

A Strategic Analysis



What Went Wrong at Eastman Kodak?

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A case study of how Kodak is guilty on four counts of serious corporate failure

This study undertakes an analysis of five fundamental dichotomies in strategy and applies them to the case of Eastman Kodak in an effort to understand the reasons for the business' continual underperformance and misalignment¹ with the operating environment. Four of these five case study discussions each reveal four serious counts of corporate failure on the part of Kodak's strategic decisions and whilst explicit recommendations are not offered, there are clear explanations as to why the incorrect path has contributed to the firms' current business challenges. The final topic integrates the previous four by providing an insight into how Kodak has managed to survive despite such imprudent corporate decisions and how it can use the time to reconsider a number of the business' fundamental strategic choices.

¹ The misalignment between an organisation and its environment has been recognised as the number one cause of corporate death.

Historical Context & Timeline

In 1880, after inventing and patenting a dry-plate formula and a machine for preparing large numbers of plates, George Eastman founded the Eastman Kodak Company. By 1884 Kodak had become a household name after he replaced glass photographic plates with a roll of film that Eastman believed was successful because it was a user-friendly product that would be “as convenient as the pencil”², emphasised by the first marketing campaign that used the slogan; “You press the button, and we do the rest”.³

Eastman later identified Kodak’s guiding principles as; mass production at low cost, international distribution, extensive advertising, customer focus and growth through continuous research. Furthermore, he also articulated Kodak’s competitive philosophy; “Nothing is more important than the value of our name and the quality it stands for. We must make quality our fighting argument”⁴

With the advent of colour technology, the success story continued as the company invested heavily in R&D and by 1963 Kodak had become the industry standard. Sales topped US\$1bn by launching into new product lines such as cameras and medical imaging and graphical arts, and quickly rose to US\$10bn by 1981.

Today, the Eastman Kodak’s principal activities centre on the development, manufacturing and marketing of consumer, professional, health and other imaging products and services.⁵

The company operates through three segments: The Digital & Film Imaging segment provides consumer-oriented traditional and digital products and photographic services such as film, photofinishing services & supplies and digital cameras. The Health Group segment provides analogue products that include medical films, chemicals and processing equipment, and services and digital products including PACs, RIS, digital x-ray & output hardware supplies. The Graphic Communications segment provides inkjet printers, high-speed production

² Kodak Website; Retrieved on 2nd December 2005, available at www.kodak.com

³ Gavetti, G., Henderson, R. and Giorgi, S., *Kodak and the Digital Revolution (A)*, 2005, Harvard Business School, HBS Press

⁴ Ibid

⁵ Revenues broken down by business divisions: digital and film imaging systems (68% of total revenues during fiscal 2004), health (19.9%), commercial imaging (5.9%), graphic communications (5.4%), and all other (0.8%).

document scanners, digital imaging systems and products aimed at the commercial print market.

Kodak's Performance Today

Kodak is in trouble: for the nine months ended 30 September 2005, Eastman Kodak's revenues increased by only 3% to US\$10.07bn and the net-loss from continuing operations totalled US\$1.32bn, versus an income of US\$139m.⁶ Last month, film sales for Kodak fell 37% for rolls and 13% in single-use cameras,⁷ and despite similar shocks affecting the rest of the industry Kodak's declines were the steepest – versus Fuji's declines of 28% in roll and 5% in single use cameras and other private label's decline of 12% in role and gain of 5% in single use cameras.⁸ Share loss at Kodak appears to be driven by price as it grapples to increase revenues from an outdated industry, as Big Yellow's roll price increased 5% compared to declines of 9% and 11% for Fuji and Private Labels.

Even Kodak's key resource strengths have been under fire as value of the 'Kodak' brand value slipped down an estimated 33% – a loss of approximately US\$2.6bn⁹ alone. In March 2005, Kodak had to restate its profits for the past two years lower by \$93 million and \$12 million due to overstating market forecasts, and the final setback occurred when Kodak posted a humiliating quarterly loss of \$142m and its bond ratings were cut to junk.¹⁰ On May 11th at the annual shareholder's meeting in Rochester this year, Daniel Carp announced that he was stepping down as chairman after conceding a disappointing performance all-round.

Kodak is indeed in trouble, admittedly as are many other businesses – especially under the current sluggish economic climate, but what separates Kodak from a number of other similarly distressed firms is the continual failure of strategy at the Big Yellow. This has happened in spite of recurrent market signals to help guide strategists, coupled with a number of changes at the top. Why is this the case? What went wrong at Eastman Kodak?

