

**KODAK VS. FUJI:
THE BATTLE FOR GLOBAL MARKET SHARE**

by

Thomas C. Finnerty

Thomas C. Finnerty is a doctoral candidate in the Doctoral of Professional Studies Program, Lubin School of Business, Pace University, New York.

This case was written under the supervision of Warren J. Keegan, Professor of International Business and Marketing and Director of the Institute for Global Business Strategy, Lubin School of Business, Pace University, New York, as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation. ©2000 Dr. Warren J. Keegan.

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ACKNOWLEDGMENTS

This case study reexamines the competitive relationship of the two giants of the photographic and imaging industry: Eastman Kodak Company and the Fuji Photo Film Co., Ltd. It uses the 1990 case study of Dr. H. Donald Hopkins of Temple University, "Kodak vs. Fuji: A Case of Japanese-American Strategic Intervention" as a reference point and attempts to update and clarify this relationship at the beginning of the 21st century. In the nine years since the Hopkins' case study was published, Kodak has seen some troubled times, yet recently seems to have stabilized. Simultaneously, Fuji continues to slowly gain more of Kodak's still-dominant market share. The evolution of the industry has been exciting and dynamic, and continues to adapt as consumer's change. However, new technological players are cause for concern for both Kodak and Fuji.

As an employee of the photographic and imaging industry, there are countless sources of information from which I drew my conclusions and knowledge base. My focus was shaped by a broad range of information, including PMA statistics and Nielsen syndicated data reports, and dialogue with photographic customers, consumers, competitors and Fuji employees.

I would like to acknowledge the marketing and sales staff at Fuji Photo Film U.S.A., Inc. for their historical perspective of Fuji's existence within the U.S. market, especially since 1990. In particular, I would like to acknowledge Mr. Herb Baer, director of Marketing, Consumer Film and Quicksnaps, for his input, knowledge and assistance.

SUMMARY

As retail America is undergoing a dramatic change with the constant consolidation of companies, management must strive to maintain a competitive advantage or risk being acquired. The worldwide success of Wal-Mart has led many to diversify and heed the adage that “bigger is indeed better.” An example in the global grocery industry is the Ahold Group (Netherlands) which now operates in more than 17 countries including their recent acquisition of New York based Pathmark. In the U.S. grocery industry, the merger between Albertson’s and American Stores, and the U.S. Chain Drug landscape has rapidly changed over the last two years with only four major players left standing: CVS, Rite Aid, Walgreen’s, and Eckerd.

As the retail community shrinks, they put greater emphasis on their suppliers for quality products at a competitive price that enables them to make healthy margins to attract consumers. If one manufacturer cannot supply the necessary ingredients, retailers will look for other alternatives. This environment has provided an opportunity to shake up an otherwise mature and stable industry such as the photographic industry and has paved the way for a viable competitor to Kodak such as Fuji Photo Film U.S.A. The phenomenon has contributed to Fuji making significant inroads into Kodak’s once commanding U.S. market share in particular and to its global share in general.

This case study shows the evolution of the Kodak-Fuji relationship, specifically from Kodak’s perspective. The case study will attempt to show how Kodak has fallen from its lofty mantle and how it has developed strategies to rectify the situation. H. Donald Hopkins provided the groundwork for this revised case study in his original work “Kodak vs. Fuji: A Case of Japanese-American Strategic Interaction.” The follow up study examines this relationship, with respect to market share battles (both globally and domestically), sponsorship battles, court battles and the photographic industry in general.

The relationship between Kodak and Fuji had always been adversarial, as competitors naturally are; however, it took a very serious turn in May 1995 when Kodak filed a Section 301 petition under U.S. trade law. The petition claimed that Kodak’s 7-10 percent market share in Japan was not a result of consumer choice and marketing efforts but rather a result of four principle Japanese wholesalers, backed by the Japanese government, that are exclusive Fujifilm supporters.

As a result, the World Trade Organization, which eventually presided over the court decision, announced on January 30, 1998, a “sweeping rejection of Kodak’s complaints”¹ about the film market in Japan.

At present, with the court battles behind them, Kodak and Fuji can now pool their efforts to grow the photographic and imaging business as they did with their shared effort, along with Canon, Minolta, and Nikon, in releasing the Advanced Photo System in

¹ *Edelman Public Relations Press Release*, 30 January 1998.

1996. These types of efforts are necessary to stave off the real competition to photography, the computer savvy who demands digital imaging.

KODAK AND FUJI.... NOT A PRETTY PICTURE

“How can Kodak possibly sit on its hands and allow this to happen?” pondered Alex Henderson, an analyst at Prudential Securities in New York. “You can’t have your nearest competitor growing at this volume and not deal with it.”² Analysts stated that for the first time in Kodak’s 113-year history, Kodak could no longer take its home market for granted. Over the last decade, while the U.S. based Eastman Kodak Company was sleeping, the Japanese firm Fuji Photo Film opened its first film-production plant in the U.S., cut prices, marketed aggressively and stole valuable market share.

