



## MANAGEMENT OF MARKETING IN INDUSTRY

Mr. Gerald B. Zornow

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Reviewed by Col E. J. Ingmire, USA on 31 January 1964.

INDUSTRIAL COLLEGE OF THE ARMED FORCES  
WASHINGTON, D. C.

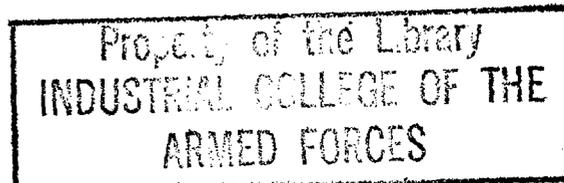
1963 - 1964

Management of Marketing in Industry

20 January 1964

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Reviewed by: Col E. J. Ingmire, USA Date: 31 January 1964

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20 January 1964

GENERAL STOUGHTON: The ultimate success in any business enterprise of course, is selling the product. This selling process involves many activities which in the modern business world are usually grouped under the term "Marketing."

We're fortunate today in our speaker, Mr. Gerald B. Zornow of the Eastman Kodak Company who is the Vice President of Marketing of that well-known and most successful company. He's going to talk to us on "Management of Marketing in Industry."

It's a pleasure to welcome and present Mr. Zornow.

MR. ZORNOW: Thank you, sir. I might get us off into a mutuality of interests here by explaining that I'm not as accustomed to making an early-morning presentation as you gentlemen are to being subjected to it. On the other hand, I understand this is not early morning. But I can tell you gentlemen that I do consider it a real honor and privilege to be with you here today and to talk a little bit about what I think is one of the most interesting areas of business. That is the subject of marketing. I think most of you also know, as I do, that every company is looking for the perfect product that might be defined as something you can make for \$1 which will sell for \$100 and is habit-forming. Well, we strive mightily to get there.

Well, today I'm going to try to stay away from too many charts and graphs, and from drawing conclusions, or stating averages that are based on figures. I'm not hostile to statisticians; they're very important, I

consider that. But I do feel that figures should be used with care. For example, you can take a man who has his head in a refrigerator that is 10 degrees below zero, and who at the same time has his feet in an oven turned up to 400 degrees. And on the basis of these figures you can draw the conclusion that on the average he's quite comfortable. I might also try to avoid sounding like the bottom half of a double boiler. That's the part that lets off the steam but doesn't know what's cooking.

However, judging from my business I think I ought to tell you that I'm going to use some visuals here today. I'm not doing this just because we're in the photographic business and that I'm here just trying to promote our product, but rather because we're going to be talking about some rather complicated matters, and visuals I do think help to communicate. As an example I ask you to just imagine that you had to explain a corkscrew to someone who never had the opportunity of seeing one. Using words alone I think you'll agree it would be a difficult job, and probably you'd never be certain that the other person understood. Even a man from Mars would understand if you used a few but straightforward pictures.

It's easy to show what a corkscrew looks like. By using a few more pictures I can show that the first step in using this instrument is to stick the sharp point into the cork of a wine bottle. Then the corkscrew is twisted in a clockwise direction until the spiral part is completely imbedded in the cork. The next step is to pull the corkscrew firmly in the direction of the arrow. And finally, with any luck at all, out pops the cork. (In picture, corkscrew is removed but cork remains in bottle.) Well, you can't win them all. I suppose this isn't the time to recall the

old Chinese saying that one picture is worth 10,000 words, though I would suggest that the sage who thought that one up would be a great marketing man. Of course, someone has written a rebuttal to it. I guess, anyway, that that will keep us honest if we ever go too far overboard on these visual communications.

Well, gentlemen, it is a pleasure to be here today, because Washington is one of those cities where the action is. It has been over 20 years, really, since I spent much time here. And I suppose there are some here who might think that's possibly because of a relationship between the Eastman Kodak Company and the Anti-Trust Division. But I didn't mean to imply that. The only time I spent here at all was during World War II. I spent a year or two at Marine Corps Headquarters. Washington, I find, has changed a great deal over those 20 years. In fact, the entire world has changed more in this period of time than in any previous era in history.

I think probably you know better than I that even the way of waging war has altered considerably. Industry has undergone and is undergoing vast changes. And nowhere is this more evident than in the marketing of goods and services.

Now, obviously I'm not fully aware of how much you know about marketing, and so I'm going to ask you to bear with me while I try to give you a definition of it. And I might add parenthetically that marketing men don't all agree on the definition. I know that you are all accustomed to working together toward a common objective, and you might be working toward that objective without necessarily agreeing on the best way to get

there.

Well, marketing, according to one definition, means to discover the true customer need; to devise a product that fulfills the need; and to get the product into the market place where it can be sold in terms of the customer's need. I'd like to go over that again. It sounds simple and obvious, but there have been a number of amazing errors that have been made in the past. In order to find the true customer need a great deal of research and creative thinking is frequently necessary. In order to properly utilize the research and development people, marketing must have clear objectives of a product's function and of its probable appeal. And in order for the product to be a success when offered to the public advertising and promotion people; salesmen; distributors; and everyone else, including the public, must often be re-educated.

The role of marketing is of fairly recent origin and it has created a revolution in many companies; a revolution which is still going on. Now, here's the breakdown of a marketing organization in an average company. As you can see, many functions which previously operated fairly independently now report to the marketing manager. These can be advertising, public relations, sales, sales promotion, market research, and quite often, research and development. This represents quite a change. This does not represent the exact structure of my company - Kodak. And neither does this one.

There is nothing duller than an organizational chart, and ours is particularly complicated. I did want to establish, however, that at Kodak, public relations reports to the president rather than marketing,

and such important areas as sales training and technical services in our company come out of the sales division. So, if it looks as if marketing is a kind of corporate octopus we might consider why marketing came into being.

