Strategy, Business Unit Strategy and Operational Strategy from higher level to lower. With a clear strategy, it is essential to manage an organisation through Strategic Management. Strategic Management combines by three interlinked components: Strategic Analysis, Strategic Choice and Strategic Implementation. In looking at Strategic Analysis, its main aim is to attempt to understand the Strategic Position of the organisation. Strategic Choice and Strategic Implementation are the following steps of Strategic Analysis.

Strategic Position of an organisation can be viewed in terms of its external environment, internal resources and competences as well as the expectations and influence of stakeholders. These factors, forming a view of the key influences on the present and future direction and scope of the organisation, assist us to analyse the development and survival of the organisation over a long term. In this essay, accordingly, we will analyse the Strategic Position of an example organisation through four aspects as following: • External Environment • Internal Resources Competences • Expectations of stakeholders

b. Introduction of Eastman Kodak Company

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Eastman Kodak Company (Kodak), based in New York, is a major player in the world's market for photographic and imaging products and systems. With a strategy of company's focus on pictures, new products, a strengthening market position, and investments for growth, Kodak has experienced in traditional film and photoimaging business for more than a century. As time goes by, it also suffers the threat from the overwhelming digital trend. With sales of \$9. billion in 2008, the company is committed to a digitally oriented growth strategy focused on the following businesses: Health- supplying the healthcare industry with traditional and digital image capture and output products and services; Graphic Communications - offering on-demand color and black and white printing, wide-format inkjet printing, high-speed, high-volume continuous inkjet printing, as well as document scanning, output and storage products and services; Digital & Film Imaging Systems - providing consumers, professionals and cinematographers with digital and traditional products and services; and Display & Components - which designs and manufactures state-of-the-art organic light-emitting diode displays as well as other specialty materials, and delivers imaging sensors to original equipment manufacturers.

3. Analysis of strategic position of Kodak Success in modern world requires constant innovation and change – things most of the organisation are not known very well. This environment changes so rapidly that even the best idea can fade fast. Perhaps this is the reason that environment is so important to an organisation.

a. Analysis of External Environment

i. General Environment Technological Environment. The influx of technological advancements into the photographic marketplace has presented the industry with a unique set of challenges and possibilities.

Technological discoveries and enhancements have hastened the growth of the traditional silver-halide market. In addition, with the onset of digital technology, the industry is faced with chance to expand its business through venturing more into digital imaging which is currently putting forth enticing opportunities. On the downside, considering the electronic nature of the products offered in line with digital imaging (eg. scanners, printers, etc.), entry of potential competitors, particularly from the electronics group who may have equally competent resources and capabilities, is still at a height. As a result, the structure of the industry may be altered. Socio-Cultural Environment.

With society's increasing awareness over environmental preservation, possible hindrance in the growth of the players in the industry is present. The film marketed by these companies, as an example, are currently packaged in plastic non-biodegradable tube cases. As a response to environmental concerns and grievances, repackaging using nature-friendly materials may be ensued. This also holds true with single-use cameras (SUCs) which is primarily composed of plastic non-biodegradable materials. Here, companies may either reduce its margin or impose higher prices over its products in repackaging its products to be environmental-friendly brought by a possible increase in its production cost. The market's culture may also impede the entry of global industry players.

As an example, with Japan's resistance to Western influence and its society's higher preference over locally made products, foreign industry players would most likely have difficulty in penetrating in this geographical segment. In addition, with the fact ascertained that photographic products are usually

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used in instances of special occasions (eg. weddings, birthdays, holidays, fiestas, etc.), regularity of celebration of these occasions would deeply affect the demand of the products. Economic Environment. The global scale of the photographic market presents some threats to its core business. Sales in its geographical segments would generally differ according to a country's economic state. Sluggish economy or economies under recession decrease sales as a result of delayed spending on leisure goods.

