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Disruptive Innovation

A generation ago, a "Kodak moment" meant something that was worth saving and savoring. Today, the term increasingly serves as a corporate bogeyman that warns executives of the need to stand up and respond when disruptive developments encroach on their market. Unfortunately, as time marches on the subtleties of what actually happened to Eastman Kodak are being forgotten, leading executives to draw the wrong conclusions from its struggles.

Given that Kodak's core business was selling film, it is not hard to see why the last few decades proved challenging. Cameras went digital and then disappeared into cellphones. People went from printing pictures to sharing them online. Sure, people print nostalgic books and holiday cards, but that volume pales in comparison to Kodak's heyday. The company filed for bankruptcy protection in 2012, exited legacy businesses and sold off its patents before re-emerging as a sharply smaller company in 2013. Once one of the most powerful companies in the world, today the company has a market capitalization of less than $1 billion.

Why did this happen?

An easy explanation is myopia. Kodak was so blinded by its success that it completely missed the rise of digital technologies. But that doesn't square with reality. After all, the first prototype of a digital camera was created in 1975 by Steve Sasson, an engineer working for … Kodak. The camera was as big as a toaster, took 20 seconds to take an image, had low quality, and required complicated connections to a television to view, but it clearly had massive disruptive potential.

Spotting something and doing something about it are very different things. So, another explanation is that Kodak invented the technology but didn't invest in it. Sasson himself told The New York

Times that management's response to his digital camera was "that's cute – but don't tell anyone about it." A good line, but not completely accurate. In fact, Kodak invested billions to develop a range of digital cameras.

Doing something and doing the *right* thing are also different things. The next explanation is that Kodak mismanaged its investment in digital cameras, overshooting the market by trying to match performance of traditional film rather than embrace the simplicity of digital. That criticism perhaps held in early iterations of Kodak's digital cameras (the $20,000 DCS-100, for example), but Kodak ultimately embraced simplicity, carving out a strong market position with technologies that made it easy to move pictures from cameras to computers.

All of that is moot, the next argument goes, because the real disruption occurred when cameras merged with phones, and people shifted from printing pictures to posting them on social media and mobile phone apps. And Kodak totally missed that.

But it didn't, entirely.

Before Mark Zuckerberg wrote a line of Facebook's code, Kodak made a prescient purchase, acquiring a photo sharing site called Ofoto in 2001. It was so close. Imagine if Kodak had truly embraced its historical tagline of "share memories, share life." Perhaps it could have rebranded Ofoto as Kodak Moments (instead of EasyShare Gallery), making it the pioneer of a new category called life networking where people could share pictures, personal updates, and links to news and information. Maybe in 2010 it would have lured a young engineer from Google named Kevin Systrom to create a mobile version of the site.

In real life, unfortunately, Kodak used Ofoto to try to get more people to print digital images. It sold the site to Shutterfly as part of its bankruptcy plan for less than $25 million in April 2012. That same month Facebook plunked down $1 billion to acquire Instagram, the 13-employee company Systrom had co-founded 18 months earlier.

There were other ways in which Kodak could have emerged from the digital disruption of its core business. Consider Fuji Photo Film. As Rita Gunther McGrath describes in her compelling book *The End of Competitive Advantage*, in the 1980s Fuji was a distant second in the film business to Kodak. While Kodak stagnated and ultimately stumbled, Fuji aggressively explored new opportunities, creating products adjacent to its film business, such as magnetic tape optics and videotape, and branching into copiers and office automation, notably through a joint venture with Xerox. Today the company has annual revenues above $20 billion, competes in healthcare and electronics operations and derives significant revenues from document solutions.

The right lessons from Kodak are subtle. Companies often see the disruptive forces affecting their industry. They frequently divert sufficient resources to participate in emerging markets. Their failure is usually an inability to truly embrace the new business models the disruptive change opens up. Kodak created a digital camera, invested in the technology, and even understood that photos would be shared online. Where they failed was in realizing that online photo sharing *was* the new business, not just a way to expand the printing business.

So, if your company is beginning to talk about a digital transformation, make sure you ask three questions:

- **What business are we in today?** Don't answer the question with technologies, offerings, or categories. Instead, define the problem you are solving for customers, or, in our parlance "the job you are doing for them." For Kodak, that's the difference between framing itself as a chemical film company vs. an imaging company vs. a moment-sharing company.
- **What new opportunities does the disruption open up?** Our colleague Clark Gilbert described more than a decade ago a great irony of disruption. Perceived as a threat, disruption is actually a great growth opportunity. Disruption always grows markets, but it also always transforms business models. Gilbert's research showed how executives who perceive threats are rigid in response; those who see opportunities are expansive.
- **What capabilities do we need to realize these opportunities?** Another great irony is that incumbents are best positioned to seize disruptive opportunities. After all, they have many capabilities that entrants are racing to replicate, such as access to markets, technologies, and healthy balance sheets. Of course, these capabilities impose constraints as well, and are almost always insufficient to compete in new markets in new ways. Approach new growth with appropriate humility.

Kodak remains a sad story of potential lost. The American icon had the talent, the money, and even the foresight to make the transition. Instead it ended up the victim of the aftershocks of a disruptive change. Learn the right lessons, and you can avoid its fate.

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