Kodak maintains that it will not engage in a price war to win customers back, due to potential profit erosion. The inroads that Fuji has made in the U.S. market will certainly continue their momentum. “They (Kodak) are competing against an extremely determined, extremely proficient and extremely well-financed company in Fuji,” says Michael Ellman, who tracks Kodak for Schroder & Company.³ What then, begs the question, is Kodak to do? Many analysts are demanding that Kodak’s CEO George Fisher take drastic action to cut costs, reduce debt and right the sinking ship.

THE CHANGING CUSTOMER

The dynamics within the photo industry have changed dramatically within the past 15 years. Once upon a time, the film industry within the United States was basically stable and predictable, with industry leader Eastman Kodak, a US based company headquartered in Rochester, N.Y., having a commanding share of the industry, hovering between 80 to 90%.⁴ No competitors even had a double-digit percentage of the amateur photo market and many consumers automatically equated Kodak when they thought of film. Competitors were left to fight for the scraps off Kodak’s table and the pickings were slim.

Then, beginning in 1984, the general photographic market and particularly Kodak has noticed a subtle change in consumer attitude. Kodak still retains its enviable and commanding share of the market, but the market-savvy consumers of the new millennium now have more choices and do not automatically and faithfully equate film with Kodak alone. Three major functions have eroded consumer brand loyalty and allegiance to Kodak these past 15 years.

² *Rochester Democrat & Chronicle*, 16 September 1997, p.9 *

³ Ibid

⁴ *Photo Marketing Association Industry Figures*

First, American consumers are more accepting of foreign-based products, though they enjoy preaching the virtues of “Buying American.” They celebrate their patriotic freedom by waving the American flag at picnics on the Fourth of July. However, it is not uncommon for some guests to drive to the Independence Day celebration in a Mercedes Benz (German) automobile, while listening to music on a Sony (Japanese) radio/disc player. In addition, while waiting for their all-American burgers to cook, many Americans are reaching into the ice chest to find Bass (English) Ale, along with Perrier (French) bottled water.

A January 1999 study showed that the U.S. recorded its single largest trade deficit month ever at \$17 Billion dollars.⁵ Imports outweighed exports. Unless protectionist legislation is initiated and passed, U.S. consumers will continue to purchase what they perceive as the best deal (be it domestic or foreign) for their money.

Second, consumers have found a bona fide competitor to Kodak in the name of Fujifilm. Clearly, Fujifilm has emerged from a minor player in the early 1980’s to take a solid number two position within the US market and has caught the attention, as well as the wrath, of Kodak. Third, the landscape within retail America has changed dramatically within the past five years. The success of Wal-Mart has taught retailers that diversification, scrambled marketing and “one-stop” shopping are important to consumers. As consolidation sweeps the nation in mass merchants, food and drug accounts, retailers realize they must maintain their competitive advantage or close shop. To survive, they are squeezing manufacturers for quality products at competitive prices to capture profit margins for expansion within the industry. This environment has provided an opportunity for Fujifilm to prosper in an otherwise stable and mature photographic industry.

Today an all-out war has emerged. While Kodak and Fuji fight for market share, the real winner and benefactor is the consumer. “Retailers and consumers will be the big winners in this struggle for market share among the big players,” says one retailer. “We are going to get more incentives to sell merchandise and the consumer is going to see a lot more new products at lower prices.”⁶ Kodak and Fuji deny they are engaging in a price war, but for each move Fuji makes, Kodak counters with a vengeance. “Smack them until they figure it out,” is how Eric L. Steenburgh, Kodak’s assistant chief operating officer describes its strategy towards Fuji.⁷

⁵ *USA Today*, 19 March 1999, Source: U.S. Commerce Department.

⁶ *Supermarket Business*, February 1999, p47.

⁷ *The Wall Street Journal*, 18 November 1998.

TODAY'S PICTURE

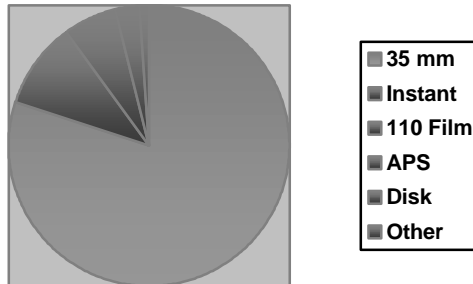
The amateur photo market's estimated is \$14.2 billion. Film sales generate 20 percent or \$2.84 billion (see Table 1). Within film sales, 35mm film format commands 80.2 percent or \$2.27 billion dollars (see Table 2). While unit film sales showed a moderate 2 percent growth rate, the real shining stars within the film sales segment, which continues to exhibit strong growth, are the one-time use cameras (OTUC), which are considered film within the industry. Unit sales grew at 23 percent in 1997 and a 20 percent annual growth rate is expected to continue (see Table 3).

