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## Polaroid 2001: The i-Zone Brand

### Introduction

Alison Corcoran (T'86) sat in her office at the Cambridge, Massachusetts corporate headquarters thinking about Polaroid's February 22 [announcement](#) of a massive restructuring. The Company faces serious financial challenges and was being punished by the stock market for weaker than expected sales. However, Alison knew Polaroid well—she knew that the Company had faced financial difficulties in the past and that every time it had faced such conditions, it shocked the market by introducing new products and strengthening existing product lines, organically growing out of its slump. Repeatedly, Polaroid had proven its resilience, and Alison was certain that the current situation would prove to be no exception if the right actions were taken. (See Exhibit 1 for Alison's bio).

Alison had been asked to present the CEO with her recommendations for the Polaroid i-Zone brand at the end of April 2001. The brand, which targeted the teen category, or "Generation i," (i = Internet), encompassed the fast-growing family of new products that Polaroid launched less than a year and a half ago (see Exhibit 2: i-Zone Product Summary). The original products—the Instant Pocket Camera and Pocket Film—were instant successes upon their introduction in the third quarter of 1999. The camera quickly became the number-one selling camera in the United States and continued to be one of the few bright spots in the Company's product line, boosting otherwise sagging profits.

In the context of the financial and market difficulties that Polaroid faced, it was especially important to keep i-Zone's growth trajectory as steep as possible. Forming a recommendation for the brand was by no means an easy task, given the major challenges that Alison believed that the brand faced:

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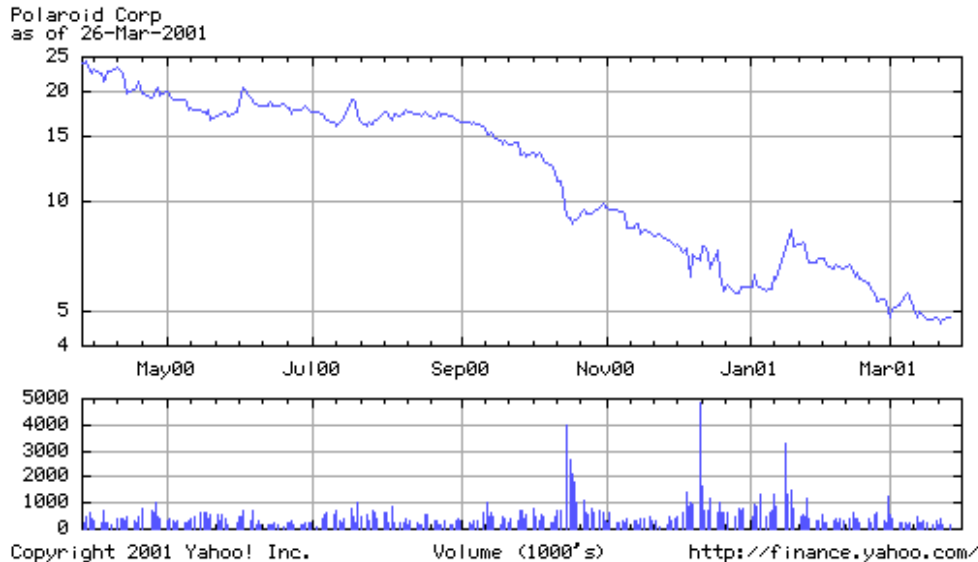
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- Remaining hip with the traditionally fickle teen market
  - Staying relevant in light of emerging digital imaging technologies
  - Gaining and maintaining attractiveness of the i-Zone.com site in light of other Internet imaging destinations

Finding a strategy that best addressed these goals was critical to the health of the i-Zone brand and to the overall health of Polaroid. For these reasons, choosing the right recommendation proved to be one of the most critical decisions of Alison's career.

### **Challenges to Polaroid's Core Business**

In the mid-1990's, Polaroid faced imposing challenges to their core instant photography business—growth of their traditional instant cameras and film was slowing, digital photography was gaining momentum and the overall competitive landscape was becoming increasingly hostile. The Company could continue to leverage strong brand equity, but its consumer base was growing older and less active. Lacking new products to re-energize the current markets or open up new ones, Polaroid began a process of revitalizing its core imaging business. In a 1997 conference call, chairman and chief executive Gary DiCamillo announced Polaroid's goal of introducing between 20 and 25 new products or product line extensions per year.

Polaroid quickly delivered on DiCamillo's promise. Praised by the analyst community for becoming more in touch with its consumers than many of its competitors, Polaroid translated its efforts into financial success by 1999, accelerating top-line growth. Combined with restructuring efforts, sales growth boosted profit performance, erasing operating losses generated in the previous years.

**Figure 1: Polaroid Corporation as of March 26, 2001**

Unfortunately, this financial turnaround was not sustainable (See Figure 1). By the first quarter of 2001, the Company again faced very serious problems with its overall product line. Following repeated earnings shortfalls due to weak sales and a cyclical downturn in the economy, the analyst community downgraded the stock and the market price tumbled. Credit agencies responded as well—Standard & Poor’s lowered its overall corporate credit rating to double B-minus, from double-B and Fitch lowered its rating from stable to negative. As a result, DiCamillo [announced](#) suspension of the \$0.15 quarterly dividend—the first such suspension in over 30 years—a move expected to save \$27 million. The Company also announced plans to lay off 11% of its workforce, or 950 employees—including approximately 475 from Massachusetts—aimed at saving \$30 million annually. The stock price, which had exceeded \$50 a share in 1997, was trading around \$5.00. The Company also faced takeover rumors, similar to the mid-1990’s when the stock price took a similar hit.

### **New Corporate Strategy Announced**

Again, DiCamillo publicly announced Polaroid’s new corporate strategy in a February 2001 conference call and press release. He reiterated the traditional Polaroid mantra, stressing the need for the Company to revitalize its core instant imaging business with technological innovations. He also emphasized the critical importance of accelerating growth by linking instant imaging expertise with digital imaging. DiCamillo explained the Company’s efforts: “We are taking aggressive structural and financial steps to make Polaroid more competitive and to take a quantum leap into the important digital marketplace. Our focus,” he continued, “is to generate strong, positive cash flow and invest in specific market opportunities.”

