Eastman Kodak Case Study

EXECUTIVE SUMMARY

This report was initiated to find out why Eastman Kodak was wiped out from the photography industry, evaluate Kodak's digital imaging strategy and why it failed, provide better alternatives to the strategy and finally point out what other companies facing disruptive change in their core business can learn from the experiences of Kodak.

This research is based on the fact that Kodak held a dominant position in the photographic film industry in the 20th century, but with the onset of digital photography in the 1990s, Kodak failed to implement effective strategies that would have helped it transition from photographic film production to digital production. As a result, with time, Kodak lost a significant portion of its market share to other companies that had embraced the digital revolution such as Fuji. Kodak's woes continued throughout the 21st century to the extent that in January 2012, Kodak filed for bankruptcy. Investigations into why the giant in the photography industry failed revealed that even if the company was well aware that the world was changing and people were embracing digital change, in the 1990s, the company was reluctant to leave its lucrative production of photographic films.

With the onset of the digital revolution in the 1990s, the photography industry was facing disruptive change as the world shifted to digital imaging, Kodak failed to realize the impact of the change in the photography industry and develop strategies that would have helped it adapt to the changes and stay ahead of the competition. Kodak continued focusing on photographic film production yet the world was shifting to digital imaging which significantly contributed to its downfall.

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It is recommended that for other companies that could be facing disruptive change in their core business; they should be more proactive while developing strategies that can easily adapt to changes in the industry. Companies should also desist from investing in any opportunity that comes along the way such as Kodak did because some investments lose value in the future. Besides, companies should be ready to embrace change in their market or industry and focus more on the changing consumer needs in the market. Companies should also be willing to take risks in regards to changes in their production process and develop innovative processes that enhance consumer value and focus on the needs of the consumer.

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Introduction

Eastman Kodak is often hailed as a great example of a firm that failed to take advantage of the changing dynamics of technological transitions that would alter how a company produces and sells its products. Kodak was the global leader in film photography for several decades, and it even designed the first digital camera in 1975. However, the company's management did not fully grasp the significance of the new technology and the impact this could have on the industry in the future. A company such as Kodak should have put strategies in place that would have helped it take advantage of the new technology and stay ahead of their competitors. However, Kodak’s inflexibility and inability to keep up with the changes brought about by disruptive technology led to its failure, as the company was eventually declared bankrupt in 2012 (Gershon, 2013).

Change is the only constant thing in the world of business and technology, and many companies regardless of size may end up in ruins if they do not put effective strategies in place to help them grow and survive and adapt to changes in the industry. Strategic management is the process of coming up with plans, models, and innovations that will help them attain victory over their competitors and achieve their goals, missions, and objectives. Eastman Kodak failed to put the right strategies in place, and when they did, it was already too late to recapture the market share that they had lost both domestically and internationally. Multinational corporations are constantly faced with overwhelming challenges that threaten to end their survival key among them being changes in technology, competition, and poor management. Kodak’s management was too bent on holding on to their traditions that they did not notice the potential that digital technology could have on the photography industry.

In the mid-1980s, more than a hundred years after the company was established, the digital revolution was beginning, and Kodak did not even seem aware of what was happening right under its nose. Instead of developing strategies that would help the company stay ahead of the digital revolution, the company's management was too blinded by their success that they sought to establish themselves in other industries. For instance, Kodak bought the sterling pharmaceutical company for an estimated $5 billion, and they even tried to build its brand in the battery business (DiSalvo, 2011). History teaches us that change and innovation in the business world are the key determinants of a company's survival in the competitive world. Hence, if any company is to be successful, they must be able to anticipate change and prepare themselves as to how best they can use innovations to their advantage. The irony of the Eastman Kodak case is that the company failed to put the right strategies in place to take advantage of a technology that they invented (Munir and Phillips, 2005).

