Kodak EasyShare Gallery: Holding memories hostage

Abdulrahman N. Alrashed
University of Tampa

Keith R. Schott
University of Tampa

Alan S. Demo
University of Tampa

Sarah Linthicum
University of Tampa

Kelly Flynn
University of Tampa

Erika Matulich
University of Tampa

Raymond Papp
University of Tampa

ABSTRACT

Kodak, a pioneer of the photographic industry throughout the last century, entered the online photo sharing market with great fervor but experienced difficulties early on. In the following years Kodak's strategic decisions led to the rapid demise of their EasyShare Gallery. This case illustrates the pitfalls of failing to understand customer needs and wants. The case discusses the importance of understanding strategic marketing, illustrating the significance of brand equity, and understanding the significance of research, implementation, and evaluation of the target market.

Keywords: marketing, Kodak, social networking, online gallery, marketing research, customer value, core competencies, customer service, EasyShare, pricing strategy.

INTRODUCTION

This case covers the time frame in Kodak's history when photographs were moving from being printed and stored in albums on a shelf to being not printed and digitally stored in electronic albums that could be viewed by the entire world over the web. Although Kodak was a leader in all things photographic until the 1980's, Kodak was quickly losing market share and the digital advancements of other companies led to Kodak having to play catch up in the digital market. To address this problem, Kodak purchased Ofoto.com, an online photo sharing site, to increase its presence in the digital storage arena. Kodak subsequently changed the name of this website to EasyShare Gallery. The decision to change the format of the online gallery was a turning point in the customer value proposition for Kodak.

The goals of this case include exploring ways Kodak could have changed the website to increase revenues without damaging the Kodak brand or alienating its customers. By exploring and understanding the need for pre-planning and marketing promotions as they relate to adding value to customer experiences, the choices a company makes that play a role in the customer experience and the company's success or failure become evident.

This case is suitable for both undergraduate and graduate courses in marketing, e-commerce, information systems or business management in areas where the students are studying strategy implementation and customer value.

CORPORATE HISTORY

George Eastman dropped out of school at the age of 14 (George Eastman Biography, 2004). His teachers said he was an average student, but he had an inventive mind and a creative spirit. He also had a gift for organization and management. In his mid-twenties he planned a vacation and bought all the equipment to take photographs on the trip. Eastman became fascinated by the photography process, but felt it was far too labor intensive and the amount of equipment required was overwhelming. He also felt the equipment was difficult to operate and transport. (History of Kodak - George Eastman, 2011)

He began reading everything he could about photography and the advances the Europeans were making on the subject. He then began to experiment and eventually, after many attempts, invented a dry plate technique that dramatically reduced the intricacies of the process. He patented this dry plate and a machine to produce dry plates. (History of Kodak - George Eastman, 2011)

"I really needed only a one horse-power," he later recalled. "This was a two horse-power, but I thought perhaps business would grow up to it. It was worth a chance, so I took it." - George Eastman (History of Kodak - George Eastman, 2011)

Thus, in 1880, Eastman's company was born. He leased office space and began selling his dry plates to professional photographers. Later, he realized that with the improved technology photography could be an "everyday affair." With this in mind, he set a goal to make photography "as convenient as the pencil." He experimented until he had many sequential exposures on a roll instead of using individual dry plates. Through his research and experimentation, he paved the path photography would follow for the next hundred years. (History of Kodak - George Eastman, 2011)

In 1888 Eastman invented the KODAK camera, which was preloaded with enough film for 100 pictures. The camera was small enough to be handheld and light enough to carry conveniently. The camera cost $25 and could be returned to The Eastman Company for

processing and film replacement at a cost of $10. In 1892 the company's name was changed to the Eastman Kodak Company and by 1896 the cost of the camera had dropped to $5, but Eastman felt the cost was still too high and set out to reduce the price of the camera to $1. By 1900 he had accomplished this goal; George Eastman had made photography accessible to the general public and revolutionized the photography process. (History of Kodak - Building the foundation, 2011)

To achieve his success, Eastman focused on four closely-related essential principles: mass production at a low cost, international distribution, extensive advertising and focus on the customer. Additionally, he also pursued the values of fostering growth and development through continuous research, treating employees in a fair, self-respecting way and reinvesting profits to build and extend the business were possible. (History of Kodak - Building the foundation, 2011)

Kodak continued to be a market leader in cameras, film, photo processing and photo paper into the early 1990's. Kodak technology has many additional applications in industries such as film making, document imaging, and space exploration. Some of Kodak's patents even have medical applications such as in the use of diagnostic imaging (History of Kodak - Building the foundation, 2011).