Table 1: 1997 Amateur Photo Market \$14.2 Billion Dollars
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Segment	Percentage	Dollars
<i>Photoprocessing</i>	43.50%	\$6,177,000,000.00
<i>Film Sales</i>	20.00%	\$2,840,000,000.00
<i>Conventional Cameras</i>	9.70%	\$1,377,400,000.00
<i>Digital Imaging</i>	6.40%	\$908,800,000.00
<i>Portrait Studios</i>	5.50%	\$781,000,000.00
<i>Frames</i>	3.30%	\$468,600,000.00
<i>Photo Accessories</i>	3.20%	\$454,400,000.00
<i>Albums</i>	2.50%	\$355,000,000.00
<i>Camera Repair</i>	1.00%	\$142,000,000.00
<i>Consumables</i>	0.90%	\$127,800,000.00
<i>Video Camcorders</i>	0.70%	\$99,400,000.00
<i>Video Accessories</i>	0.50%	\$71,000,000.00
<i>Other</i>	2.80%	\$397,600,000.00
	100.00%	\$14,200,000,000.00

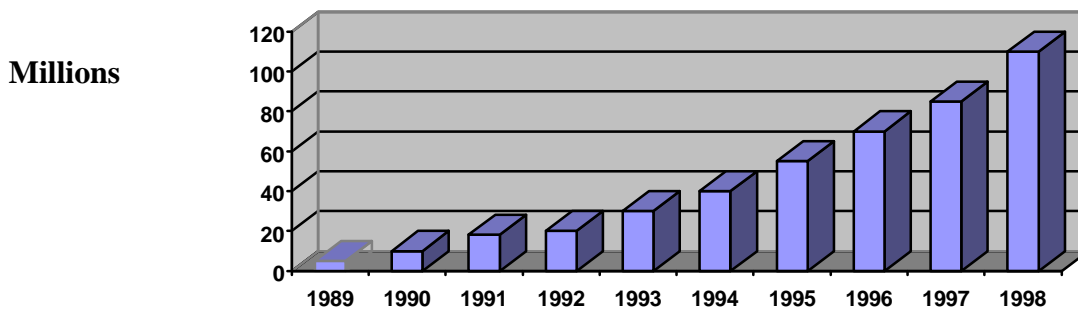
Source: 1997 Photo Marketing Association (PMA) Figures

Table 2: Total Film Sales, 1997



Source Photo Marketing Association

Table 3: 1997 One-Time Use Camera Sales Up 23 Percent



Source: PMA Marketing Research

THE NEW PLAYERS

While Kodak and Fuji are familiar competitors, they have to be aware as new competition enters the picture. In 1997, digital imaging accounted for 6.4 percent or just under one billion dollars in the amateur photo market (see Table 1). As technology inevitably increases and prices drop, the consumer may prefer digital imaging. A recent *Salomon Smith Barney* report on imaging stated that the digital camera market in the United States will be 12.7 million units by 2002, which is larger than the current conventional lens shutter business in the U.S. The report also states that the average price of a digital camera in 2002 will be about \$168. Digital cameras are being mainstreamed quickly.

Non-traditional competitors such as Sony, Casio, and Hewlett-Packard are entering the industry with digital cameras and printers. To combat these threats, Kodak and Fuji have each manufactured digital cameras and printers of their own to stay competitive as “film companies” in the 21st century. To capture this technological consumer, both Kodak (Kodak/AOL “You’ve Got Pictures”) and Fuji (Fuji.Net) have instituted cutting edge services to allow customers to order prints directly over the Internet.

THE GLOBAL MARKET SHARE BATTLES

Traditionally, Kodak and Fuji have battled it out in the overseas film markets. In 1995, it was estimated that Kodak had a 44 percent global share while Fuji had 33 percent.⁸ Today the global share has changed as the U.S. market and Asian markets have shifted. Experts estimate that Kodak and Fuji were neck in neck, with roughly a third of the market each. Alex Henderson, managing director of technology research at Prudential Securities Inc. in New York, who has been watching the two companies since 1985. Mr. Henderson believes that Fuji will overtake Kodak by 2001. “When that happens,” says Henderson; “Kodak will go from being Coke to being Pepsi.”⁹

In a letter to Kodak employees, Fisher and top management stated, “Competitors are making bold claims. They claim they will dominate the future of this business. We speak for the tens of thousands of people who work for Kodak when we say, ‘Not on our watch’.”¹⁰

THE U.S. MARKET SHARE BATTLES

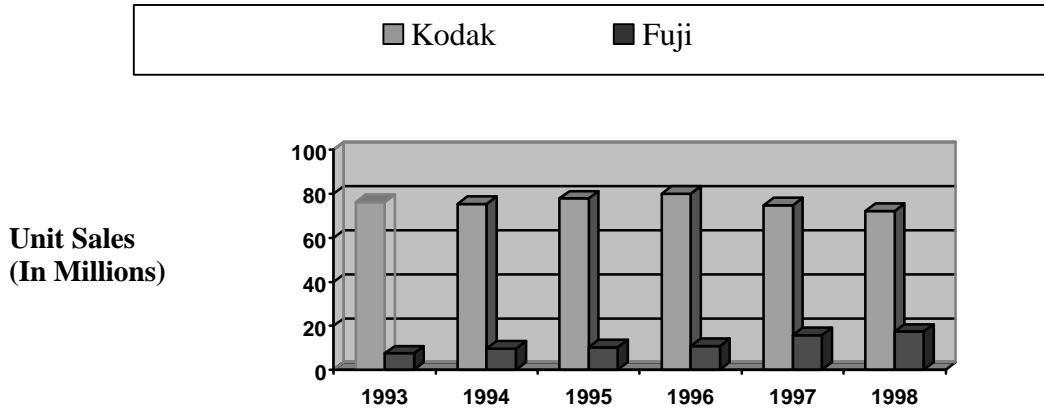
Eastman Kodak has a commanding, yet declining, 70 percent U.S. market share. Fujifilm has approximately 17 percent U.S. market share. Other minor players in the U.S. market include private-label brands, which constitute 7 percent, Agfa of German and Konica of Japan each have less than 2 percent market share.

