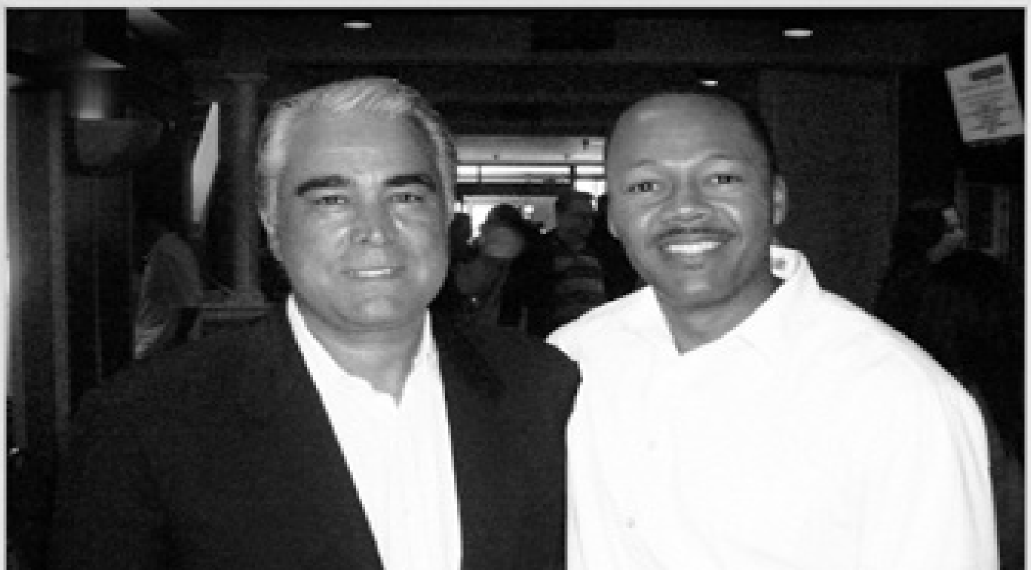
Rogue Elephant

DEATH BY TRADITION



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ISBN: 9781483545165

Foreword of book:

Rogue Elephant: Death by Tradition is an account of the adversities and deep-rooted values that brought down a legendary and once mighty photography giant.

Each day of our lives is in some way connected with tradition. Whether celebrating a birthday, commemorating a holiday, or exchanging wedding vows, our lives would be vastly different if it were not for the practice of tradition. Simply said, we live in union with traditions of the past.

However, when it comes to business, the notion of holding on to a previous time can spell certain death, as the ability to adapt to present conditions is a fundamental requirement for survival.

This book will examine how one company held on to its belief in a product line that lost its appeal to a changing world market. This company once had no competitor that could rival its most valued commodity and proved time after time that it could survive even the worst of economic times.

The world of photography changed rapidly at the end of the 20th century and shortly thereafter, so did the economy. Kodak found itself in a multi-crisis and by the time the company reacted, it was too late.

35mm Film was no longer the *vitality* of photography for Kodak, or the world, and it could not be revived. But Kodak stayed the course, ignoring earlier warning signs, and didn't react pragmatically like many of its competitors.

There were smaller and lesser-known companies that were more nimble and adapted to the change to digital photography faster, which also helped them survive the recession that began in December 2007.

There were some empty efforts by Kodak at adopting the new digital technology, but it seemed that Kodak's heart waned right along with the glory days of its beloved 35mm film, a product that made the world smile for so long.

Kodak Chairman and CEO Antonio Perez found himself and his company in deep trouble. His concerns were well-noted, as revealed in this book, but appeared misdirected. By every indication, Kodak’s leadership was torn at the prospect of letting go of the traditional film business and making a legitimate move to digital photography. The very foundation that the company was built on had been badly shaken, yet Perez’s response to the crisis seemed more like an evacuation plan from a burning building than a well-conceived plan of action to save the company.

Rogue Elephant: Death By Tradition

A former colleague at Kodak once mentioned to me that he had just returned from vacation, visiting with family in his homeland of India. He talked about his visit with quite a bit of excitement, which kept me engaged with every word he spoke. He said that his last visit was several years earlier and that this time his new wife joined him to meet his family. To me, that explained why he was so delighted about his trip back home to India.

