The Rise and Fall of the Kodak Empire

“Welcome to Chapter 11 Theater!”
Billy Chrystal, 2011 Academy Awards, Kodak Theater, February 26, 2012

The Birth of the Kodak Empire
George Eastman, born in 1854, was a high school dropout by the time he was 14 years old. He was labeled as “not especially gifted” according to academic standards of the time. On the contrary, Eastman was gifted in other areas because of his inventive and innovative mind. After dropping out of high school because of family finances, Eastman began working in an insurance company; subsequently he worked as a clerk at a bank. Eastman gained experience writing insurance policies and studied accounting to enrich his chances for a better paying job. By his mid-twenties, Eastman had gained valuable lessons in business management and organization.

Eastman’s birth into entrepreneurship began at age 24, when he planned taking a vacation in Santo Domingo, Dominican Republic. Eastman’s co-workers gave him an idea to record his trip. This idea would forever change his life and the film imaging industry. Eastman purchased a wet-plate photography outfit with accessories, which became too heavy to take on such a far trip.\(^1\) Eastman never ended up going to Santo Domingo as he became passionately engaged in

his new interest, which he felt must be simplified. This decision led to three years of photographic experiments and processes of a renewed gelatin emulsion formula. By 1880, Eastman’s invention of a renewed gelatin emulsion was a less sensitive, dry, plate formula. He had also patented a machine process to prepare a large number of dry plates.

Eastman saw this invention as a chance to initiate a business venture. He began to manufacture dry plates on the third floor of a leased building in Rochester, New York. His company grew, with ups and almost collapsing downs, when some of the dry plates went bad. Eastman’s focus was on making good with the plates that had gone bad, but he also knew that his company’s reputation was on the line. Growing more successful, Eastman realized that his small manufacturing of dry plates was a big part of the photography process. To further expand his company and invention, Eastman once again experimented with simplifying the dry plates, which were glass at the time. Eastman eventually perfected the film roll and holder, thus changing the direction of his company.

The Rise of the Kodak Empire
In 1888, the first “simple” camera was available in the marketplace and the name “Kodak” was registered as its trademark. To introduce the camera, a slogan “you press the button, we do the rest,” was created and later made into a catchy tune. He established the Eastman Kodak Company (hereafter, Kodak) in 1892. By 1896, the 100,000th Kodak camera was manufactured and Kodak films and photographic papers were mass-produced at a rate of 400 miles per month. In early stages, all Kodak products were manufactured in Rochester. Soon enough, one plant could not keep up with a growing international and domestic demand.

Eastman wanted to run his organization with a humanistic approach. He felt that his employees should earn more than a decent wage. He implemented the concept of “wage dividends” in that employees made additional earnings above their nominal wages in proportion to the company’s annual payable stock dividends. He implemented the concept of “wage dividends” in that employees made additional earnings above their nominal wages in proportion to the company’s annual payable stock dividends. This innovation, which was way beyond the conventional management wisdom at the time, signified a large part of the company’s net earnings. Furthermore, Eastman built Kodak upon four main principles:

1) Mass production at low cost
2) International distribution
3) Extensive advertising
4) Customer focus

He and managed his company based on three essential policies:

1) Foster growth and development through continuing research
2) Treat employees in a fair, self-respecting way
3) Reinvest profits to build and extend the business

Such managerial and organizational innovation made Eastman a pioneer, building the foundation for the empire Kodak would become. As the company expanded, Kodak ventured into other industries outside photography and imaging. In 1920, Kodak established a subsidiary, Eastman Chemicals, to develop and supply photographic chemicals to Kodak. By 1962, 30 years after Eastman’s passing, Kodak’ domestic operations consolidated sales in excess of one billion dollars for the first time. The company’s worldwide employment reached 75,000. In less than 100 years, Kodak became a global force, maintaining 90 percent market share. It became known as one of the most successful American companies, surpassing brand names like McDonald’s, Coca-Cola, and Disney\(^4\). Kodak stock (EKDKQ) was reliable for decades because of its continued success.