⁸ *Fortune Magazine*, 1 May 1995

⁹ *The Wall Street Journal*, 18 November 1998

¹⁰ *Rochester Democrat & Chronicle*, 16 September 1997, p9. *

Table 4: U.S. Market Street



Source: Information Resources, Inc. Ending 6/21/98

THE PRICE WARS

Domestically speaking, Kodak and Fuji traditionally enjoyed healthy margins and treated the market as a mutually profitable duopoly. Then in the spring of 1996, Fuji cut prices on film by 10 to 15 percent after Costco Wholesalers decided to go exclusively with Kodak. Fuji had excess inventory of 2.5 millions rolls of film. They distributed the heavily discounted film to other retailers to avoid “expiring” film and thus began a correlation between pricecutting and market share.

As Fuji’s market share grew incrementally in 1997 at Kodak’s expense, Kodak initially stated that it would not engage in a price war. Fisher stated in 1997 that: “Our challenge is to figure out ways to introduce some exciting new products. That’s a better way to fight an intense battle like the one we’re in.”¹¹ Later in the year he said, “We do not intend to continue to lose share at the rate we lost over the summer months.”¹² Kodak stated that it did not intend to engage in a price war, and for good reason. Jonathan Rosenzweig, an analyst at *Salomon Smith Barney* figures that “for every 1percent cut in Kodak film prices, a 1 percent drop in earnings per share results”.

Consumer reaction surprised the industry. Once consumers tried Fuji, they found they liked the product as long as it was priced lower than Kodak. By 1998 the hectic pace of competition between Kodak and Fuji seemed to slow down, with the exception of value packs. “Spurring sales this year was the fact that the category in general got more price competitive, with both Kodak and Fuji sharpening their prices, particularly in promoted prices,” states Jerry Quindlan, Kodak’s vice president and general manager of

¹¹ *Ibid*

¹² *Business Week*, 20 October 1997, p. 124

Mass and Wholesale Clubs. “I would not call it a price war, however; it is really just sharpening prices. Our average price did not go down that much, but we did get more aggressive to protect market share.”¹³

SPONSORSHIP BATTLES

The rivalry between Kodak and Fuji does not stop on the grocery or camera specialty shelves. This rivalry has heated up in the sponsorship arena as well. In his visit to Pace University’s Lubin School of Business on April 28, 1999, Herb Baer, director of Marketing, Consumer Film and QuickSnaps, stated in his visit to Pace University’s Lubin School of Business on 4/28/99, “Fujifilm sponsored the 1984 Los Angeles Olympic Games and this sponsorship really helped put Fuji on the map.” As the story goes, Peter Ueberroth, the Olympic organizer for the U.S. Olympic games, visited Rochester and asked Kodak to be the exclusive film sponsor. Kodak refused the \$1 million deal (far below the \$4 million asking price). Ueberroth called Fuji and Fuji agreed on the spot. Fuji, a relatively small player in those days, still benefits from this agreement.

Kodak did not sit idle during the actual airing of the Olympic Games. They initiated a legal ambush to divert attention away from Fuji. “While Fuji was a worldwide sponsor of the Olympics, its competitor, Kodak, became a “sponsor” of ABC television’s broadcasts of the games and the ‘official film’ supplier to the U.S. track team”¹⁴ Fuji returned the 1984 favor to Kodak during the 1988 Olympics and thus began the sponsorship and ambush marketing that continues today.

COURT BATTLES

Ironically, Kodak and Fuji each command roughly the same market share in their home-country markets: 70 percent. While Fuji has recently made significant strides in the U.S. market to gain the previously stated 17 percent, Kodak hovers around the 7-9 percent in the Japanese market (see Table 4).

