

GoPro: How a Hero is Losing Millions

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Abstract

The study has been undertaken to evaluate the adverse consequences of inefficient Strategic Management faced by GoPro. The study also highlights the remedial ways of successful Corporate Turnaround followed by Retrenchment Strategy rather than getting open for Liquidation.

Keywords- Strategic Management, Corporate Turnaround, Retrenchment Strategy, Liquidation.

How it all started

The company was founded by Nick Woodman in 2002. He was motivated by a 2002 surfing trip to Australia in which he was hoping to capture quality action photos, but could not because amateur photographers could not get close enough or buy quality equipment at reasonable prices. His desire for a camera system that could capture the professional angles inspired the 'GoPro' name. (Burrows, Peter. "GoPro's Incredible Small, Durable Camcorder". BusinessWeek. Retrieved 27 Jul 2011)

Woodman raised a portion of his initial capital by selling bead and shell belts for under US \$20 from his VW van and, later, fashionable camera straps. He also received over \$230,000 from his parents to invest in the business. (How Family Ties Helped Nick Woodman Make GoPro Click". 20 Jun 2013. Retrieved 16 Mar 2015)

In 2004, the company sold its first camera system, which used 35 mm film. Digital still and video cameras were later introduced. As of 2014, a fixed-lens HD video camera with a wide 170-degree lens was available; two or more can be paired to create 360 video. In its first year GoPro sold \$150,000 worth of products. (Williams, Owen (5 Apr 2014). "This 360 video shot with 6 GoPro cameras will blow your mind". The Next Web. Retrieved 23 Jul 2014)

In 2006 the company introduced its first Digital HERO, with 10 second video capability, and generated \$800,000 in revenue. The following year GoPro sales quadrupled to \$3.4 million. (GoPro Cutting About 100 Jobs After Weak 4Q Sales". February 2016)

Year 2008 to 2012 is considered to be the golden era of GoPro. In between these years GoPro introduced various product lines such as HD HERO, HD HERO 960, HERO2 etc. These products proved extremely successful and showed a drastic hike in terms of revenue.

In 2013, GoPro decided to go public. One reason for GoPro's decision to go public was to utilise the money to pay off debt in full (\$111 million as of March 31, 2014) and to acquire or invest in complementary businesses, technologies or assets. (FORM S-1 REGISTRATION STATEMENT: GOPRO Inc." United States Securities and Exchange Commission, May 19, 2014)

In 2014, GoPro went public by submitting a confidential filing for an initial public offering (IPO) with the Securities and Exchange Commission (SEC). (Demos, Tels; Sherr, Ian (7 Feb 2014). "GoPro Files for IPO Confidentially". Wall Street Journal. Retrieved 8 Jul 2014) The company announced the appointment of former Microsoft executive Tony Bates as President reporting directly to Woodman. (GoPro (4 Jun 2014). "GoPro Appoints Tony Bates as President And Member of the Board of Directors". Archived from the original on 4 June 2014. Retrieved 4 Jun 2014)

Corporate Actions

On March 30, 2011, GoPro acquired CineForm. The acquisition included the CineForm 444 video codec used in the film Slumdog Millionaire. The company claimed that the codec "makes HD and 3D editing faster and more convenient without sacrificing image quality". It was incorporated in the company's 3D Hero System shortly after the acquisition. (Reale, Tony (2011-03-30). "GoPro, sports camera manufacturer, acquires CineForm, video compression Software Company". NextWaveDV.com. Retrieved 2011-08-01)

In March 2013, GoPro issued a DMCA takedown notice to website DigitalRev.com, which had posted a review of its product, citing trademark use as a breach of copyright. This notice was retracted 10 days later, citing "erroneous enforcement". (Leonard, Andrew (2013-03-20). "A lesson from GoPro: Don't mess with Reddit". Salon.com. Retrieved 2015-02-20)

On February 29, 2016, GoPro spent \$105 million and acquired two start-ups, namely, Stupeflix and Vemory, for their video editing tools Replay and Splice. (Roettgers, Janko. "GoPro Acquires Stupeflix, Vemory to Build Better Video Editing Software". Variety. Retrieved 2016-03-02).

Product Lines

HERO cameras

Woodman worked on his first camera for two years after founding the company, eventually introducing the GoPro 35mm HERO in September 2004 at San Diego's Action Sports Retailer trade show. In its first year GoPro sold \$150,000 worth of products. In 2006 the company introduced its first Digital HERO, with 10 second video capability, and generated \$800,000 in revenue. The following year GoPro sales quadrupled to \$3.4 million.

In 2014, the company was selling the HERO3+ in editions of different colours. It was capable of filming in 16:9 aspect ratio, supporting 4K UHD video and 12 MP still photographs. The HERO4 was introduced on 24 September 2014.

