



October 19, 2011

What's in Your View Finder?

Weston Wellington, Down to the Wire

Vice President

■ Client Ready

He is no longer with us, and the world is poorer for it.

A restless college dropout, he founded a wildly successful company whose innovative products touched millions of lives. He was a brilliant, dictatorial, and cantankerous leader, relentlessly pushing his staff to solve one impossible problem after another. He had no use for conventional market research, and trusted his own vision to create products with little detectable demand that flew off the shelves upon introduction. He zealously guarded his personal privacy but reveled in his role as a master magician on stage when introducing his firm's latest innovations to eager crowds of industry followers. Stockholders wore big smiles as the shares vaulted to one new high after another. In many ways, he was the antithesis of the conventional corporate chieftain, and despite his demanding persona, he was revered by employees, customers, and even competitors to a greater extent than almost any other chief executive in recent memory.

A tribute to the late Steve Jobs? No—to Edwin Land of Polaroid.

The son of a scrap metal dealer, Land dropped out of Harvard to pursue his own research at the New York Public Library on polarized light filters. He founded Land-Wheelwright Laboratories in 1934 with his former physics professor, and his low-cost polarizing filters proved useful in products ranging from sunglasses to army tank telescopes and gunsights. After the war, he turned his attention to photography and introduced the Polaroid-Land instant camera in 1948. Despite a stiff price tag of \$89.75 the first shipment of 57 cameras sold out in a matter of hours at a Boston department store, and the firm never looked back.

Numerous improvements followed, and sales boomed as the cameras and film became smaller, lighter, easier to use, and less expensive. The stock price did likewise, and Polaroid became a bellwether "glamour" stock during the postwar bull market, soaring tenfold in just five years from 1963 to 1967.

When a cover story in *Time* appeared in June 1972, Polaroid seemed all but unstoppable. Land's inventive genius had resulted in an astonishing new industry with technology protected by a wall of over 1,000 patents. (Land himself held 535 patents, second only to Thomas Edison.) Eastman Kodak offered only token competition in instant photography, and was eventually vanquished in both the marketplace and the courtroom. Kodak was forced to pay Polaroid nearly \$1 billion to settle a patent infringement suit and withdrew from the instant camera business. Polaroid shares reached an all-time high of \$149.50 in mid-1972, amid intense excitement over the ingenious new SX-70 single lens reflex color camera and rumors of an instant movie product. Government surveys at the time identified photography as one of the fastest-growing industries in the country, and Polaroid appeared to be a key beneficiary: In the premium category (cameras selling for \$50 or more), Polaroid was not only the undisputed leader but outsold all other global competitors combined.

Land was one of Steve Jobs' heroes, and the youthful computer tinkerer from California felt almost a mystical connection with the Cambridge scientist forty-six years his senior. Both were impatient perfectionists, often driving themselves even harder than their overworked employees. Land was infamous for wearing out staff members, who rotated in shifts while he focused on knotty problems. During one marathon research session, Land wore the same clothes for eighteen straight days. When Jobs had the opportunity to meet Land personally, he found that he and Land shared a peculiar characteristic: Both believed that new products were not invented so much as discovered. Both could visualize a product that did not yet exist down to its smallest details, and the task of development was thus akin to Michelangelo's description of sculpture: The artist's task was to remove the unnecessary material to reveal the beauty already contained within the stone.

Alas, *Time's* cover story marked the beginning of the end. The instant movie project ("Polavision") turned out to be a costly failure and led to Land's resignation in 1980. Jobs was dismayed when Land was pressured to leave the firm he had founded, calling him a "national treasure." Jobs would suffer a similar fate after a losing boardroom battle in 1985.

Although Polaroid products continued to sell well, the shift to digital photography caught the firm unprepared and slowly hollowed out the highly profitable film business. Polaroid filed for bankruptcy in October 2001. The research labs and film factories were shuttered, although the brand name, traded from one sharp-elbowed financier to another, survives as a ghostly reminder of its illustrious past. The years have been kinder to Eastman Kodak, but not by much. Founded long before Polaroid in 1888, it has outlived its former adversary but now struggles to avoid a similar fate.

What is the message for investors?

As we observed in a previous note, the forces of competition are relentless, and today's astonishing innovation may be tomorrow's commodity—or garage sale castoff. We have no reason to believe that Apple has anything but a bright future, but those of us tempted to concentrate our investment capital in a handful of exciting industry leaders should consider the fate of Polaroid before declaring, "It can't happen here."

Securities Research Company, SRC Green Book, 1993 edition.

"Polaroid's Big Gamble on Small Cameras," *Time*, June 26, 1972.

"The Story of Polaroid Inventor Edwin Land, One of Steve Jobs' Biggest Heroes," 37signals www.37signals.com, accessed October 14, 2011.

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