In addition to the state of the economy, tariff and foreign trade laws may render leisure good spending in lull brought by higher prices as a result of the duties imposed on the goods. Tourism economy, as a whole, has a direct effect on the industry. As the number of tourists decrease, usage of photographic materials would most likely decrease demand. Legal or Political Environment. Legal influences may hamper the growth of some players in the industry. Antitrust laws, for example, may limit expansion of industry players through its provisions. On the brighter side, however, this may protect the position of a company in the market. Foreign laws, in addition, in its move to protect local firms, may thwart the entry of global producers in its market.

Furthermore, patent and proprietary rights laws would deter firms to expand, venture, and produce patented products. ii. Industry Environment Threat of New Entrants. With great barriers, the threat of new entrants in the industry is at a low level. This is brought about by the sizeable investment required in procuring manufacturing equipments for a potential entrant. Due to narrow margins, manufacturers need to rely on mass production in order to take advantage of economies of scale. This keeps start-up costs high, making it

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difficult for new entrants to the market. Furthermore, marketing costs are also high for these entrants for it to be able to topple down existing players or even penetrate the market.

This is in view of the current industry players, which if characterized, are established and successfully positioned in the market obtaining brandloyalty. Also, with the length of these companies' operations in mind, they have been riding down the experience curve; as a result, economies of scale and cost advantage have already been achieved. In addition, prospecting players must introduce into the market differentiated products that are more enhanced than that offered by existing players, which would require it to spend a substantial amount in research and development projects. However, with the emerged digital imaging in view, the risk posed by potential industry entrants may be shifted from a low level to a moderate one.

This is in view, as stated in the earlier part, of the electronic nature of some products offered by the digital imaging technology which has the possibility of attracting electronic companies who may possess capabilities and competencies that could equal or even exceed that of the current industry players. Rivalry among Established Competitors. Firms under the photographic industry operate in an oligopolistic environment where few of the member firms share dominance such as Eastman Kodak, Samsung, Sony, Fuji Films and Canon. Competition among these firms is at a fierce level given the fact of its slow-growth particularly in the traditional photography. Here, with demand conditions at a moderate level of progress, firms closely compete to capture and increase market share through price wars. Exit

barriers within the industry are at a high level as well contributing to the intense rivalry among industry players. Bargaining Power of Buyers.

The influence set forth by the buyers in the industry is at a moderate degree. Though products offered by the firms in the industry have attained brand loyalty, cost advantage and economies of scale and has a lesser threat of substitute products, still, firms are forced by buyers to bargain for lower prices by the quantity of their purchase. In addition, with price wars evident among industry players, buyers take advantage on playing off with these firms to obtain cheaper costs or even present a threat of providing for a lesser shelf space. In b2b area some buyers can manage procurement through agencies that purchase on behalf of groups or organizations to secure competitive pricing through greater purchasing power.

Such complex arrangements can sometimes create long lead times from tendering to delivery and that negatively affects company's financial indicator, for example, cash flow. Bargaining Power of Suppliers. The pressure exerted by the suppliers over the firms in the industry is at a low degree. However, the production process requires diverse inputs, materials and processes, giving sometimes the suppliers increased power. Silver, for example, a major raw material in the industry is widely available. It is evidenced with the fact that in the past years, no direct relationship can be established that price of the commodity has been affected by fluctuations in the availability and price of raw materials. In fact, the photographic industry consumes about one-fourth of the global demand for silver.

Furthermore, with the high level of availability of packaging materials, in this case plastic tubes and canisters, and boxes, bargaining power of suppliers is at a lesser scale. Threat of Substitute Products. Mobile phones, as they increase in power and sophistication, present the biggest challenge to the cheaper end of the market for photographic equipment. However, despite this, digital cameras and camcorders are still regarded as the preferred devices for taking quality pictures. iii. Competitive Environment of Kodak The external environment of Kodak is complex. As Kodak is focusing on imaging business, this market is the vital market for it.