Kodak's Digital Imaging Strategy 1992-2012

Kodak was among the companies that pioneered the digital revolution that took place during the 1990s. Kodak mainly focused on transforming the company into a modern photographic company using digital imaging. The company hired George Fisher as its CEO to help implement the company's digital imaging strategy, and Fisher restated that the main objective of the company was not in the photographic industry but the picture business. The digital imaging strategy involved four main themes which were an application of an increasing approach and process to manage the company's transition to digital imaging, use of various strategies for different markets, business out-sourcing which would help the company acquire knowledge, and expertise through activities such as alliances, hiring, and acquisitions. The company also wanted to focus more on printed images by going back to reap the old benefits of their traditional photography business.

Digital cameras had not fully penetrated the market and this offered Kodak a chance to change their traditional photographic imaging into a digital platform through the use of digital imaging technology. The management at Kodak realized that digital technology would be the future of the photographic business, and they were facing extreme challenges within a very limited span of time because the global competition in the industry was extreme. Photography during the 1990s was taking a different direction and moving from the age of chemical-based technology to a new digital age where consumers could take digital pictures and download them into their computers (McCarty and Jinks, 2012).

Kodak was also facing numerous challenges in implementing digital imaging strategy because most of its digital value chain was downsized to their computer hardware and software companies. Kodak's primary strategy was to use a hybrid approach that would modify its traditional chemical-based platform into a digital one to enhance customer satisfaction. Digital cameras did not offer a great resolution as compared to conventional photography, and thus Kodak would focus on how well digital imaging could manipulate and transmit images. Most consumers in the photography market wanted to enjoy the benefits of digitization by using conventional methods of taking pictures. By the year 1988, Kodak had already established a self-service facility that was used to edit, digitize, and print images.

Kodak’s main advantage is that it had a strong retail presence through various kiosks and image magic solutions. The company wanted to build on their already existing market and create room for the digital market, which was rapidly growing. By 2004, Kodak was leading in self-service digital printing kiosks with more than 20,000 Kodak picture makers in the United States and more than 50,000 kiosks all over the world. Kodak, true to its commitment to becoming a global digital photography company launched their first digital camera in 1994, which retailed for approximately $75 making it the cheapest digital camera (Munir and Phillips, 2005).

The company employed the use of cost leadership and used a razor blade model whereby it was offering products at the lowest price, but this strategy soon failed because Fuji and other competitors followed suit and applied the same strategy. In cost leadership, the volume of sales determines the profits that a firm makes and Fuji was gaining more customers than Kodak due to the perception that the products offered by Kodak were of poor quality. Kodak also shifted its strategy from digital and film-based imaging to selling digital printers and cameras by collaborating with various companies in the electronics industry. Kodak also launched various marketing campaigns such as the "where it all clicks" theme in 2001, which was meant to promote digital imaging. Kodak also used different approaches to their consumer market in order to maintain its position as the mass-market leader. The company's main aim was to provide simplicity, value, and quality. Hence, they were guided by their vision of "you push the button; we do the rest." Kodak thus used an integrated systems approach that would help their customers save time and would appeal to a majority of consumers because of its simplicity. In 2001, Kodak established the Easy share system, which was intended to provide its customers with an easy-to-use digital experience. Kodak became the first company in online imaging store and photofinishing in 2001 by buying Ofoto. By 2005, Kodak had established its presence across the entire digital value chain (McCarty and Jinks, 2012).

Kodak also ventured into medical imaging by acquiring and developing a broad range of products for laser imaging, x-rays, and dental imaging. This strategy was of immense value as it enabled Kodak to diversify the range of products it could create and hence broaden their market share. For instance, the company's document managing systems and digital scanning were used in the national censuses in the United Kingdom, France, Brazil, United States, and Australia (Wiles, 2012).

