

Kodak Tries to Bring Its Digital Revival into Focus - BusinessWeek

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By [Chris Burritt](#)

When Jim Lucanish was shopping for new inkjet presses for his Los Angeles printing company, he considered buying from Eastman Kodak. After all, it's widely considered a leader in digital imaging technology. But he knew Kodak's six-year-old turnaround effort was faltering and that gave him pause. "I was really nervous about what was going to happen," he says. "They're burning through a lot of cash." In the end Lucanish went with Hewlett-Packard and recently bought a fifth HP press, which starts at \$1.8 million a pop. "We looked at HP," he says, "and they were a lot more stable."

Such fears about Kodak's viability threaten to overwhelm Chief Executive Officer Antonio M. Perez's efforts to rescue the iconic American brand. Since taking the reins in 2005, Perez has struggled to shift the 131-year-old company into the Digital Age. Racing the clock, he's been managing the decline of the film business even as he invests in the new product lines on which he's betting the company's future: printers for consumers and printing and imaging equipment for businesses. Vows the 65-year-old Perez: "It's a matter of time and execution, and we will get there."

The uncertain economic recovery, lingering housing slump, and gyrating stock market haven't helped. The tough times have hit corporate and consumer spending, and rising commodity prices have boosted Kodak's costs. As a result, the company is burning through the cash it needs to reinvent itself. That prompted Perez in July to put about 1,100 of the company's patents on the block, which could raise as much as \$3 billion.

That's a humbling turnabout for the inventor of the Instamatic camera, which once handily dominated its industry. But efforts to protect its film and photo-finishing franchise, which as recently as 2004 generated most of its revenue, proved Kodak's undoing. In 1975, the company invented the digital camera—then stuck it in a safe lest it destroy its lucrative film business. By the time Kodak was ready to unleash its digital prowess, everyone from Canon to Sony was selling their own digital cameras. Preoccupied with cutting costs, Kodak also fell behind in inkjet printers. Perez says the revival effort came five years too late and Kodak now finds itself "competing with companies that are cash-rich and well-managed," including HP and Canon.

Perez says his strategy can work because most commercial printers still use old-fashioned gear and will have to go digital in coming years. Despite the popularity of Apple's iPad and other portable devices, printing is here to stay—from annual reports to direct mail. And Kodak's technology is highly regarded. The Kodak Prosper inkjet press installed last year by Fenske Media in Rapid City, S.D., "reproduces pictures like no other device does," says Vice-President Dean Fenske. Selling lots of commercial presses means Kodak can make money on ink and other supplies, plus long-term service contracts. But reluctant customers and fierce competition kept Kodak from building a large enough installed base to generate profits, says Eric Owen, vice-president in charge of sales at Kodak's commercial presses unit.

Competitors are keen to exploit Kodak's image problems, Owen says. "They're trying to create fear, uncertainty, and doubt in my customer," he says, declining to identify the companies. When talking to potential buyers, Owen cites Kodak's technological advantages and 100 years of experience installing gear. Kodak is competing neck and neck with the commercial printing units of Ricoh and Canon, with each company accounting for 20 percent to 25 percent of global shipments, according to market research firm InfoTrends. HP, which is boosting investment in commercial printing, is also growing fast.

Kodak's consumer business faces its own challenges. Perez has abandoned the prevailing business model—the so-called razor blade strategy whereby HP or Canon sell low-priced printers

and make money peddling ink cartridges. Kodak's pitch is that customers will save over the long haul because its ink is far cheaper than rivals'—but they must pay more upfront for its printers. Even after Kodak cut prices last year, its units cost 14 percent more than HP's machines on average, says market researcher IDC. That's a tough sell. "Customer buying behavior is pretty well established," says Tuan Tran, the vice-president who runs HP's consumer inkjet printer unit. Kodak's "ability to charge a premium has been challenged significantly."

Kodak had 5 percent of the U.S. market for consumer printers in the first quarter, according to IDC. Although that was up from 3.5 percent a year earlier, Kodak still ranked fifth behind HP, Canon, Seiko Epson, and Brother International. "Like Sony, Kodak is not giving the consumer a reason to purchase," says Denise Lee Yohn, who runs an eponymous brand consulting firm. "I don't know that a good brand halo helps if you don't have the ability to convert it into sales."

Headwinds have forced Perez to take drastic action to shore up dwindling cash reserves, which fell about 25 percent over the past quarter, to \$957 million. A couple of years ago he asked phone and camera makers to pay to use Kodak patents that allow people to preview an image before taking a photo. He called CEOs to demand payment—then sued when they didn't cough up. After extracting \$1 billion from Samsung Electronics and LG Electronics earlier this year, Perez suffered a setback last month when the U.S. International Trade Commission delayed a ruling on a similar case against Apple and Research In Motion. If Kodak wins, it stands to reap another \$1 billion in licensing fees, Perez says.

Kodak is headed for its sixth annual loss in the past seven years, and its stock has slid almost 90 percent since Perez became CEO. He vows to double revenue in the new digital businesses by 2013. While Rafferty Capital analyst Mark Kaufman says it may take several years for Kodak to match the 15 percent operating profit margins earned by the film unit in the late '90s, Perez says the inkjet business will show operating profit in 2012. For now, he's counting on selling patents to help make sure the company doesn't run out of cash. Perez is philosophical about the challenges ahead. All you can do, he says, "is focus your efforts and keep swimming."

The bottom line: Kodak's scramble to sell commercial printers and digital consumer products is not yet offsetting lost revenue from film.

With Cliff Edwards

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