⁶ Reuters, retrieved 10th December 2005, www.onesource.com

⁷ Rolls refers to the traditional 35mm film rolls, single use refers to disposable cameras

⁸ Citigroup, 2005 *Eastman Kodak*, Analyst Report Citigroup

⁹ BusinessWeek, *The 100 Top Brands: Global Brand Scorecard*,

¹⁰ The Economist, May 12th 2005, *Another Kodak moment* The Economist, London

Strategy Process

Failure One – A Paradox Between Logic & Creativity in Strategy

Arguably, the most important step in any strategy is the very strategic choice of the initial approach. How strategists should define or solve strategic issues so as to generate the best possible solutions is an area of great debate between two schools of thought; the Rational Thinking Perspective (RTP) and the Generative Thinking Perspective (GTP).¹¹ Whereas the RTP approach emphasises a rigid application of problem solving through a rigorous and highly structured analytical method, the GTP method emphasises a much less formulaic style by using intuition, and by challenging strategists to be creative and use a more innovative or even unorthodox approaches to strategy.

The RTP is often favoured because of its mutually-exclusive and collectively-exhaustive approach to breaking down problems into discrete and manageable components through four distinct stages of strategic thinking – identifying and diagnosing problems, followed by conceiving and realising solutions. GTP supporters however, argue that this consistent approach often fails to provide the best solutions as a result of “paralysis by analysis”¹², and whereas a mechanistic approach such as RTP is often successful under a logical and stable world that supports the use of long-term planning and game theory, organic models such as the generative method are best suited under complexity.

Similarly however, the GTP school championed by Kenichi Ohmae¹³ is often recognised for being unreliable particularly as a result of human subjectivity and common cognitive biases that can endanger companies to become “extinct by instinct”¹⁴ as a result of poorly formulated strategies that are not rooted in scientific practice.

Although the paradox appears mutually exclusive in fundamental basis, it is not necessarily true that each reasoning perspective cannot be to some extent co-joined – albeit in small part

¹¹ MacKay, B., Munro, I., Canales-Manns, I., 2005, *MN4203 Dynamic Strategic Management Lectures*, University of St Andrews

¹² Langley, 1989, 1995 and Pondy, 1983, quoted in Wit, de, B. & Meyer, R., 2004 *Strategy Process, Content, Context*, Thompson Learning

¹³ A widely recognised and well published management guru.

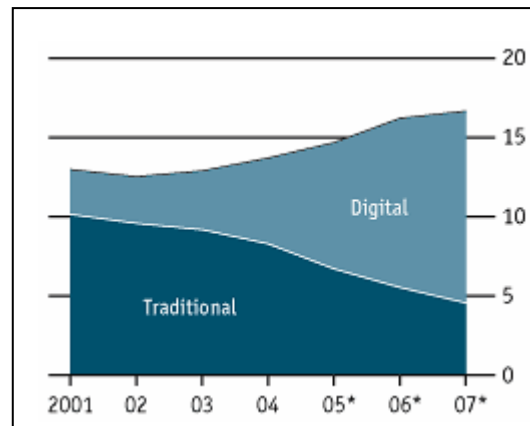
¹⁴ Ibid, Langley, 1995

– by the other. What is clearly apparent however, is that relying solely on one undiversified approach could be dangerous to the extent that an organisation would lack the balance of the other integrating portion. This issue of singularity is discussed in the case of Kodak that follows.

Kodak Case Study: How Kodak Missed the Information Age



Kodak's tried and tested razor-blade strategy



Kodak Revenues, US\$bn

From an early stage in the company's history, Kodak used a strictly logical RTP approach to the production and sales of cameras and film. Kodak used a razor-blade strategy: it sold cameras at a low cost, and film fuelled Kodak's growth and profits.¹⁵ The business became heavily dependent on this highly profitable margin from film, and progressively paid less attention to equipment.

Kodak's tried and tested strategy was evident throughout the business – and even in Dental Products. In a similar theme to T. Levitt's *Marketing Myopia*¹⁶, Kodak's lack of strategic creativity led it to misinterpret the very line of work and type of industry that it was operating in which was later devastated with a fundamental shift towards the digital age. Strategic problems were tackled through rigid means, and as mistakes in the in the manufacturing process were costly, and profitability was high, Kodak avoided risky decisions, and instead developed procedures and policies to maintain the quo.¹⁷

¹⁵ Gavetti, G., Henderson, R. and Giorgi, S., *Kodak and the Digital Revolution (A)*, 2005, Harvard Business School, HBS Press
¹⁶ Levitt, T., 1960 July- August, *Marketing Myopia*, Harvard Business Review.
¹⁷ Gavetti, G., Henderson, R. and Giorgi, S., *Kodak and the Digital Revolution (A)*, 2005, Harvard Business School, HBS Press

Difficulties arose in 1984, when firstly the Japanese firm Fuji Photo Film Co. encroached on Kodak's market share as customers switched to their products after launching a 400-speed colour film that was 20% cheaper than Kodak's. Kodak's response was that "they didn't believe the American public would buy another film".¹⁸ Secondly, when the late 1980s ushered a radically new perspective on Kodak's business the company failed to recognise the imminent change ahead. Instead however, Kodak virtually committed corporate suicide by sticking to a business model that was to be no longer valid in the post-digital age. A

Kodak lacked the frame-breaking behaviour postulated by the GTP approach. The result was a yellow dinosaur of myopic proportions that lagged the behind the market.