Kodak's strategy also involved hiring employees of other digital-based firms in order to use their knowledge and experience to add value to their already existing products. The company also made some important acquisitions from 1994-2011 in companies such as Qualex, Picture Vision, Inc. and many others. Kodak believed that the transition from film to digital photography would take a long time, and thus they continued to invest in film, but this proved to be a mistake as film sales declined sharply during the early 2000s. Kodak accelerated its withdrawal from film when Perez was the CEO, and it withdrew from other unprofitable markets. The withdrawals from the markets were accompanied by massive downsizing, and Kodak eventually declared bankruptcy in 2012 (McCarty and Jinks, 2012).

Why the Strategy Failed

There are a number of reasons as to why the strategy employed by Kodak failed. The first reason was timing. In the global arena of business – timing is everything. Kodak failed to realize the importance of the disruptive nature and impact of digital technology in time for them to develop strategies that would help them stay ahead of their competition instead of playing catch up. Kodak was the first company to develop the digital camera back in the year 1975, and their inability to embrace change is a significant factor that contributed to the failure of their strategies. Kodak did not put sufficient measures in place and in time to reap the benefits of the digital revolution that was looming during the 1980s and early 1990s (Lucas and Goh, 2009). Kodak took too long to restructure its business strategies to conform to the changing demands of the market. They had plenty of resources and a vast global network, which would have made it practically easy for them to take control of the digital revolution before any company would even have mastered the technology of digital imaging. However, Kodak's reluctance to let go of their traditional markets and methods of production contributed heavily to their decline. Kodak was a company trapped in the illusion of their past success that they did not see the impact that digital technology could have on the film and photography industry in time. However, despite inventing the first digital camera, Kodak did nothing about developing the technology in time and when they did it was already too late (Lucas and Goh, 2009).

Figure 1: A graph showing an ugly picture of Kodak whereby the share price and the number of employees fell over the years. Retrieved from https://rctom.hbs.org/wp-content/uploads/sites/4/2015/12/Kodak-Stock.png

The second reason why the strategies used by Kodak failed was the fact that Kodak's main business was film and they did very little to prepare for the disruption that digital technology would have on the industry. Change is the price companies have to pay to survive and remain successful, but Kodak was unable to embrace digital photography as the main option that would eventually replace film. By choosing to stay closer to its film and photographic chemicals, Kodak neglected digital technology, and this is why most of their strategies failed. George Fisher, who was appointed the CEO of Kodak in 1993, bemoaned his predecessors' failure to change the company from chemical-based film to digital photography (King and Baatartogtokh, 2015)

Fig 2: Graph showing a decline of film roll sales and analog cameras, alongside the growth of digital cameras from 1995-2010. Retrieved from https://rctom.hbs.org/wp-content/uploads/sites/4/2015/12/kodak_charts_AB_x616.jpg

Another reason that contributed to the failure of the strategies used by Kodak was that the strategies were not adaptable to changing conditions of the market. The right strategy anticipates any changes to the market and prepares or adapts to the changes but the strategies used by Kodak were short-term solutions that were meant to fix already existing problems without necessarily putting in place measures to anticipate and solve new problems. Kodak was adamant in maintaining their make-and-sell strategy instead of adopting an anticipate-and-lead strategy, which could have helped it identify digital photography as a disruptive technology and become a leader in the market.

The fourth reason that led to the failure of the strategies used by Kodak was that it faced stiff competition in a very diverse market. The rise of Fujifilm in the 1990s made it harder for Kodak to implement its strategies effectively because its competitors would follow suit thus making their moves ineffective (West, 2000). Other companies in the film and photography industry also took advantage of the digital revolution by changing their production techniques and inventing products that would appeal to the changing demands of the market thus reducing the market share that previously belonged to Kodak.

Figure 3: Graph showing the rise of Fuji Film sales and the drop of Kodak Sales from the year 1985-2010. Retrieved from http://www.electronicjournal.co.jp/article/pdf/20120601.pdf

The strategy used by Kodak failed because the company was focused on various business ventures that required different all new strategies making it impossible to achieve success. For instance, Kodak was involved in medical imaging, and in acquiring various companies making it hard for the management of the company to determine the effectiveness of the strategies being employed. The company had a vast global network. It collaborated with various partners in different industries all over the world, and this made it very difficult for the company to implement multiple strategies successfully (DiSalvo, 2011).

