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WEEKLY INSIGHT
Kodak Goes Digital

The world’s biggest photography company, which grew into an icon on the strength of its chemical-based film, paper and photofinishing businesses, is trying to quickly widen its range of digital products in the consumer, commercial and health imaging fields.

After realising that users have adopted digital cameras and photography twice faster that they expected, Kodak has decided reduce its investment in its traditional core business and will designate €2,727 million over the next three years to make different acquisitions, aimed at growing in the digital imaging and printer fields.

By these acquisitions, Kodak wants to increase sales from $12.8 billion last year to $16 billion in 2006 and $20 billion by 2010.

Kodak expects its digital businesses, which have yet to turn a profit, to account for half its profit and 60 per cent of its sales by 2006, up from 30 per cent now.

From Canada.com
[Full Story]

Highlights
- Eastman Kodak, the world’s largest maker of film, announced a major shift in its strategy on Thursday and said that to help pay for the change it would slash its annual dividend by 72%. This is the first time since the company was founded in 1880 that it has cut its payout to shareholders, and Wall Street expressed its displeasure.
- The competition between Sony, Canon, Olympus or Fujitsu has reduced the price of digital cameras by 60%, from €600 to €240.
- According to GfK, 305,900 digital cameras were sold in Spain during 2002, compared to 999,900 traditional cameras. But digital cameras moved more money, €153.43 million, and registered an annual growth of three digits in the last
four exercises. Meanwhile, sales of traditional cameras fell by 8% to €138.22 million.
- If Eastman Kodak manages to reinvent itself as a giant of digital imaging it will go down in the annals of modern management. Few companies successfully change from one technology or business model to another. One example is Polaroid, which filed for bankruptcy in 2001, and DEC, which prospered in the minicomputer era of the 1970s and 1980s and failed to act when the market moved in favour of client-server systems, PCs and the Internet.

**Press Review**

*From Financial Times*

“First, has it [Kodak] moved fast enough to avoid a capital crunch? Second, does it have the resources in place - not only capital but also technology, market position, management talent, corporate culture - to bring forward new growth businesses based on digital imaging?
The answer to the first question appears to be a qualified yes.

(...)
A good sign is that Kodak has already launched a number of initiatives aimed at creating viable new businesses around digital imaging.

(...)  
Peter Grant, printer analyst at consultants Gartner, said Kodak had little alternative but to adopt the new strategy.  
"It's something they have to do. But they are late and I'm not sure they have the capability to compete with HP, Epson and Lexmark," he said.

(Premium Service)

*From Democrat and Chronicle*

“Kodak surprised analysts by indicating it would launch a business in home inkjet printing, a cut-throat field with low profit margins.  
Xerox Corp. several years ago started making home inkjet printers and related accessories, but pulled out as its financial condition fell into crisis.  
Analysts wanted to know why Kodak believed it could be more successful than Xerox."

*[Full Story]*

*From Buffalo News*

“As a researcher in Eastman Kodak Co.’s advanced products group in 1978, Larry Matteson was among 30 people examining the potential of digital imaging.  
The conclusion then, Matteson said, was the same one he would make time and again as he rose during the next decade to become a Kodak senior vice president: Film was more profitable. It made more sense to back the company’s biggest product than to invest in a technology that might cannibalize sales.

(…)  
‘Reinventing yourself is hard,’ said Lynn Yturri, who manages the $480 million One Group Equity Income Fund. He sold his Kodak shares three years ago ‘because of the concern over technological obsolescence’.

*[Full Story]*

**Commentary by...**

Joaquim Vilà, IESE professor

*Kodak: from Innovation to Regeneration*

Over the last few years, the core business of the company founded by the North American George Eastman has suffered a huge erosion, which has accelerated its switch from business based on traditional photography (chemical development) to digital imaging.  
Kodak’s starting point to make this radical transformation is enviable. Unlike most companies, its financial strength allows the it to undertake a transformation without renouncing any of the three inherent aspects to a strategic redefinition process.

The first of these lines is the internal development of competencies that implies, among others, educating staff and luring talent.

For some time now, Kodak has significant know-how about digital technology, which has been strengthened by hiring former HP and Olympus Optical employees.
Secondly, over the last few years Kodak has been working with a large network of alliances with technology based companies, such as the joint venture with the German Heidelberger Druckmaschinen AG, dedicated to printers.
Finally, thanks to a privileged generation of resources from its traditional businesses, Kodak is able to carry out acquisitions aimed at getting key technologies or gaining share in the sectors it wants to be in.
In this sense, Kodak has bought PracticeWorks, focused on dental radiology technology, and a company that sells photographic paper for digital printing, the photography online service Ofoto.
With these steps, Kodak expects to reorganise its activity to compete successfully in three markets: user digital printers, where it will compete with HP and Canon; more complex digital printing systems, with rivals such as HP and Xerox; and digital imaging for hospital software, where it is going to compete with GE.
And here lies the uncertainty. The big rivals that will compete with Kodak are more focused on one activity within the large range of applications in digital technology. It is quite impossible to excel in all fields. Having strategy means renouncing something.
But Kodak wants to compete in different areas at the same time. Or, perhaps, the company just wants to sow the seeds of new opportunities (window opportunities) of business to later concentrate its strengths on a single sector.
Kodak has announced that it will be a company based on digital technology, but it still hasn’t said what its major market will be. Let’s have our cameras ready, but not rush to take a shot. It’s too early to know what picture of the market Kodak wants to appear in.
In any case, it has a good chance of coming out well, unless it moves before shooting or moves too slowly.