SITUATION

Fast forward to late 2008, Victor Cho had been hired in September to develop an integrated strategy for all of Kodak's direct-to-consumer businesses. Cho's business experience was strong in the field of computer technology, having worked at both Microsoft and Intuit and supervised strategic operations at internet sensation iVillage.com (Davis, 2009). Cho knew he had to construct a plan to impress his superiors and increase income to the bottom line. He had recently analyzed the segments of the business with the lowest ROI and his analysis clearly showed the Kodak Gallery was costing the company more than it was earning. The cost of maintaining over 60 million users' five billion high-quality digital images was quickly exceeding the revenue generated by items ordered from the gallery. He determined he needed to increase revenue from the Kodak Gallery, but as he continued to sift through pages of data, he wondered how he could turn this financially draining business unit into a profit center (Clarke, 2007; Kodak Gallery, 2013).

HISTORY OF KODAK EASYSHARE

In 1999, what would later become known as the Kodak EasyShare Gallery was launched under the moniker Ofoto. The Ofoto firm was an online photography service with roots in Berkeley, California. The online service allowed users to upload JPEG files and quickly and easily share the images online with anyone (Bandler, 2001). In 2001, Ofoto was acquired by Kodak giving birth to the Kodak Gallery concept, which Kodak subsequently renamed Kodak EasyShare Gallery in 2005. The new name better aligned the Kodak brand and EasyShare services (Business Wire, 2005). Kodak tailored Ofoto to reflect Kodak's main strategic objective – revenue generation. The Kodak EasyShare Gallery's services were provided for free and did not align with the idea of revenue generation. Kodak needed to create a strong tie between the brand and the website to foster positive purchasing behavior among users. Kodak spent the next few years updating the service options using technological advancements and industry competition as benchmarks (Kodak Gallery, 2013).

Kodak's marketing team hoped offering items such as DVD slideshows, photo stamps, framing and picture cards would drive enough revenue to justify providing the services at no charge. Features were added, changed, and removed and the gallery continued to fall short of desired profit margins. However the investment was not completely lost, and in 2006, Kodak Easyshare Gallery was named one of the "Best 100 Products of the Year". (PC World, 2006)

EasyShare Gallery appealed to customers as signing up was easy; it required only an email address and users felt the service provided high quality prints, simple organization, and a wide array of photo gift offerings. However, some complaints included the extremely limited photo editing tools and slow gallery viewing. (Boehret, 2007)

In the face of these mixed reviews Kodak continued to tout the EasyShare Gallery as the "next generation" in photo sharing and storage. The company felt the gallery could be a more extensive website offering its members premium products, tools, and a better user experience than competitor's galleries (Kodak Gallery: The Next Generation, 2008). As these events unfolded, the company continued to follow a progression based on a gradual adoption of the technology, as exemplified in the following timeline from the Kodak's website:

- 1999 – Kodak sells its copier division
- 2000 – Dan Carp named CEO
- 2003 – Kodak releases a five-pronged business strategy focused on digital technology and commercial businesses. The five "prongs" included commercial printing, display and components, health imaging, digital and film imaging systems, and commercial imaging.
- 2004 - Kodak announces it would cut 12,000-15,000 jobs worldwide and shed one-third of its real estate
- Kodak purchases digital printing business Scitex Ltd. of Israel, renaming it Kodak Versamark Inc., and absorbed Heidelberg Digital and NexPress commercial printing businesses as part of an accelerated push into commercial printing
- 2005- Antonio M. Perez named CEO. The average stock price is $27.46. Revenue is $14.3 billion and the company loses $1.3 billion
- 2007 – Kodak launches its EasyShare All-in-One desktop inkjet printer line.

Financially, the company had initially outperformed the markets in the years leading up to mid-2005, but underperforming the indices thereafter. By 2008, it had diverged from the market performance by nearly 70 percent (Daneman, 2011).