In digital age, more and more activities are related to digital means, same as more and more business are derived from digital technologies. Digital trend, indeed, is a long-term threat to one of Kodak's business – silver print. At the beginning ? 2000s experts disagreed over how long it will take for digital imaging to start shrinking the worldwide traditional imaging market, but that day is already has come. Kodak operates in a number of different markets, including photographic equipment, film, electronic consumer goods, computing systems and printing. Consequently, it competes with general and specialised manufacturers and retailers across the range of its products and services. Its main competitors can be found in Appendix 1. iv.

Introduction of Directional Policy Matrix ((can be found in appendix 1) v.

Apply Directional Policy Matrix to Kodak With detailed evaluation factors list in Table 1, we will find that Kodak has strong competitive strength in its core business of traditional imaging but this industry is around unattractive and average. On the other hand, digital imaging business is a promising market though Kodak is under intense competitive pressure every step of its way to <https://assignbuster.com/kodak-case-study/>

the digital world. Based on aforementioned factors, we can draw up two pie charts in the matrix representing the Traditional Imaging market and Digital Imaging market as well as Kodak's market share (Refer to Figure 1).

Consequently, we can draw out the professional comments on these markets from the Directional Policy Matrix. For Digital Imaging market, Kodak should “invest to retain market share as industry grows” or even set it as “priority products and service”. While for Traditional Imaging market, “invest selectively to maximize cash generation” perhaps is the best choice to be selected. [pic] Figure 1. Directional Policy Matrix for Kodak (based on the Directional Policy Matrix of Shell) vi. Conclusion As mentioned above, it can be easily understood why Kodak selected Digital Imaging as its key business in present and in future whilst maintain its investment on the traditional Imaging market.

It is apparent that Directional Policy Matrix provides a useful method to direct managers' attention to key forces in the competitive environment, and brings forward questions about appropriate strategies for different business units and the portfolio as a whole. However, it should be kept in mind that the effectiveness of this approach depends on the precise information of a competitive nature between competitors in the market. Moreover, the procurement of the information in depth is not always straightforward. b. Internal Resource Audit Successful strategies depend not only on the analysis and understanding of external environment, but also the internal resources the organisation owns.

Analysing the internal resources of the organisation involves both drawing up a list of the main resources and developing of the way the organisation operates. According to G. Johnson & K. Scholes' classification (1999), internal resources can be grouped as following: • Physical Resources • Human Resources • Financial Resources • Intangibles As a multination company, Kodak owns huge resources to support its worldwide operation. According to above classification, we can identify the resources separately. i. Physical Resource of Kodak Kodak has its physical resources spread all over the world which include factories, laboratories, offices, land, building and equipments etc. ii. Human Resource of Kodak

At the end of 2006 Kodak employed 40, 900 people (full-time equivalent) of which 20, 600 were based in the US. However, this was at the start of a major restructuring programme and employee numbers have been reduced significantly. In 2008, its total headcount had fallen to 24, 400. In January 2009, it announced the loss of 4, 500 more jobs when it posted a quarterly loss. Within these staff, there have great majority of excellent experts and skilled technicians as well as experienced marketers, salesmen, accountants and the repository of many kinds of professionals. iii. Financial Resources of Kodak The results reported in Kodak's 2006 Annual Report showed remarkable advances towards achieving its ambitions.

In comparison with the previous year, digital earnings increased from \$72 million to \$343 million, while digital revenue grew by \$316 million. Cash generation was an important consideration for Kodak, since it had started 2006 with debts of \$3, 583 million and had to find over \$500 million for restructuring costs. In that year, it managed to reduce its debts by \$805

million. However, just as Kodak appeared to have made the transition to world leader in the digital market, the world economy took a nosedive, leaving the organisation fighting for survival. The results in 2008 revealed a fall in sales for the third year in a row and an overall operating loss of \$442 million.

