This case is a study in how NOT to enter a competitive market against an incumbent with competitive advantages like Polaroid.

Detail Polaroid's competitive advantages in the instant photography market

The key to Polaroid's economic position was the technology produced by the combination of Land's genius (patent protection), substantial spending on research and development, and its position as they only supplier of instant photography (economies of scale in R&D).

In terms of market dominance and share stability, it owned the entire market and there was perfect **share stability** from 1947 to 1975. Polaroid also earned **extraordinary returns on investment** between 1960 and 1975, it pretax return on investees capital averaged around 432%, unambiguously above Polaroid's cost of capital. But after peaking at 75% in 1966, the return began to fall. The average for 1970 through 1975 was only 20%.

Polaroid benefited from customer captivity, proprietary technology (with patent protection) and economies of scale, but not in equal measure. Polaroid did have **captive customers** but it was low due to cheap, simple cameras. Polaroid was better protected by the second competitive advantage, proprietary technology for both its product and its processes.

When the original patent for its camera design expired in 1966, it applied for additional ones to protect its advances. Also, it had accumulated a world of experience in engineering and manufacturing both cameras and instant film.

The third advantage, **economies of scale**, also protected Polaroid. Making instant cameras and instant film requires major spending for plant and equipment. The R&D investment is considerable. Polaroid laid out more than $600 million in the fourteen years between 1962 and 1975, including over $200 million in just two years getting the SX-70 system ready. Additionally, it supported a substantial advertising program. In combined with Polaroid's modest level of customer loyalty, were another substantial barrier for any new entrant to overcome. Taken together all three competitive advantages, reinforced by fanatical dedication to instant photography, presented a daunting challenge to any potential entrant. A potential competitor might have been well advised to stay away.

What were Polaroid's responses to Kodak's launch into the instant photography market?

Polaroid was not standing still in the face of Kodak's long awaited entry. In August, 1975, the company had introduced two new SX-70 camera models, one at the high end of the line, one in the middle. In part to support these introductions, it boosted an already substantial advertising budget by $16 million for the Christmas 1975 season. Polaroid had also moved to decisively to improve relationships with its distributors. After Kodak entered Polaroid's market, the sales people changed their approach. They began calling on stores more frequently, providing faster delivery improved service, and higher levels of cooperative advertising.

At the same time, Polaroid moved to quash Kodak's threat in the courts for patent infringement and violation. Polaroid asked for injunctive relief to take Kodak's threat in the courts for patent infringement and violation. Polaroid asked for injunctive relief to take Kodak out of the instant business in a hurry.

Patent protection proved to be the one competitive advantage that pushed Kodak out of the instant photography business.

Was there an alternative approach for Kodak that might have been more successful?

Kodak should have avoided entering a market where the incumbent had all the competitive advantages. If Kodak was intent on entering it should have picked a **niche in the instant photography market** that Polaroid was not serving well and then entered in a small, non-threatening. But the odds for succeeding were long.

If you were running Kodak in the 1970s, what strategy would you have followed –given all the benefits of hind-sight?

Rather than having management attention and resources dissipated by unproductive ventures in copiers (also against an entrenched incumbent-Xerox) and instant photography, I would have the company focus on improving and protecting its core business-photographic **paper and film**. If growth opportunities were lacking in the core business I would return capital to shareholders or try to expand on the margins of my core business. I would not have let Fuji Films enter my market without a severe response. Kill the baby in its crib.

Kodak's first priority would be to protect its market space where its advantages really were rather than entering against entrenched competitors who held strong competitive advantages.

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