I asked him if his family in India was familiar with his work and in particular, Kodak. My question was actually quite innocent and was one I would have asked no matter what company we worked at. That is why his answer completely surprised me, as his reply was, "Yes, in India there is no other picture company; **there is only Kodak**."

Although his response may have been somewhat overstated, I got the picture. Kodak was clearly the giant in India, and having learned that renewed my pride in working for the company.

There is another giant in India that the people regard as even larger than the iconic Kodak. Its name is Ganesh. To members of the Hindu religion, which comprises more than 80 percent in India, Ganesh, one of their most important gods, is an elephant-headed deity who rides atop a tiny mouse. Thus, in India, an elephant is regarded as a sacred animal.

Each part of the deity has a symbolic function. Ganesh's head symbolizes the ability to acquire wisdom and knowledge, the large ears bestow the **patience to listen carefully**, the small eyes can **behold the future and recognize truth,** and the tiny mouse upon which Ganesh rides symbolizes the ability to **move quickly and decisively.**

While Kodak is no match for one of India's most important gods, I can't help but wonder if the people of India entrusted Kodak with those same attributes.

Whether they did or not, 1) the **patience to listen carefully**, 2) the **ability to behold the future and recognize truth**, and 3) the ability to **move quickly and decisively** proved to be anything but the reality at Kodak. It is beyond uncanny that the lack of these three essential abilities is exactly what I and many others agree killed the picture giant.

The Depth of Kodak's Financial Burden

On January 10, 2012, during lunch with the CFO/COO of Kodak's digital business, Kodak Gallery, he informed me that the company's number one packaging supplier ended its long-time partnership with Kodak out of fear that they would not be paid if they continued to do business with the company.

This news instantaneously grabbed my attention, as I had spent years developing the relationship with this vendor while I was employed as the Purchasing Manager at Kodak Gallery. Over time, that supplier had become more deeply rooted in our digital business than any other supplier, providing the highest volume and widest array of packaging. They also earned the distinction of becoming the "go to" supplier because of their responsiveness and creative approach in assisting Kodak Gallery design and develop custom packaging for our products, including deadline-driven new product launches.

They spent years defending their top supplier position from competitors by offering high quality service, competitive pricing, eco-friendly package designs, and stronger but lighter packaging, which not only assured product protection during shipping, but also reduced our shipping costs.

Although the news that the supplier decided to end its business relationship was significant, I can't say that it came as a complete surprise to me, nor should it have to Kodak.

Only a few months prior to them pulling out, we reached out to that supplier and others, requesting that they lower pricing on materials that we had already negotiated. As if that wasn't desperate enough, we also asked if we could return and receive credit for materials that we purchased from them that were sitting in our inventory. These were not just slow moving or obsolete materials in our inventory; they included materials that were vital to maintaining normal operations.

We tried to justify the returns by stating to suppliers that it was a move to a leaner, or just-in-time (JIT), procurement model. But these packaging returns were tied to product lines that Kodak had stopped selling and new product launches that flopped. Some vendors were well aware of that. You didn't have to be a genius to recognize that this was a big red flag that Kodak was in deep financial trouble, and suppliers didn't waste any time abandoning the sinking ship.

In earlier years the relationship between our top packaging supplier and Kodak was extremely prosperous for both companies--and for any Account Manager who managed the Kodak account, there were other benefits as well. Prospective employers were particularly interested in them, not only because of their experience managing a major account, but also, their potential to bring the Kodak business with them if they were hired.

This actually happened with the manager who was working the Kodak account. While being considered by his soon-to-be new employer, he assured them that he could bring the Kodak business with him if he was hired. Keep in mind that this was when Kodak was still a highly sought-after account.

That promise likely sealed the deal for him, as he was later hired, and after only a few mutually successful years managing the Kodak account at the new company, he was rewarded with a promotion to VP of Sales. The relationship with Kodak was a major part of that. In short, it had been a model partnership between company and supplier.