radical change was required, and one that could have been found in a more flexible and intuitive GTP approach. When it did change did come, it was a matter of too little too late after Mr Carp's moment of insight – that analysts at the time derided it as his "sudden-epiphany strategic plan", came in as late as September 2003, when the displacement of silver-halide film, Kodak's core business, by digital technology was already in full swing. Kodak would restructure, letting its film business wither while re-investing the cashflow in new digital technologies. Since then Kodak has laid off 11,000 workers; 15,000 more will go by 2007.¹⁹

Kodak lacked the frame-breaking behaviour²⁰ postulated by the GTP approach that could have otherwise allowed it to ask the right questions of its relationship with the market, and even help develop relevant scenarios of the future of imaging and photography. Instead, the result was a yellow dinosaur of myopic proportions that lagged the behind the market.

¹⁸ Gavetti, G., Henderson, R. and Giorgi, S., *Kodak and the Digital Revolution (A)*, 2005, Harvard Business School, HBS Press

¹⁹ The Economist, May 12th 2005, *Another Kodak moment* The Economist, London

²⁰ Wit, de, B. & Meyer, R., 2004 *Strategy Process, Content, Context*, Thompson Learning

Failure Two – A Paradox Between Revolution & Evolution in Strategy

Even when a business strategy is formulated and agreed, there are often differences on how best to implement strategic change, and two opposing views have emerged: The discontinuous renewal perspective (DRP) that focuses on making change radical and revolutionary, and the Continuous Renewal Perspective (CRP) that offers incremental changes by a more subtle approach.

Since the 1980s Strategic change has come to the forefront after being an often-overlooked component of building good strategy. Peter Senge's support of a learning organisation that gradually adjusts to change as a continuous process was rebuffed by Michael Hammer in his seminal publication; *Reengineering work: Don't Automate, Obliterate*²¹ after observing the historical function of the use of IT in organisations.

"The only thing in life that is constant is change"

— François de la Rochefoucauld

This ruthless approach to business process re-engineering appeared to pay dividends to managers who considered not only whether processes could be more efficient through the increased use of IT, but also whether they were even valid in themselves. This contrasts greatly with Peter Senge's refocus on the important of learning in *The Fifth Discipline*²² and Stackard Beer's work in discussing internal variety and diversity as a major factor in an organisation's ability to adjust to the external environment.

Ultimately, if the "only thing in life that is constant is change"²³, then it will be essential for managers to correctly grasp how to implement strategic change. Whether this is an on-going process or one of swift action is most probably highly dependent on the type of organisation or the business issue at hand. The Kodak case study below demonstrates how employing the wrong approach can be devastating to a businesses' ability to adapt.

Kodak Case Study: Extreme Times call for Extreme Measures

²¹ Hammer, M., 1990 (Jul-Aug) *Reengineering work: Don't Automate, Obliterate*, Harvard Business Review, Vol. 68, HBS

²² Senge, P., 1990, *The Fifth Discipline: The Art and Practice of the Learning Organisation*, Currency

²³ François de la Rochefoucauld, French classical author and leading exponent of the Maxime, 1613-1680

Kodak's market signals came as early as 1981, when the Sony Corporation announced it would launch Mavica, a filmless digital camera that would display pictures on a television screen, and pictures could then be printed onto paper. Despite managers becoming concerned about the longevity of silver-halide technology with one recalling that at the time "it sent fear through the company", many found it hard to believe in something that was not as profitable as traditional film.²⁴ Kodak's CEO agreed that the pace of technological change demanded that Kodak act faster, but still believed in a silver-halide future, where Kodak needed to "blend new technologies".²⁵

After 35 years at Kodak, and five years as its boss, Mr Carp implicitly conceded the obvious: even though he had correctly identified the mortal threat to the 113-year-old photography giant from digital technology, he had done so too slowly, too late.²⁶ Furthermore, it was not only a case of delayed action, as although it was clear the business needed to get on to the digital bandwagon, Kodak's executive staff were simply not prepared to take the necessary risks

Evolutionary change had failed Kodak in the years leading up to this point, and now revolutionary change was necessary.

The digital age had shaken the imaging industry, and now Kodak needed to apply the same revolutionary change internally – or else the market would.

required in the form of a DRP, "the difference between [Kodak's] traditional business and digital was so great. The tempo is different. The kind of skills you need are different. Kay [Whitmore, President] and Colby [Chandler] would tell you that they wanted change, but they didn't want to force pain on the organisation."²⁷

Kodak could have addressed this change by evolutionary means by slowly adapting the business strategy incrementally since beginnings of the digital age in the 1980's. In the absence of this however, the firm would have benefited from undergoing a radical revolutionary change as although Carp correctly realised the strategic changes required, the business lacked the forceful nature of revolutionary execution that would have allowed Kodak

²⁴ A. Swasy, 1997, *Changing Focus: Kodak and the Battle to Save a Great American Company*, Times Business, Random House.