INDUSTRY ANALYSIS

Consumers were storing more photos than ever before and the photo sharing and storage industry was expected to grow by 50% by 2008 and be valued at $5.5 billion (Siliconindia, 2005). With this intense predicted growth, Kodak was facing some tough decisions to remain a strong competitor. Figure 1 illustrates the tough competition Kodak faced (Wilson, 2007).

Items 1 to 7	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07
Total Internet : Total Audience	712,976	717,773	722,727	726,749	730,868	736,072	740,984	746,934	739,835
1 [M] FLICKR.COM	15,893	18,045	19,918	20,625	19,544	21,749	22,577	25,780	27,370
2 [M] PHOTOBUCKET.COM	18,162	20,934	20,087	19,653	21,311	22,402	24,756	25,799	26,044
3 [M] WEBSHOTS.COM	17,030	16,092	14,709	13,223	12,864	13,416	14,295	16,389	15,290
4 [M] FOTOLOG.COM	8,807	9,667	10,001	9,896	9,994	10,692	11,431	12,493	12,350
5 [M] KODAKGALLERY.COM	9,634	10,304	10,705	9,329	9,840	10,274	9,080	9,896	8,276
6 [C] SNAPFISH.COM	5,521	6,203	5,680	5,502	5,289	6,414	5,971	5,858	4,844
7 [P] SHUTTERFLY.COM	4,825	4,679	4,648	4,716	4,644	4,938	4,515	4,355	3,879

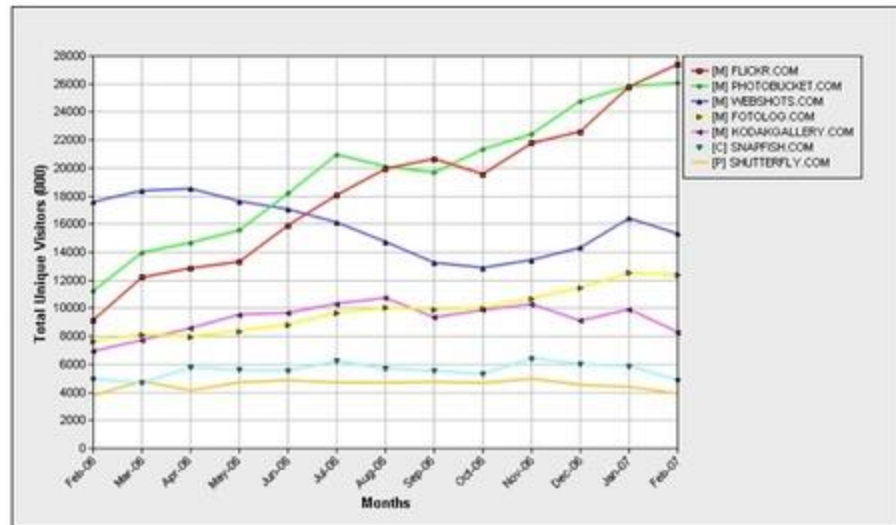
Figure 1: Photo Storage Industry Analysis

Yahoo acquired Flickr for around $30 million in March of 2005, and Flickr had already amassed a "community of 1.5 million rabidly loyal users" who were continuously uploading photos (Schonfeld, 2005). Yahoo's purchase of Flickr was part of a larger strategy to compete with web giant Google. Flickr provided consumers with free photo storage but also offered Flickr Pro, a premium fee based subscription service allowing users to increase personal storage limits to 2 gigabytes per month. These subscription fees generated 13% of Yahoo's revenue in 2006. Flickr offered users the ability to not only store photos but also tag photos for the public to view. "Most users describe their photos with tags and make them public for the benefit of friends and family, without realizing that they're greasing the wheels of a great social media machine. Add together all those labels and you have millions of keywords — a gold mine of image search" (Schonfeld, 2005).

Another competitor of Kodak's EasyShare Gallery was Shutterfly, founded in 1999. The original Shutterfly website launched the very same day as Ofoto – December 11th, 2009 (Mitra, 2008). Shutterfly differentiated itself from its competition by offering more than just photo storage and printing services; on par with its largest competitor, the EasyShare Gallery, in 2005 Shutterfly made the Inc. 500 list of fastest growing private companies. This same year Shutterfly had most of the same offerings as its competitors and introduced drag-and-drop hardcover photo books with optional caption boxes (ElateWiki, 2008).