The company broadened the scope of products through motion pictures, medical imaging, document imaging, printing and publishing, and space exploration. Kodak introduced hundreds of products throughout the world. A variety of products included film roll holders, aerial cameras specifically for World War I, 16 millimeter motion picture film and camera, X-ray papers, color film, stereoscopic camera used on the Apollo 11 mission, instant camera, light emitting high speed printer, photo CD system, and many more. Kodak had manufacturing plants in North and South America, Europe, and Asia, and its products sold globally.

**The Fall of the Kodak Empire**

Kodak’s continued success started to halt in the mid-1980s. Surprisingly, Kodak was not the exclusive industry sponsor of the 1984 summer Olympics held in Los Angeles. The industry sponsor was Japan’s Fuji Photo Film Company (hereafter, Fuji). The decline in sales of photographic film, reluctance with the development of digital technology, and fierce competition from Fuji led to the beginning of Kodak’s demise. Competing head-to-head, Fuji became Kodak’s main rival worldwide. The two companies battled each other persistently in order to gain global market share. Interestingly, Kodak held 70 percent of United States market share in color film while Fuji claimed 10 percent. Conversely, the opposite was true in Japan; Fuji held 70 percent to Kodak’s 10 percent.\(^5\)

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Kodak argued that it could not penetrate the Japanese market due to Japan’s protective trade regulations. In 1995, Kodak filed a complaint with the World Trade Organization (WTO) for Japan’s unfair trading practices. Kodak viewed such protectionism as a missed opportunity to survive in a competitive environment because of Fuji’s “vertical market restraints.”\(^6\) Unable to penetrate the Japanese market, Kodak failed to improve its stock value for shareholders and make sufficient profit. In 1997, the WTO found no evidence to support that Japan had placed regulations to favor Fuji over Kodak.

As depicted in the above chart, soon after WTO’s ruling, Kodak’s share earnings began to plummet and Fuji began to grow substantially, gaining 17 percent of the United States market share. Kodak’s revenues fell 10 percent from $16.0 billion in 1996 to $14.4 billion in 1997 as well as the company’s net earnings, which fell from $1.3 billion to only $5 million in the same period. Underestimation of Fuji and other rivals cost Kodak greatly as the company’s national market share decreased from 80 percent to 75 percent\(^7\). Although Kodak had been losing market share to its rivals since mid-1980s, this 5-percent one-year decline was especially alarming.\(^8\)

Besides such a persistent battle against Fuji, Kodak suffered causality from the age of digital technology. By January 2004, Kodak made an announcement that it would stop selling traditional film products in Europe and North America. In April 2004, Kodak was delisted from the Dow Jones Industrial Average after 74 consecutive years.\(^9\)

Although Eastman was an innovator far ahead of his time, he did not create a workable succession plan. Eastman was so intimately tied to the creation of Kodak and his film legacy that when he passed, the company’s future plans became paralyzed. Without a succession plan, the company was filled with nostalgia and did not have a well-planned future direction. Without a realistic direction, Kodak’s Board of Directors made some bad decisions. The structure of the company shifted away from the core imaging business to include textile, chemical, pharmaceutical, and medical industry business. In 1988, the Board made a decision to purchase Sterling Drug, the pharmaceutical company known for making Lysol. This purchase further added to Kodak’s growing debt, which climbed to $9.3 billion in 1993. The Board sold Kodak’s medical imaging products, which had developed X-ray equipment for hospitals, just as the demand increased. This decision was based on the need to put more resources into the camera market.

Kodak’s CEO, Antonio Perez (previously from Hewlett Packard) was elected in 2005. He is known more for his charisma and lavish spending than his financial decision-making. Under Perez, Kodak has lost money in all but two years. In addition, his lack of leadership and

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\(^6\) Vertical restraints are agreements entered into between two or more companies each of which operates at a different level of the production or distribution chain, and relating to the conditions under which the parties may purchase, sell or resell certain goods or services.