²⁵ Kodak, 1985 *Annual Report*, Eastman Kodak

²⁶ The Economist, May 12th 2005, *Another Kodak moment* The Economist, London

²⁷ A. Swasy, 1997, *Changing Focus: Kodak and the Battle to Save a Great American Company*, Times Business, Random House.

to break free from the past. Evolutionary change had failed Kodak in the years leading up to this point, and now revolutionary change was necessary.

The digital age had shaken the imaging industry, and now Kodak needed to apply the same revolutionary change internally – or else the market would. As a recent observation declared, the risk is that after more than 100 years of bringing the wonders of photography to millions, Kodak will again make a half-hearted transition. If the firm stumbles this time, a break-up beckons.²⁸

²⁸ The Economist, December 30th 2003, *Has Kodak Missed the Moment?*, The Economist, London

Strategy Content

Failure Three – A Paradox Between Markets & Resources in Strategy

What is the true source of competitive advantage? Whether a firm should reposition itself to take advantage of a changing market, or whether it should hold firm to its natural resource base is a question of much strategic debate with two major conflicting views – the Resource Based View (RBV), or the ‘inside out perspective’ and the Market Based View (MBV), or the ‘outside-in perspective’.²⁹

The idea that firms compete on resources and not their market positioning was developed as early as 1959 with Dr Edith Penrose’s initial work supporting the RBV on the basis that firms consist of historically received resources that could be as unassuming as the idiosyncratic habits of managers, or the tacit knowledge held in the minds of managers and their abilities – or even luck – at correcting issues and identifying strategies.³⁰ This is contrasted against the MBV, particularly following Michael Porter’s landmark *Competitive Strategy*³¹ that suggests firms should instead continually take their environment as the starting point when determining strategy,³² whose market driven and customer centric approach is successful ultimately as a result of creating a product offering that follows shifts in consumer demand. Prahalad and Hamel, who suggested that resources that are valuable, rare or are in some form difficult to imitate form the core-competencies that enable an organisation to compete successfully, questioned this theme.³³

The paradox is developed further by Sckatzki, suggesting that organisations should be analysed with respect to the multiple levels of relationships between resources and practices that exist within a business. The following case study analyses how Kodak failed to recognise its strategy in reference to these two divergent views of strategic content.

²⁹ Wit, de, B. & Meyer, R., 2004 *Strategy Process, Content, Context*, Thompson Learning

³⁰ Penrose, E., 1959, *A Theory of the Growth of the Firm*, Wiley Press

³¹ In reference to: Porter, M. E., 1985 *Competitive Strategy: Techniques for Analysing Industries and Competitors*, Free Press

³² Wit, de, B. & Meyer, R., 2004 *Strategy Process, Content, Context*, Thompson Learning

³³ Hamel, G. & Prahalad, C.K., 1990 *The core competence of the corporation*, *Harvard Business Review* May-June, pp.79-91.2

Kodak Case Study: “I have learnt not how to defeat others, only how to defeat myself”³⁴

The problem appeared simple, Kodak held capabilities in film and paper, chemicals and photo processing, but the new digital age was a different: it relied on technology. Not for the first time, Kodak has been trying to find a future beyond film,³⁵ and in September 2003 a new strategy was announced:

“In September 2003, we announced our strategy to broaden our digital presence in consumer, commercial and healthcare markets. These three ‘pillars’ represent the foundation of our business, and are areas where Kodak already has a base from which to grow. We also announced we would select future business opportunities, notably in the display and inkjet markets, that build on our core competencies and our solid base of intellectual property.”³⁶

By employing the MBV, Kodak opted to broaden its product offering in a tardy bid to slowly transform itself into a new digital age firm. As the market rapidly changed around Kodak, the business began to consider what functions could be developed to support new, market-based consumer demands. The fundamental market structure had transformed (see subsequent diagrams), and Kodak – along with many other traditional film makers – wants a share of the end user market. With over half of the traditional razor blade financial model rapidly disappearing with the secular decline in film, the new post silver halide world depends on convincing the mass market to print hard copies of

digital photos. As a result, desktop inkjet players (for example HP, Canon, Epson, Dell, Lexmark), internet

competitors (such as Snapfish and Shutterfly), kiosk makers (major players Pixel Magic, Sony, Mitsubishi, etc.) and traditional photofinishers (Fuji, Agfa, Kodak/Noritsu, Konica Minolta) are all battling to



Kodak has pursued new MBV opportunities in an increasingly competitive industry, how successful this transition will be, is yet to be seen

establish positions as digital printing moves into the mass market in 2005. Kodak’s MBV in towards this new era is heavily dependent on winning a competitive war which appears historically incongruent with Big Yellow’s ability to be competitive and flexible in the market. While the traditional photo finishing pie was historically divided between a Kodak & Fuji commanding a majority share, there are more than a dozen players, each with significant

³⁴ Ancient Samurai proverb quoted in: Munro, I., 2005, *MN4203 Dynamic Strategic Management Lectures*, University of St Andrews