Better Alternatives to the Strategy

The strategy was very sound although there were other better ways of implementing it. Kodak could have done so many things differently still using the same strategy. For one, they could have rebranded the Ofoto Company into a different company instead of the Easyshare gallery where people could print digital images. The company could have used the Easyshare platform as a life-networking firm where people could share pictures, and updates of what is going on in their life like the present day Instagram. This could have been a revolutionary platform, and they would have recaptured their lost market share because their domestic market would have widely accepted such an initiative. Kodak could also have come up with specific solutions to their different markets instead of focusing on the whole global market as one. This would have helped them come up with products that suited the needs of each market hence making it easy to gain a competitive advantage over their rivals.

The company should have invested in digital technology much earlier especially after they first developed the first digital camera in 1975. They remained rooted in their traditional film business, which was mainly in selling chemicals that were used for developing films. Kodak's strategy should have been more, and instead of competing with other firms in the market, they should have partnered with a firm that was well aware of the challenges of the digital revolution and this would have made it easy for them to adapt to the new environment. Kodak's management should have used a top-down and bottom-up approach of project management in its organizational structure (Kezar, 2012). This strategy could have led to effective project management and evaluation, more insight into what needs to be done and how well the company can face its challenges. The top-down approach is used in companies where the CEO or the managing director makes the goals and objectives that should be implemented across the entire company (Grant, 2016). The bottom-up approach is used when a company incorporates every member of the company in its operations; even the low-level employees are involved in the decision-making process. The two approaches are used simultaneously in most companies to ensure that everyone in the company is on the same page and thus there are able to complete projects in good time and with effectiveness. The approach is also a great team building exercise, and by involving employees in the decision-making process, the company is able to get valuable input hence translating into increased productivity and more quality output.

Fig 4: A representation of the Bottom Up Approach and Top Down Approach of management (Kim, Sting, and Loch, 2014).

Kodak should also have considered rebranding its entire company and changed their global networks. This is because the company was more than 100 years old and many of its loyal customers were now very old or dead. They should have realized that the entire consumer market had changed drastically and thus they as a company should have embraced change. By staying true to their roots, they let time pass them by, and this was one of the biggest mistakes Kodak made that led to their collapse. By rebranding, the company would have attracted a completely new customer base, and this would have ensured that they retained their market share and captured a new market.

Kodak could also have hastened the development of their digital strategy because they did not venture into digital imaging soon enough. Timing is key, and Kodak should have been ahead of their competition since they are the pioneers of digital technology. The company should also have done away with the old management, and their board of directors should have realized the essential role that digital technology would play in their industry. Instead of hiring new workers from companies that had already established themselves in the digital age, Kodak should have embarked on a vigorous training exercise where their employees would be taught the skills and knowledge necessary to adapt to the changing demands of the market (Shih, 2016). This would help them retain employee loyalty and would even be cheaper than hiring and acquiring new managers and new companies.

Kodak should have completely abandoned their traditional chemical-based film and developed ways to utilize digital technology across its product chain to develop products that were innovative and would suit the needs of the ever-changing market. Even in the 1990s, Kodak was still manufacturing films, and even though the films were still profitable, the company's management should have been more perceptive to the changes being brought about by the digital revolution and thus come up with strategies that would help them use digital technology in their manufacturing process.

Lessons from Eastman Kodak

The main lesson companies can learn from the experience of Eastman Kodak is that they should be more pro-active in developing strategies that anticipate and easily adapt to change. The main mistake made by Kodak was that it did not realize the significance that the disruptive nature digital technology would have on the industry (Shih, 2016). Companies can also learn that having surplus funds with which to invest should not mean that one can invest in anything that has no value in the future. Eastman Kodak ventured into new markets that had nothing to do with their core business, and this cost them quite a lot of money. Companies should only invest their surplus funds in ventures that will help sustain the company’s profitability status in the long-term while keeping in line with the company’s mission and objectives (Grant, 2016).

