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No one escapes the winds of creative destruction



FREZZA, Bill: Polaroid, Kodak, Apple: No One Escapes The Winds Of Creative Destruction, Forbes, September 5, 2012

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SUMMARY			
Document Title	FREZZA, Bill: Polaroid, Kodak, Apple: No One Escapes The Winds Of Creative Destruction, Forbes, September 5, 2012		
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Abstract

In the present paper, the author argues that companies, regardless of their market success, are tied to a circle of life and will most likely face crises and eventually collapse. Nevertheless, governmental interventions to prevent companies from failure, such as subsidies, taxes or bailouts, have negative effects on competition, employment and economic growth and should, therefore, be avoided.

Summary

Regardless of their market success, companies are tied to a circle of life and will most likely face crises and eventually collapse. A prominent example is Polaroid, a very innovative company that led the camera market. Polaroid had managed to prevail against the competition, particularly Kodak, by enforcing the patents it held through litigation, and, subsequently, refusing to license them to others. Nonetheless, Polaroid invested in several unsuccessful products and had to face bankruptcy.

Kodak also faced a similar fate. Although Kodak invented many of the core technologies underlying digital cameras, it stopped to innovate, relying on profits from its film and paper franchises. This allowed the competitors to dominate the market, leading to Kodak's collapse.

The author argues that today's most valuable company, Apple, will most likely also not be able to avoid the same fate.

Although the collapse of companies is painful, the author suggests that governmental interventions to prevent companies from failure, such as subsidies, taxes or bailouts, have negative effects on competition, employment and economic growth and should, therefore, be avoided. In the author's view, such policies cannot generate lasting value.

Moreover, companies should be allowed to fail. Companies' failure leads to a relocation of capital to new innovative firms that can generate value and jobs, contributing to competition and economic growth.