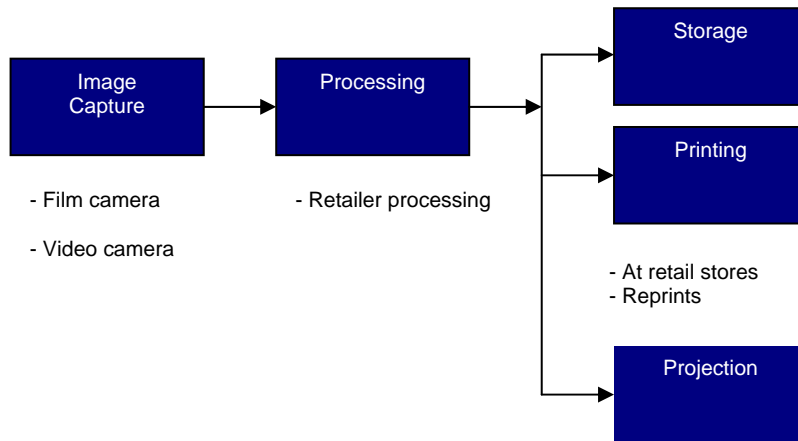
³⁵ The Economist, December 30th 2003, *Has Kodak Missed the Moment?*, The Economist, London

³⁶ Shareholder’s Annual General Meeting 2003

capital/scale and different areas of technical expertise, seeking to capture their fair share of what remains at present a much smaller digital photo finishing opportunity.

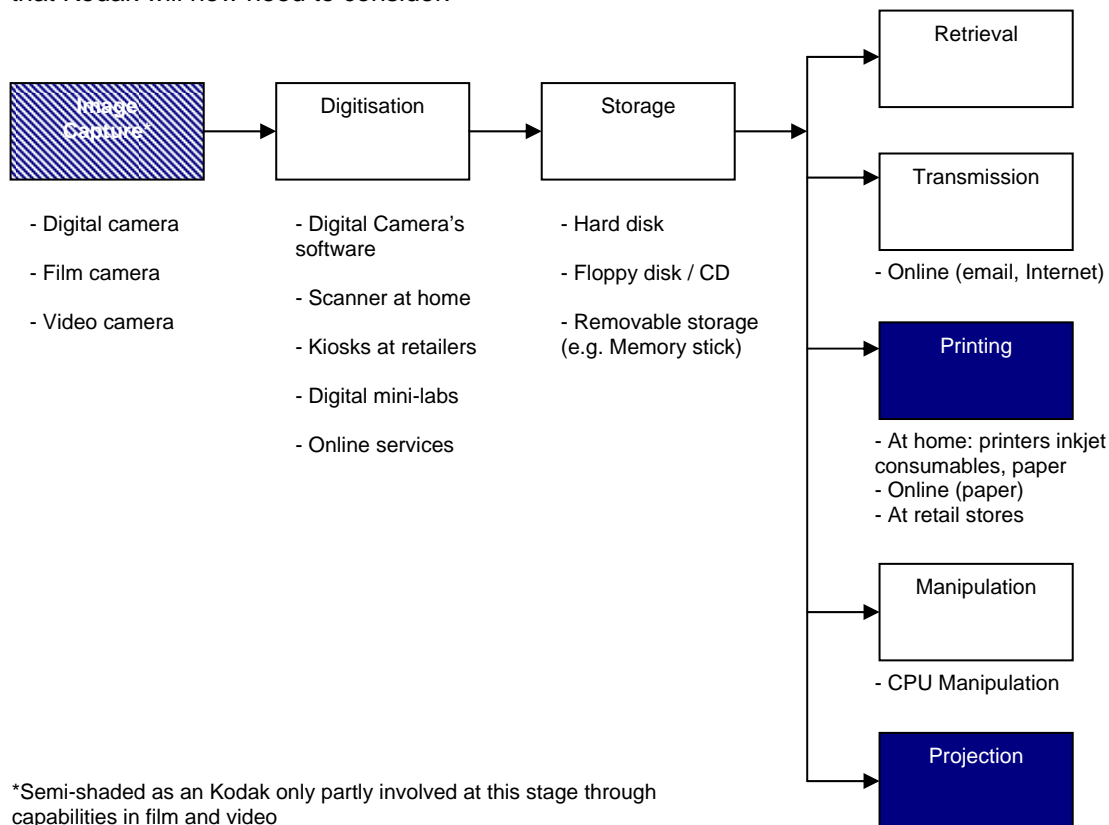
The Kodak Value Chain Pre-digital Age³⁷

The diagram below demonstrates Kodak's strength in almost all areas of the traditional photography process.



The Kodak Value Chain Post-digital Age

Kodak's new challenge is demonstrated below, the photography 'value chain' heralds new stages that Kodak has no, or very little core competency. The digital age has weakened Kodak's ability to meet changes in image capture, and has opened an expanse of new stages that Kodak will now need to consider.