\(^7\) [http://www.icmrdindia.org/casestudies/catalogue/Business%20strategy1/The%20Kodak%20-%20Fuji%20Rivalry.htm](http://www.icmrdindia.org/casestudies/catalogue/Business%20strategy1/The%20Kodak%20-%20Fuji%20Rivalry.htm)

\(^8\) Source: [www.msn.com](http://www.msn.com)

managerial skills caused an internal struggle between employees who favored traditional imaging and those who pressed for going digital. Rather than continuing in the direction of either of these products, Perez pushed for the development of printers and took aggressive actions toward Kodak’s patent litigations to generate revenue.10 Currently, Kodak is battling Apple for potential infringement on some of its patents. Perez reported, “The recession cut into Kodak’s new businesses and accelerated the decline of film.” Furthermore, “Kodak has not been paid what it is rightfully owed, given the depth of its digital-image patents.”11

Ironically, Kodak was one of the first companies on board with digital technology, when one of the company’s engineers developed a digital camera prototype in 1975. At the time, the camera was as big as a toaster oven and could only produce black and white photographs. As a result, Kodak did not further develop the innovation. It was not until the 1990s when Kodak revisited the innovation with its EasyShare digital camera line. However, due to the lack of foresight to predict the high consumer demand and how fast the digital camera would become a household commodity, the company faced inevitable doom. Kodak was stuck in the traditional ways of making films, which were no longer profitable. As the chemistry of films evolved and yielded to digital products, Kodak could not keep up. By the time Kodak was ready to fully compete and embrace digital technology, rivals such as Canon and Fuji were selling inexpensive digital cameras. Kodak’s penetration into the digital market, by way of digital cameras and online photo-sharing tools, was not met with anticipated profits.

![Graph of Eastman Kodak Co](image)

Sadly, these decisions along with poor managerial decisions and outdated organizational structures have destroyed Eastman’s legacy. In the fourth quarter of 2009, Kodak posted $137 million loss. Kodak’s total liabilities equaled $7.3 million compared with its total assets of $4.6

10 [http://online.wsj.com/article/SB10001424052748703757504575194331184972428.html](http://online.wsj.com/article/SB10001424052748703757504575194331184972428.html)
million.\textsuperscript{12} Between 2009 and 2011, Kodak revenues declined from $7.6 to $6.0 million. The above chart shows the further decline in Kodak’s share price over a three-year period.\textsuperscript{13} With this transformation into a digital world, Kodak faced stiff competition. In 2010, Kodak only held 7 percent of the digital market and ranked seventh behind Sony, Canon, and Nikon.\textsuperscript{14} Its digital imaging unit lost $90 million in the third quarter of 2011.

On January 19, 2012, this 131-year-old American icon filed Chapter 11 bankruptcy. The company reported that it had enough cash to support operations throughout the bankruptcy with paid employees. In the interim, Kodak has obtained $950 million in additional financing from Citigroup with an 18-month maturity date.\textsuperscript{15} The company has a February 15, 2013 deadline to produce a reorganization plan.\textsuperscript{16} Financial analysts advise to “hold” or “sell” the stock as shares have fallen below $1.00, whereas Kodak shares were above $5.00 a year ago. Although some investors have lost faith, financial analysts are looking to Kodak’s patent technology and are labeling this direction as “its most valuable asset, saying its best hope is the sale of imaging patents that could fetch more than $1 billion.”\textsuperscript{17}

Kodak can no longer successfully compete in the digital-imaging market. Kodak plans to direct its resources into printers for both home and commercial use as well as its imaging patents. "They'll hopefully come out a much leaner, more financially stable company that will allow them to focus on whatever their core business is going to be," said Craig Welin, a restructuring attorney. "But it'll be very interesting to see what's left at the end of the day."\textsuperscript{18} During the reorganization phase, some of the recommended strategies include the following:

**Organizational Restructuring:**
- Reassign the decision rights within the company
- Select new Board members
- Elect a new CEO

**Restructure Methods of Rewarding Individuals:**
- Restructure the system to evaluate the performance of both individuals and business units
- Make sure the decision making is in the right employee hands
- Focus on one to three products in one industry- imaging/printing
- Exclude pharmaceuticals, textiles, etc.
- Be open to new ideas in the age of digital

\textsuperscript{12} http://investing.money.msn.com/investments/stock-balance-sheet/?stmtView=Qtr&symbol=EKDKQ
\textsuperscript{13} Source: www.msn.com
\textsuperscript{14} http://www.reuters.com/article/2011/12/24/us-eastman-kodak-idUSTRE7BN06B20111224
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