Companies could also learn that they are their own worst enemy in the sense that they are not doing enough to secure their future. We are living in a world of fast-changing technologies and innovations that may render entire industries useless if companies do not take appropriate steps to stay ahead of the curve (Ries, 2011). For instance, Kodak was the global leader in film and photography, but it was soon overtaken by Fuji film that saw the opportunities presented by digital technology hence they diversified their product range and built products such as videotapes, magnetic tape optics, office automation, and copiers. Fuji later partnered with Xerox, and today the company boasts of more than $20 billion worth of yearly revenues. Companies should also employ managers and CEOs who will see beyond the challenges presented by disruptive technology and focus more on the opportunities that can be exploited from the new technology.

Companies should also learn that the demands of the market are what form the basis of the products that the company can produce. The problems being faced by the market are the key indicators that should drive the company's innovation and products they offer. The market changes every day and companies facing disruptive technologies should focus more on the customer problems which they will need to satisfy. A company should be willing to change its entire organizational structure to adapt to change, as this will entail not having a fixed mindset on what the firm can or should produce. Companies should be open to change and prepare in advance of any impacts disruptive technologies might have on their industry (Purce, 2014). Kodak was reluctant to let go of the past, and they wrongly believed that their vast consumer market could withstand the disruptive nature of digital technology, but they were terribly wrong. Hence, companies should not be arrogant, and they should come up with decision-making strategies that take account of any unforeseeable changes that may occur due to technology (Lucas and Goh, 2009).

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Survival for global corporations requires versatility, adaptability, willingness to learn and being open to change. Therefore, companies should come up with a work environment where the staff never stops learning, and this can be facilitated by organizing seminars and workshops. This will make it easy for the organization to be well aware of the changing consumer needs in the market, and know the best time to incorporate new technology in their business model. Learning something new is quite hard as people often tend to stick to what they know, but companies facing disruptive change should put measures in place to ensure that their employees are ready and willing to learn how to adapt to the new changes to keep the company alive (Shih, 2016).

A company facing disruptive change in its core business should not be afraid to fail, and they should be willing to take risks in regards to changing their production process. The managers should be humble and listen to the input given by their employees. Globalization has made the world a global village, and thus companies should embrace diversity in order to survive in the global economy, especially in the face of disruptive changes that their core businesses might suffer. Diversity should entail a more integrated workforce and an open view to people from various cultural and racial backgrounds. This will help build the company's image allowing it to gain acceptance in diverse markets. A company should also consider the changing dynamics of modern society by incorporating various sexual, gender orientation, and cultural factors in the decision-making model.

Reflection

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Eastman Kodak was caught by the disruptive changes that affected the photography industry, and this led to the demise of what was once regarded as one of the biggest companies in the United States. The use of a digital imaging strategy was implemented too late, and Kodak was unable to catch up with their competitors who had already gained a foothold in a market that was previously controlled by Kodak. The main lesson from the case is that strategic management is very crucial in any organization. The managers in any company should make sure that they implement different strategic management strategies in their daily business operations to enhance efficiency and meet the overall goals and objectives of the business. Companies facing disruptive changes should be willing to cannibalize their core business model and implement strategies that will allow them to adapt to the changing demands of the market. When implementing change strategies in a company, the management should make sure that, it carries out effective market research and aligns the strategies with the consumer needs in the market. Companies should understand that consumer needs change from time; hence, they should always be ready to adapt to the changing needs and develop products that enhance customer value through sustainable production methods. Besides, the research has created insights that companies should greatly value their employees and include them in the decision-making process in the organization because this does not only help in formulating innovative ideas that the employees could be having, but it also helps in motivating employees because they feel valued by their companies. Eastman Kodak is a good case study that shows that regardless of how big a company maybe if it does innovate or adapt to change, it risks becoming obsolete especially in industries that rely heavily on technology because it is prone to frequent developments and changes.

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