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[Back to previous page](#)

What Kodak could still learn from Polaroid

By Christopher Bonanos, Published: November 30

Twenty-five years ago, two corporations, Eastman Kodak and Polaroid, essentially owned the U.S. market for photographic film, with a modest but growing slice going to Fujifilm of Japan. It was a huge business, with good profit margins.

At its peak in the late 1990s, Kodak sold about a billion rolls of film in the United States each year. Last year, it sold roughly 20 million. That's a 98 percent drop in its core business over barely more than a decade. It's no wonder Kodak filed for Chapter 11 protection early this year.

"We are reshaping Kodak," chief executive Antonio Perez said.

After nearly 125 years, Eastman Kodak is, most likely, about to stop making photographic film, apart from a few specialized lines and its cinema products. The much-diminished behemoth is putting its analog film division up for sale as it reorients and re-imagines itself. The announcement of Kodak's reorganization plan has been postponed until February, but something radical is expected. The company reported a third-quarter loss of \$312 million. It's not impossible — though it is unlikely — that Kodak will be liquidated.

This has been one tough year in Rochester, N.Y.

The digital revolution threw a lot of business models into the air, and it's still unclear where they'll all land. Newspapers lost classified advertising and subscribers. Network TV viewers drifted away to cable and Web sites, and lots of commercials followed them. The recording industry was upended by teenagers who discovered that they could download heaps of music for free.

But few fields have experienced upheaval in the digital age as dramatic as the shake-up in photography.

Today, Kodak is a technology company with a number of valuable patents devoted to inkjet printing. It's also a company that makes film. But Kodachrome, its mainstay color film from the 1930s into the 1970s, was discontinued in 2010. All of its color slide films, including the classic Ektachrome, went this year. Plus-X, a fine-grained black-and-white film introduced in 1941, is gone, too.

As Tom Mooney, Kodak's worldwide product manager for "film capture" — that is, as opposed to digital image-making — said, with a generous helping of understatement, "there are a lot of decisions being made, many of them painful."

Kodak's potential fire sale is in one sense a Hail Mary. A healthier company might have hung onto the business it created from scratch. (George Eastman, the founder of Eastman Kodak, invented celluloid roll film in 1888.) Fujifilm, Kodak's main competitor in the film business since the 1980s, made some better calls about diversification and its future seems brighter.

As it turns out, the film business has fallen so far that it may have stabilized. As Mooney said, among professionals, “there isn’t that much digital incursion left.” In the past year, Kodak film sales have, for the first time in more than a decade, gone up rather than down. (At least one more blow is forthcoming, as Hollywood shifts to digital distribution of feature films. Shipping prints of a movie to thousands of theaters at once required a lot of film footage, and soon it won’t.)

What’s happening to Kodak already happened to Polaroid, the other great mid-century photographic giant. Polaroid created and dominated the business of instant cameras and film. As the digital world began to challenge analog businesses — newspapers, television, music — Polaroid was the test case, the one whose business was arguably the most vulnerable.

In the 1960s and ’70s, Polaroid was one of the most inventive technology companies on Earth. By the 1990s, it had changed from idea factory to consumer-products manufacturer, and one that was dependent on a single product line whose technology was aging ungracefully. Polaroid declared bankruptcy in 2001 and again in 2008; it stopped film production in 2009.

A look at the deep swan dive taken by Polaroid’s analog film business, and at the tiny companies that have bobbed along picking up bits of its business after the collapse, provides useful guidance to whoever buys Kodak’s film division — and some cautionary tales, as well.

1 Don’t be afraid to raise prices.

Yes, the remaining buyers of film are weighing this technology against digital methods of image-making. But they’re not choosing film for reasons of economy; it could never compete. They are choosing it for a particular look and feel, and because they want to differentiate themselves. Some are old-school professionals who prefer to work in familiar ways. Others are people who “have gone to digital and come back,” Mooney said, “and it’s hard to quantify how many, but they’ve come back for workflow or aesthetics or because they want to stand out.” And then there are the hipster kids, “the younger creative crowd that grew up with digital and moved to film, Mooney said, “and we hear that group is growing.”