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**EBCENTER ARTICLE**

Zeroing in on Search Engines
By Carles Cabré, research assistant e-business Center
Sponsored links have become a key source of income for search engines. However, the mere fact that certain companies pay to appear in search engines casts a doubt on the credibility of those companies.

[Full Story]

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**REPORTS**

Nearly 7% of Spanish SMEs Have Committed Themselves to B2B
*Title:* Estudio sobre la aplicación del comercio electrónico B2B en las pymes españolas
*Source:* AECE-FECEMD (Asociación Española de Comercio Electrónico)
*Date:* September 2003

*Abstract:* 6.8% of Spanish SMEs have committed themselves to e-commerce between firms and 15.6% will develop B2B in 2003-04, according to an AECE report on 645,000 firms with between 1 and 19 employees.
In the future, the study says **56.3% of SMEs will develop B2B initiatives with their customers, 55% with their suppliers and 21.3% with financial firms.** Regarding the implementation, 35.7% of SMEs will create their own B2B portal and 57.8% of them don’t know what kind of system is the most suitable for them.
AECE experts indicate that 73% of Spanish SMEs invest less than 30,000 euros in these projects, with the trade sector (16.3%), the building sector (11.6%) and catering companies (9.4%) being the ones with more B2B activity. The majority of these SMEs (46.4%) have spent 1-2 years in developing B2B and they consider that the most important benefits are cost saving (52.7%) and supply time saving (52.5%).

[Full Story]

Spanish Homes are becoming more and more interested in Technological Leisure
*Title:* Digital Home
*Source:* Taylor Nelson Sofres (TNS)
*Date:* September 2003

*Abstract:* There are more and more Spanish homes with technological leisure devices. This is the main conclusion of a Taylor Nelson Sofres report that indicates that 23% of Spanish homes have a DVD player, 41% have a PC, 23% have a games console and another 23% of them have Internet access.
The report says that **the consumer isn’t only the young.** 20% of home PC users are over 35 and another 20% of
games console players are between 25 and 34. There is also an increasing interest in technology. According to this survey, in the next year, 13.5% of Spanish homes will have Internet access, 17% of them will buy a DVD and 9% will have pay TV. Finally, the report highlights the link between Internet connectivity and home devices: 36% of Internet users have a games console and 60% have joystick or videogames steering wheels.

Online Content Spending Increases 23%
Title: U.S Market Spending Report
Source: Online Publishers Association (OPA)
Date: September 2003
Abstract: U.S. consumers spent $748 million on online content in the first two quarters of 2003; this represents an increase of 23% over the same period in 2002. According to Online Publishers Association, the spending is concentrated on the top three categories: “Personals/Dating” (30%), “Business/Investment Content” (22.5%) and “Entertainment/Lifestyles” (13.7%). The report states that subscriptions continue to be the dominant pricing model so 88.5% of revenue came from subscription transactions in the first half of 2003. In the subscription area, monthly revenues accounted for 46% of the total and small purchases accounted for an increasing share of total single payment revenues, up from 2.6% in the first quarter of 2002 to 8% in the second quarter of 2003. The authors conclude that there is a reason behind content spending increases: the online paid content consumer penetration (with an increase of 15% over Q2 in 2002), although average expenditures per consumer are still flat.

COMPANIES
New European Mobile Alliance
Nine of Europe’s smaller mobile operators have announced the formation of a new mobile alliance. Amena (Spain), O2 (Germany, UK and Ireland), One (Austria), Pannon GSM (Hungary), Sunrise (Switzerland), Telenor Mobil (Norway) and Wind (Italy) signed a formal agreement in Munich, Germany. The new alliance will initially span the European territories of its members and affect more than 40 million subscribers.

Dell enters the Online Music Business
MusicMatch plans to jump into the digital song-selling business next week, with Dell promoting the company's new download service. The Internet music software company's service, which will provide a new online rival to Apple Computer's iTunes and BuyMusic, will use the popular MusicMatch Jukebox software and will distribute music in Microsoft's Windows Media format.

Google opens Office in Spain
The Silicon Valley-based Web search company plans to open an office in Madrid, its first in a Spanish-speaking country. The company also has offices in such European cities as Paris, London and Hamburg.

WE RECOMMEND
What can High Tech Learn from Slow-Growth Industries?
During high technology’s boom in the late 1990s, companies across many sectors tried to emulate their high-tech counterparts. The business models, the creativity and innovation, the speedy decisions and the headlong growth in revenues aspired to all of these blessings. But now, high-tech vendors must look to the business practices of their...
Using Software to Sniff Out Fraud

Business Week publishes a financial and technology dossier this week, very useful for CFOs. One of the points is an article about how to sniff out fraud with technology.

The experts maintain that technology is the only way companies can manage risk while making sure, that controls are working properly, efficiently and continuously. For the authors, the companies leading the charge to find fraud are trying to root out dishonest customers more than crooked executives.

There are programs that flag potentially bogus transactions with credit cards at checkouts based on analysis of past spending patterns by cardholders. And it delivers a return on investment of more than 300%. On the other hand, the latest systems will scroll through payment information looking for suppliers that aren’t listed in any online commercial database – a possible sign that they aren’t legitimate – or that operate from addresses that have been associated with fraud in the past.

Anyway, large accounting firms tend to develop their own, proprietary software for forensic accounting that performs many of the same checks as off-the-shelf programs.

From Business Week

[Full Story]