*Semi-shaded as an Kodak only partly involved at this stage through capabilities in film and video

³⁷ Developed from Gavetti, G., Henderson, R. and Giorgi, S., *Kodak and the Digital Revolution (A)*, 2005, Harvard Business School, HBS Press

Without doubt, as the industry enters into this new end-user focus there is great development potential, but it is highly dependent on converting the growing number of digital images to hardcopy output as a gateway to drive share leadership in highly profitable personal thermal / inkjet consumables – something that Kodak has much less experience in. At its most promising, Kodak has invented a new discipline in an attempt to reconcile the RBV and MBV in the form of high risk minilabs and kiosks in order to diversify operations through applying core competencies in paper and (to some extent) printing to the new market

Should Kodak change focus? The firm has bent over backwards in an attempt to change identity to something that it may never become. As an ancient Samurai teaching explains, *I have learnt not how to defeat others, only how to defeat myself*³⁸ it will be important for Kodak to recognise – and address those weaknesses. The risk is that even if remedying the change to digital is successful, it may never be able to compete against those whose capabilities are naturally orientated towards the digital age. The RBV and MBV pose fundamental questions as to how Kodak should meet these new challenges through building new capabilities, or whether the firm should stick to core competencies historically developed in film and paper and deliver in those – albeit shrinking – but highly specialised markets.

³⁸ Ancient Samurai proverb quoted in: Munro, I., 2005, *MN4203 Dynamic Strategic Management Lectures*, University of St Andrews

Failure Four – A Paradox Between Competition & Co-operation in Strategy

How an organisation should respond to rival businesses is a paradox between competition and co-operation, characterised by two theories – the Discrete Organisation Perspective (DOP) and the Embedded Organisation Perspective (EOP). Whilst the DOP stresses that relationships with external organisations should be kept to a minimum under strict market conditions, the EOP demonstrates the importance of building relationships in a networked environment – and encourages businesses to consider the value brought from alliances and joint-ventures through to considering mergers and acquisitions with other similar, or even dissimilar firms in the marketplace. Whereas this co-operative strategy has the ability to transform external companies into embedded organisations along blurred or even open boundaries, the independent discrete organisation emphasises a strictly narrow and opportunistic stance³⁹ that advocates firms only act independently and only interact with outside organisations under formal contractual agreements. Proponents of this perspective suggest argue that collaborative arrangements are always second best to working independently, and that even under certain conditions, where a weakness might force a firm to chose an alliance, it is always a tactical necessity, and never a strategic preference.⁴⁰

In their most intense form, network-level strategies manifest in complex and often high profile mergers and acquisitions that promise to increase an acquiring firms' share price by offering entry to new diversification or globalisation opportunities. These sweeping strategic decisions, along with smaller scale joint-ventures in the marketplace are aimed at building new capabilities that can create value through mutually beneficial symbiotic relationships. The DOP view however, questions the value created through these strategic alliances as they depend wholly on the ability to generate presumed synergies – which for as many as half⁴¹ of these ventures can be negative. In fact, nine out of the top ten of the world's largest mergers

³⁹ Wit, de, B. & Meyer, R., 2004 *Strategy Process, Content, Context*, Thompson Learning

⁴⁰ Ibid

⁴¹ According to Dyer, J.H., Kale, P. and Singh, H., 2001, *How to Make Strategic Alliances Work*, Sloan Management Review, Vol. 42, No. 4, Summer, pp. 37-43

and acquisitions have destroyed wealth⁴² despite clearly agreed strategic goals beforehand from the exploitation of existing and new resources and capabilities.

Kodak Case Study: Mergers & Acquisition Headaches

Kodak's use of network strategy has been extensive. The business has been busy in an attempt to radically reorganise and develop new capabilities in-house through acquisitions and divestments. In the 2003 shareholder meeting, Kodak's CEO declared that:

“[...] our newly acquired companies and technologies are being integrated into our allied businesses, expanding the profile of Kodak, the products and services we offer and the skill sets we possess.”

In 2004 alone, Kodak completed the acquisition of Scitex Digital Printing,⁴³ and sold its remote sensing systems to ITT Industries. Kodak also formed a strategic partnership with Verizon Wireless, whereby Kodak Mobile Service would be available to Verizon Wireless 'Get it Nowcustomers'. The company later also acquired voting rights in Chinon Industries, through its Japanese subsidiary, and in May also completed the acquisition of two business units from Heidelberger Druckmaschinen, with a 50% stake in Nexpress Solutions, and a stake in Heidelberg Digital. Kodak's health imaging group has not been left out – after signing a global vendor financing agreement with GE healthcare financial services in August 2004. Later that year Kodak acquired the image sensor business from National Semiconductor,

Kodak's recent M&A frenzy has engendered much unwarranted hype. Unless the company takes a good look at itself, it will never know who to partner with.

and also closed its plant in Australia. In an another form of embedded organisations, Kodak, Fuji Photo Film and Konica Minolta Photo Imaging formed a picture archiving Kodak and sharing standard group (aimed at the preservation of digital photos and motion images on CDs, DVDs or other media) at the end of September 2004.⁴⁴