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The restructuring plan included a promise to trim approximately \$100 million from the firm's heavy debt load by the end of the year. However, Polaroid warned that these efforts might not be enough to satisfy all of its lenders, as the Company's reduced cash flows put it in danger of violating its debt covenants. This made short-term earnings improvements as important as long-term planning, again heightening the significance of the decision Alison faced.

According to the Company, the plan to implement this two-fold strategy of revitalizing instant while linking instant to digital included:

- Utilizing its position as the worldwide leader in instant imaging products, its widely recognized brand name, its global distribution network and its technical expertise
- Leveraging its core instant picture technology platform in the digital marketplace
- Staking out a position in the mobile, digital, wireless market via fast, easy and affordable input and output solutions in areas where Polaroid has a competitive advantage
- Utilizing the internet and other value-added features and services to enhance customer relationships, particularly with the younger Generation i and with commercial users

Polaroid's product push would largely be built on six platforms, each based on the size and type of instant film. Three of these platforms were traditional or legacy platforms—the Spectra, 600 and pull-apart films for older cameras. Two were new platforms—pocket film for i-Zone cameras and 500 film for the JoyCam. The sixth, called “new media,” represented the largely undeveloped marriage of digital photography and instant output.

The Company had taken actions in recent years to alter the way it conducted business, including reducing the cost of developing, manufacturing and distributing products. Polaroid also rationalized manufacturing operations and upgraded centralized information systems, enabling it to deliver products more efficiently.

### **The Rise of Digital Photography<sup>1</sup>**

Many analysts considered digital imaging the death of traditional instant photography, citing the coupling of a digital camera with a printer as the modern replacement of the instant camera and film. With the successful introduction of digital photography and rapid shift to related technologies, Polaroid obviously has been forced to address questions concerning its long-term strategy.

The growing popularity of digital technology pressured the Company's top line and will likely continue to erode margins. Just a few years ago, professionals like police officers, insurance adjusters and real estate agents would exclusively use Polaroid cameras at work. The rise of digital cameras slashed this use—in 1995, the Company received half of its revenue from business customers; it was now under 40%. Digital technologies have also cut

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<sup>1</sup> For a basic tutorial in digital photography, see megapixel.net's article [“what was digital imaging?”](#) or [Digital Photography Review](#).

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into film use, decreasing annual ‘film burn’ rates—the rate at which instant photographers buy and use film. This represented one of Polaroid’s most serious challenges, as film sales had always been higher-margin products than their cameras, and thus a strong source of profit for the Company.

Despite the obvious challenges that digital photography presented, it also opened up new opportunities and new markets for Polaroid. With its instant film business, the Company had only captured 3% of the total photography market, including both personal and professional photography. In response, Polaroid had already introduced several lower-end digital cameras, which have enjoyed tremendous success, as stated on their website:

- In 1999, the Company sold more than 400,000 digital cameras - a tenfold increase over the previous year.
- Polaroid commanded about a 40 percent share of all digital cameras sold in the food, drug and mass-market channel making Polaroid the number-one brand in stores (e.g., Wal-Mart, K-Mart and Target) that account for more than two-thirds of digital camera sales (in units) in the United States.

In addition to efforts to capture share of the digital camera market, Polaroid was also focusing on digital output, partnering with camera companies such as Olympus, to create digital/instant hybrids that create digital images and print instant photos. Polaroid was also working on a wireless, mobile device that would print digital photographs onto film, which, although similar to instant film in some respects, was a much higher-performance medium. These efforts were aimed at alleviating the strain that digital photography was putting on film sales.

By late 2000, roughly 90% of Polaroid’s core revenues were derived from instant-based technologies, with the remaining 10% coming from digital. That mix should change dramatically, with digital sales projected to grow at an annual clip of 30% or more, representing 25-30% of total revenue by 2005. However, gaining and protecting a significant share of this hyper-competitive market would not be an easy task. Although Polaroid had already sold more digital cameras than even Kodak (see Exhibit 5: Digital Camera Sales), the digital arena was extremely crowded. As more and more players enter the digital market, continual product innovations were being introduced while prices drop.

### **Internet Destinations and Online Darkrooms**

Following the success of digital photography, many companies now offered online digital processing and archiving. Sites like [Shutterfly.com](http://Shutterfly.com), [Snapfish.com](http://Snapfish.com), [Photopoint.com](http://Photopoint.com) and [Ofoto.com](http://Ofoto.com) provided these and other services once rendered by traditional development shops or pharmacies and grocery stores with film processing labs. Digital photographers could now upload images and sort photos in online photo albums, which could then be password protected and later shared with selected friends and family members. If photographers do not have high-quality printers, they have the option of selectively ordering

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prints from the companies instead of paying for an entire roll to be processed. These prints are processed and then mailed to the customer.

These companies also converted traditional film into digital format for little or no charge. Individuals or companies using these services were notified when the photos had been posted online, where they could then be cropped or cleaned up before being printed and mailed.

By offering services at relatively low prices, these sites hoped to persuade photographers—casual and serious alike—to go digital. The rise of this industry will likely have a significant impact on Polaroid's film sales as digital photography gains momentum and high-speed Internet access becomes more widespread.

### **Other Technological Challenges**

Polaroid also faces other technological challenges that are having a negative impact on camera sales and film burn rates. These include the emergence and prevalence of one-hour development, improved quality of 35mm photographs and enhanced ease of use of 35 mm cameras.

### **A Series of Hit Products**

Since the introduction of the first camera in 1947, Polaroid has generated a long series of hit products, including the Swinger, the Colorpak, the Hybrid IV and the Captiva. These products have provided the Company with periods of explosive sales growth and have been the source of great excitement for the Company and the stock market alike. During the interims between these hits, the Company worked feverishly in search of the next line of hit products.