First let me give you a fact. An estimated 60% of the products now on the market did not exist ten years ago. This figure is, of course, far from accurate in that it varies from 45% in some industries to 75% or even 90% in others. In any case, new products coming out at this rate needed special attention and they weren't getting it. The mortality rate, in other words, was very high. of 20 products that were launched a decade ago only about one could be expected to survive and become a profitable item. Even now, according to reliable estimates, only one in ten new products grow up to be healthy new additions to the line.

What I am suggesting is that the rise of marketing as a profession didn't come about by chance; the marketing approach was essential to cut down waste and error. There's a story of a washing machine manufacturer in Italy who had a very acceptable machine but he just couldn't get his sales volume up. It was well-designed, it was dependable, and there certainly did seem to be a need for it. But they were rapidly going bankrupt. So, they brought in a marketing man. He looked over all their ads and their promotion, and all of these stressed the machine's beauty, long life and cleaning power. And this man then went into a trance; marketing people are always going into trances. He came up with an entirely new approach. He suggested that the ads; all the promotion; all the selling; be on just one marketing premise - more time for love; that need's fulfillment you

might say.

I suppose if it were an English story the marketing statement would be, "More time for gardening."

Well, the point here was that the cost of developing and launching a new product nowadays is so high that while one failure might be financial embarrassment, and embarrassing to the management, several failures can spell disaster.

Now, the automotive industry has laid a number of high-priced eggs. On the other hand, the rise of American Motors can be traced in very large part to a marketing concept - the need for compact cars. Well, I'm here to talk about Kodak, not automobiles or washing machines. But you know it's always easier to talk about someone else's business because it seems to simple and the solution is so obvious, whereas your own problems seem inordinately complicated and with too many subtleties. The closer you are to a situation the more difficult it is to generalize the thing.

Let me start with a breakdown of the Kodak sales dollar in 1962. And I apologize; these figures aren't for 1963; actually these figures are not completed yet. Usually our year-end report is released right around the end of February. While Kodak is thought of largely as a photographic supplier some of you may be surprised to learn that one third of our sales are made in non-photographic areas. For example, 2¢ of our sales dollar came from such off-beat areas as vitamin concentrates and monoglycerites. 5¢ came from special military work. You are probably more familiar with many of those products than I am. A typical activity I know of is a TV bombsight for the A3J Vigilant Program, and there's a portable airborne

processing laboratory in the research stage that's being done for the Air Force. And, of course, there are many other programs that are classified.

18¢ comes from the so-called "man-made fibers" such as polyesters and acetates, and from plastic feedings and raw materials. This is a growing area. 10¢ comes from chemicals. Some of these are photographic, such as developers and pictures; and some are non-photographic such as organic chemicals for use in research laboratories.

Now, thus far, except for photographic chemicals, I've indicated little income drag-in from photography. This isn't surprising. Photography is chemically based and diversification into other chemically-based products is quite logical in our case. Professional motion picture film, the kind used for TV and theatrical films, accounts for 8¢ of our sales dollar. The amateur field which includes cameras, films, projectors, photo aids and color processing, yields 1/4 of our sales. Now, what accounts for the remainder and the largest source of our revenue? It's the commercial and the professional photographic field. I'm sure that to many of you this may seem surprising at first, but this grouping includes a large number of products and specialized markets.

For example, you've got medicine. And when I talk about medicine I'm talking about X-ray film. For industrial use these can be a variety of specialized products; for commerce - commercial products - graphic arts and the whole printing industry; photo-finishing; the people who take your film, process it and deliver the prints back; scientific uses. Well, these are some of the things that I'm including under the broad

grouping of commercial and photographic. I don't expect you to remember all these marketing areas, and if I go too deeply into all of our products we won't see the forest for the trees.

I might mention as an example we have 50 different kinds of professional motion picture film, each one of which fills a specific need. We make 310 kinds of photographic chemicals, again each one of them designed to perform a certain job in a certain way. There are 300 kinds of photographic papers. And when you consider the kinds, the size and the types of packaging - and in this business packaging also fulfills a real customer need - this area alone amounts to some 8,600 items. We have 1,900 different kinds of film available in 195 different sizes. Each film is designed to cover a certain area of need. And probably some you know from your own experience; there is an indoor color film, an outdoor color film, a film for colored prints; and there are fast films and slow films, with great variations there.

And if I get into our distilled products division we can offer 4,500 different kinds of chemicals, many of them right off the shelf, and others of a special order nature. So, I think you can understand me when I sometimes say I rather envy the company which is in a very specific business and which has a well-defined and limited product area; maybe ballpoint pens or pencils.

And, I guess if I'm perfectly honest with you I have to say I can't speak with full authority on every Eastman Kodak product. If I could I'd have little blinking lights on my chest; I'd be a computer. But perhaps I can give you an example that will explain how you can keep your sanity, if you will, with what they think is the all-inclusive title of Vice

President, Marketing Worldwide.

I might tell you a little story about George Eastman, our founder. The occasion was back when he used to take these safaris to Africa with the specific intention of taking pictures. On this particular day the white hunter that he had along had aroused a rhinoceros. Mr. Eastman immediately set up his camera and began shooting away. I've never encountered one but I understand the Rhinoceros is a particularly cantankerous animal. And he resented this intrusion on his privacy. He charged directly at Mr. Eastman who stood there calmly cranking away. His white hunter didn't get a good shot in until the rhino was 15 paces distant, and the momentum then carried it within a few feet of Mr. Eastman. He kept cranking the camera all the way through. Afterward, when it was pointed out that he could have lost his life if something had gone wrong, he very calmly just said, "Well, you have to trust your organization."

And I think that we in our company to a high degree have this feeling; we're inclined to trust our organization. And it's a pretty complicated one. Here, for example, is what we call "Kodak Park." There's a thousand acres of manufacturing facilities here and well over 20,000 employees situated in this plant right in the heart of Rochester, New York. This is where films are made and spooled, and papers are coated. And many areas here are as clean as the operating room in a hospital. There are other facilities, of course; here is the camera works and the apparatus and optical division of our company.

