Kodak CEO Talks Company's Future

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ROCHESTER, N.Y. (AP) — You can feel the spirit of George Eastman in Antonio Perez's office.

A picture of Eastman, who founded Kodak [1] in 1880, sits among the current CEO's collection of family photos. The outer areas of Perez's office, built and first inhabited by Eastman about a century ago, include some of Kodak's Oscar and Emmy awards, along with a collection of historic photos. A large portrait of Eastman, who died in 1932, hangs near the entrance.

Perez's surroundings serve as a constant reminder of Kodak's hallowed history in the print and movie film industries — and of the pressure he is under to revive the ailing company.

Kodak emerged from bankruptcy [2] protection Tuesday vastly different from the company of old. Gone are the cameras and film that made it famous. The company hopes to replace them with new technologies such as touch screens for smartphones and smart packaging embedded with sensors. Over Perez's desk hang pictures depicting Kodak's future — including one of the company's ultra-fast commercial inkjet printer, the Prosper Press.

"Look for a case of a company that had to go through this kind of excruciating restructuring and kept innovating," Perez said. "It just doesn't happen, but we've done it."

Kodak said its old stock is canceled as of Tuesday. Creditors are getting stock in the restructured company.

The week before Kodak exited Chapter 11 protection, Perez sat down with The Associated Press for a rare 90-minute interview. He spoke candidly about Kodak's restructuring and laid out his vision for what lies ahead.

—THE DECLINE

Eastman Kodak Co., credited with popularizing photography at the start of the 20th century, started to struggle toward the end of the century, first with Japanese competition and later when it failed to react quickly enough to the shift from film to digital photography.

Perez was appointed CEO in 2005. Under his leadership, the Rochester, N.Y., company had restructured its money-losing film business by 2007. The company closed 13 factories, shuttered 130 film-processing labs and eliminated 50,000 workers around the world at a cost of about $3.4 billion.

Kodak expected demand for film to decline, but gradually. The company anticipated that new demand from emerging markets such as China would offset some of the decline in the United States. But Perez said Chinese consumers opted for smartphones instead of cameras, and demand for film plummeted.

Meanwhile, the economic collapse of 2008 and the resulting plunge in interest rates left some of the company's pension obligations underfunded. It was those obligations, along with other legacy costs, that Perez said eventually resulted in the January 2012 bankruptcy filing.

Revenue dropped from about $13.3 billion in 2003 to $6 billion in 2011.

Under court oversight, Kodak continued to shed costs in the form of businesses, facilities and workers. It shut down its consumer camera business and sold off an online photo service. It spun off its personal and document imaging businesses to its pension plan and sold off many of its patents. It took its name off the theater that hosts the Academy Awards each year. In fact, much of Kodak is gone except for its commercial and packaging printing businesses. The company will emerge with about 8,500 employees, just a fraction of the 145,000 it had at its peak in the 1980s. Revenue is expected to total $2.7 billion this year.

—NEW BUSINESSES

Perez said that by slimming down, Kodak is able to focus research and development on businesses the company sees as more profitable.

The restructured company's operations are split between a trio of businesses: packaging, graphic communications and functional printing. All three are rooted in Kodak's commercial printing technology.

Kodak scientists created printers, inks and other materials designed to improve resolution, while also increasing the variety of surfaces that can be printed on. In doing so, it has boosted printing speed and lowered costs for customers.

Kodak executives point to the Prosper Press as one of the best examples of its printing technology at work.

Bill Schweinfurth, Kodak's manager for inkjet components, said publishers have favored offset printing over inkjet for years because of its lower per-page cost and superior image quality. Offset printing uses metal plates to create an image, whereas inkjet printing uses tiny nozzles to spray ink. Offset printing is most cost effective for large printing runs, good for things such as newspapers and popular novels. It's also considerably faster.

For smaller runs, publishers were forced to use inkjet printers, which had a much higher per-page cost and didn't offer the same level of quality. Schweinfurth said the Prosper Press, which Kodak launched in 2010, changed all that. It's inkjet technology that offers cost, quality and speed comparable to offset printing.

Kodak's Prosper Presses contain more than 100,000 computer-controlled inkjet nozzles that spray special Kodak-made ink that allows for crisp resolution. Meanwhile, cameras and software monitor the print process, looking for defects. The presses can reach speeds of up to 650 feet of paper per minute.

Kodak won't say how many of the presses it has sold, but said the real money is in the consumable products, like ink, that it sells to go with them.

The presses are also useful when it comes to customizing publications, something offset presses can't do.

Christian Schamberger, president of Mercury Print Productions Inc., said the customization capabilities are a big reason why his company made Prosper Presses a key part of its operations.