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**Figure 2: Polaroid Corporation as of March 24, 2001**



## Polaroid i-Zone

### Getting into the Kids Market

Following the 1997 announcement of plans to introduce between 20 and 25 new products or product line extensions per year, Polaroid began to conduct extensive market research in hopes of finding untapped, potential consumer segments. As a result, the Company began exploring the youth market. This Generation i (or Gen-i) market includes boys and girls in the 6-12 and 12-18 age groups. Having identified and targeted this new growth market, the Company embarked on a strategy to revitalize the core instant business by building its share in this promising segment.



In an effort to attract kids to the magic of instant film, Polaroid first re-worked traditional instant cameras, such as the 600 line. By 1998, these cameras were redesigned to look more attractive to kids, with bright colors and new shapes added. Additionally, Polaroid licensed pop icons and images, such as Barbie, LEGO and the Spice Girls, including them in packaging and advertising. This marked a strong entry into the kid's market, as the cameras enjoyed increased retail

success. The Company also worked to enhance film burn by creating film for kids, such as “Wild Slides” writeable film that kids could write messages on while the image was developing, greeting card kits and film with pre-exposed borders.



As the Company built on the success of its new marketing efforts within the kids market in the United States, Polaroid executives in Japan were witnessing the amazing popularity of puri-kuras (“print clubs”), or photo-sticker booths, among kids and young adults. These kiosks, which took instant photos and printed 16 to 20 mini-photos on sticker film for approximately \$2.00 to \$5.00, were similar to traditional instant photo booths in size. They were typically found inside stores, at delis or in video arcades.



Polaroid executives wanted to begin working on a personal-sized camera and film system that could produce images similar to the photo booth-sized stickers—an idea that represented a radical shift for the Company. Skeptics at the Company originally scoffed at the idea, calling it nothing more than a toy with a cheap lens that would produce fuzzy, thumbnail-sized photographs. They argued that such a low-quality camera would tarnish Polaroid’s reputation, built over years and years of technological innovation by company founder Edwin Land and his teams of scientists and inventors, for creating “elegant products built on high technology.”

However, in 1998, the Company partnered with a Japanese customer—toy manufacturer Tomy Corp.—to create the mini-photo camera. Within 18 months, an entirely new camera and film system was developed and launched in Osaka. The toy-looking, basic black camera, which was dual branded—Tomy and Polaroid—and named Xiao (Mandarin for “small” or “smile”) had a picture-taking distance of four feet and produced mini-photos based on the silver halide instant developing technology. Upon launch, the camera was an instant blockbuster, selling out immediately. As popularity intensified, the Company faced manufacturing constraints and could not produce cameras or film fast enough to meet demand.



The next step of product development occurred in 1999, as Polaroid’s marketing department continued its research on kids and photography in developed markets worldwide. Continuing to focus on Gen-i, research revealed that the “sweet spot” within this market was the teenage girls market. Additionally, the Company found that girls were very interested in those activities that allowed them to both make connections with their friends and cohorts while expressing their individuality and creativity. The Japanese toy-like instant camera appeared to be the right fit because it provided girls with an opportunity to achieve these social goals.



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### The i-Zone Brand

Polaroid responded to its marketing research by developing the i-Zone brand. In so doing, the Company decided to separate the new brand from the parent brand Polaroid. Playing down the parent name would help guard it against the possible failure of the new, radical camera. More importantly, although Polaroid had significant brand equity, the younger target audience could potentially view it as an “adult brand.” (Prior to the launch of the i-Zone, the average age of a Polaroid camera owner was 42.) Differentiation would help make the i-Zone more directly relevant to kids.



The separate i-Zone brand name was chosen to help identify with the target market and communicate the individuality and community-building aspects of the products:

**i** = me, individuality, internet    **Zone** = my area, my space, my community

Polaroid planned to use an integrated marketing campaign to create equity in the i-Zone brand amongst the target market. As a result, the i-Zone brand became Polaroid’s extendible sub-brand dedicated to all Gen-i products and activities.

### i-Zone Instant Pocket Camera<sup>2</sup>

In the fourth quarter of 1999, the i-Zone Instant Pocket Camera was launched in the U.S. and immediately met success similar to the Xiao. A slightly improved version of the Japanese product, the camera was marketed by the Company in its press release as an ultra-portable instant camera and a “must-have” item:



Polaroid's new i-Zone Instant Pocket Camera was the latest go-everywhere, must-have item that would let you express yourself. The Pocket Camera was not about taking pictures—it was about what you decide to do with them, because this nifty little camera took mini photo. You could collect, trade and wear these neat little instant photos—or use them as calling cards.

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<sup>2</sup> See the i-Zone Instant Pocket Camera [user guide](#) for details about functionality.



The Instant Pocket Camera kit, which included batteries and a trial pack of Instant Pocket Film, carried a suggested retail price of \$24.99 and was distributed through mass-merchandise channels where teens were likely to shop—either with their parents or alone. The channels included Seven-Eleven, CVS Pharmacy, Target, Wal-Mart and Tower Records.

At launch, Polaroid also began an aggressive marketing campaign, with worldwide television and regional print advertisements and major sponsorships, including designer [Todd Oldham](#) and teen favorites, [Britney Spears](#) and the [BackStreet Boys](#).