We have manufacturing facilities in many areas outside the United States, plants that manufacture film, papers and cameras. We market, of

course, in every country in the Free World. Well, talking products, markets and sales is one way of describing the company, but I think it's impossible to explain Kodak marketing without going all the way back to its beginnings and its founder George Eastman. I suppose every company probably displays a portrait of the founder in its reception room, but in any history of American marketing - American industry - and certainly in any history of marketing, the figure of George Eastman looms very large.

Historians generally credit Kodak with being the first company to mass-produce at low cost, worldwide marketing. The innovations which Henry Ford used so dramatically were actually used by Kodak long before that. When Mr. Eastman first became interested in photography the camera was as big as a soapbox and needed a heavy tripod; and a tent was standard equipment, since the photographer had to spread the emulsion on a glass plate immediately before exposure. It was what we call the so-called "Wet Plate Method."

A photographer in those days had to be a real zealot. And Eastman, who was the sole support of his family, carefully saved part of his wages as a bank clerk to experiment in simplifying it. His objective was to make a dry negative. And in 1880 at the age of 26 he was far enough along to rent space and try to make a go of it, although he very prudently kept his bank job. I won't bother you with the details other than to note that it was Eastman who clearly saw customer need for an easy way to take pictures.

This is his first camera for a mass-market. It was factory-loaded with enough film for 100 pictures. "You press the button; we do the rest." And in 75 years of operation I don't think anyone has improved appreciably

on the marketing concept that lies behind that statement. He was quite a promotion man too. You can see that from this tie-in with the Rural New Yorker just a few years after he started in business. Some of those early Kodak ads appear a bit quaint now, but the important marketing fact is that the use of the camera was being advertised. In other words, the camera - or the product in this case - wasn't the point of the ad; the customer need - pictures - was the primary point of emphasis. Now, that doesn't mean the product was ignored, of course. Technological and design progress such as folding bellows was legitimate news and was properly promoted. And price, always a definite customer benefit, was pushed hard.

Here's a famous Brownie which first hit the market in 1900. The marketing strategy here was to provide a camera for children. What the Brownie did, actually, was open the floodgates of the mass-market, for it had universal appeal. And very early it became obvious that children are a primary reason why people take pictures. And the company at that time didn't overlook current events either. These doughboys may look a trifle posed, but the message gets through. And since marketing is concerned with selling you might find a few excerpts from early early reports, interesting.

These comments are in Mr. Eastman's own handwriting. A salesman hustled or he got out. A salesman was expected to be an agreeable fellow. I think this one is entirely self-explanatory. This, I think, is a good clear statement of a business philosophy. The object of a business is to make a profit, and salesmen are an essential part of that profit-making.

Now I'll skip quickly through some other need fulfillments from Kodak.

This picture is Eastman with Mr. Edison. The one before had reference to Mr. Edison and Mr. Eastman. Mr. Eastman's flexible film at that time made Mr. Edison's motion picture camera quite feasible, and this goes back to the 1880s. And the pent-up need for entertainment soon created a new industry. The formula for success was a lot of laughs and girls. How about this one - "The Flower Girl."

Well, back in those times - the '20s - there were a lot of laughs. Photography became linked with fun more than ever. But at Kodak we're more concerned with moving along technologically. It was in the '20s that Kodak brought out the first 16 millimeter home movie camera and the first color film. Innovations and attention to customer need were paying off. The company went from \$3 million in sales in 1900 to \$60 million by 1923. By 1930, despite the depression, it was up to \$75 million. And in just 25 years it hit  $\$3/4$  of a billion. Domestic sales in 1962 went over the billion mark for the first time, and subsidiary companies outside the United States grossed another slightly in excess of a third of a billion dollars in that same year.

Now, this is a very incomplete history of the Kodak Company, and I'm not sure that up to this point I've answered many specific questions about Kodak marketing. But I hope I have established the complexity of the Kodak operation, and that Kodak has always, from its origin, tried to be sensitive to the customer's real needs.

There's another aspect to Kodak marketing, and it's a part of everything we do. This is the emphasis on quality. Quality control has been a kind of religion, of course, right from the beginning. And it is per-

haps as important, if not more important, to one of the secrets of Kodak growth over the years. And perhaps our real strength in marketing in the amateur field, is our distribution, particularly in film. The familiar yellow box is available in more than 100,000 retail outlets in this country alone. And we're that firmly established because we were there first. And because George Eastman, in laying out his own distribution, correctly deduced that the store in any community which was open more hours than any other is the drugstore. That laid the base for mass distribution which stood Kodak in good stead for many decades.

Well, I still haven't answered how we get the goods to market. It depends, of course, on the product. Some products such as this 324 Processor for the graphic arts industry, <sup>are</sup> sold direct to the user of the product. Many products such as copy products, photo reproduction and graphic arts, for example, are sold through dealers who have their own direct sales force. Photo-finishers are also dealers. Some photo-finishers work through drug and other stores. And it's logical that they are distributors of low-priced cameras and films to these retail outlets. But we also sell directly to camera stores and to other high-volume outlets, through our own sales force.

We're able to cover the country with our amateur products line, with about 75 salesmen working out of 8 sales divisions. The essential parts of our marketing effort to the professional and commercial trade are our TSR returns - our technical sales representatives. Since there are literally dozens of variables in photography it often takes an expert to determine which step was done incorrectly. Also, new products need to

be explained.

The TSR doesn't literally sell as you would consider it; his job is to help the customer. We have TSRs for the graphic arts industry, for professionals, for commercial photographers, for film producers, for photo-finishers, for users of our X-ray film products. One of our big problems is that people tend to cut corners and then blame the product. We even have a special slide made to show up this tendency at some meetings. And we always get a laugh when we show this to professionals.