However, just like Kodak, this company couldn't live in the past. And suppliers weren't the only ones keeping their eyes on Kodak's financial problems. On January 3, 2012 the New York Stock Exchange warned Kodak that it might be delisted unless it could boost its stock price over the next six months. The stock had been trading below $1 for more than a month, which is against stock market rules. Only a couple of weeks after the warning, on January 19, 2012, Kodak announced that it had filed for protection from its creditors under Chapter 11 of the U.S. bankruptcy code.

That packaging supplier saw these clear warning signs and acted in timely and swift fashion. In spite of all of the hard work that they poured into the account, eventually claiming Kodak as the crown jewel of their client portfolio, in the end, they made a prudent business decision based not on sentiment, but on current conditions. *They* made the decision to let go of the past and move on.

Kodak, on the other hand, struggled with prudent and timely decisions. And while its competitors moved quickly and aggressively and made decisions based on consumer demand and economic conditions, Kodak did not. Instead, they attempted and failed to resuscitate an entity that had been lost to antiquity.

Kodak Packaging

Packaging was a major component of the operations at the company. For Kodak, shipping products to customers and keeping those products safe during transit was an ongoing quest. We actually referred to our packaging as protective packaging. We researched and used eco-friendly materials that were light and resistant to crushing. Branding that packaging with eye-popping artwork was an equally important initiative. It was a key marketing opportunity, increasing awareness of the company as the packaging was shipped to millions of customers around the globe when they placed orders.

Packaging design and materials, the artwork, the logo with the proprietary Kodak colors, the press checks, and prototype samples were all things that the marketing teams, the suppliers, and I spent weeks and sometimes months harmonizing for each new design. And in spite of all of that effort, interestingly enough, I can’t recall ever feeling like we actually nailed it.

I once asked Antonio Perez what he thought of the company’s artwork on the packaging. I put him on the spot while others from our marketing team were present because I never liked the artwork. I hoped that his feedback would be similar to my thoughts and would be the catalyst to push us to do better going forward. He looked at me and appeared to digest the question for a few seconds. He then stuck out his hand and began tilting it from side to side in the universal so-so gesture. He also responded verbally by saying, “It could be better – it is middle- of- the- road.”

To my surprise, he continued by saying that he was looking to me to improve it. And if that wasn’t enough, he reminded me that he had a *very good memory*!

I must admit that Antonio gave a big smile and a chuckle after making those comments, and I was somewhat relieved by that; however, I still took his words very seriously. To me, this was by no means a joking matter, as it signified yet another problem plaguing Kodak.

Antonio Perez Responds to Marketing Woes

I believe that Antonio Perez became aware of the problems around marketing spending at Kodak Gallery in 2008, at approximately the same time that the economy really began to take a deeper dive. This would make sense, as that would be the paramount time to review and tighten up on all spending and ensure that we got the maximum bang for each dollar spent. It is also likely that Antonio detected the lack of synergy between not only the two companies, Eastman Kodak and Kodak Gallery, but also within Kodak Gallery alone.

Such observations would certainly be unacceptable conditions for any leader at any time, but especially unsettling at a time when, more than ever, resources were expected to perform in sync around thoroughly formed strategies. This was actually far from the reality.

Antonio took action to control the disorder by appointing a new CFO/COO to manage financials at Kodak Gallery in 2008. He was the former Dir./VP of Corporate Financial Planning and Analysis at Eastman Kodak, assistant to Antonio Perez, and also the former Finance Director. He was highly regarded for his financial acumen and his approach to business, and Kodak Gallery would prove to be the fertile grounds to test those skills.

After the new CFO/COO arrived, he quickly asserted himself in all financial matters at Kodak Gallery, with an emphasis on marketing spending. He even offered suggestions for ad agencies the company should consider doing business with to reduce costs. It was quite apparent that he was on a mission, as he went right to the heart of the major problem.

I was delighted to see the new CFO/COO acknowledge and attack the real issue at Kodak, and I felt that I finally had a major ally in the battle to end the reckless spending.