The third major competitor of the Kodak EasyShare Gallery was Snapfish, acquired by HP in 2005. Snapfish had 3 million users in 2005 and was the third largest online photo sharing service behind Kodak EasyShare Gallery and Shutterfly (Siliconindia, 2005). Snapfish offered many of the same features as its competitors such as free online photo storage, editing tools, and

online print and product ordering. Industry experts have placed faith in HP's acquisition of Snapfish and generally regarded it as a wise strategic move (Siliconindia, 2005).

Google also entered the photo sharing and storage market with its Picasa Web Albums. The beta program allowed users to, "edit and organize [their] photos in Picasa, and then click the Web Album button to post them online. Picasa's defaults make albums public—so anyone with an invitation can browse them" (Johnson, Blackwell, & Mainelli, 2006). The program, via Google, offered 250 megabytes of free storage space but encouraged users to subscribe for $25 per year and gain access to an additional 6 gigabytes. Through Picasa regular or paying users could view metadata attached to photos such as camera model or exposure information, and download photos easily (Johnson, Blackwell, & Mainelli, 2006).

Figure 2 highlights the various photo sharing sites and features of each (Boehret, 2007).

	Kodak Gallery kodakgallery.com	Shutterfly shutterfly.com	Snapfish snapfish.com	Flickr flickr.com	Photobucket photobucket.com
Optional Subscription Account	Gallery Premier $25/year or $2.50/month Gallery Premier with Print Super Saver, $50/year	No	Video service is subscription, $25/year or $3/month	Pro $25/year	Pro $25/year or $3/month
Requirement to keep account	1 purchase per year for free account	No	1 purchase per year for free account	No	No
Storage	Unlimited	Unlimited	Unlimited	100MB/month free, unlimited with subscription	1GB free, 5GB with subscription
Privacy/sign-in	Optional	No	Required	Optional	Optional
Mobile/email upload	Yes/Yes	No/No	Yes/Yes	Yes/Yes	Yes/Yes
Projects (books)	Yes	Yes	Yes	Yes	Yes
High-resolution download	Only with subscription	No	25 cents for one, 5 cents for each additional	Yes	Yes
Cost per print	15 cents	19 cents	12 cents	15 cents	15 cents

Figure 2: Comparison of Photo Sharing Sites

THE DECISION

How could Kodak generate positive consumer purchasing behavior through the Kodak EasyShare Gallery? Was there a way to increase both revenue and brand loyalty? Victor Cho decided the cost of storing users' photos had become more than Kodak was willing to bear based on lackluster profits year after year. Cho considered the following options for EasyShare Gallery:

- Kodak could charge customers to store photos in the gallery.
    - Kodak could create promotional packages with annual memberships.
    - Kodak could offer additional features to paying customer or limit non-paying customer's features.
- Kodak could form a strategic alliance with an online photo storage company.
- Kodak could change the website to an ad based model.
- Kodak could offer the website to only Kodak product owners.

DISCUSSION QUESTIONS

1. Describe who should be in Kodak EasyShare Gallery's target market.
2. How can Kodak turn this problem into a profit making opportunity?
   a. Kodak could charge customers to store photos in the gallery
   b. Kodak could discontinue the online gallery and force customers to use other online sites (grace period to transfer photos)
   c. Kodak could change the website to an ad based model
   d. Kodak could offer the website to only Kodak product owners
   e. Kodak could form a strategic alliance with an existing photo sharing site
3. What type of customer analysis should the company perform before making a decision?
4. Perform a brief SWOT analysis for Kodak.
5. Perform a brief SWOT analysis for Kodak EasyShare Gallery.
6. What sustainable competitive or differential advantages should Kodak offer on a photo website?
7. List the problems Kodak was experiencing with the online gallery.
8. What was Kodak's motivation for acquiring ofoto.com?

TEACHING SUGGESTIONS

1. Ask for a hand-count of your students to see how many of them store photos online. Ask the storage users how often they purchase products with their photos imprinted on them from the online website. Do you pay to store your photos online? Approximately how much? Annually? Monthly? Size based?
2. Have your students go online and Google photo storage websites. How many websites were available?
3. Do you maintain your photos on your personal hard drive? How much space do your photos take up? What other devices do you store photos on?
4. Ask your students to take on the role of CEO (Chief Executive Officer). What type of product would you offer Kodak customers to entice purchases from the Kodak website? What other solutions do you see for the company?