I think it may interest you that we give our divisional managers a rather high degree of autonomy, and our warehousing is generally at the same point as divisional headquarters. But here an interesting problem develops, one of communications; something I think you can recognize immediately. Here's the route any communication must travel just at the divisional level. If we add research and development where new products originate, and their communications problem, and the feedback from the customer as to his real needs - and it certainly isn't as nice and direct as this illustration would indicate - if we add production, management, and their communications problems, we begin to get an idea of the intense amount of inter-communications that are necessary to run a modern business. But, if it's a problem it's also an opportunity.

Office copying machines, for example, have become big business in the last ten years. American business already uses 50 million file drawers that are crammed with one trillion pieces of paper. And with 175 billion pieces of paper that are added each year, that's quite a problem. Microfilm once concerned largely with storage now emphasizes fast re-

trieval. The system such as put out by our recordack division can retrieve any one of a million documents within seconds.

Now, I've singled out information-handling as just one example of how Kodak is still concerned with finding the customer need and creating a solution to what might be termed the specific problem. Also I want to establish that there is more to film than a pretty picture. Photography for handling information has a tremendous future because of the amount of information that can be packed into a very small bit of film. And I should also establish that an important part of the Kodak marketing approach is in our research and development emphasis.

In 1912 the Kodak Company set up one of the first completely staffed research laboratories in industry. And as of 1960 we were spending about \$60 million a year on research and development, and the figure is even higher now, running about \$77 million annually. Now, some of our research is concerned with improving existing products. Through research we have developed a film and developing system for television which can produce a picture for transmission just one minute after it's shot. Our laboratories are busier than ever before, working on systems for producing a photographic image other than through the conventional or silver helite emulsions.

We're doing research on a mysterious and glamorous technology that some of you are familiar with, the lasers. We created a cellulose product a while back which seemed utterly useless until we discovered that it made an excellent surgical dressing. It doesn't need to be removed from the healing wound because it dissolves harmlessly into the patient's

bloodstream.

Now, as you know, photography is used extensively in this country's atomic and space programs, and I don't think I have to sell most of you on the value of aerial photography as part of our national defense. I think a good example of that is the Cuban incident. This is all fascinating. But I guess we do have to get back into the more mundane everyday problems of marketing some of the Kodak Company's goods.

I decided, rather arbitrarily I suppose, to tell you about three areas - photo reproduction products, graphic arts, and amateur photography. I'm going to assume that you know nothing about drafting, one of the areas where photo reproduction products fulfill a need. Drawings are essential to the design and construction of any product, building or machine. Drawings also get worn and soiled. And traditionally when this occurred a draftsman was put to work heavying up the lines so a copy could be made on a blueprint machine. This is now a waste of manpower, for no matter how beat-up the drawing, it can be copied photographically by a number of different machines. And the resulting photographic copy is on a tough, almost indestructible polyester film.

With this basic photo reproduction potential the art of drafting has been revolutionized. There are techniques such as scissors drafting in which the unwanted portion is cut out and only the new needs to be redrawn. Another approach, the use of half-tone photos of existing objects instead of laboriously drawing them; this is particularly effective in cartography where a picture can give information which a drawing does not readily reveal.

Our marketing concept can be summed up in the statement that once a

line is drawn it need never be drawn again. In other words, there are some very real tangible customer benefits here. Our products save time, money and manpower. What's the reaction? Well, to an old line draftsman there's a right way and a wrong way. And, of course, the right way is the way he has been doing it all along. One influence which is hurrying the acceptance of this pattern, incidentally, is the acceptance in the Defense Department. Most government contracts have certain specifications and conditions about the storage and handling of drawings. And I know of one large company which got a government contract in the \$20 million range. They were obviously quite happy about it until they found out that only a portion of their microfilm drawings were acceptable from a legibility standpoint. If they had followed traditional methods and put draftsmen to work so-called heavying up the lines it would have tied up the drafting department for months - and I can't even guess at the expense.

But by using our photo-reproduction methods they were able to solve the problem quite quickly and at just a fraction of the cost. Now, this to you gentlemen is probably not a particularly fascinating area of marketing, nor highly dramatic. But it is, I think, fairly indicative of Kodak marketing in quite a few areas. Graphic arts, for instance, has similar problems. Maybe you've wondered sometimes about the beautiful color work in national magazines; probably not. We're all inclined to take the really excellent color reproduction for granted. But to get color such as this demands craftsmanship of the highest order.

Kodak has been marketing to the graphic arts industry since shortly after the turn of the century. I'm not going to try explaining the processes and techniques; I only want to indicate that there is a unique po-

sition for Kodak; our graphic materials are not the end-product; they go into making the end-product. Once again, our marketing approach is to stay very close to the industry; to constantly search out new needs and supply them. For example, instead of four separate separation negatives such as shown on the screen right now we developed what we call the tri-mask negative - all negatives in one. Obviously this results in savings of time. Not so obvious is that it also reduces the opportunity for error. But we're dealing here with techniques which require a rather high degree of skill. Advertising and our TSRs aren't enough.

Thus, long ago we set up a technical service center where graphic arts specialists can come in to be trained in our techniques. Over 2,000 students a year attend these courses. Incidentally, we have similar training centers for portrait photographers, for dealer salesmen, for verifax copy salesmen; for almost every product line we're in.

Now, gentlemen, I haven't talked yet about competition, and I don't want to leave the impression that we're untouched by it or are above it all. It's not sophistry on my part to suggest that we're glad to have worthy competition. It's better for the public, certainly, because it broadens the choice. It's also good for us psychologically; it forces us to do a better job than we might otherwise do. It's good to have a strong competitor in the field. Anything which extends photography or the use of photography, helps us. For, the fact is, that there is a great opportunity still.