In anticipation of the recession, Kodak made a number of changes to its structure and operations to help avoid the worst effects. Worse was yet to come. In 2009, sales fell by 24% in the quarter January to March, and a further 29% in the following quarter April to June. Kodak is predicting losses of up to \$400 million and has already reduced its cash reserves by 39% to \$1.31 billion. The highest and lowest ordinary share values are tracked and reported on a quarterly basis in the 2008 Annual Report. In 2007, the shares were enjoying highs of around \$30 and lows of about \$22. Cyclical variation in share value is common, reflecting the timing of reporting results and dividends. However in 2008, share value did not rise above \$22 and fell below \$6 in the fourth quarter.

More recently still, share value has fallen to an all-time low of \$3 each. The sale of digital cameras worldwide has fallen by 4-5%, and their average retail price has fallen by 30%. Even so, the company has announced that its cash position is secure and it has plans to survive even if the recession continues. It has high hopes that its new inkjet printers that use silicon technology rather than individual ink cartridges will ease the company into recovery. iv. Intangibles of Kodak Kodak is one of the most famous brands in the world. This brand, come through more than one century's worth of innovations,

known by most of the customers and considered as the representation of picture.

Besides this, Kodak also holds thousands of image and chromatology patents as well as its good alliance and co-operators. Introduction of SWOT Analysis

SWOT analysis is the examination of an organisation's strengths and weaknesses in relation to its possible opportunities and threats. The strengths and weakness of the organisation derive from the evaluation of its internal resource while the opportunities and threats depend on the assessment of its external environment. SWOT analysis represents an evaluation of how well the organisation utilises its resources to match the needs of the environment in which the firm operates and competes.

According to the summary of R. Lynch (Lynch, R. 1997: 262), there have a range of possible factors as to SWOT analysis. However, we will ignore the factors related to Opportunities and Threats analysis because they have been discussed in above section. In Figure 3 there have a list of the factors for Strengths and Weaknesses analysis. Apply SWOT analysis to Kodak (can be found in Appendix 2) Conclusion To making the best use of the strengths and negate or counter the weaknesses, it is a reasonable decision for Kodak to maintain its progress in Traditional Imaging business (Part 2 of Kodak Strategic Position) and concentrate on combining Digital Imaging and Traditional Imaging as a whole (Part 3 of Kodak Strategic Position).

Moreover, Intangibles and Human Resources operate as unique resources and build up Kodak's Core Competences: Reputation and Core Strengths & Key Skill in the markets Kodak operates. The application of SWOT analysis to organization as well as competitors can indicate a business its relative

position in the market and again direct the firm towards appropriate strategies. However, SWOT itself provides no formal set of rules for strategic success, certain general guidelines may nonetheless be derived from it. This analysis requires an overall understanding of both the environment and the resource capabilities, which likely will restrain the application of this analysis. 4. International marketing strategy

The level of diversity of Kodak's business helps the company to be global and take advantage of the disparate demands of consumers around the world. The company must encourage further diversification of Kodak's business in the East. Kodak's slow movement towards digital, coupled with the still early market demands of consumers in emerging markets have bought Kodak time by allowing it to still pursue its outdated model. It can be a result of this global reach, and ability for Kodak to straddle different technologies across locations that the company will continue to strengthen its balance sheet, reducing its debts, and generating more revenue in investable cash. That can happen largely credited to the emerging markets that may become the greatly needed cash-cows of Kodak's business.

In fact, probably the only reason why Kodak hasn't completely dropped off the competitive landscape is due to emergent Eastern markets that offer a glimmer of hope of interim cash-flow. The key now is to recognise this reprieve and build a global strategy that can continue to exploit silver-halide technology, whilst getting the rest of the firm in shape to address the changed market in the West. Appendix 1 One way to consider the competitive position of Kodak is by means of the Directional Policy Matrix (Thompson, L. J. 1993). This matrix is constructed above two axes: the <https://assignbuster.com/kodak-case-study/>

Industry Attractiveness in horizontal axis and the organisation's competitive position in vertical axis. By evaluating relevant factors of these two dimensions we can place appropriate positions for discussed organisation.