⁴² MacKay, B., Munro, I., Canales-Manns, I., 2005, *MN4203 Dynamic Strategic Management Lectures*, University of St Andrews

⁴³ A producer of commercial inkjet printers used to print bills and invoices

⁴⁴ Datamonitor, August 2005, *Company Profile: Eastman Kodak*, Datamonitor

In an effort to address the information age of cellular technology, Kodak reached an agreement with Cingular Wireless and Nokia to develop services for mobile phones with cameras, and at the end of the year the company acquired Algotec Systems.⁴⁵ In 2005, the company completed the acquisition of Creo (a supplier of prepress systems used by printers to efficiently manage the movement of text, graphics and images from the computer screen to the printing press), which will form a

Each of these different organisations has been acquired in an effort, that stems from the EOP approach to adjust or build capabilities in new areas that it considered important to the future of the imaging industry. However, these eager – and almost rash changes have had a price. Kodak's natural reaction after announcing that it would pursue fully address the digital age has been to go on a spending spree – to absorb as many new functions as possible. Not only has this dented cash-flow and dampened further appeal by investors, but it is characteristic of the injudicious approach to catching up in the marketplace. Kodak's recent M&A frenzy has engendered much unwarranted hype. Unless the company takes a good look at itself, it will never know who to partner with. At best, a divestment or re-alignment, but particularly an M&A for Kodak should be a considered strategic approach by means of a thorough selection criteria coupled with due diligence at the strategic level, but the complexities of Kodak's restructuring has held the firm back from clearly internally defining its market presence and its subsequent network level partnerships.

⁴⁵ Ibid

⁴⁶ Datamonitor, August 2005, *Company Profile: Eastman Kodak*, Datamonitor

Strategy Context

Topic Five – A Paradox Between Globalisation & Localisation in Strategy

Go global or lead at the local level? A clear paradox faces many organisations on how they should run business across borders. Many questions arise over a number of factors – from how businesses should distribute and control resources to the homogenisation of products offered between culturally diverse consumers. Two incongruent views emerge both with valid reasons for their approaches; the Global Convergence Perspective (GCP), championed by Michael Porter's article *The Competitive Advantage of Nations*⁴⁷, offers businesses an irresistible opportunity to streamline processes, goods, services and management itself through the standardisation of all these factors rolled out at all of an organisation's locations around the globe. Porter's perspective of the globalisation question is exemplified by a complex 'diamond' that reconciles the feature of government and business – as well as chance – factors which Porter suggests a country should exploit in order to maximise competitive advantage. Conversely, the International Diversity Perspective (IDP) validates the importance of remaining individually dissimilar by allowing organisations to be separate through maintaining their own locally unique identities in an effort to provide a customer tailored responsive approach that ultimately builds a stronger organisation through cultural diversity.

Against a backdrop of increasing integration through international regionalisation and the liberalisation of markets around the world, many organisations have been quick to jump on the globalisation bandwagon, allowing them to exploit the cost savings that result from economies of scale. The cost savings have arisen from a number of sources – by centralising global headquarters to networking production and synchronising transportation across continents, or even building a singularly strong global brand that is instantly recognisable in the most disparate of locations.

Whether or not companies should correctly pursue an agenda of globalisation remains to be seen. Although there are clear benefits to the standardisation within internal functions of a

⁴⁷ Porter, M. E., 1998, *The Competitive Advantage of Nations*, Free Press

firm, as well as external policy, a balance is most likely required that ensures that a firm can maintain a market position that is culturally sensitive, such that it can respond to local demands successfully. Ultimately however, whichever perspective multinational firms associate more closely with – or even if both are chosen under the auspices of a ‘globally local firm’⁴⁸, decisions will likely be made against a backdrop of global pluralism as first postulated by T. Levitt after his identification of our global similarity in needs and desires⁴⁹ that cut across borders. Eventually, this will require CEO’s to think about their business globally, or else become unemployed.⁵⁰ The case below discusses how, perhaps quite inadvertently, Kodak has managed to buy itself time in this rapidly changing market.

Kodak Case Study: There May Still be Light at the End of the Shutter

Despite continually releasing poor financial forecasts, Kodak has managed to keep afloat by hanging on to the traditional razor-blade model of analogue technology. Kodak’s early 1990’s CEO, George M.C. Fisher recognised in that the validity of RBV “in the digital world, it is much more important to pick out horizontal layers where you have distinct capabilities. In the computer world, no one company does it all.” Although Fisher was right, this was only applied to the new ventures that Kodak undertook in emerging Eastern markets, whilst the locations in the west still muddled through a mixed strategy. In China alone, Kodak has returned to the core-business by committing over US\$1.2bn in an effort to produce digital, conventional and single-use cameras, kiosks and mini-labs, and by early 2002, it had 63% of the Chinese retail film market, with over 7,000 Kodak Express film stores.