About 25% of American families don't have a camera at all. Another 25% have a camera but very rarely use it. And thus, 50% of the market

remains relatively untapped. In other words, there's room. Generally speaking, we're always undersold by competition. But we have always hung our hat on quality and we've been fortunate in that the buying public has remained faithful. Now, you might ask how I can talk quality when most of our cameras are fairly low in price. Well, there's a Rolls Royce kind of quality which you pay the higher price for the very finest. And you might relate that to our films, papers and our professional equipment.

Then there is another kind of quality where for the amount of money that is spent you get more quality than you might expect. And this, I think, is a fair description of our cameras, and particularly our low-priced ones. The lens on a camera such as this is made of plastic. It seems to be a very good lens for the price. And to improve the lens a noticeable amount means to move to glass and costly handling. For the average shutter-bug the plastic lens is highly adequate.

Here's a movie camera which we brought out in 1963 and sells for under \$20. There's a story behind it and I'd like to tell it to you since it gives another glimpse into our marketing efforts and strategy. As I mentioned earlier, Kodak pioneered home movies in the 1920s. It had some success but it was a bit too expensive for the average family. And you recall, many of you, we did have a depression in the '30s as well. I might say parenthetically that amateur photographic sales fluctuate in direct proportion to the state of the economy.

One way to cut the cost of film was to slice it in half. 8 millimeter film gives four times the projection time of 16 millimeter. After World War II, because of such low-priced cameras as the Kodak Brownie,

8 millimeter did begin to catch on and the market zoomed upward with the sales eventually reaching almost 1 million cameras a year; and with it, the sale of motion picture film. Then, as you can see, the sales leveled off and dropped, and the 8 millimeter market which seemed so promising to us stalled. It's potentially a big market; only 16% of American families have 8 millimeter equipment, and only 12% use it. We've done a great deal of research in this area. We know that the best market for 8 millimeter is a young married couple with young children. Children and movies are made for one another.

Obviously, young marrieds can't afford to spend money on a high-priced camera, but the public for various reasons feels it can't take good movies without an expensive camera. And this is, in part, our fault. High-priced cameras began to ~~climb~~ in sales in the late '50s. For instance, this Japanese import costs over \$200 and is loaded with gadgets. And we jumped on the bandwagon too. We have cameras from \$75 to over \$200. We soft-pedal<sup>led</sup> the Kodak traditional stand of good-quality pictures and low-priced equipment. Finally realizing our error we brought out a new camera in the \$30 range. We didn't promote it too heavily and it wasn't a wild success.

This past year we redesigned that camera and renamed it the "Fun-Saver." By certain manufacturing economies we have the price down to below \$20, including a roll of film and a booklet. And we put some real valiant effort behind it, which means we spent money promoting the product and the whole concept. We've been through one heavy selling season now, and it looks as though we may be turning the tag; we were very suc-

cessful at Christmastime.

This we know; the average person will take a better picture with a \$20 fun-saver than he will with an expensive camera which requires some knowledge of the product.

I'd like to tell you about another product from last year which grew out of a very specific customer need. This is called the "Instamatic" camera, a name I hope is familiar to some of you. And while it has a number of virtues, I've got a short piece of film up there which will show you just one of those virtues. This will only take a minute or two.

(A picture was shown)

That's the Instamatic in action, the answer to the dealer's dilemma. That's the answer to many customers' dilemma too; the easy load feature, the fact that we've eliminated most of the opportunities for error in the loading and whole exposure system. And as you saw from this film, an industry started out with a marketing concept of "You press the button; we do the rest," has, after getting extraordinarily complicated, returned to simplicity in the Instamatic camera.

In this camera we've taken the guess-work out of films. We designed them so that they all, colored black and white, have the same speeds. By that I mean we redesigned the films for them. You know, over a hundred years ago the English writer John Ruskin made a statement which I think can stand as a marketing credo. "You must remember," Ruskin wrote, "that it is the manufacturer's job to form the market as much as to supply it."

The fun-saver and the instamatic cameras are, I believe, two examples of how a Kodak fulfills its application to form the market. Incidentally,

we launched the instamatic camera worldwide on the same day; the first time we've ever attempted such a product introduction. And worldwide marketing is immensely complicated. Just the problem of getting all the advertising to break at the same time is an immense headache. The logistics involved in getting the product distributed called out the very best in our people. It may not impress some of you who are concerned with our national defense on a global scale, but for us it was quite an operation. It showed that there was life in the old Kodak yet. And getting back to paraphrase George Eastman's remark, we could put trust in our organization.

That about wraps it up in terms of the time I was supposed to spend up here, and I have the feeling that I've left dozens of areas untapped and there are probably many questions unanswered. I can't leave without mentioning at least one of the biggest marketing expenditures we've made in years as an individual effort. I'm referring to the New York World's Fair which opens up in just a few more months.

On April 22nd this scale model will be a pulsating reality. And on April 22nd, if we're right, the sale of film will show a decided jump. It's a fact that Kodak is one of the few exhibitors at the fair which will reap an immediate and profitable benefit from its participation. Historically people take pictures when there is something unique to record. The Kodak exhibit; in fact, the entire affair is a photographer's paradise. There are gardens and fountains, and great, sweeping architectural concepts; statues, broad avenues, and everything to delight the eye. The rush to finish on schedule is on, and if our approach to the fair sounds a little Machiavellian it's not meant to be.

People welcome a reason to take pictures. Photographs are visual personal history of people, fun and important events. If we need any justification for our business it's the fact that photographs rank high among the most treasured possessions is justification enough. And I hope you'll all have an opportunity yourself to take your family to the World's Fair. And you can decide for yourself whether Time Magazine's comment on the Kodak Exhibit was just or not. They said it looked like a television set on an unmade bed.