But would he be enough? I wondered if he, like others, might also eventually surrender to the onslaught of political projectiles launched by marketing at anyone who challenged their spending habits. I knew that he needed not only to be resilient and emphatic, but that he also needed to have a convincing and highly regarded presence.

With that in mind, I saw this as an opportunity for me to do something. Soon after his arrival, I asked the new CFO/COO if he had been given a tour of the company. He indicated that he had not. I offered to show him around the campus and introduce him to other employees, the rationale being that this would be a good first step to ensure that all employees knew that there was a new sheriff in town. The tour went well and the new CFO/COO seemed quite inquisitive as he asked very specific and detailed questions even about certain lab equipment that was used to print various sizes of photos, photo books, and posters. Our conversation also went very well, and I was pleased to discover a clear camaraderie taking shape between us. This I thought to be vital to the company's financial well-being.

As gratifying as that was, I didn't stop there. I fully understood that that was only the beginning of a long road ahead.

My Strategy to Save Kodak

As you read on, keep in mind that I was determined to ensure that the CFO/COO appear as powerful as possible in the eyes of Kodak employees. This I believed to be vital to his ability to influence change within the organization.

While at Kodak Gallery, I also served as Chairperson of the Diversity and

Inclusion Committee. In that role, one of my key objectives was to increase the company's visibility in the community. The committee and employees volunteered their time on community projects, hosted various events, and worked with local businesses, schools, and other organizations to fulfill the mission.

I would now use my role as Chairperson to embark on a much different plan, but the focus would be solely on the new CFO/COO. This plan required a different level of inventiveness, and I elected to act unaided by the committee members.

After a considerable amount of contemplation around various schemes, I contacted a close associate of mine who is the editor of the Capital Press, a subdivision of the Oakland Post Newspaper, where he also served as a writer. I asked him if he would be interested in writing and article on the new "Kodak Gallery" CFO/COO and including a full-color photo. I saw this as an opportunity to accomplish several goals simultaneously with this single act. First, it would increase the company's visibility; second, it would increase awareness of the CFO throughout the company; and third, it would essentially guarantee my total alignment with the CFO/CFO. This was essential, as I would need his support, perceived or other, to challenge the wasteful spending by our marketing department.

My associate agreed to write the article. This associate also just happened to serve on the board of my non-profit so I figured this part of the plan might be fairly simple.

I followed up with the CFO/COO to coordinate the interview. He wanted to know the exact nature of the interview, at which time I forwarded a list of questions that the editor and I had prepared. After a brief review he agreed to the interview, and shortly thereafter the full-color quarter page article appeared in the newspaper with brief bio.

I was quite proud of this and made certain that the full article was distributed and posted around the company for ALL to see. From break rooms and corridors to the main lobby, one would have to have been completely blind to miss it. And of course, no one within the organization except the CFO/COO and I was aware that I arranged the write-up. As I saw it, it was important that my involvement remain anonymous, as it would certify his apparent clout if it appeared to the employees that it was actually the newspaper that initiated the interview.

I must admit that the entire idea felt like one of the most selfish things that I had ever done; however, keep in mind that I was not only doing my job as the Purchasing Manager by seeking to control costs, but I was also doing my part to try to save Kodak. And who am I kidding? I'm not nearly as noble as this might sound. I was also looking to pull off something extraordinary, a feather in my own cap.

But let's not lose sight of the fact that the new CFO was obviously quite accomplished in his career, and I believed that it was very important that others throughout the organization be fully aware of this.

His background included nearly 20 years of progressive finance and operations experience, and he had managed global finance organizations, processes, and projects for more than 10 years, as well as integrated supply chain, procurement and contract management. He was also a former Plant Controller/Sr. Financial Analyst for nearly 5 years prior to joining Kodak. He earned his BS degree, Finance and Business Management, at Virginia Tech, and a MBA in Finance from Indiana University. The new CFO clearly appeared armed and up to the task.