Mercury, also based in Rochester, contracts with major educational publishers to print textbooks ranging from the elementary to college level. The company uses Kodak technology for about 75 percent of its production. Schamberger said that because educational requirements vary between states, and in some cases between school districts, textbooks need to be customized. That reduces the number of each version ordered and makes production on the Prosper Press more practical than offset printing.

Although inkjet printing is on the rise, the company said it continues to invest in technologies for offset printing, including new processes that reduce costs and environmental impact.

It also sees great potential for its printing technology in the rapidly growing packaging industry. Douglas Edwards, Kodak's president for digital printing and enterprise, said that while the publishing industry may be in decline amid a shift toward online publications, "there's no electronic substitution for packaging." Edwards said Kodak's technologies make it cheaper and easier to print high-resolution images on everything from cardboard to plastic and cans.

Randy Ottinger, a former technology and banking industry executive, noted that although Kodak faces tough competition, its competitors face many of the same challenges.

Ottinger, who now serves as an executive vice president at the business advisory firm Kotter International, said the old company was hurt by its complacency. He said the new Kodak needs to put innovation above short-term profits and be willing to shake itself up to make itself relevant.

—NEW APPLICATIONS

Part of Kodak's restructuring has been a move away from manufacturing all of its products by itself. The company now focuses on what it does best and looks for partners to help with the rest, Perez said.

Brad Kruchten, a 30-year veteran of Kodak and now its president for graphics, entertainment and commercial films, gave this example of how the company once did everything itself: When he ran its Colorado office years ago, there were cows grazing on its property because the company used them to make gelatin for film production. It also grew its own corn to feed the cows.

"Now we just look at what we know how to do and invest in that," Kruchten said.

One of the company's biggest projects in development is a cheaper touch screen for smartphones and tablets. Touch screens currently work through the use of a very rare, but transparent, metal called indium that's laid out in a grid pattern applied to a thin sheet of glass. Kodak wants to use its printing capabilities to lay out super-thin lines of metals like copper and silver, which can be more effective than indium and cheaper to obtain. The new technology could also allow the screens to be flexible and foldable, allowing them to be installed on a host of new objects.

Although the technology is still being developed, a production facility is under construction. Kodak has reached deals with undisclosed electronics makers and expects to begin production of the screens by the end of this year.

Meanwhile, Kodak wants to use the same technology to eventually create smart packaging, which could include sensors that, for instance, tell consumers if a bag of food had been out of the refrigerator too long.

Todd Watkins, who worked for Kodak in the 1980s and now serves as an economics professor at Lehigh University, said that for the new Kodak to survive, it will need to find a way to stand out in a fiercely competitive market where companies such as Hewlett-Packard Co. and Xerox Corp. are already entrenched and struggling with problems of their own.

Even as some of Kodak's technology, like the new touch screens, has potential, Watkins said, it remains to be seen whether the company can transfer that into profits.

"It's cool, absolutely, but is it a business? That's the question," Watkins said.

Ari Zoldan, CEO of Quantum Networks Inc. and a technology analyst and entrepreneur, was more skeptical about Kodak's ability to compete in commercial printing.

He said that while Kodak symbolized the gold standard in the printing industry for many years, it failed to evolve with the times. He said its competitors now have too strong of a hold on the market. But he said Kodak's research and development capabilities are very strong, so the company could succeed if it can quickly focus itself on just a few niche areas.

"Can they hang their hat on these technologies?" Zoldan asked. "It's a long shot. By no stretch of the imagination is it a slam dunk."

—NEW BEGINNINGS

Perez said he's confident that Kodak's post-bankruptcy balance sheet, combined with its new focus and technologies, will set the company up for financial success in the years to come.

As for region's future, Sandra Parker, president and CEO of the Rochester Business Alliance, said that the city is no longer dependent on Kodak. In the years since the company began cutting jobs, Rochester's workforce has diversified.

Kodak now employs about 3,500 workers in the Rochester area, just a fraction of 60,000 it had in its heyday of the 1980s. The University of Rochester has replaced Kodak as the area's top employer, Parker said. The Business Alliance's top priority is finding a way to fill Kodak's massive Eastman Business Park. Although Kodak still does some manufacturing there, it has also opened the space up to other companies and is now about two-thirds full with more than 40 tenants.

Meanwhile, Perez is preparing to step down. He'll give up the CEO job sometime in the next year once a replacement is found. He plans to remain as an adviser.

In recent years, Perez has faced considerable criticism for Kodak's decline in value and lost jobs. But he brushed it off saying, "I have a very high threshold for the opinions of the uninformed."

Perez said the time is right for him to leave the company. He remains proud of how Kodak has continued to innovate, despite its financial hardships, he said.

"I love this company. I love what we have done," Perez said. "But now it's time."

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