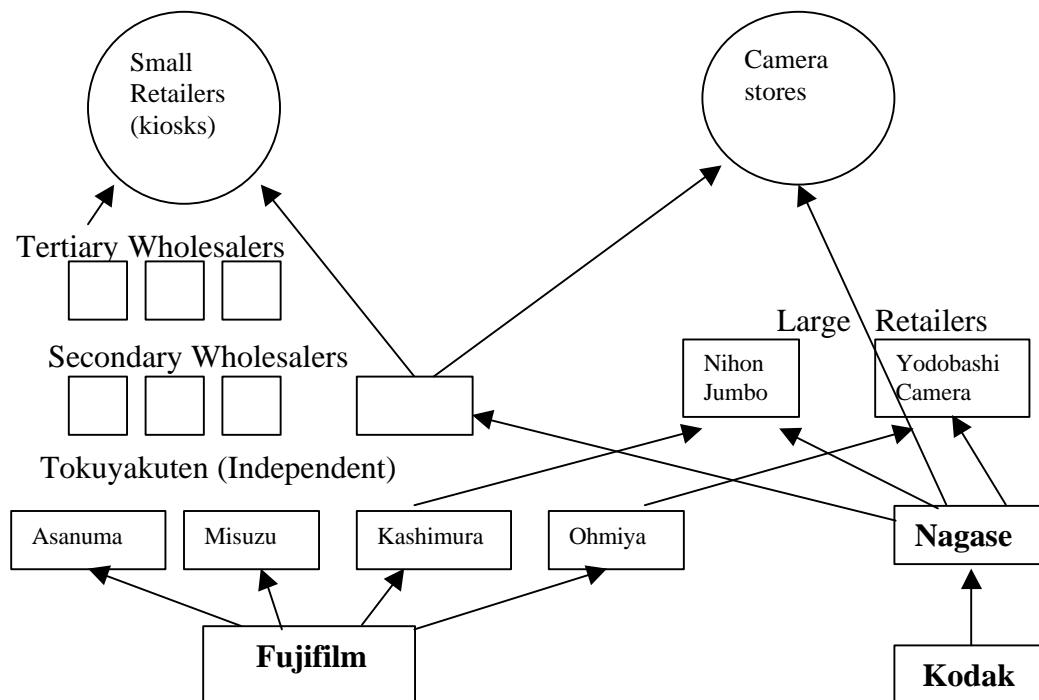
The main differences between the U.S. and Japanese markets are the systems in place to distribute film, paper and supplies to end-users. In the United States, film manufacturers sell directly to retailers and photofinishers. In Japan, distributors mediate between the two parties. Fuji has close ties to the four principle distributors, while Kodak claims that these strong relationships prevent distribution of other brands.

Furthermore, Kodak states that Tokyo-based Fuji has hundreds of exclusive deals with photofinishing labs and that the Japanese Government is backing the entire system in order to impede Kodak from succeeding in the Japanese market. Table 5 illustrates how the Japanese distribution system typically works.

¹³ *Supermarket Business*, February 1999, p. 47

¹⁴ R.Fannin, “Gold Rings of Smoke Rings?,” *Marketing and Media Decisions*, volume 23, September, 1988, pp.64-70

Table 5: The Japanese Film Distribution System



Source: Professor David P. Baron, *The Kodak-Fujifilm Trade Dispute*, S-P-17 Graduate School of Business, Stanford University, July 1998, p7

On May 18, 1995, the Eastman Kodak Company asked the United States Trade Representative (USTR), the U.S. Government official responsible for negotiating international trade disputes, to investigate whether the Government of Japan had allowed anticompetitive practices to deny Kodak opportunities to sell film and color paper in Japan.

Kodak asked for this investigation under Section 301 of the U.S. Trade Act, a law that requires the USTR to determine whether trade practices by a foreign country are unreasonable and discriminate against U.S. exporters.

In a news conference in Tokyo in July, Kodak's Ira Wolf said that "We understand the risks inherent in going ahead with a 301 case, especially given the feelings of the average Japanese consumer about 301. But we decided there was no alternative....The Office of the Trade and Investment Ombudsman (Japan) is too weak and the Geneva-based World Trade Organization does not cover competition policy."¹⁵

¹⁵ *Kyodo News Service*, 26 July, 1995

Both companies claimed that injustices occurred in their respective market. Fisher said, “While Fuji competes with Kodak on a global basis, it makes virtually all of its profits in Japan, using those proceeds to finance low-price sales outside Japan.”¹⁶ He also said, “The Japan market, a large percentage, maybe 70%, is closed to us. And as a result, Fuji is allowed to have a profit sanctuary and amass a great deal of money, which they use to buy market share in Europe and in the United States.”¹⁷

Fisher added, “all we are seeking is the opportunity to compete in an open market. We want resolution, not retaliation. Nor do we want market share targets. We want an end to illegal market barriers...Kodak sells world class products. If given a chance, we believe that our products can compete successfully in any market. We have not had that chance in Japan.”¹⁸

Fuji rebutted in a 588-page defense entitled, “*Rewriting History, Kodak’s Revisionist Account of the Japanese Consumer Photographic Market.*” In the rebuttal, it cited that Kodak’s problems in Japan stemmed from mismanagement and other factors, not unfair trade. Fujifilm factors president, Minoru Ohnishi, called Kodak’s allegations a violation of business ethics and said that Kodak “shamelessly made false allegations” against Fujifilm.

Fuji drew upon some powerful quotes that people were making about the case. Some included, “The combined sales of these Eastman Kodak subsidiaries in Japan in 1994 was \$1.2 billion, and Eastman Kodak is 43rd on the list of the largest foreign companies. Whatever its complaints, Eastman Kodak has a major position in the Japanese market. It has not been closed out”¹⁹

Another convincing statement came from former Kodak president Kay Whitmore. He stated, “I think there is no further barrier in the Japanese market for Kodak to proceed with its business in Japan. If there should be something, it would be only due to Kodak’s own insufficient effort in the Japanese market.”²⁰

¹⁶ *International Trade Reporter, BNA Inc.*, 7 June 1995.

¹⁷ *Moneyline*, 2 August 1995.

¹⁸ Eastman Kodak Company Press Release, 27 July 1996.

¹⁹ James C. Abegglen & Peter S. Kirby, Gemini Consulting, *The Wall Street Journal Europe*, 4 March 1996.

²⁰ *Chemical Industry Journal (Japan)*, 4 October, 1990.