Polaroid almost caught that wave, but its shutdown came just a hair too early. In 2004, its managers decided to stockpile a decade’s worth of chemicals and components for instant film and to let the supply lines dry up. Then, went the thinking, it could cash out, selling off the real estate. Over the next few years, as demand slowly began to pick up — from the three groups mentioned above — Polaroid ran out of ingredients well ahead of schedule. There was talk of trying to get the machines rolling again, but the complex chemicals the film required, and its unique self-contained negative, which had been manufactured by Polaroid itself, were simply unavailable.

Or, rather, were unavailable if Polaroid wanted to maintain its familiar retail price of about \$10 a pack, and keep up its legacy costs.

In 2009, a group of eccentric entrepreneurs bought Polaroid’s last film factory, in the Netherlands, and incorporated under the name The Impossible Project. Its mission was to restart production without changing the specifications of the film, so it would fit into old Polaroid cameras. Two and a half years after its launch, Impossible has produced several iterations. The first were extremely touchy and unreliable; subsequent batches have been markedly better, though Impossible’s tiny scale has made it difficult to match Polaroid’s level of consistency. Its latest product, introduced in September, is the first one that looks and behaves a lot like Polaroid film did.

Impossible’s scale also means that its product can’t be sold at Polaroid’s price point. A pack containing eight Impossible frames retails for about \$24, or \$3 per click of the shutter. Yet Impossible sold a million film packs last year. The people who want film will pay extra for it. They’re already paying a huge

premium over the essentially zero cost of digital. Film is no longer a commodity product; it's a preference, required for a labor of love. Boutique prices are going to be part of the future of film, and the devout buyer will adjust.

2 The only cameras are going to be high-end cameras — and very-low-end ones.

Yes, Polaroid and Kodak made hundreds of millions of cameras. But that was never their principal business: The hardware existed mostly to sell film. This is what business-school professors call the razor-and-blade model, pioneered by Gillette: The razor is sold at minimal profit or even given away, and the blades sell for years afterward at a healthy profit margin. Amazon does the same with the Kindle, selling it cheaply to encourage enthusiastic e-book buying.

More than anything else, Polaroid's desire in the 1990s to keep film sales up and film factories humming was what killed the company. When it should've been diving into a variety of digital businesses, Polaroid doubled down on analog-film production, building new production equipment and trying to economize. ("If we get our costs down, we'll be competitive" was a lot of the thinking; "someone's going to own instant imaging when the film business inevitably disappears, and it had better be us" was not.)

As it happens, though, the camera business is beginning to see a second radical change. The under-\$200 point-and-shoot camera is, in the next few years, mostly going to go away. Already, your smartphone is better at that than a lot of those cameras are; in the next couple of years, those image sensors will only improve. (The iPhone 4 even added an electronic flash and high-dynamic-range capability, both technologies that would've seemed impossible to stuff into a phone a decade ago.)

In late August, Nikon announced a hybrid called the Coolpix S800C. The camera looks for all the world like an Android smartphone with a big lens sticking out the back, and will do a lot of the things that a phone could do via Wi-Fi: uploading pictures to Facebook or Instagram, for example. The current owners of the Polaroid trademark — who bought it out of the second bankruptcy, in 2009, and are trying to make a go of things in the digital realm — have shown a similar prototype. It's not hard to envision the midlevel camera and the smartphone merging into one.

Kodak, to its credit, recognized that the small-camera business is dying. It quit the digital-camera business a few months ago. But one product line continues to work for Kodak: the "one-time use," or disposable, camera. It solves certain problems that standard cameras do not — like having one on each table at a wedding or photographing in nasty environments where you don't want to risk an expensive, delicate device. Amazingly, 31 million disposable cameras were sold in 2011.

Another low-end, high-margin business model has been embraced by the Lomography Society. The organization specializes in cheap plastic cameras produced in Russia and China — toys, really, many of which have light leaks and other flaws. Yet they're selling at high markups in striking numbers, embraced by those hipsters who are warming to analog film. They're fun to use, and their irregular performance adds a bit of chance to the results — which, for a certain kind of person, one who's deliberately rejecting the clean digital image, is almost the point of shooting film.

Lomography has opened several stores in high-rent districts of New York, Berlin, San Francisco and other cities that incubate sociocultural trends. At the Lomography store, nearly all the cameras take conventional film, processing is quick and not horribly expensive, and the business appears to be doing pretty well. Implausibly, Lomography is reportedly in the running for some of Kodak's analog-film lines. The minnow could conceivably swallow the whale (which is a lot smaller than it used to be).

3 "Don't do anything that someone else can do."