Over time, our efforts within the organization increasingly began to meet in areas around cost initiatives. Having noticed this, I took it upon myself to start providing reports to him to highlight spend and cost savings that I was able to capture. This was a very calculated move on my part, as the true intent of this reporting was to clearly reveal that that none of the savings were from the marketing group. To my relief, the CFO apparently found benefit in the reporting and not long afterward I was officially absorbed into his team as a direct report.

Around that time, our conversations about the out of control spending became expressly more candid and his directive to me was to “keep pushing the envelope.” I heard those words loud and clear, and they were all I needed to do just that.

One of the major financial problems at Kodak Gallery was supplier engagement, specifically, supplier engagement without oversight by procurement or legal. Several departments were guilty of this practice; however, our marketing department created the greatest financial impact and potential risk. Not only were we forking over massive amounts of unnecessary funds because costs were not negotiated, but we were also entering into agreements that were clearly slanted in favor of the supplier.

Let’s make it clear: I’m not suggesting that a marketing team should not take lead in the decision of what firm or ad agency they should partner with. After all, they are the subject matter experts, just as your IT department or human resources department would have that same right. However, when they engage a partner and they commence work with no cost negotiations, legal review or a formal agreement, that kind of exposure is where you can, and usually do, lose big time.

This practice seemed to be the norm at Kodak and the overused justification was that it was necessary to move quickly to stay on schedule for new product launches, beat deadlines, etc. More often than not, when challenged by the procurement or legal team, the marketing department was able to gain the support of the highest level of the organization when needed, to move forward. This only reinforced the bad behavior.

I strongly encourage any organization that allows such practices to at least arm their marketing department with basic training. I am an advocate of the Karrass seminars, which are actually designed for procurement professionals who engage in negotiations; however, as some organizations openly allow non-procurement professionals to engage with suppliers in this capacity, it may prove to be a worthwhile investment. If nothing else, it should certainly make clear to them that there is much more to supplier engagement than simply asking how much something costs and asking the procurement department to issue a purchase order.

I also recommend two books by Dr. Chester L. Karrass, creator of the Effective Negotiating Seminars: *In Business As In Life – You Don't Get What You Deserve, You Get What You Negotiate* and *Negotiating Effectively Within Your Own Organization*.

Scandal and Mayhem

Many subscribe to the theory that the worst of times bring out the worst in people. At Kodak, that became the communal theme, and much of that thinking was directed right at the very top of the organization.

It was obvious to anyone working at Kodak that the business was losing ground to competitors at an alarming rate. As one of the marketing leaders once said, "Our members are fleeing us!"

That observation was echoed at town hall meetings by leaders from various parts of Kodak, but no one had an answer for what exactly to do to stop it. We had a new and young President and CEO/Vice President Eastman Kodak, who was brought into the organization to breathe new life into the company and lead us back to prosperity. But instead, he constantly reminded us all that he inherited the problems and the bad economy only compounded his challenges. His hands were tied--that became his mantra--but he was our leader, and he knew that he had to do something. And so he did.

He focused his attention on the Kodak Gallery website, with the goal of making visitors' "experience" more pleasing, meaning he wanted visitors and our members to be able to navigate the site, quickly find what they wanted, add multiple items to their shopping cart across various product categories, buy and check out, all in quick and seamless fashion.

This would require a major effort, far beyond anything that had ever been attempted. And it would require the most skilled and experienced talent available. They would have to renovate the new website *behind the curtain* while maintaining the current face to the customers.

On the surface, it seemed reasonable and, if need be, a *defensible* initiative.

After all, how could we expect our customers to waste their time and effort at our site, which was slower and didn't offer the functionality as our competitors who had virtually the same product line and quality? For the new President and CEO/Vice President Eastman Kodak, this perceived scenario may have seemed the perfect *smokescreen*.

Leaders throughout the company questioned if it was the right move, taking into account the critical financial state of the company. It would by no means be easy, and considering the magnitude of the total cluster, it seemed equivalent to spitting into the wind. Simple refinements to critical processes may have instead been the way to go. But no, our new leader's mind was made up. And it was quite apparent that he didn't embrace the Gemba Kaizen principle that states when it comes to making your business more profitable and successful, don't look to re-engineering for answers.

