



Polaroid-Kodak (B-1)

Following the historic announcement of the introduction of the instant camera line in April 1976, Kodak's instant products went on sale in Canada as scheduled in May 1976. In a June 8 speech, Kodak's Colby H. Chandler characterized response of Canadian consumers as "very enthusiastic." He added that the reception accorded the new instants confirmed Kodak's definition of "customer needs."

On June 28, 1976, Kodak began distribution of its instant line in the United States. The market thrust had been preceded by an "education program" designed to familiarize 20,000 retailer salespeople in 150 cities with the new units. One Kodak manager described the predelivery date buildup of dealer orders as "nothing short of overwhelming."¹

Despite early industry surveys, which indicated the EK 6 was outselling the Pronto! in Canada, Kodak's U.S. sales push quickly ran into difficulties. While some retailers worried over discounters cutting the per camera profit to \$1.50 and less, even more complained of product shortages. Despite the Kodak ad slogan, "It's Here! The Kodak Instant," many dealers reported an inability to obtain supplies from Kodak. One described the state of affairs as "shocking."

On July 21, 1976, a Kodak spokesman revealed that the level of dealer orders, which far "exceeded expectations," had resulted in a "straining" of present production capacity. Persistent rumors, later verified, circulated that Kodak was experiencing considerable problems at its production facilities, particularly with its untried, high-speed filmmaking equipment. One source reported more than 100,000 instant cameras bottled up in Rochester for lack of film. By mid-summer, Kodak had been forced to halt production of cameras and film, allocate cameras, and cancel more than \$5 million of advertising. A Kodak executive later revealed: "We stopped camera shipments for 60 days and even advised catalog people not to include the instant in their Christmas books."²

In August 1976, Polaroid unveiled two new units, the SX-70 Alpha 1, and a new Pronto!. The Alpha 1, designed to take over at the top of the SX-70 line, featured an improved automatic exposure system. It carried a suggested retail list price of \$210.00. The Pronto! RF incorporated a new viewfinder focus system, previously unavailable on Prontos! but similar to that of the Kodak EK units. The new Pronto! carried a suggested retail list price of \$79.95. Polaroid declared its intention to highlight the two products in its forthcoming fourth quarter advertising push. The campaign's

¹ Kodak press release of Colby Chandler's speech to the American Marketing Association, June 8, 1976.

² *Business Week*, June 20, 1977, p. 71.

Associate Professor Michael E. Porter and Mark B. Fuller, MBA 1979, wrote this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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proposed budget (projected at \$16,000,000) matched the expenditures incurred during the 1974 introduction of the SX-70 Model 2.

During the summer and fall of 1976, demand for Polaroid instant products continued to be strong despite the Kodak introduction. Indeed, shortages of Kodak products aided Polaroid sales in the opinion of some retailers: "People are not inclined to wait. They are inclined to switch to Polaroid. So the situation seems to be that Kodak is advertising for Polaroid. . . . We've been urged by Polaroid to stock up on their material in anticipation of nondelivery of the Kodak item."³

In addition to maintaining a high level of advertising expenditure, Polaroid moved to improve its historically weak dealer relations. In the words of one observer, Polaroid's new marketing arrangements, which included a broadened dealer partnership program, special edition cameras for particular retailers, guaranteed replacement of bad prints, and more effective product servicing, "revolutionized" previously "frosty" relationships. One dealer expanded on the change: "Polaroid has become more attentive to its customers. It's a feeling we get from the salesmen. Before, we called them. Now they call us."⁴

Further Kodak Moves

On September 9, 1976, Kodak advised its dealers that it was going to defer introduction of its top-of-the-line EK 8 until some time in 1977. Acknowledging that demand for the EK 4, EK 6, and instant film had exceeded expectations, a Kodak spokesman noted that, "It is our intention to concentrate our marketing attention on these currently existing products." The announcement followed a statement released earlier in the week in which Kodak President Walter A. Fallon assured dealers that they would have an "adequate supply" of EK 4s and EK 6s for the Christmas selling season.

One month later, on October 19, 1976, President Fallon commented on the performance of the instant line at a meeting of Securities Analysts of San Francisco.

No new product in our history has received the attention given to the family of instant products introduced by Kodak in April of this year. . . . In all, we will have manufactured and shipped more than one million Kodak instant cameras by the end of 1976, with the bulk of those shipments taking place between now and the end of this year. For 1977, our production will increase by a factor of several times. A substantial body of market research tells us these products will move quickly through the hands of retailers to consumers. That research . . . reveals an overwhelmingly positive response to Kodak instant products.⁵

Fallon's speech evoked comment from some industry watchers. By one estimate, Kodak had shipped only 250,000 instant cameras at the time of the speech. Both Polaroid and Kodak enjoyed strong instant sales during the 1976 Christmas season. Polaroid delivered over 4,000,000 units by December 31, including some 2,500,000 Prontos!. However, volume of regular SX-70 units tumbled 80% to approximately 200,000 and SX-70 dollar sales fell from an estimated \$140 million to \$26 million. Boosted by an extremely strong advertising drive, Kodak shipped an estimated 1,100,000 cameras to retailers before December 31. In the words of Kodak's Fallon: "More than one million Kodak instant cameras were shipped and the majority were in the hands of picture-takers at year's

³ *Business Week*, July 26, 1976, p. 43.

⁴ *Ibid.*

⁵ Kodak press release of Walter Fallon's speech to the Security Analysts of San Francisco, October 19, 1976.

end.”⁶ Kodak’s shipments constituted approximately 20% of the 1976 instant camera market in units. However, experts believed that Kodak’s market share ran closer to 40% in the fourth quarter.

Kodak continued to invest heavily in advertising and promotion. After years of decline, Kodak’s overall advertising as a percent of sales climbed from 1.1% in 1975 to 1.3% in 1976. Kodak continued its strong advertising push in January and February, which traditionally were dormant months for both sales and advertising spending in the photographic business. Polaroid chose not to conduct a post-Christmas advertising campaign. While retailers reported strong sales of Kodak instant cameras, they noted a backlog of Kodak Tele-Instamatics after Christmas.

Legal Developments

The Polaroid-Kodak legal battle continued throughout 1976. In the United States, Kodak denied infringing Polaroid patents and launched a countersuit on May 18, 1976. The counterclaim alleged that Polaroid’s instant camera and film patents were invalid and charged that Polaroid had “unlawfully attempted to thwart . . . Kodak from exercising the right to use the subject matter covered by expired patents.” At year’s end the suit remained in the discovery stage.

In June 1976, Polaroid instituted a suit alleging infringement of nine patents in the United Kingdom. In August, the High Court of Justice granted Polaroid an interim injunction barring Kodak from manufacturing or distributing its instant products in Britain. In December the Justices of Appeal reversed, lifting the ban.

On September 28, 1976, Polaroid sued Kodak for infringement of 10 Canadian patents in Montreal. In December, the Federal Court voided 2 Polaroid patents involved in Kodak’s 1974 suit, after Polaroid had voluntarily surrendered them. Nine other patents remained in dispute.

Kodak Management Changes

On January, 1, 1977, President Walter A. Fallon replaced the retiring Gerald B. Zornow as chairman of the board of Eastman Kodak Company. Upon Fallon’s assumption of the chairmanship, Executive Vice President Colby H. Chandler assumed the duties of president. Fallon retained the title of chief executive officer.

⁶ Annual report, 1976, p. 3.