Lucky to be global:
Emerging markets in China &
Russia have kept Kodak afloat

This IDP approach has offered a level of diversity to Kodak’s business such that it has been lucky to be global and take advantage of the disparate demands of consumer around the

⁴⁸ Such as HSBC’s branding as the ‘World’s Local Bank’

⁴⁹ Levitt, T., *The Globalisation of Markets*, Harvard Business Review, Vol. 61, No. 3, May-June, pp 92-102

⁵⁰ Attributed to Peter Drucker - writer, management consultant and university professor 1909-2005 from MacKay, B., Munro, I., Canales-Manns, I., 2005, *MN4203 Dynamic Strategic Management Lectures*, University of St Andrews

world. Although more recently Kodak has encouraged 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 is as a result of this global reach, and ability for Kodak to straddle different technologies across locations that the company has continued to strengthen its balance sheet, reducing debt by more than \$900 million, and generating \$536 million in investable cash – largely credited to these emerging markets that have

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

In fact, probably the only reason why Kodak hasn't completely dropped off the competitive landscape is due to emergent Eastern markets that may offer a glimmer of hope of interim cash-flow.

emergent Eastern markets that may offer a glimmer of hope of interim cash-flow. The key now is whether Kodak will 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.

Conclusion

On four accounts – from four topics discussed throughout this study, we find Kodak guilty of effectively determining its own fateful extinction, or in the very least, the business' current dilemmas. Kodak is an example of repeat strategic failure – it was unable to grasp the future of digital quickly enough, and even when it did so, it was implemented too slowly under a continuous change strategy and ultimately it did not fit coherently as a core competency. Finally the global reach of Kodak may prove to be its only successful approach, as the disparity in development between the western and emerging markets in the East has bought Kodak time to readdress these four decisions.

Three facets of strategy – process, content and context have been addressed in this study in relation to the business operations and strategic decisions made by Kodak. Together these have provided a holistic view of what went wrong at Kodak and why, and how strategy can and should be applied in the future. This study also recognises the importance of strategy outside the constraints of implementation and confirms the significance and criticality of maintaining strategies that are naturally dynamic.

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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

Graphic communication products:

- 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

Services:

- Maintenance services
- Online support
- Support telephone services
- Service agreement

Top Competitors

The following companies are the major competitors of Eastman Kodak Company:

- Canon Inc.
- Fuji Photo Film Co., Ltd.
- Hewlett-Packard Company
- Ricoh Company, Ltd.
- Sony Corporation
- Xerox Corporation
- Seiko Epson Corporation
- Olympus Corporation
- Siemens Medical Solutions
- Philips Medical Systems

Rolled Film and Single Use Camera Unit Volume Sales Trends (% change)⁵¹

	Y/Y % Change in Unit Volume									
	2004				2004	2005			YTD	4-Week Trend
	Q1	Q2	Q3	Q4		Q1	Q2	Q3TD	2005	09/10/05
Conventional Film:										
Kodak	(26.0%)	(24.0%)	(27.7%)	(33.4%)	(27.7%)	(32.4%)	(38.2%)	(35.8%)	(38.8%)	(37.0%)
Fuji	(39.4%)	(34.9%)	(32.1%)	(23.2%)	(32.6%)	(25.6%)	(32.5%)	(31.4%)	(32.5%)	(31.4%)
Private Label	(6.1%)	(10.4%)	(21.2%)	(11.8%)	(13.0%)	(13.1%)	(21.3%)	(17.1%)	(23.4%)	(13.8%)
Industry	(27.3%)	(25.7%)	(28.1%)	(29.0%)	(27.4%)	(28.2%)	(34.5%)	(32.3%)	(35.4%)	(32.6%)
SUC:										
Kodak	3.5%	(2.8%)	(7.6%)	(6.1%)	(3.9%)	(4.4%)	(22.9%)	(16.9%)	(19.4%)	(17.1%)
Fuji	5.4%	13.7%	16.3%	4.7%	10.6%	4.0%	(8.5%)	(7.5%)	(7.1%)	(13.4%)
Private Label	8.3%	(4.3%)	4.4%	(3.1%)	0.2%	9.6%	7.4%	7.1%	6.2%	1.0%
Industry	2.4%	(0.3%)	0.4%	(3.2%)	(0.5%)	0.9%	(13.2%)	(9.9%)	(12.1%)	(12.5%)
Industry Total:										
Kodak	(18.4%)	(17.8%)	(21.8%)	(25.2%)	(20.9%)	(23.2%)	(32.9%)	(29.3%)	(32.3%)	(30.3%)
Fuji	(27.6%)	(20.8%)	(17.8%)	(14.0%)	(19.8%)	(14.2%)	(22.5%)	(21.2%)	(22.0%)	(23.6%)
Private Label	0.3%	(7.4%)	(10.2%)	(7.6%)	(6.8%)	(2.2%)	(6.8%)	(5.2%)	(9.1%)	(6.3%)
Industry	(19.1%)	(17.8%)	(19.5%)	(20.8%)	(19.2%)	(18.1%)	(26.5%)	(23.8%)	(26.8%)	(25.0%)

⁵¹ Source: AC Nielsen and Citigroup Investment Research