Edwin Land, the founder of Polaroid and inventor of instant photography, was a singular figure, a Steve Jobs before there was a Steve Jobs. In fact, Jobs idolized Land, and said he modeled Apple on Polaroid, locating the company at the intersection of the liberal arts and high technology, and deploying obsession in the service of the perfect product. One of Land's many aphorisms was "Don't do anything that someone else can do." (Another was "Marketing is what you do when your product is no good.")

So what does Kodak do in the analog world that nobody else can do? Kodak's Portra professional film is widely held to be the world's best at reproducing skin tones. Its black-and-white workhorse Tri-X is one of the last monochrome films in production that's based on older crystal technologies, and the only one that looks like it does. ("We've looked at [reformulating] Tri-X," Kodak press officer Audrey Jonkheer said. "People tell us not to tinker with it. Your Tri-X users got religion — oh boy.") Other Kodak products often come out on top in comparisons with Fuji's.

The point, though, is that if you're going to sell film in the 21st century, you need to think of your product as a fine-arts material. Kodak has, understandably, been cutting films from its lineup for several years. Classics like Ektachrome, Kodachrome and Plus-X are all gone. They all had their small die-hard audiences, which would, again, probably have paid serious premiums to keep them available. Going back to the price argument: If the buyer of Kodak's film business said, "Okay, you can have Ektachrome back, but it'll cost you \$13 per roll instead of \$6. Do we have any takers?" I would not be surprised to see a small but enthusiastic set of professional photographers lining up, the way Polaroid enthusiasts have for Impossible. It won't work in the fields where Kodak, or its successor, competes head-to-head with Fuji — but it will certainly work on products that stand alone, as Polaroid's did.

In fact, such an experiment is taking place on an even smaller scale in Massachusetts. A tech entrepreneur named Bob Crowley has been trying, with a small group of enthusiasts, to reproduce (and even improve upon) the specialized large-format instant film known as Polaroid Type 55. Type 55 was never in widespread consumer use — it was a product meant for big old-style view cameras that require a cloth over the photographer's head — but those who bought it loved it, right up until it went away in 2009. (Today, a box of Type 55 that's been stored properly in a refrigerator can sell for a couple of hundred dollars.) Ansel Adams was a particular aficionado, principally because Type 55 produced not only an instant print but also a big, luscious photographic negative.

If Crowley can start this business — he's just now lining up funding — his New55 product is not going to be a huge profit-generator. (Nor will it be cheap. Six dollars a frame is, he said, his likely retail cost, a price that I doubt people at Kodak would ever deem sustainable.) But go to his Web site, new55project.blogspot.com, and read the comments. The enthusiasm level is palpable, and a market — of some indeterminate size — appears to be out there.

4 The little yellow box is still golden.

The original Polaroid Corp. may be gone, but its name — once among the most rock-solid brands in America, one that still contains a lot of equity — is not. It's owned today by a joint venture of Hilco and Gordon Brothers, two private-equity firms that bought it after Polaroid's second bankruptcy. To their credit, the firms know what they've got, and they have been able, through licensing, to introduce some interesting products (small digital printers and printing cameras, mostly) that fit nicely with Polaroid's brand equity. They've also got a lot of more commodified deals going, whereby the name appears on inexpensive TVs and video-game controllers and, yes, digital cameras.

Polaroid has also entered into a deal with Impossible to relabel some of its products "Polaroid Classic," which suggests that they understand the warm feelings still emanating from Polaroid's illustrious past.

That, itself, is a lesson to the buyers of Kodak's film business: Don't neglect the equity in that box. The

amount of name recognition — a sign behind the counter of every convenience store in the world — is staggering. “You know,” a friend in the photo business recently said to me, “it does seem that all people want from Kodak is little yellow boxes of film.” That’s not the whole story, but you can see what he means, and nearly everyone who cares about the photographic arts is hoping that someone generous and deep-pocketed is feeling the need for a Kodak moment.

Bonanos, a senior editor at New York magazine, is author of “Instant: The Story of Polaroid,” from Princeton Architectural Press.

13 1 years ago George Eastman created the Eastman Dry Plate Company, which later became Eastman Kodak. 1, 1 00 digital-imaging patents. Kodak has made \$3 billion since 2001 licensing them to users like Samsung and LG. -\$31 2 million Kodak’s third-quarter losses. That was up 41 percent from its 2011 third-quarter losses.

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