After nearly two and one half years of court rulings, the World Trade Organization in Geneva issued a “sweeping rejection of Kodak’s complaints” about the film market in Japan. Fuji Photo Film U.S.A., Inc. President Osamu (“Sam”) Inoue said. “The WTO failed to find even minimal evidence to support the U.S. case,” Mr. Inoue said. “After today, there can longer be doubt: imported film is widely available competitively priced in Japan.”²¹

THE EASTMAN KODAK COMPANY

For generations, employment at the Eastman Kodak Company meant job security. Rochester, New York’s biggest and most paternalistic employer gave a sense that Kodak would never relinquish its U.S. market dominance to “foreign competition”.

Kodak opened photography to the masses with inexpensive cameras and easy-to-use film. Kodak’s name is one of the most recognized brand names in consumer goods in the world. Their slogan of “you push the button, we do the rest”, enabled people to take the worry out of a complicated, scientific process and make photography accessible to nearly everyone who wanted to take pictures.

Kodak has been characterized as the leader in photography, an industry that has gone from rudimentary glass plates to cutting edge digital images. Yet, Kodak realizes that for all of their historical success’ throughout the world, they must now increasingly include digital technology into the mix to stay at the forefront of the “photographic and imaging” industry.

The climate at Kodak over the past three years has been well documented. Wall Street has been nervous due in part to soft sales in the U.S., which stemmed from the battles with Fuji, and a botched launch of the New Advanced Photo System. Massive layoffs (16,000), the strong U.S. dollar ---meaning exports become less profitable and imports become more profitable for Kodak competitors--- and sluggish growth in emerging markets have all contributed to Kodak’s decline in market share. “We went from 20 percent growth to about 7 percent” says CEO George Fisher glumly.²²

When Kodak hired Fisher in December of 1993, he was hailed as the leader who would bring back the highest levels of success that had eluded Kodak. Indeed, Fisher has pared down costs, shed debt, sold off businesses not related to photography and refocused goals, but analysts say that Kodak was slow to react when they could see the writing on the wall. According to Eugene Glazer, a *Fortis Advisers*

²¹ *Edelman Public Relations Press Release*, 30 January 1998

²² Why Kodak still isn't fixed, *Fortune Magazine*, 11 May 1998

analyst who never changed his mind that Kodak was in a mature business that couldn't grow: "Fisher moved too slowly and didn't instill a sense of urgency."²³

Profits and sales at Kodak have been eroding throughout the 1990's. In 1998, sales were \$13.4 Billion dollars as compared to 1990's \$18.9 Billion in sales (see Table 6). Kodak's market share in 35-mm film has dropped; film prices have declined an average of 8 percent, which cuts into Kodak's profitability. The company is at risk of losing the title of world leader in the photographic industry. However, Kodak posted a net profit for the first quarter of 1999, bolstered by steady film sales growth in China and Brazil, as well as, low-end digital cameras in the U.S., Kodak finally posted a net profit for the 1st quarter of 1999.²⁴

Table 6 - 1998 Kodak Annual Report

Fiscal Year-end: December
Income Statement (\$mil)

	1998	1997	1996	1995
Sales	13,406	14,538	15,968	14,980
Cost of Goods Sold	7,293	8,130	8,326	7,962
SG & A Expense	3,303	6,432	5,438	5,093
Net Income	1,390	5,000	1,288	1,252
EPS Primary (\$)	4.30	0.01	3.82	3.67
EPS Fully Diluted (\$)	4.24	0.01	3.82	3.67

Assets (\$mil)

	1998	1997	1996	1995
Cash	457	728	1,777	1,764
Receivables	2,527	2,271	2,738	3,145
Inventories	1,424	1,252	1,575	1,660
Current Assets	5,599	5,475	6,965	7,309
Total Assets	14,733	13,145	14,438	14,477

Equity (\$mil)

	1998	1997	1996	1995
Common Stock Equity	3,988	3,161	4,734	5,121
Shares Outstanding (mil.)	323.3	323.1	331.8	345.9

²³ Ibid

²⁴ Claudia Deutsch, *The New York Times*, 17 April, 1999

Nielsen data indicates that film sales in the U.S. market rose 10 percent first quarter 1999, as compared to first quarter 1998. Unit sales have increased even though neither Kodak nor Fuji Photo Film dropped prices in 1999. “They’re all finally realizing that it is marketing, not price, that makes the difference,” Ulysses Yannas, an analyst with Mercer, Bokert, Buckman & Reid, said.²⁵

Perhaps George Fisher’s vision is taking hold. He has been successful in attracting new talent to Kodak’s close-knit Rochester community. He appointed Daniel Carp, a 27-year Kodak sales veteran in Canada, Latin America and London, as president and chief operating officer in December 1996. Carp fully realizes the changing industry as well as emerging markets. To help foster change, Kodak admitted that they had to set up shop where the talent is. To that end, they have software operations in the Silicon Valley and marketing offices in Atlanta.