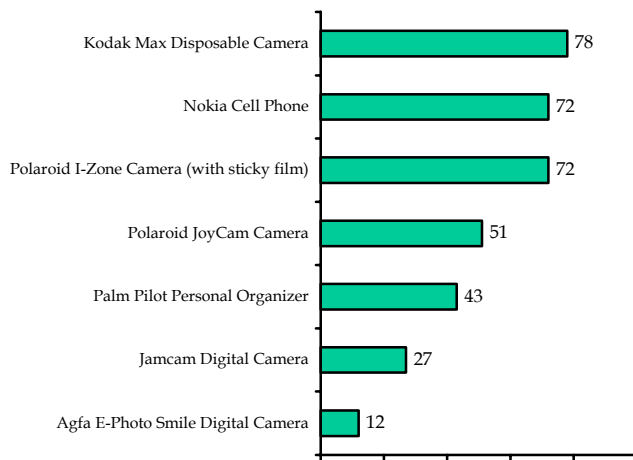
The initial results of the Instant Pocket Camera were overwhelming (see Exhibit 6 for financial data and

Exhibit 7 for market penetration information):

- #1 selling camera in the world
- 97% incremental [or first-time] Polaroid users
- 95% of purchasers plan to continue buying film after three months
- 10% increase in shelf space at retail outlets

According to the Company, awareness of the i-Zone Pocket Camera reached 72%, equal to that of the Nokia cell phone:

**Table 1: Awareness of the i-Zone Pocket Camera**



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In order to help keep the camera fresh in the eyes of the target market, Polaroid began to periodically introduce new colors. In addition to the original colors (radical red, bright breezy blue and cool lime green), newly added colors included Phat Blue, Wasabi Green, Sorbet and Silver.

### **i-Zone Instant Sticker Film**

The i-Zone Instant Pocket Camera uses Instant Pocket Film, which instantly developed approximately 1 ½" x 1" prints. The original Instant Pocket Film sold in packs of 12 exposures and had a suggested retail price of \$6.99. Following the successful launch of the camera and the introduction of new colors, the Company noticed that teens were buying new camera kits altogether, rather than buying packets of film. While having users collect the camera was not altogether bad, it did not enhance film burn rates or the sale of higher margin film.

In response, Polaroid developed Instant Sticker Film, encouraging users to “stick pictures on book covers, lockers, walls, refrigerators—almost anywhere.” The Sticker Film also sold in packs of 12 exposures and carried a suggested retail price of \$6.99. Upon introduction, non-sticker film was re-priced at \$5.99. The Company was currently working on other film ideas, including a super-sticky film, which had stronger adhesion, and fortune cookie film, which told a fortune that disappeared as the image developed. (See Exhibit 8 for historical and projected film burn data.)

### **i-Zone Convertible Instant Pocket Camera with Changeable Faceplates**



In another effort to stay fresh and hip with the target market and attract new users, Polaroid launched a single collectible camera—the Convertible Instant Pocket Camera with Changeable Faceplates. This version of the Instant Pocket Camera lets teens match their cameras to their moods or outfits, using snap-on faceplates in a variety of colors. The camera was available for a suggested retail price of \$29.99 and came with two sets of faceplates,

batteries and a free photo tree for displaying pictures. Additional faceplates were sold for \$2.99. Both the camera and the faceplates were sold through the same distribution channels as the original Instant Pocket Camera.

### **i-Zone Brand Extensions and Merchandise**

Leveraging the growing strength of the i-Zone brand, Polaroid now offered branded accessories and merchandise. These included mini-photo albums, magnetic and inflatable mini-photo frames and a t-shirt that held and displayed mini-photos. Polaroid entered into multiple trademark license agreements whereby the Company received roughly an 8%

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royalty on all wholesale revenues generated through the sale of i-Zone branded merchandise.<sup>3</sup>

Polaroid had also considered entering into the single use, disposable 35mm camera market. According to Company research, the disposable 35 mm remains the preferred camera for teens, as it allowed users to take, develop and have “real pictures.” Polaroid conservatively estimated that it could capture 1% of this large, international market, yielding approximately \$3.3 million in gross margin<sup>4</sup> (see Exhibit 9: Economics of the 35mm Single Use Camera). The major problem with the 35mm disposable camera, however, was film sales, as such a camera would not have a film, or output component. Polaroid considered different ways to address this issue, including bundling an Instant Pocket Camera with a 35mm disposable camera in an i-Zone branded photo kit.

### **i-Zone Digital Imaging Strategy**

Following the success of the original i-Zone Instant Pocket Camera and Film, Polaroid began working on the second component of its corporate strategy: linking digital and instant. Marketing research indicated that i-Zone’s target audience was already digital-savvy and ready for digital product introductions:

*“14% of teens own or use a digital camera regularly.”*

*--Jupiter Research*

*“Children revel in the digital technology that surrounds them.”*

*--Forrester Research*

*“In the case of digital cameras, kids and teens are a natural market because they are adopting the technology more quickly than their parents.”*

*--Mattel Media*

*“Teens are probably more comfortable with technologically advanced products and services than was any other age group... this savviness has often enabled teens to become the ‘techies’ of their households.”*

*--Teen Research Unlimited*

As a result of these findings, Polaroid developed a digital imaging strategy for the i-Zone, based on two main principles:

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<sup>3</sup> Source: Company documents. Data has been disguised and was intended for case use only.

<sup>4</sup> Source: Company documents. Data has been disguised and was intended for case use only.

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- the i-Zone franchise was extendible and leverageable for digital imaging;
  - the best approach to the digital imaging market was a complete solution that spans image capture, uploading to the Internet and printing (the so-called “C-I-O” model of Capture, Internet and Output)

### **i-Zone Digital & Instant Combo Camera**

The first digital i-Zone product was the Digital and Instant Combo camera, which was introduced September 1, 2000 and made available October 1, 2000. Claiming to “propel the number one selling Polaroid i-Zone Instant Pocket Camera into the digital domain,” the Combo was a 2-in-1 camera that took instant pocket mini-photos (using Instant Pocket Film or Instant Sticker Film) or higher quality digital photos. Marketed to teens as giving “unprecedented flexibility—the fun and spontaneity of instant photos and the Web- friendly format of digital photography,” the camera provided a solution to the growing popularity of digital that avoided cannibalizing film sales.



The Combo Camera kit, which included the camera itself, a PC-compatible serial cable, PhotoImpression 2000 software, batteries and a trial pack of Instant Pocket Sticker Film, carried a suggested retail price of \$99.99. The camera was sold at mass market, photo specialty and select toy stores across the United States. (See Exhibit 10: i-Zone Combo Camera Pre-Launch Projections.)

The Combo Camera enjoyed tremendous success since its launch in the fourth quarter of 2000. In addition to strong retail sales through traditional retail outlets, the camera made Amazon.com’s top 25 list of electronic orders during the holidays.