	Traditional Imaging	Digital Imaging	Industry Attractiveness	Market Growth	Low	High	Supplier Pressure	Low	Low	Customer Pressure	High	High	Substitute Products	Low	High	Government Action	Constraint	Support	Entry Barriers	Low	High	Competitive Pressure	High	High	Competitive Position	Competition	High	High	Relative Market Share	High	Low	Production Capability	High	Medium	Research and Development Record	High	Medium	Strength	Financial Success	Medium	Low

Appendix 2 Refer to Figure 3, there have available resources of Kodak listed in the top and their positive effects on the factors are indicated as “ * ”.

Viewing from each row, we can obtain an overall evaluation of the resources' contribution to a single factor and determine whether this factor is Strength or Weakness to Kodak. Furthermore, when viewing from each column, we can even acquire the contributions of one resource to different factors. In fact, Kodak has more strengths than weaknesses in Traditional Imaging market.

- It has strengths in Market Dominance and Financial & Cash Resource, thus there has sufficient cash provided for firm's further activities.
- It also has strength in Reputation and Core Strengths & Key Skill, which suggest Kodak maintain its advantage in Traditional Imaging market. The weakness of differentiated product of Kodak in Traditional Imaging indicates that Kodak should extend its product lines to more areas. A rational way to do so is to combine Traditional Imaging with Digital Imaging to generate

more innovation. | | Resources | Physical | Human | Financial | Intangibles | | |
 | | Factors | Resource | Resource | Resource | | | | Traditional | Market
 Dominance |* |* | |* | | Strength | | Imaging | | | | | | |

Digital Imaging | Market Dominance | | | |* | | Weakness | | | Core Strengths
 & Key Skill | |* | |* | | Strength | | | Financial and Cash Resource | | | | |
 Weakness | | | Reputation | | | |* | | Strength | | | Differentiated Products | |
 | | | | Weakness | | While in Digital Imaging market, Kodak has little

Strengths but more weakness. • The strength in Reputation and Core Strengths & Key Skill recommends that Kodak continue making effort in Digital Imaging for further success. • It has weakness in Market Dominance and Financial & Cash Resource, therefore Kodak still need invest more money to support its progress in Digital Imaging. The weakness of differentiated product in Digital Imaging also indicates that Kodak should combine Digital Imaging with Traditional Imaging. Seeing about the contribution of resources to factors in Figure 3, we can find that Intangibles and Human Resources represent substantial proportions in getting Kodak's strengths. These two resources, together with other resource, build up the Threshold and Core Competence of Kodak. Appendix 3 Kodak Divisions The company's products and services are categorized under the following different segments: Consumer photography: • Digital cameras • Software • Printer and camera docks • Online printing services • Accessories • Inkjet paper • Picture maker • Picture CD Film & processing • Single-use cameras Professional products: Films: • Colour transparency films: E-Family • Colour negative films • Laboratory and duplicating films • Black-and-white films • Advanced amateur film Papers: • Professional papers and materials • Inkjet

photo paper • Thermal printer media Chemistry: • Photographic chemicals
 Digital Products: • Professional digital cameras • Digital photo printers • Lab
 digitisation products • Professional photoCD Medical imaging products: •
 Digital radiography • Computed radiography • RIS/PACS • Medical printing •
 Mammography • Oncology • Molecular imaging • Dental products
 Graphiccommunicationproducts: Colour management and proofing • Press,
 plates and printing systems • Data management and storage • Document
 management Business and government products: • Document scanners •
 Reference archive • Micrographics • Software • Microfilm & more

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 CJ(mHsHharA5? CJ(mHsHFigure 3. SWOT Analysis for Kodak Table 1.

Evaluation Factors for Directional Policy Matrix