In the restructuring of Kodak, four main segments have emerged:

1. The Consumer Imaging Segment:

Traditional films, papers, processing, photofinishing, photographic chemicals, cameras (including one-time use), and the Advanced Photo System

2. The Kodak Professional Segment:

Traditional films, papers, digital cameras, printers, scanners, and chemicals

3. The Health Imaging Segment:

Medical films, chemical and processing equipment as well as services

4. Other (Digital and Applied Imaging) Imaging Segment:

Motion pictures, audiovisual equipment, certain digital cameras and printers, microfilm products, application software, scanners and other equipment

While these segments serve the advanced countries of the world and keep Kodak current with competitors, Kodak recognizes that there are untapped consumers in emerging markets, such as China. In an interview with Carp in the February 1999 issue of *Photo Marketing*, Carp explained, “In terms of strategy, it’s evolving just as we predicted. We are building plants that will make world-class products to supply the domestic market.... The second part is to build a team to get the word out to consumers that photography is fun....The third part is to build the infrastructure so it’s a good experience for the consumer.”²⁶

Kodak believes that the future of photography, in addition to advancing technology, is in getting more people to take pictures. To that end, they state in their 1998 annual report: “What if households in developing markets shot a full roll of Kodak film each year? The gain would be immense.”

²⁵ Ibid

²⁶ *Photo Marketing*, February 1999, p55.



Table 7: Ratio of Households to Rolls of Film Consumed

Countries	Japan USA	Australia Canada Korea France Germany UK	Italy Mexico Brazil Thailand	Indonesia China Russia India
Number of households In these regions	145,000,000	114,000,000	92,000,000	607,000,000
Average rolls of film Consumed per Household year	8.2	4.6	2.2	.5
Total Rolls of film	1,189,000,000	524,400,000	202,400,000	303,500,000

Source: Kodak Annual Report 1998

FUJI PHOTO FILM CO.,LTD.

Fuji Photo Film Co., Ltd. was founded in 1934 and is headquartered in Tokyo, Japan. If one person can claim to be the architect of Fuji's growth, it's Minoru Ohnishi. At the age of 55, he took over the company in 1980, making him the youngest president ever. It was under Ohnishi's reign that salesmen were encouraged to spend time with distributors and build relationships. As Japanese insiders say, "One cup of sake means 100,000 yen (of business)."

Fuji Photo Film has always prided itself on having the technology to produce superior products to drive sales. The company has consistently spent 7 percent of sales on research and development to maintain a competitive advantage. Because of this investment, Fuji was able to introduce faster film with brighter colors (400 speed, 1600 speed), which is what the professional and serious amateur photographers were asking for in the 1970s. In 1986, Fuji was the first to introduce one-time use cameras, and by the time Kodak caught up with the technology, Fuji established a lead in one-time use cameras that Kodak never experienced with traditional film.

This attention to detail and ability to occasionally out-pace Kodak technologically has endeared Fuji to the professional market and served as a stepping stone to build

credibility in the larger amateur market. Originally, Fuji started out in the U.S. market in 1965 as a private brand supplier. In 1972, Fuji began to market film under its brand name and, after remaining a very small player in the shadow of Kodak in the U.S., Fuji's initial success came with the sponsorship of the 1984 Olympic games in Los Angeles. Every year since, Fuji has been slowly and quietly progressing in the U.S. market. "The fact that Fuji has made inroads in the U.S. has surprised even Kodak," says Sugaya Aiko an analyst at *Kleinwort Benson* in Tokyo. "That is one reason why they are fighting back in every other market."²⁷

"Fuji's greatest strength is that they always make sure that consumers are ready to buy their new products, and they actually get the products to the consumers," says Toby Williams, an analyst at *SBC Warburg* in Tokyo.²⁸

As a company, Fuji Photo Film has three core business systems:

1. Imaging System:

Color films, motion picture film, cameras, magnetic audiovisual media, electronic imaging, and equipment

2. Photofinishing System:

Photofinishing equipment, paper, and chemicals

3. Information Systems:

Graphic systems, Medical diagnostic systems, office automation systems, industrial materials, and data recording media

Fuji's long-term strategy in the U.S. is to produce locally, but compete globally. "Globalization through localization" translates to producing as much film and paper on U.S. soil as possible to avoid troublesome trade disputes, become more responsive to demanding U.S. accounts needs and keep overall costs to a minimum. In 1987, Fuji produced just 3.5% of its goods outside of Japan; today the figure is roughly 40 percent, with manufacturing plants in the United States, the Netherlands, Germany, France and the People's Republic of China.²⁹

Like Kodak, Fuji has to stay competitive with Silicon Valley to produce state of the art digital products. To that end, Fuji established FUJIFILM Software (California), Inc. in October 1998.

Fuji is one of the leanest Japanese companies. In the past 10 years, Fuji's sales have almost doubled, yet the number of staff in Japan remains almost flat. Fuji's

²⁷ *Asia Week*, 5 July 1996.

²⁸ *Fortune Magazine*, 11 May 1998

²⁹ *Fuji Photo Film Co., Ltd. 1998 Annual Report*, p. 16

worldwide output per employee is \$285,000, while Kodak's--even after the massive layoffs-- is \$155,000. It is this type of drive that has maintained a double-digit sales growth each year for the last decade (see Table 8).