### **i-Zone.com**

Simultaneous to the launch of the Combo Camera, Polaroid launched [i-Zone.com](http://i-Zone.com), a website designed to foster a community for teens. As described in the [press release](#), i-Zone.com was: an online photo community, combining i-Zone picture-taking with favorite online activities—such as e-mail, chat and instant messaging—to provide the coolest and easiest way for teens to be creative *and* be together with their friends online.

Using proprietary technology, the site “entices visitors into the world of ‘photoplay,’ a concept that focuses more on the social interaction of the picture-taking process than the picture itself.”

Modeled after successful digital photography destinations, the i-Zone.com website was divided into “zones,” or sub-sections:

*my zone:* Your own private place on the web. Upload photos, save and store pictures or create a photo album—for your eyes only.

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- crew zone:* A place for you and your friends to chat, email or instant message with pictures. It's invitation only—you choose who's in.
- play zone:* The place to have fun with your pictures. Make collages and photo movies, create greeting cards, or stretch, warp and morph your photos.
- real zone:* Real world meets virtual world—check out the latest i-Zone commercials, events and news online. Win free stuff, play games or hang out with ‘i-Zone guy.’”

i-Zone.com also has an e-commerce component. Polaroid currently does not sell products directly through the site or intend to generate significant revenues through e-commerce. However, the “shop zone” allows i-Zone.com users to see new products and experience virtual demonstrations of products, click-through to companies that sell i-Zone cameras, film and other i-Zone branded merchandise online, or find nearby stores that carry the products.

The goal of the site was to create and enhance a total i-Zone experience (see Exhibit 11: i-Zone.com Business Strategy). And, although Polaroid currently was not looking to earn incremental sales through the site, the Company continues to explore potential partnership opportunities with established Internet destination sites.

i-Zone.com also gives Polaroid the ability to conduct marketing research on its users, who are encouraged to register in order to become members (membership was free). Three months after the initial launch of the site, the following data was collected from the site:

**Key web traffic statistics:**

- Total visitors: 483,922 (+75% average monthly growth)
- Total registered members: 28,420 (+ 55% average monthly growth)
- Average time online: 0:12:35 (+ 20% average monthly growth)

**Targeting customers:**

- Demographics: 15 years old, 75% girls
- Product ownership: 60% pocket camera owners
- Feedback: 90+% raves in the comment corner

**E-commerce and business efficiencies:**

- Total click-throughs: 8,374 click-throughs to e-tailers
- Total dealer locator: 5,930 clicks to search function
- Customer support: 7,490 customers using FAQ service

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### **i-Zone Webster**

Another important product in i-Zone’s digital platform was the Webster—a lightweight, ergonomically crafted mini-photographic scanner designed to scan and store i-Zone mini-photos anytime, anywhere, without the need for a computer connection or outside power source. Powered by four AAA batteries, the Webster had 2MB of memory and a holding capacity of 20 mini-photos. With a cable connection to a PC, images were easily uploaded and stored.

Once uploaded, images could then be manipulated, cropped and/or cleaned using Webster’s 30-program PhotoImpressions software.

In addition to the Combo Camera, the Webster gave i-Zone users another way to access the online community. Additionally, the Webster allowed for digitization without cannibalizing film sales, as the Webster actually promoted film burn by requiring that users first take a photo using Pocket Film before digitizing the image. Packaged with software, a serial cable, batteries and instructions, Webster was launched in the fourth quarter of 2000 and carried a suggested retail price of \$49.99.



### **Alison’s Decision**

Alison was encouraged by the current strength of the i-Zone brand, stating: “There was way too much positive momentum going right now for us to turn this into a cash cow. We need to strengthen our marketing programs to increase camera sales and film burn while continuing to introduce new, innovative products.”

According to internal projections, the growth potential for the brand remained strong. However, Alison needed to consider the difficult state of Polaroid’s entire business in making her recommendation to the CEO.

Bearing in mind the major challenges that the i-Zone brand faced (as described in the introduction), Alison was considering many options: she knew that there are many more potential directions the Company could choose for the successful brand. Her initial five options were:

- Remaining focused on the current i-Zone product platform
- Developing an i-Zone branded 35mm disposable camera
- Developing a complete digital i-Zone system (Capture, Internet and Output)
- Seeking an i-Zone Internet-based business model
- Focusing efforts on finding the next line of hit products for Polaroid

Her recommendation needed to represent a profitable and sustainable business strategy using a combination of these options.

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## Case Questions

Discuss the following questions with your study groups and be prepared to present your answers in class. Please be sure to **MAKE FULL USE OF ALL EXHIBITS** to support your answers.

1. What are the pros and cons of each of the five options Alison was considering? Which one(s) best address(es) Polaroid's strategic goals? How would you implement each of the options?
2. For each of the five options, which of Slywotsky's profit models was being employed? Which of Slywotsky's profit models should Polaroid adopt for the i-Zone brand? Which was best? Why?
3. What are the other options available to Alison?



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## Exhibit 1: Alison Corcoran Biography

Alison Corcoran, *Vice President and General Manager, Generation i, Global Youth Business*, runs a new business at Polaroid targeted at 11-24 year olds. Her areas of responsibility include new product development, global marketing and coordination of operations. Products include the Polaroid i-Zone (for ages 6-18) and JoyCam instant cameras and film (for ages 18-24), licensed cameras, digital/instant cameras and i-Zone.com. i-Zone pocket camera and JoyCam are currently #1 and #4 best-selling cameras in the world. Previous assignments in Polaroid include Vice President and General Manger of Professional Imaging, Division Vice President of North American Marketing and Senior Director of Strategy. Prior to Joining Polaroid in 1995, Ms. Corcoran was a Director at Braxton Associates, a division of Deloitte & Touche where she led the Food and Consumer Products practice specializing in business and marketing strategy. Ms. Corcoran received her MBA from the Amos Tuck School at Dartmouth College and her BA from Williams College.