So the plan was rolled out to stakeholders, and it was billed as the blueprint that would provide the edge needed to return Kodak to the leadership position in the highly competitive and coveted digital space. The entire company seemed to rally around the concept, but then again, what else was there?

I first heard the proverb "All that glitters isn't gold" when I was a small child. If there was any innocence remaining in me after I understood what that meant, all of it was certainly wiped away after I learned that not all spoken words are *intended* to be true. And that seemed unequivocally to be the ailment at Kodak Gallery, as the "plan" soon appeared to be nothing more than a smokescreen. And here is why:

The President and CEO/Vice President Eastman Kodak first assembled a team of internal leaders from various departments of the company to form a cross-functional think tank that would, by design, deliver to our customers a robust website that would not only help retain our existing members, but also attract new ones. That was the (high-level) pitch.

The team spent months and hundreds of hours brainstorming on exactly how to accomplish that mission. The effort was exhausting, to say the least, and was a tremendous drain on internal resources, as each member of the team was pulled away from their primary roles. There was recurring frustration with the process and some began to express that the mission was not only impossible, but also not the right one. Conditions got so bad that my boss, the Director of Supply Chain Management and Legal Council, threatened to leave the company in order to be released from the team.

That was just one more piece of evidence that the team did not have the technical ability or background to take on such a monumental task.

But in reality, I question if our new leader actually believed that the makeshift cross-functional team constructed on off-the-cuff groundwork could really pull it off? I wasn't the only one who didn't think so.

As conditions became more unraveled, guess who he hired to *save the day?* None other than his former colleagues from his prior employer, Intuit, who just happened to form their own consulting team around the same time to help companies manage such projects.

One would be correct in stating that it is not an unusual practice to hire someone a manager is familiar with; however, the chatter reached a high point when it became known that not only did they seem to lack the resume for such an undertaking, but they were being paid well above what other consultants who were working on the same project were being paid.

The consultants were very young. Neither of them--nor our new leader, for that matter--had reached their 40^{th} birthday. The new President and CEO/Vice President was of Korean descent, which was likely a first in any leadership role at Kodak, and so were the two highly-paid, former co-worker buddies/consultants. Some might say "big deal" and ask what race has to do with anything. But seriously, what are the chances that this was just a coincidence at a major US-based company like Kodak?

It seemed quite apparent to most that this was nothing more than an opportunity for the President and CEO/Vice President to hook up his buddies from his former job and show them how powerful he was now, working at Kodak. He paid them a king's ransom, certainly enough for them to grow their small consulting business and pad their resume at the same time. And he probably hoped that someday they would repay the favor if he ever needed to cash in that chip. Some call that networking.

The President and CEO/Vice President also circumvented the procurement process altogether when he did not engage me in the due diligence process for selecting a service provider. The rates were not negotiated by procurement and likely not reviewed by anyone at all. There was not a competitive bidding process, or even an introduction to purchasing of who they were or their scope of work. Yet soon the procurement department began to receive very large-sum and obscure purchase requisitions for their services.

These guys were paid millions of dollars in a very short period of time. The Director of Supply Chain and Legal Council (my boss) was livid about the situation. On one occasion, after seeing several of the purchase orders that we issued to them, he commented bitterly, “Their kid’s college is paid for.” But there wasn’t much that he felt that he could actually do, so instead, he frequently commented that he would report these observations to the parent company, Eastman Kodak.

But he was not the only one who was distressed by what was happening. Marketing employees began to leave the department almost as fast as our customers were fleeing Kodak. They saw tons of money being paid to the consultants for a project that really didn’t have anything to do with Kodak’s real problems; meanwhile, the marketing department was starved for marketing funds.

After one of our highly respected “go to” marketing managers announced his resignation, his boss sent an email message out to the company letting them know and credited him with teaching the consultants “all they know.” Apparently that audacious remark was not received very well by the President and CEO/Vice President, and shortly thereafter the former boss also departed rather covertly.

If it was ever unclear to the President and CEO/Vice President that employees were not only aware of but completely unhappy with his methods, I’m sure that