Table 8: Fuji Photo Film Co. Ltd. 1998 Annual Report

Fiscal Year-end: March 31 (Assumes Y132=US\$1, 3/31/98)

Income Statement (\$mil)

	1998	1997	1996
Sales	10,439	9,485	8,219
Income before taxes	1,230	1,214	993
Net Income	672	646	552
Per share of Common stock			
Net Income	1.31	1.25	1.07
Cash Dividends	0.17	0.16	0.15
R & D Expenses	613	575	554
Acquisition of Fixed Assets	854	737	571
Depreciation	589	558	519
Total assets at year-end	16,148	15,041	13,991
Total Shareholders' equity	10,837	10,188	9,488
Number of employees	36,580	33,154	29,903

Still Fuji's drive to lead the industry has not come without its price. "As a company Fuji has been so obsessed with building its brand, improving product quality, and investing in research and development and marketing that it has neglected areas like profitability," says Sugaya Aiko. "Payouts have been far lower than Kodak because they focused too much on long-term goals," says Sugaya.³⁰

With world-class product quality in balance for Kodak and Fuji, both are poised to battle it out for global dominance. "There are two giants in this field and each wants to be bigger than the other, say *Kleinwort Benson's* Sugaya. "You'd have to spend billions of dollars on research and development, marketing and distribution and even then there's no guarantee you could catch up with these two."³¹

³⁰ *Asia Week*, 5 July 1996

³¹ *Ibid*

CONCLUSION

The following conclusion is solely the opinion of the author and does not express the opinions of the Eastman Kodak Company or Fuji Photo Film U.S.A., Inc.

Based on the very recent news from Kodak's 1999 first quarter earnings, it is too early to predict Kodak's status. However, Fujifilm is a formidable opponent. To Kodak's surprise, statistics indicate that those consumers have tried Fuji stay with it as long as there is a price advantage.

Generally speaking, the industry, Kodak and Fuji included, does not want to lower price for fear that it will turn this industry into a commodity business. Healthy margins are desirable for everyone involved in the industry at the consumers' expense. The formula of $V = B/P$ clearly is crystallized as consumers enjoy an increased value. For the past two years the benefits remained constant, but prices have dropped. How long will this continue is major concern.

Domestically, new products such as the Advanced Photo System, digital cameras, and Internet services are the keys to increasing usage, which will invigorate this mature market. Increased advertising and educated consumers will also drive sales for everyone involved.

From a global perspective, Kodak and Fuji are vying for hegemony in another battle, this time in emerging markets, specifically in China. Both are poised to implement their strategies.

CASE DESCRIPTION

The traditional silver halide photographic industry is a very unique industry in that there are just two dominant players. The case presented is a classic example of one company --- Kodak---trying to maintain and/or increase it's leadership position within it's respective industry, while another aggressive player---Fuji--- is trying to steal market share. Although this industry is unique in that there are just two dominant players, the problems that EK faces are not.

DISCUSSION QUESTIONS

1. How can Kodak protect its strategic advantage from competitors, especially Fuji?
2. How can Kodak anticipate market changes faster and react accordingly?
3. What are Fuji's chances for future growth?
4. What are some disadvantages that Fuji has to overcome?
5. Should both Kodak and Fuji be concerned over digital integration into the silver halide industry?

SUGGESTED QUESTIONS ANALYSIS:

1. Kodak can continue to invest in marketing talent and leverage the dominant market share position that they have to in order to recapture their earlier market share position. They should be aware that third world countries have no built in allegiance to Kodak. They should use this knowledge to their advantage and aggressively capture the markets through distribution and pricing strategies, which initially elevated their status as the dominant player in the U.S. market a century ago.
2. Conduct various markets analysis, focus groups and markets surveys. Invest in research and development that enables the photographic industry to stay current with consumer demand. As technology advances, consumers will want to experiment with it as it relates to capturing sequences in time.
3. Very Good. The key is to provide an excellent product that has a price advantage over Kodak. Also to continue to market to a “younger” consumer.
4. Fuji appears to be reactive to Kodak. They may have enough critical masse in the U.S. market now to initiate marketing/promotional plans similar to what they’ve done to establish the market lead in Japan.
5. Yes. Now matter which company has the “lead” in the market share game, the technology of digital imaging continues to improve and may overtake silver halide in the future.
6. Kodak. While Fuji is coming on strong, they are still a distant second player. EK should initially refocus their efforts in their domestic market, try and “right the ship” as some analysts suggest, and then invest in the huge potential market in China before investing any more in the Japanese market where Fuji has the competitive advantage.

TEACHING PLAN

Many analogies can be drawn between the current silver halide industry and the automobile industry at the turn of the 20th century. Then the train was the preferred method of transportation and appeared to have the advantage over the automobile. The train industry lost their competitive advantage because they failed to realize that

they were primarily in the business of transporting people. Trains were not the sole option of transportation.

Discuss this analogy with respect to the silver halide industry. The idea is to capture people's memories in a fast, efficient, and lasting medium. As technology advances, the silver halide industry is threatened; therefore, Kodak and Fuji are threatened by new competition. Think about the methods that Kodak used to attain their leadership. Can the company repeat the magic into the 21st century? Discuss the brand loyalty of Kodak versus Fuji. Fuji is marketing toward the younger, college-educated, early adopter consumers. This market will eventually replace Kodak's loyalty base. How can Kodak effectively compete in this market?

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