DECISION-MAKING QUESTIONS

1. How can Kodak recover from this marketing misstep?
2. How could Kodak have better handled this situation to make the transition more comfortable for the customers?
3. What should Kodak do to rectify the brand image?
4. How does this move affect Kodak's brand equity?

EPILOGUE

The Epilogue which follows this page contains information on what actually happened to Kodak and should not be shared with students until after case discussion has finished.

On March 23rd, 2009 Kodak contacted its EasyShare Gallery notifying them about a policy change requiring them to make annual purchases. Customers would need to make a purchase of $4.99 for storing under 2 GB and $19.99 for anything over 2GB. If the purchases were not made within 60 days the photos would be deleted. Responses to customers expressed this quite literally, as seen in Figure 3 (Waldow, 2009).
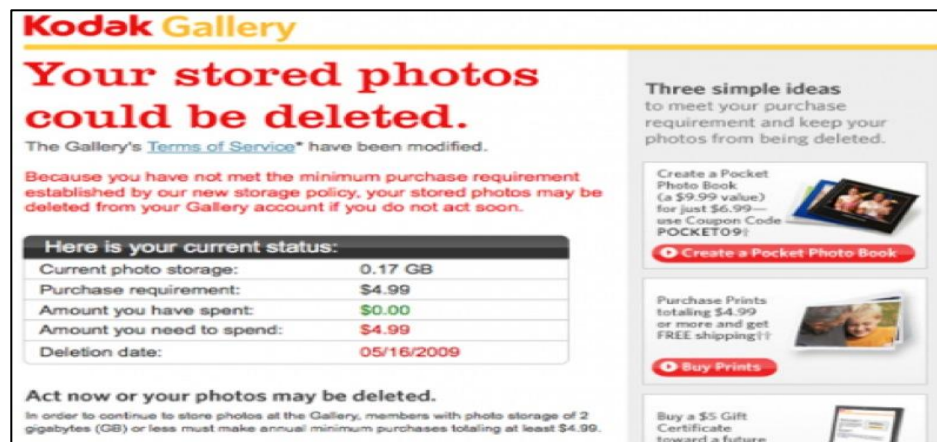
Figure 3: Customer communication email

With over 70 million customers (Kodak Inc., 2008) each paying at least $5 per year, revenue would be approximately $350 million. Needless to say, the investors would be delighted! What Kodak did not realize was that customers would not share the same sentiment as the investors.

On January 19, 2012, Kodak filed for Chapter 11 in the U.S. Bankruptcy Court for the Southern District of New York (K.N.C., 2012)
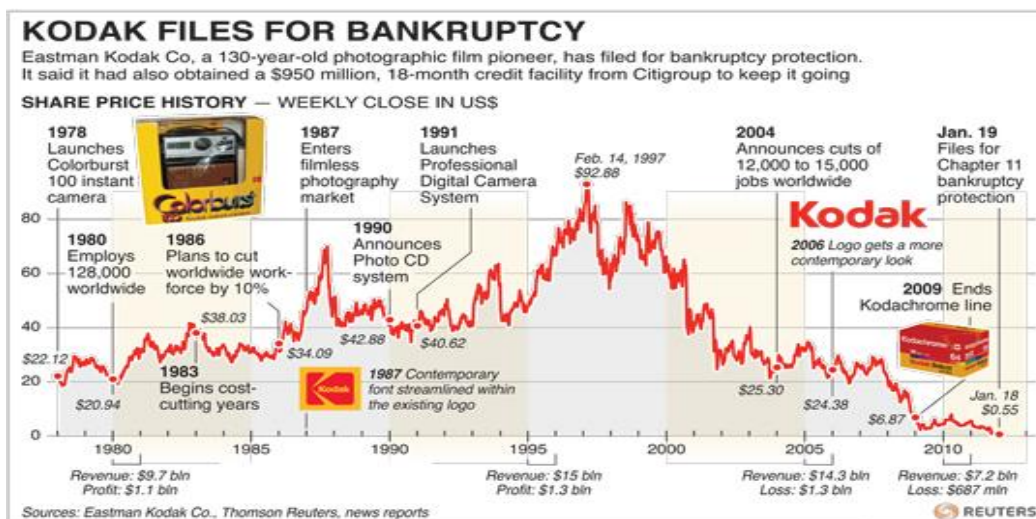
Figure 4: Kodak Files for Bankruptcy in 2012

Kodak closed the EasyShare Gallery on July 2, 2012 and transferred all images to competitor Shutterfly.com (www.KodakGallery.com)

Figure 5: Website of www.KodakGallery.com in 2013

REFERENCES

Clarke, Jay (2007). Picture This: Family Photo Album gets a Modern Update. *Providence Journal.* December 30, 2007. Retrieved September 1, 2013 from http://web.archive.org/web/20110604013341/http://www.projo.com/lifebeat/content/lb_photo_books_12-30-07_GH88B0A_v6.5bc0b.html.