## Exhibit 2: i-Zone Product Summary

<b>Product Name</b>	<b>Suggested Retail Price</b>	<b>Launch Date</b>
Instant Pocket Camera	\$24.99	4Q 1999
Instant Pocket Film	\$5.99	4Q 1999
Instant Sticker Film	\$6.99	1Q 2000
Combo Camera	\$99.99	3Q 2000
i-Zone.com	no fee	3Q 2000
Webster	\$49.99	4Q 2000
Convertible Pocket Camera	\$29.99	3Q 2001

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### **Exhibit 3: Polaroid Corp. Facts and Figures<sup>5</sup>**

- Polaroid maintains an international base of business with total sales of \$1.98 billion spread across three global regions: \$1.23 billion in the Americas; \$428 million in Europe; and \$321 million in Asia Pacific.
- Polaroid sold a company record of 9.7 million cameras in 1999. The total represented a 106% increase over 1998.
- In addition to its well-known products for consumers, Polaroid markets a full line of commercial imaging products that account for 45 percent of company sales in the United States.
- The Polaroid ID Systems division currently produces driver licenses in 37 U.S. states. Internationally, Polaroid produces identification documents for governments in more than 60 countries including Brazil, the United Kingdom, the Philippines, Russia and China. Polaroid ID Systems division creates some 300 million ID cards (both photographic and digital) around the world each year.
- Polaroid products are sold in more than 150 countries worldwide. The company has manufacturing, sales and marketing facilities and distributors around the world.

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<sup>5</sup> Source: <http://www.polaroid.com/>.

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**Exhibit 4: Polaroid Corp. Historical Financial Summary<sup>6</sup>**

(data in millions, except per share data)	1999	1998	1997	1996	1995
<b>Income Statement</b>					
Net sales	\$1,978.6	\$1,845.9	\$2,146.4	\$2,275.2	\$2,236.9
Cost of goods sold	\$1,170.5	\$1,108.4	\$1,229.8	\$1,283.8	\$1,298.6
Marketing, research, engineering and administrative	700.5	736.5	752.2	796.6	849.1
Restructuring and other	-	50.0	323.5	143.0	247.0
Total costs and expenses	1,871.0	1,894.9	2,305.5	2,223.4	2,394.7
Interest expense	77.4	57.6	47.8	47.4	52.1
Other charges	16.8	(67.7)	(15.0)	(26.8)	8.5
Pre-tax income	13.4	(38.9)	(191.9)	31.2	(201.4)
Income taxes	4.7	12.1	(65.2)	16.2	(61.2)
Net income	8.7	(51.0)	(126.7)	15.0	(140.2)
Primary EPS	\$0.20	(\$1.15)	(\$2.81)	\$0.33	(\$3.09)
Dividends per common share	0.6	0.6	0.6	0.6	0.6
<b>Balance Sheet</b>					
Working capital	\$366.7	\$360.4	\$572.8	\$623.3	\$730.3
Net PPE	599.2	566.5	512.5	666.2	691.0
Total assets	2,040.0	2,197.0	2,132.7	2,201.6	2,261.8
Long-term debt	573.0	497.4	496.6	489.9	526.7
Common shareholders' equity	370.5	389.9	484.4	658.2	717.7
<b>Other statistical data</b>					
Number of employees	8,784	9,274	10,011	10,046	11,662
Return on average common equity	2.4%	(11.4%)	(19.7%)	(6.2%)	(17.8%)

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<sup>6</sup> Source: Polaroid Corp. 1999 Annual Report.

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**Exhibit 5: Digital Camera Sales<sup>7</sup>**

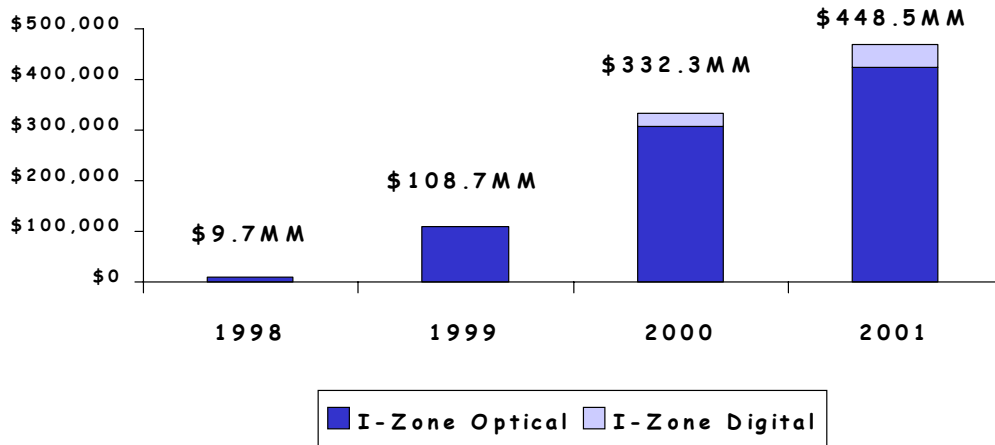
Model	Unit Sales	Unit Share of top 25	Cummulative Unit Share of top 25	Dollar Sales	Dollar Share	Average Price
Sony MVCFD73	255,861	13.1%	13.1%	\$124,238,700	13.0%	\$486
Kodak DC215	173,832	8.9%	22.1%	52,043,560	5.5%	299
Olympus D360L	171,365	8.8%	30.9%	50,979,260	5.4%	297
Olympus D460	110,180	5.7%	36.5%	47,123,240	4.9%	428
Polaroid PDC320	109,886	5.6%	42.2%	6,089,202	0.6%	55
Sony MVCFD83	95,357	4.9%	47.1%	56,947,870	6.0%	597
Sony MVCFD90	82,019	4.2%	51.3%	64,631,080	6.8%	788
Sony DSCS70	81,071	4.2%	55.5%	64,016,170	6.7%	790
Sony MVCFD88	77,671	4.0%	59.4%	58,022,700	6.1%	747
Nikon COOLPIX990	75,659	3.9%	63.3%	73,684,060	7.7%	974
HP C200 PHOTOSMART	74,536	3.8%	67.2%	19,936,920	2.1%	267
Polaroid PDC640PLUS	56,981	2.9%	70.1%	9,621,550	1.0%	169
Sony DSCS50	55,365	2.8%	72.9%	32,602,730	3.4%	589
Kodak DC280	53,524	2.7%	75.7%	31,519,450	3.3%	589
Sony MVCFD85	51,388	2.6%	78.3%	34,709,390	3.6%	675
Nikon COOLPIX950	49,576	2.5%	80.9%	41,339,000	4.3%	834
HP C215 PHOTOSMART	49,277	2.5%	83.4%	8,199,291	0.9%	166
Kodak DC240	46,118	2.4%	85.8%	21,422,990	2.2%	465
Olympus C3000Z	43,413	2.2%	88.0%	34,490,960	3.6%	794
Polaroid PHOTOMAXFUNFL	40,823	2.1%	90.1%	4,180,436	0.4%	102
Olympus C3030Z	39,841	2.0%	92.1%	39,563,660	4.2%	993
Olympus D450Z	38,782	2.0%	94.1%	17,908,220	1.9%	462
Sony DSCS30	38,237	2.0%	96.1%	18,950,610	2.0%	496
Olympus D490	38,224	2.0%	98.1%	18,817,680	2.0%	492
Canon POWERSHOTS100	37,854	1.9%	100.0%	21,150,580	2.2%	559
<b>Total top 25</b>	<b>1,946,840</b>	<b>100.0%</b>		<b>\$952,189,309</b>	<b>100.0%</b>	<b>\$559</b>

