

Kodak's reaction to a profit destroying innovation

In the article on digital cameras, I wrote about how a large established firm such as Kodak clearly saw an emerging rogue innovation in digital camera very early. Many observers predicted that digital camera will be the future of photography in early 1980s. Kodak invested in the technology heavily and did all the right things that it should have done to deal with this massive technological change. Nevertheless, it lost its position and its profitability significantly.

Closer to the launch of its pioneering products, internal resistance to the innovation increased significantly. Senior managers began questioning the rationale of replacing a high profit product with a low profit product? These managers also began to realize that on the one hand the lucrative films business will disappear while at the same time the margins of the business would decline. Clearly this would lead to a reduction in profits.

It appears that Kodak did not underestimate the chances of success of digital camera innovation. It anticipated that digital camera would displace the film camera and film roll. But choosing a definite loss path was not palatable to the managers. This is an understandable reaction.

During this time, the digital imaging group was working furiously on a large number of digital products. These included Kodak CD, Kodak CD player and others. The CD player was priced around \$500 but provided little value compared to the \$499 iPad provides today. Kodak's digital portfolio did not show the potential to offset the expected reduction in Kodak's. This is an important lesson to learn from this case. Firms continue to search for options to recoup the profits but due to several blinders fail to create compelling

options. In my future posts, I will write about why these blinders and how they prevent firms from creating a better future.

Due to internal resistance within Kodak, the products were delayed. At the same time, sales people were pointing customers towards analog cameras instead of digital cameras. The internal resistance at the organizational level appeared as if the firm was dragging its feet on embracing the innovation. I have written earlier how firms find it hard to embrace a rogue innovation while at the same time they find it difficult to create new options. In short, the rogue innovation of digital camera hit Kodak directly in the face and Kodak could not deal with it effectively. The challenges associated with Rogue innovation made it very difficult for Kodak to tame this rogue innovation.

Please also see how how Polaroid reacted to digital camera and what happened there? It is surprising indeed.