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Will Eastman Kodak Innovate or Die?

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Running a business is all about innovation. Whether you're a biotechnology upstart, a cutting-edge technology company, or a large-scale retailer, innovation is paramount to a business' success. Without innovation, companies run the risk of complacency and getting passed by competitors, or, even worse, [folding up shop altogether](#) like Circuit City did a couple of years ago.

No company gets a "free pass" when it comes to adapting its business plan. When push comes to shove, we need to ask ourselves: Will this company innovate or die?

Today, let's take a closer look at **Eastman Kodak** (NYSE: [EK](#)) to determine whether the company can adapt to rapidly changing consumer demands, or whether it will be pushed into the background.

What's wrong with Eastman Kodak?

Eastman Kodak has a major problem -- it's at the deep end of the pool, and it can't swim. Despite being responsible for countless technological innovations in the film and digital photography arena, investors still question whether Eastman Kodak can adapt quickly enough to [even survive](#).

Eastman Kodak generated the majority of its profits from the highly lucrative film business in the 20th century. But with the emergence of digital technology, not only has its film business rapidly declined, but the company's late rollout into the digital space has been [brutalized](#) by increased competition from **Sony** (NYSE: [SNE](#)) and **Canon** (NYSE: [CAJ](#)) . The digital segment has been commoditized at a much more rapid pace than Eastman anticipated, eating into margins and crippling any chance of the company being profitable. Not even the company's printing division is immune, as the trend toward laser printing and away from inkjet printing threatens to eat into its margins even further.

Getting Eastman Kodak back on track

I'm not the CEO of Eastman Kodak, but for a moment, let's pretend I am. As I see it, the company needs to do three things to get back on track:

- **Sell the printing division.** Eastman is hurting for cash, between its [underfunded pension plan](#) and its underperforming business. One of the most logical solutions here is to put its printing division up for sale. Eastman has shown an inability to innovate quickly, so it should market this division around while there's still some value to it. As for a possible buyer, I'm thinking **Lexmark** (NYSE: [LXK](#)) would make sense -- and it'd also love the decreased competition.
- **Be Shutterfly version 2.0.** Kodak needs to send its leading innovators to **Shutterfly's** (Nasdaq: [SFLY](#)) home office, give them a pad and paper, and tell them not to come back until they've learned everything they can. OK, perhaps that was a bit sarcastic, but Eastman's only real moneymaking opportunity left is to [battle Shutterfly on its own ground](#). By claiming a piece of the digital photo-sharing cloud, Eastman may have a shot at a high-margin service yet again.
- **Three strikes, you're out.** CEO Antonio Perez has been turning Kodak around *forever*, and it hasn't worked. The inkjet division is expected to weaken in the coming years, its digital division's margins are falling, and the company is at the tail-end of the innovate scale. That's three strikes for this corporate leader. Shareholders would be wise to call for a change.

What's the verdict?

Without [Kodak's patents](#) or its brand name, I doubt the company would be worth the paper its stock certificates are printed on. Shareholders have their fingers crossed that pending lawsuits against **Apple** (Nasdaq: [AAPL](#)) and **Research In Motion** (Nasdaq: [RIMM](#)) pan out, because there isn't much to be excited about on the innovation front. Like I said in January, I still feel that the [Kodak name has value](#), but from an investment standpoint, things continue to look sketchy. Right now this is a toss-up, but the

pendulum is leaning toward a potential slow death.

What's your opinion on Eastman Kodak's future? Share your thoughts in the comments section below and consider adding [Eastman Kodak](#) to your watchlist to keep up on the latest news in the digital photo arena.

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