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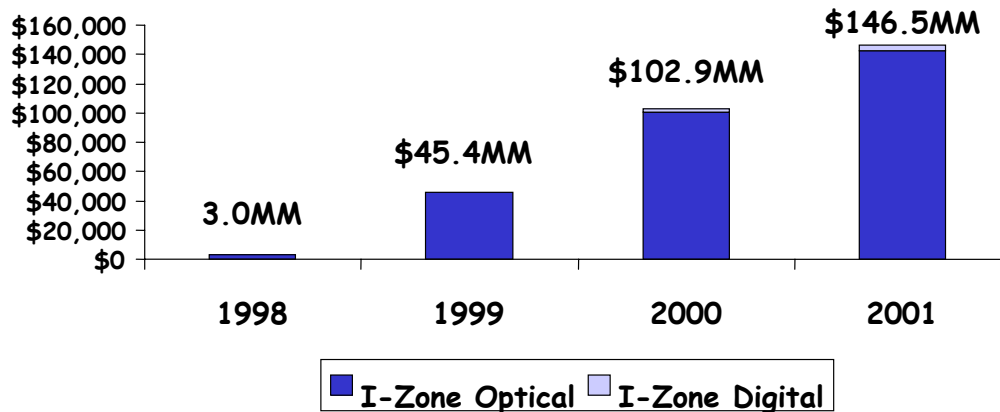
<sup>7</sup> Source: Company documents. Data was year-to-date through November 2000.

**Exhibit 6: i-Zone Historical and Projected Financial Data<sup>8</sup>**

## i-Zone Revenue



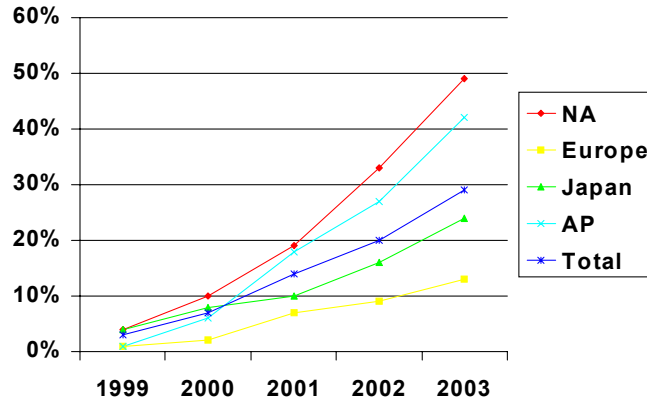
## i-Zone Gross Margin



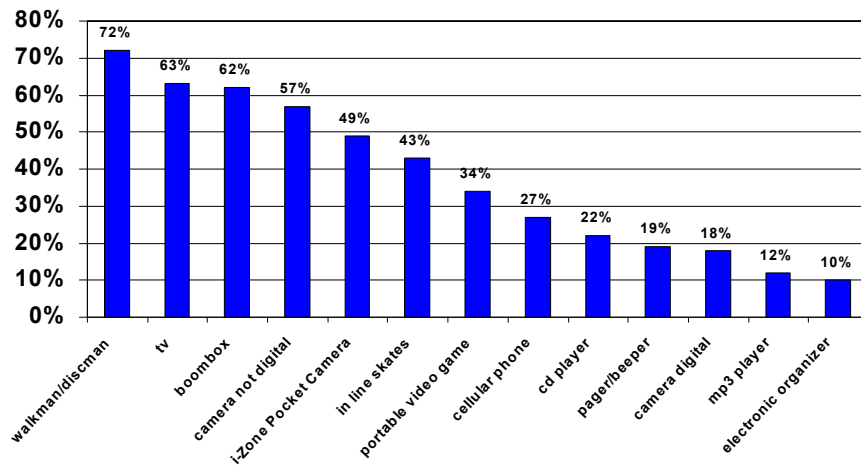
<sup>8</sup> Source: Company documents. Data has been disguised and was intended for case use only. 1998-2000 results are actual. 2001 projections are as of 1Q 2001.

## Exhibit 7: Historical and Projected Instant Pocket Camera Penetration<sup>9</sup>

Pocket Camera Penetration



Overall pocket camera penetration will reach 29% of our target market by 2003, and as high as 49% in North America



Penetration Comparisons

By 2003 in North America, pocket camera penetration will be comparable to many other key teen purchases

<sup>9</sup> Source: Company documents.

