When Kodak "finally does fail"

by MATT DANEMAN

No one can argue that Terrence W. Faulkner knows something about business strategy and Eastman Kodak issues. When he retired in 1998, Faulkner was vice president of strategic initiatives, making him a key figure in many of Kodak's most important inventions. has had a hand in many of Kodak's key inventions since he began working for the company in 1961. Chief Executive George Fisher described him as a "genuine intellectual innovator and a Kodak legend." Now Faulkner has become one of Kodak's Jeremiah in chief. [A letter he wrote U.S. Bankruptcy Court in February]has been making the Internet rounds. In it, Faulker argues that Kodak is doomed to failure even if it emerges from its Chapter 11 bankruptcy – the problem being a flawed strategy that relies on becoming an inkjet printing-centric company when there are plenty of big, established, deep-pocketed competitors with huge market share. Faulkner's take is that it would be better if Kodak was shut down and its parts sold off.

So let's look at Faulkner's take on things. He's right that the inkjet printing business is a tough one and Kodak faces a big uphill battle. Sales growth of its desktop inkjet printer have been impressive, but that's in large part because it started from nothing, so even small increases in sales are going to show big percentage improvements. And he's right that the handwriting is on the wall for the traditional silver halide business – Hollywood is going digital and nothing can stop that. But Faulkner's analysis also ignores some facts – Kodak's business also includes plenty of play in other areas in the commercial printing world, such as digital plates, scanners, packaging printing, and photo kiosks at retailers. It's not all just inkjet printers and film.

Then there are the tougher issues. As he acknowledges, it'd be in the best interests of Kodak employees and retirees for the company to successfully go through Chapter 11. But, Faulkner argues, if Kodak is going to fail anyway, it'd be better for creditors if it was liquidated now and the proceeds divvied up before "the residual value of the company (is) further reduced." And on that, he's probably dead on. If Kodak is destined to fail, then all the parties to whom it owes money – from big financial firms to a number of Rochester-area machine shops – will be better off in the long run if Kodak is padlocked, all the assets are auctioned off and checks for cents on the dollar are cut to those creditors. That's the big "If." Because if Kodak can survive and make a go of things, then there doesn't have to be that bloodletting and further job losses. And no one (aside from the usual cast of braying schadenfreude-ers who gleefully chuckle “time to turn out the lights” in online comments to our Kodak coverage) wants to see it go under, considering it still employs roughly 5,000 locally.

So what’s the best route to take? Kodak’s going to need to start showing some wins in terms of sales of its inkjet printers. Before the whole Chapter 11 thing, it kept saying it was on track for the desktop inkjet printer line to turn the corner to profitability this year. Turning that corner could go a long way to inspiring some confidence.