George Eastman Biography. (2004). Retrieved from George Eastman House: http://legacy.eastmanhouse.org/multimedia/content/education/0.pdf

OFOTO service renamed KODAK EASYSHARE gallery. (2005, Jan 5). *Business Wire*. Retrieved from http://search.proquest.com.esearch.ut.edu/docview/445518695?accountid=14762

History of Kodak - Building the foundation. (2011). Retrieved from http://www.kodak.com/ek/US/en/Our_Company/History_of_Kodak/Building_the_Foundation.htm

History of Kodak - George Eastman. (2011). Retrieved 07 08, 2012, from http://www.kodak.com/ek/US/en/Our_Company/History_of_Kodak/George_Eastman.htm

Bandler, J. (2001, May 1). Kodak Will Acquire Ofoto in a Move To Expand Services. *Wall Street Journal*. Retrieved from http://search.proquest.com.esearch.ut.edu/docview/398913010?accountid=14762

Boehret, K. (2007). *How the Big Photo-Sharing Sites Stack Up*. Retrieved February 1, 2013, from http://allthingsd.com/20070801/how-the-big-photo-sharing-sites-stack-up/

Daneman, M. (2011). *Democrat and Chronicle*. Retrieved from Democrat and Chronicle: http://www.democratandchronicle.com/article/20120119/MULTIMEDIA09/301190013/Kodak-timeline-1878-present?nclick_check=1

Davis, F. (2009, November 30). *Victor Cho Bio.* Retrieved from Frost & Sullivan: http://www.frost.com/prod/servlet/cpo/185833760

ElateWiki. (2008, 08). *Shutterfly*. Retrieved July 25, 2012, from ElateWiki: http://elatewiki.org/index.php/Shutterfly

Johnson, D., Blackwell, L., & Mainelli, T. (2006). Google and Yahoo Embrace Photo Sharing. *PC World, 24*(10), p. 56.

Kodak Gallery. (2013). Wikipedia.com. Retrieved September 1, 2013 from http://en.wikipedia.org/wiki/Kodak_Gallery

Kodak Gallery: The Next Generation (2008). 2008-2009 American Marketing Association Collegiate Case Competition Retrieved September 1, 2013 from http://www.marketingpower.com/Community/collegiate/Documents/FY12%20Documents/KodakCase33.pdf

K.N.C. (2012, January 19). *Gone in a flash*. Retrieved from The Economist: http://www.economist.com/blogs/schumpeter/2012/01/kodak-files-bankruptcy-protection-1

Mitra, S. (2008, 03 22). *Shutterfly's Strategy: A Conversation with CEO Jeff Housenbold (Part 3)*. Retrieved 07 25, 2012, from Entrepreneur Journal: http://www.sramanamitra.com/2008/03/22/shutterflys-strategy-a-conversation-with-ceo-jeff-housenbold-part-3/

PC World. (2006). *The Best 100 Products of the Year*. Retrieved September 21, 2012, from http://www.pcworld.com/article/125706/article.html?page=0

Schonfeld, E. (2005). The Flickrization of Yahoo. *Business 2.0*, 156-164. Retrieved 07 25, 2012, from Business 2.0.

Siliconindia. (2005). HP to Acquire Leading Online Photo Service Snapfish. *Siliconindia, 9*(3), p. 18.

Waldow, D. (2009). *Now That You Have My Attention... [Kodakgallery.com email review]*. Retrieved December 2, 2012, from http://bronto.com/blog/email-marketing-strategy/now-you-have-my-attention-kodakgallerycom-email-review#.UX3OKLXIuv0

Wilson, F. (2007). *Thinking About Online Photo Services*. Retrieved February 1, 2013, from http://www.avc.com/a_vc/2007/03/thinking_about_.html