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### Exhibit 8: Historical and Projected i-Zone Film Burn<sup>10</sup>

The following historical and projected data represents sale (in units) of the i-Zone Instant Pocket Camera and the corresponding sale of i-Zone Pocket Film (in units) in North America.

(all data in 000's units)	1999	2000	2001
Gross i-Zone Instant Pocket Camera sales	1,493.8	4,864.2	5,415.3
Net i-Zone Pocket Film sales	1,856.6	11,862.1	18,196.0

### Exhibit 9: Projected Economics of the 35mm Single Use Camera (data in millions, except per unit data)

	North America	Europe	Asia	Latin America	TOTAL
Total market (units)	150	52	114	27	343
Assumed i-Zone share	1.0%	1.0%	1.0%	1.0%	
i-Zone volume (units)	1.5	0.52	1.14	0.27	3.43
Total revenue generated (@ \$3.99/unit)	\$6.0	\$2.1	\$4.5	\$1.1	\$13.7
Total cost of goods sold (@ \$3.02/unit)	(\$4.5)	(\$1.6)	(\$3.4)	(\$0.8)	(\$10.4)
Gross margin (@ \$0.97/unit)	\$1.5	\$0.5	\$1.1	\$0.3	<b>\$3.3</b>

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<sup>10</sup> Source: Company documents. Data has been disguised and was intended for case use only.

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### **Exhibit 10: i-Zone Combo Camera Pre-Launch Projections<sup>11</sup>**

The Combo Camera has the potential to sell between 63,000 units and 134,000 units, depending on advertising spending.\*

#### **Marketing Plans\***

##### 3 Ad Spending Scenarios (directed at teens)

- \$0.4mm Print campaign
- \$1.1mm TV campaign
- \$5.0mm TV campaign

##### Sales Distribution Estimates:

- |                                       |     |
|---------------------------------------|-----|
| - Mass Merchandisers                  | 35% |
| - Electronics/Camera Specialty Stores | 35% |
| - Drug Stores                         | 10% |
| - Other                               | 20% |

#### **Forecast Scenarios (cameras sold (units) in first 12 months after launch)**

- |                          |               |
|--------------------------|---------------|
| - \$0.4mm Print campaign | 63,000 units  |
| - \$1.1mm TV campaign    | 71,000 units  |
| - \$5.0mm TV campaign    | 134,000 units |

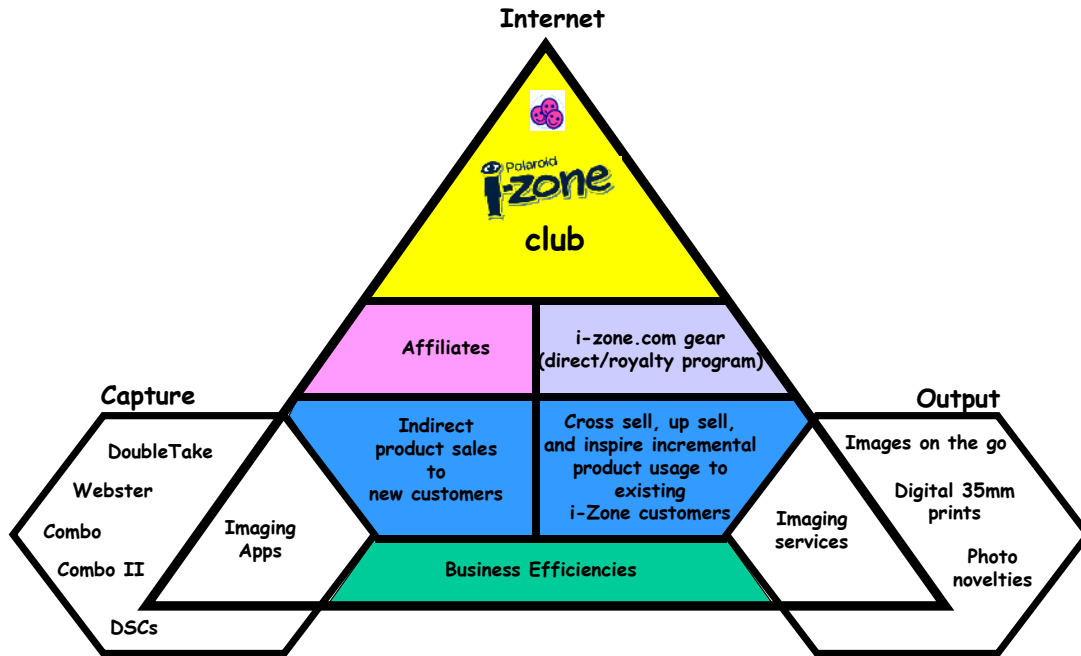
\*The volume forecast was based on these ad spending and distribution estimates. If ad spending or distribution falls short of or exceeds these estimates, the volume forecast will change. **Note:** Each forecast scenario was independent. In other words, to get to 134,000 camera sold in the 12 months after launch, Polaroid would have to spend \$5.0 million in T.V. advertising. Additionally, the forecasts are not additive, meaning that if the Company was to spend \$5.0 million in T.V. advertising and an additional \$0.4 million on print advertising, it would not necessarily sell 134,000 + 63,000 units.

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<sup>11</sup> Source: Company documents. Data has been disguised and was intended for case use only.



**Exhibit 11: i-Zone.com Business Strategy<sup>12</sup>**



<sup>12</sup> Source: Company documents.

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**Appendix 1: Polaroid Corporation**

[Polaroid Corporation](#) (PRD) was the world's leading instant imaging company and the only manufacturer of chemical-based instant cameras and film in the United States, with annual sales of approximately \$2 billion. Throughout its sixty-year history, Polaroid has been one of the greatest technological innovators in the world. Scientifically driven, the Company owns a portfolio of over 1,000 patents and generates millions of dollars annually by licensing its intellectual property. The Company's core product offerings have evolved from light-polarizing lenses to include instant and digital cameras, instant film, digital peripherals, secure identification systems and software as well as system solutions. See Exhibit 3 for more facts and figures and Exhibit 4 for summary financial information on Polaroid.