Well, gentlemen, this does conclude my prepared remarks for today. I hope I've been somewhat helpful. I also hope that I've shown that Kodak despite its size and complexity has tried never to wander too far from the basic marketing principles of determining the true customer needs; devising products to fulfill those needs; manufacturing those products with a consistent high standard of quality. And if I were to sum up the role of the marketing executive it would be something like the story of the father who repeatedly told his son not to climb on the back fence.

He came out one evening, to find the lad trying to walk along the top stringer. He said, "Junior, what are you doing up there?" The boy, who was teetering very dangerously, said in a very plaintive manner, "I'm trying not to fall off."

And if you want an illustration of the marketing mind at work I could also refer you to a bar I was once in - one of the kind, you know, that always <sup>has</sup> a bowl of hard-boiled eggs on the back shelf; only, in this case the sign read, "Special - Boneless Chicken Dinner, 10¢."

And finally, no discourse on marketing would be complete without com-

petition, and if you want an attitude toward competition, I do recall a story back in World War II that most of you are familiar with. In late August 1945 there was a cease fire in effect because Japan had indicated it wished to surrender. At that time there were Naval Forces off the coast of Japan that were still experiencing some die-hard kamikaze air attacks. And one ship, upon reporting this to the task force commander and asking what should be done, received the following answer: "Shoot them down in a friendly fashion." It was signed, "Halsey."

Gentlemen, thank you very much.

QUESTION: A number of us were impressed that you can maintain the national coverage of your retail outlets as you do with so few salesmen. Can you describe for us the machinery through which these salesmen work?

MR. ZORNOW: Yes. I mentioned that in the product line we use 80 salesmen in this country. I should tell you that of the 100,000 retail outlets only 11,000 do we sell directly to. In other words, we solicit, write up orders and ship directly to them. The remainder of those outlets, which are principally drugstores, of course, are serviced by the drug wholesale industry, or by the photo-finishers. In the photo-finishing field those that are significantly concerned with the distribution of the products will probably be in the area of 1,500. In the drug wholesale field I think we do business with about an equal amount, 1,500.

So, there are 3,000 accounts that are wholesaling the products through those other 90,000 accounts. Our salesmen make their direct contacts only with our direct dealer-customers and with those wholesaling functions.

QUESTION: How do you decide to whom you will sell direct?

MR. ZORNOW: Do you want to buy something? I don't want to make this complicated. It would vary with the type of product you were talking about. Generally speaking we have always felt that the service retailer - who in our case might be a camera shop or a camera department within a larger volume outfit such as a department store or a sporting goods store - are entitled because of their investment of time and money and effort and knowledge, to do business directly with them and to participate in those dealer aids that we can provide. In other words, we work up a line of communications between us.

There was a period after World War II when, of course, there were a number of product shortages and we could not sell to all the stores that opened up, immediately. But that only existed for a few years. And I think that generally you'll find that if a service retailer is adequately financed - and we are not too sticky on that because we have other ways of dividing the credit - we'll sell to them on a direct basis.

Now, in the so-called "discount house" field we were the last of the people in our industry, I think, generally, who sold to them on a direct basis. And even then we did not do it on a widespread basis; principally from the standpoint that we feel we only ought to put the products in where the retail clerk can provide the customer with good, intelligent advice on the use of the product. In many cases it was our feeling that the discount houses were not doing this. Now, that is not true of all of them, of course, and we do sell to a number of them now.

In other fields, perhaps in the more sophisticated use of photography,

we have specialized service. And there again, the photo-finisher who is engaged principally in taking the amateur product from the retail outlets and processing it and running it through these channels, we thought that anybody who got to invest in that kind of business should be entitled to do business directly.

In X-ray years ago we used to have a wide variety of dealers who handled our X-ray products. But we learned over the years that as that industry became even more sophisticated and the need for technical service became very evident, probably we and the user were better off to have the product handled through those people who were regularly servicing and selling the equipment, etc. And so, generally speaking, our X-ray films today are sold only through the X-ray equipment people who manufacture and service X-ray equipment in the hospitals and the radiologist's office.

QUESTION: I'm wondering about the polaroid cameras that came out. At Eastman have you considered this product and decided against it? And if so, why isn't there a comparable product?

MR. ZORNOW: Well, yes. I guess I could answer that by saying we're always looking for a way to devise a quicker, easier way to make pictures. Certainly, much of our research has been oriented in this direction. And we, very frankly, had an opportunity to have that whole concept. The decision against it was prompted principally, I think, because of the fact that we had a huge marketing investment in other types of distribution, particularly through the photo-finishers.

The polaroid concept was not one which was going to enlarge the business compared to the other, and we decided that we couldn't go both ways

down the street. We could be right or wrong, but I'd like to have a piece of that. I wasn't part of that decision.

QUESTION: Could you describe for us a little bit the nature and scope of your R&D activities; how do you set the size of them; and what limitations you have?

MR. ZORNOW: Are you referring how they decided on the projects they're going to work on?

QUESTION: Well, I recognize that you must have in your particular business a lot more different functions you could be working on and that you feel you can afford to work on in R&D at one time. What criteria do you follow in deciding the size and scope of the R&D activities for a year that you work on?

MR. ZORNOW: Well, I would say that the decision is made at the time of budget approval, in which the management group has to make the basic decision on where the research money is going to be spent. And each element of our manufacturing complex and each counter-part within the marketing organization, which you might term a product manager, has their day in court, so to speak, to present their case. That sounds cut and dried, but it isn't that simple. But really, the decision is made at the time of budget approval.

Now, on top of that we do a very significant amount of just straight "blue sky" research work which is the nucleus of the scientists who are working constantly on those things that are closely related, and sometimes not too closely related. And then, they report regularly to a management committee on what their findings are; what the probabilities are; and then

it becomes a part of the marketing organization to determine, "Well, does this fulfill the need that exists, or does it come close to it and how should it be altered to do that?"

