

CASE STUDY 1.1

Why did Kodak collapse?

Kodak, formerly one of the world's leading photographic companies, filed for Chapter 11 bankruptcy protection in 2012. Why? What went wrong with its business strategy? Early years Founded by the entrepreneur George Eastman in 1880, Kodak became the world leader in silver halide photographic film by the 1920s. It introduced the first cheap, mass market film camera, the Kodak Brownie, in 1900 – US\$1 for the camera and 15 cents for each roll of film. Essentially, the strategy was to hook customers with a cheap camera so that they would repeat buy the film. Kodak had major economies of scale in film production: the profit margins, reportedly around 75 per cent, were described as 'luxurious'. This strategic resource – chemistry-based, continuous flow manufacturing – was part of its competitive advantage. The company's purpose was to grow profitably and thus generate more value added. By 1993, the company had annual sales of nearly US\$13 billion. It had strong branding, wide distribution and quality products. But some Kodak executives could already see 'the oncoming freight train' of digital cameras: they did not need rolls of film. This would eventually undermine its major source of revenue. The real problem was that too many at Kodak were either unable or unwilling to jump out of the train's path. The twenty years of change: 1993–2012 Although some senior managers at Kodak predicted the inevitable, others were more optimistic. Kodak itself invented one of the early digital cameras in 1975. The company had previously launched other film camera designs like the Kodak Instamatic camera in 1963. The problem for the company was that it was investing heavily in research and development expenditure, but it was not producing any major new winners. The contrast with one of its competitors, the Japanese printer, lens and camera company Canon, is quite striking. Kodak sales were essentially flat and then declining in the 20 years to 2013. Canon's sales increased steadily from new products and new markets: see Figure 1.2. The declining revenue figures at

Kodak in Figure 1.2 hide a more complex strategic story: the loss of film sales as customers moved to digital cameras was partially replaced by sales of Kodak digital cameras. But, unlike Canon, Kodak made no serious attempt to launch upmarket camera models where the profit margins were higher. Kodak's mindset was still cheap, mass market products. Moreover, competition was high in the mass market and Kodak had no clear competitive advantages beyond its well-known brand name and entrenched distribution position with some retailers. At the same time as launching cheap digital cameras, Kodak was closing down most of its film-making factories: demand dropped as customers moved to digital cameras or mobile phones. The company closed 13 factories and 130 film processing labs with the loss of 47,000 jobs over the period to 2007. Kodak was loss-making and struggling to survive. The company spent US\$3.4 billion restructuring itself alone in the period 2004–2007. In addition, Kodak offered generous pension and health insurance benefits to many of its former employees: these are often called 'legacy costs'. This built up a big company pension liability that resulted finally in the Chapter 11 bankruptcy protection filing in 2012.

Questions

What did Kodak do well in strategy?

So, what did Kodak do badly in its business strategy?