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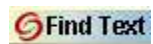


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THE WALL STREET JOURNAL.

Kodak Tries to Prepare for Filmless Era without Inviting Demise of Core Business

Rigdon, Joan E. **Wall Street Journal, Eastern edition** [New York, N.Y] 18 Apr 1991: PAGE B1.

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Abstract (summary)

The prospect of electronic, filmless cameras has left the king of film, Eastman Kodak Co, grappling with its future. The firm's answer is the hybrid technology called Photo CD which will be introduced in Mar 1992.

Full Text

Imagine a camera that takes pictures without film. For Eastman Kodak Co., it's not a pretty picture.

Although consumers aren't snapping up the electronic cameras yet, experts are busy swapping predictions about the possible demise of film. That leaves Kodak, the king of film, grappling with its future: How can it get in on the new market without cutting the heart out of its own money-making film empire?

For now, Kodak's answer is a hybrid: Photo CD, due out next March. With it, consumers will take pictures as they always have, but at the lab they'll have a new option -- prints stored on a compact disk, which can be played on a television or computer.

For Kodak, Photo CD will buy time while it confronts one of the biggest management challenges a company can face: navigating in a new age. Kodak will have to answer such questions as whether it's better to invest in a tried and true technology or in a risky new product; how to persuade employees who have been perfecting the same old product for decades that they should try to come up with a new one that might replace it; and how to sell both products at the same time.

Kodak isn't alone in its dilemma. As entire industries shift into the computer age, hundreds of manufacturers who made their names and fortunes on one technology are facing the prospect of a prized invention becoming obsolete.

Some companies have already suffered setbacks because of technological shifts. Take NCR Corp.'s problems in the 1970s, after it insisted on investing in clanging cash registers while competitors turned to computers. RCA Corp., once synonymous with music, kept cranking out vinyl albums while Sony Corp. laid the foundation for the now

ubiquitous compact disk. RCA has since been acquired by General Electric and its record business sold.

But as Kodak's own history shows, predicting the future can be a tricky business. Early on, for example, Kodak decided not to make 35mm cameras. Now they're the industry standard, and Kodak's Japanese competitors hold the lion's share of the market while Kodak offers only a few models. More recently, Kodak shied away from camcorders. "{We} missed the opportunity to participate in video," laments Chairman Kay Whitmore.

But not every new gizmo revolutionizes its industry. Polaroid's instant cameras were once deemed a threat to conventional photography, but now they're just a niche product.

Many companies just don't want to deal with these thorny problems. "If you have 80% of the market share, how much better can you do? The incentive to change is very small," says Weijian Shan, a technology management professor at the University of Pennsylvania's Wharton School. "But if you don't do it," he adds, "somebody else may."

In the case of the filmless camera, somebody else did. While Kodak was and is the industry leader in high-end filmless cameras for the government, it was conspicuously missing from the consumer market. Then in 1981, Sony rolled out the Mavica, which captures pictures on floppy disks that can be played instantly on TV, sent via modem or edited on computer -- a boon for desktop publishers.

Trouble is, the cameras were expensive, and the pictures were fuzzy. Retailers report they're gathering dust on shelves. "They used to sell at \$995," says a manager at Willoughby's, a New York consumer electronics store. "Now they're down to \$495. And they're still not selling."

Still, the new technology scared Kodak. Its first reaction was "Holy cow, let's circle the wagons," recalls William Fowble, vice president and general manager for consumer imaging products. Ultimately, Kodak concluded that electronics would play a big role in photography's future.

By 1988, Kodak had focused its research on Photo CD, which had the advantage of using film, preserving -- at least for the moment -- Kodak's core product line. Photo CD isn't instant, because it requires darkroom work. But it has a key advantage: Its pictures are almost as sharp as regular photos. "We clearly set a hurdle for electronic cameras," says Mr. Fowble.

Making a hybrid product is a good way to bridge old and new technologies, says Richard Foster, a McKinsey & Co. director who has written a book on the subject. But he warns that hybrids can give a false sense of security.

One of the biggest problems Kodak faces as it adopts new technology is how to manage research. Many companies make the mistake of trying to develop both new and old technology under the same management and budget. Du Pont Co. in the 1960s, for example, was the first to develop superior polyester tires but decided to delay production because it had just invested in a nylon tire facility. Meanwhile, McKinsey's Mr. Foster notes, Celanese came up with its own polyester tire.

Kodak avoided that problem by making sure Photo CD operates as an autonomous business. The Photo CD team has its own budget and the right to hire from within and without. "It's essentially a hands-off management style," says Scott Brownstein, a manager for Kodak's electronic imaging systems. Down the line, though, even more autonomy may be required. Right now, Mr. Brownstein's bosses still report to Mr. Fowble, who also oversees film and must decide which business gets what money for development.

Selling filmless cameras will also be a major challenge. Kodak is now debating whether to use one sales force for both kinds of cameras or add a new one as it moves further into electronic cameras. By using the same force, Kodak could continue to take advantage of longstanding relationships with retailers. But a separate electronic sales force would be more in touch with the fast-paced world of high-tech and the people who buy and sell those products. In addition, a single force typically favors one product and can be outsold by a more focused competitor.

"You have to do all you can to mimic the marketplace," says McKinsey's Mr. Foster.

Right now, as it plans for sales of Photo CD, Kodak faces a great task retraining the troops. Jerry Wallner, U.S. marketing manager for electronics, notes that electronics is a new language. He says a course on how to sell Photo CD will focus on the definition of terms but adds, "We don't want to make techies of our salespeople."

Kodak figures filmless cameras won't be a serious threat for at least a couple of decades. But in the meantime, Mr. Fowble is trying to get employees thinking about the possibility of a filmless world. "I run around telling people, 'Look, we cannot stem the pace of technology,'" he says. "If the lunch is on the table and it's going to be eaten, your choice is do you eat it or does somebody else eat it?"

Credit: Staff Reporter of The Wall Street Journal

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Indexing (details)

Subject	Strategic planning; Photographic film
Company	Eastman Kodak Co
Title	Kodak Tries to Prepare for Filmless Era without Inviting Demise of Core Business
Author	Rigdon, Joan E
Publication title	Wall Street Journal, Eastern edition
Pages	PAGE B1
Number of pages	0
Publication year	1991
Publication date	Apr 18, 1991
Year	1991
Publisher	Dow Jones & Company Inc
Place of publication	New York, N.Y.
Country of publication	United States
Publication subject	Business And Economics--Banking And Finance
ISSN	00999660
Source type	Newspapers
Language of publication	English
Document type	News
Accession number	01205680
ProQuest document ID	398189101
Document URL	http://libproxy.csun.edu/login?url=http://search.proquest.com/docview/398189101?accountid=7285
Copyright	Copyright Dow Jones & Company Inc Apr 18, 1991
Last updated	2010-06-26
Database	2 databases View list

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