So, we have a number of research and development committees that meet on a regular basis. By that I mean they meet about four times a year. Those are composed of entirely different groups. There are only about three people who are common to all the committees. We have an executive vice president, myself, and a vice president for development. They sit on all three. The rest of the committees are made up of appropriate product people; those are people within the sales organization who are responsible for shepherding the product along the way for future development. And the equivalent research people within the research laboratory or within the engineering group, at whatever stage that particular research lab is located.

And as I say, they meet either three or four times a year and there are probably about a dozen of those committees that cover different facets of our business.

QUESTION: A few years ago there was an automobile manufacturer who based his marketing effort on quality and used the slogan, "Ask the man who owns one." He's now out of business. In information we've received here we find that some automobile manufacturers at this point value their goodwill as high as \$65 million; other companies we know of have their goodwill reduced in their financial statement, down to a dollar. The question then, is, is this a trend in marketing? Is there some trend in marketing taking place now against word-of-mouth advertising, and if so, where

is this trend going?

MR. ZORNOW: I don't know whether I'm qualified to comment on that very intelligently. But I don't know as it's a trend as much as it is the recognition of new ways to keep your books. We don't show goodwill in ours at all; I'm not sure that we have any. I'm not sure that I know what you mean by that.

QUESTION: Do you depend on word-of-mouth advertising or word-of-mouth activity as a marketing technique?

MR. ZORNOW: No, I don't think we depend on it. We recognize it as a factor, but we don't attach any portion of our promotional efforts to it in terms of percentage. Is that what you mean? No sir, we don't. But we recognize it as being important and that the corporate image, so-called is an important part of our overall marketing effort.

QUESTION: Would you describe some of the marketing techniques that are used for feed-back information to give you data on these things?

MR. ZORNOW: Yes. And maybe this could be related to almost every part of our business, but I'll use the amateur product line again as an example where we market the product, basically, to these retailers. Our Market Research Department conducted a panel survey of about 400 of our direct dealers. And they do that now about three times a year. They cut it down before because it wasn't that important. At any rate, the significant time of the year for us is the last quarter of the year each year, because Christmas business is so important.

We have an understanding with these select dealers, and they are of all sizes and all different categories. So, we get a pretty good cross-section geographically, and by the volume of business. And on top of that

we get a few hundred so-called non-dealers - sub-dealers who buy through the wholesalers and through the finishers. And they actually make statistical studies on a continuing basis, showing what their purchases are; their kinds of sales, etc., both of our products and others. That is then put into a form that is provided to our product people for study to see if there is a trend that is becoming evident which indicates the need for action perhaps price-wise, or perhaps the revision or elimination of a product line; or they may have a product that they've had in mind for some time; and we see from what we have learned, that it's time we got this project moving a little faster - speeded up.

On top of that we have a consumer panel that is around 6,000 names, and which is changed from year to year. And these are just off-the-street consumers at the home level. That is conducted by a principal advertising agency to show what the behavior pattern has been on the part of the customers.

This is one way they do it to get kind of a feed-back; of the dealers' reactions toward our products and the service. We're also trying to get it from the consumer level and you could almost put that over on any one of our product lines -we have a similar type of thing; most of which, the actual handling of it is done by a market research group.

**QUESTION:** Sir, my question relates to the marketing advantages which should accrue to a company from patents. When Kodak was forced to share the processing of film with other companies, what basis did the federal government have? Was the process patented by Kodak?

**MR. ZORNOW:** Yes, it was. It has been so long since I answered that one that I don't know where to start. This was a suit in which the con-

tention was that the customer didn't have a free choice, and that in purchasing his film where he bought film and processing included he didn't have the freedom to take that product and have it processed by other than the company. We contested it at the beginning, but for reasons that I might go into for just a moment or so, we finally entered into a consent decree with them because they were able to understand some of our problems and the fact that it wasn't a simple thing to perfect.

Actually, when that suit was brought against us our real concern was that it was about three years too soon. It was part of our plan anyway to make this process available to outsiders when the equipment and technology could be put in the shape that they could handle it. This had to do with color films. At that time the process was an extremely complicated one requiring very close tolerances throughout the process.

Well, anyway, when we entered this consent decree they did let us kind of schedule it, but in that we had to speed up our whole process of making this process and educating the people who were going to handle it, by a couple of years. The only unfortunate part of it is that I think it cost the people who went into this business probably a factor of two or three times what it might have cost if the program had been allowed to go along at the level that seemed right. Because, we had to hurry-up some equipment programs that were immensely complicated programs; they were costly and expensive. It was costly to us because we couldn't hope to have some of these people pay the amount that they would have had to pay if they had paid the normal amount of profit to us.

At any rate, the decision was that we should not be able to sell a film with a processing price included. But it applied only to us, be-

cause our competitors are all doing it now. It was partly tied into an earlier decree that goes way back to early 1960, actually. And this had to do with the marketing effort in which it was spelled out that the so-called "biting brands," we could not enter into that; in other words, make a product for somebody else to market without clearly identifying our name with it. And the aspect of processing included with the original purchase instructions was included at that time. So, they had a little background. That, of course, only had to do with black and white. And the problem became severe to the trade when color became a significant part of the overall amateur business and they weren't getting their piece of the pie.

So, there were some complaints that we were withholding, and that's true; we were. But it wasn't from our standpoint - not arbitrarily so. We thought it was better for the industry. So, it just stepped it up by about three years, and made it costly.

QUESTION: Mr. Zornow, concerning your remarks on the Instamatic camera, what is the value received from a worldwide debut? Was it because of the great deal of time you put into it?

MR. ZORNOW: Well, there are a number of reasons that prompted this. First of all, remember this was an entirely new concept in format. The film comes in a little cartridge. No other camera can accept that. So, we had to face up to the fact that a good many of our customers here are travelers and they would be abroad. So, the film would have to be available to them, otherwise we'd have to warn each one of them for a certain amount of time that they shouldn't take their camera abroad. So, that as

much as anything indicated the need for us to get the product available overseas. And if we were going to get the film there we might as well have the camera.

Secondly, I think it meant a great deal to our overseas outfits, both in the form of our distributors, our own houses, and those retailers who handle our products in these various countries. They realized that here they weren't following up any longer on programs that were instituted in the United States. And I mentioned earlier, our overseas business has become a very important piece of our business and it's expanding very rapidly. Our total overseas business is almost half what it is in this country today, and it's growing at a far faster rate than our business in this country is. We wanted to be sure we weren't letting our customers down at one end of this new program; and also to add a little bit of stature to our overseas distribution in those areas, as part of our initial planning.

**QUESTION:** Sir, what type of market testing and consumer research did you go through before you made the decision to market this particular product on a worldwide basis, because it's such a tremendous proposition? Did you go through a very detailed and elaborate market testing system?

**MR. ZORNOW:** No, we did not. We did nothing except within our own organization. As I was telling somebody a few minutes ago, this was a program that was quite unusual and that we were apparently quite successful in keeping the secrecy quite intact. It was quite a surprise to the rest of the industry when we introduced the program. Perhaps it was because a few years ago for want of just not getting it bandied around too

much we attached a project number to it rather than the product name, which has been typical of our earlier development programs.

When we launched the thing I don't think I heard of a single person outside our company or our agency - and this was unusual; we let the agency in on it about several months before the introduction. We had prepared the material and everyone claimed to have had no knowledge of it at all. So, that was quite a plus for us. I've gotten off the track here; I've forgotten what your specific question was.

QUESTION: Whether or not you went into extensive market testing of it.

MR. ZORNOW: Oh! No, we did not go outside. What we did do was within our own company; we collected a select group of people within our sales organization. We covered over the name of the product and sent it out; testing, as such, wasn't performed until just a couple of months before the introduction date. We were depending on our own experience and knowledge, and the use of the product back in our engineer group. We did not go outside to perform any market testing as such.

We've done it on other product lines but the significance of this change was so great that we didn't dare take that risk. We were lucky. It works.

QUESTION: Will you please tell us how you develop your marketing budget and the distribution of this budget among the various specialties, and the strategy used in making these decisions?

MR. ZORNOW: I guess probably I would say that within the marketing group, the people who are reporting to me, I have eight different people.

That's more than the normal amount you want reporting in a corporate activity, but I think it will help you visualize it if I just run down them quickly. There's the Advertising Department, and we have separated the sales promotion from that, so it's a separate reporting function. Then, we have two different sales groups, the professional products sales - which are the ones we talked about; that's the biggest part of the pie - and the amateur product sales. Then we have professional motion picture sales, and we have an international sales set up in a separate division. On top of that is the Recordack Corporation which is a subsidiary; that is, the marketing organization as such. And we have the Eastman Kodak Storage Organization which also is a subsidiary and operates 33 or 34 stores around the country.

They are not stores as you know them; they're not in the retail business. They service the professional and commercial trade with these more sophisticated line of products. Well, each one of those departments has a budget. I give them a lead-line as to what our forecast is and what we expect to do, so that in the overall SADA budget, as we refer to it, a good part of that is within the selling, advertising and distribution. Each year they go through it, and it kind of grew up like Topsy in the old days. We finally tried to get it in line because we established in our own case, for our photographic line we try to achieve about a 15% SADA budget. That's 15% of sales.

We've gotten a little bit away from that but we're working back down toward it gradually. But this is individually worked up within the department. They come up with their program, and through my administrative

offices we work back and forth trying to determine what the overall strategy is and how we're going to attain the objective and what they need to do it. And at the time the budget approval comes around, just as I suppose with all of you, there's a time when you've got to cut back so much and it may come out of here. And at other times we will approve something over and above the normal amount when we know there's a specific need from the standpoint that perhaps we're not in a front-running position on the product line. That can happen in a lot of them too.

**QUESTION:** What consideration is gone through in determining a price you charge for your product, and do you charge the same price that you're selling direct to the distributors, the discount houses and the cut-rate places?

**MR. ZORNOW:** Well, the first part of your question is pretty easy; we're still profit-oriented, I hope. We have a very elaborate system of determining what our costs are and what our product will cost. And we apply a SADA factor on there. We try to attain the profit that we think we need for a fair return to the company and for a fair investment into the continuation of improvements in the line.

The answer to the second part of your question is yes we do sell at the same price to everyone. This is under existing legal regulations; we have to. In other words, we are not able to recognize a specific function and pay a separate fee for it, such as a wholesaler. If we could easily identify and restrict it to the true wholesaling function, then I think we might be able to do it. But the few times we have experimented, where we have sold to the wholesaler, recognized his function and paid him an

extra 5 or 6 percent, some of our regular dealers say they're wholesaling too and instead of paying a true wholesaler they'll take that same price. And we can't keep that price away from them. So that, they, in turn, are getting a discriminatory price as compared to another retailer down the street. So, for those reasons we had to stick to a single price. We do have a quantity price breakdown on most of our products, but it is of a modest nature.

QUESTION: I have the feeling that the Eastman Company, or, I know that Mr. Eastman over the years has been quite generous in the public interest, I think, in terms of gifts to the City of Rochester. Do you in your marketing concept or sales promotion, put an evaluation on this public image that you create? And second, in today's tax structure when the value of the gift has shifted considerably is there still any impact on this sales promotion and marketing?

MR. ZORNOW: We don't identify it as such. It's true, I think; he was one of the really great philanthropists in this country. He did much in our community, and he did much for the many educational institutions around the country. Today there isn't that same opportunity and there isn't the individual decision that was possible in his case, because he was the company itself during the time he was doing these things. But we don't identify it as such in our whole marketing finding or consideration there.

COLONEL BLACKWELL: Well, Mr. Zornow, on behalf of all of us thank you for being here this morning with us.