On September 28th 2017, GoPro released the Hero 6 camera, which claims improved stabilisation over the Hero 5 models and is capable of capturing 4K video in 60 FPS.

GoPro KARMA & GoPro KARMA Grip

The GoPro Karma was GoPro's consumer drone, until its discontinuation in January 2018.

In 2014, GoPro entered into discussions with DJI for a private label model built with the GoPro branding. After the failure of these negotiations, GoPro entered into an agreement with 3D Robotics (3DR) for a similar partnership based on 3DR's flight controllers. 3DR failed to meet their agreed upon timelines. As a result, GoPro took full control of the development process in mid-2015.

Scheduled to be released early 2016, the GoPro Karma project was delayed several times before the GoPro Karma was announced with an introduction date of October 23, 2016. The Karma was released along with newer models of the HERO5 and Session cameras and features a removable handheld stabiliser (gimbal) integrated into the design. After a few customers complained about power failure during operation, GoPro recalled Karma drones and gave customers full refunds.

In February 2017, GoPro re-launched the Karma Drone. However, in January 2018, GoPro Inc. said that it will be cutting more than 20 percent of its global workforce and putting an end to its drone business after a disappointing fourth quarter. The company said it expects sales of about \$340 million, well short of its own previous projection of as much as \$480 million and the average analyst estimate of \$472 million. Their revenue took an \$80 million hit due to discounting for its Karma drones, as well as its Hero line of cameras, over the holiday season.

GoPro Fusion

In November 2017, GoPro launched the Fusion camera, an omnidirectional camera which is capable of recording 360-degree footage. The Fusion was the first GoPro to feature an increased maximum resolution of 5.2K.

Accessories

GoPro produces various mounting accessories for its cameras including a 3-way mount, suction cup, chest harness, jaws-type flexible clamp, dog harness, surfing mount, etc.

Video editing

The company developed GoPro Studio, simple video editing software to edit camera footage. It was reported that GoPro intended to also become a content provider, also with a new app for the HERO5 called GoPro Quik to share, and edit videos easier. You can also edit and shoot photos and videos using the GoPro app released in 2015.

Content company

In April 2014, GoPro was listed by Adweek as one of the "Top 10 Best Brand Channels on YouTube" based on a combination of views, shares, comments and overall engagement. Content is uploaded daily, an additional source of revenue for the company.

As part of its transformation to a media company in 2014, GoPro created additional channels with GoPro content on YouTube, Virgin America, and Xbox Live. This was extended to the PlayStation Network in 2015.

End of the Golden Era

The past couple of years have been a rough ride for GoPro, Inc. GPRO and its troubles are far from ending. The leading manufacturer of the world's most handy camera and related accessories has seen its shares fall almost 34% year to date, underperforming the industry's growth of around 6% by a huge margin.

The company's underperformance, in part, can be attributed to repeated operational stumbles, multiple layoffs, decaying fundamentals and macroeconomic woes. The company has been grappling with sluggish demand for its Hero cameras amid stiff competition from lower-priced action camera alternatives. Moreover, in light of the company's dismal fourth-quarter 2017 results, the management anticipates its revenues to decline further in 2018 and incur a net loss for the full year.

Of late, GoPro's market share has been threatened by lower-cost alternatives from established industry players like Sony Corp. SNE, Nikon Corp. NINOY and new entrants. For instance, the launch of Google clips - which has a 12-megapixel sensor and a 130-degree field-of-view lens - has enabled Alphabet GOOGL to penetrate into capture devices market, thus pushing the level of competition a notch higher. Another such product having features similar to GoPro's Fusion is Sony's action camera RX0. We believe that increasing commoditisation of action cameras is hurting the company's premium brand image, and pressurising prices and margins.

Also, high product concentration risk and product cannibalisation are persistent demand issues, which are likely to drag down the company's top-line growth in coming times, even as it strives to find explore revenue streams.

Price reductions have also affected the top line in recent times, despite strong marketing support for key products. Late in 2017, GoPro slashed prices for the Hero 5 Black and Hero 5 Session cameras. It also cut the price of its latest camera, HERO 6 Black, to \$399 from \$499. The constrained demand and price cuts are likely to impact the top line in the coming quarters as well.

Furthermore, in recent years, the company has struggled with multiple operational stumbles including product recalls and messed up launches. Also, the company is shutting its drone business. Not a long while ago, GoPro had hoped Karma would help revive the company's fortunes and stoke growth for the beleaguered action camera company. Karma witnessed a roller-coaster ride, punctuated mostly by lows rather than highs, thanks to problems like production delays and recall of 2,500 units due to a battery issue.

Will the Stock Rebound Any Time Soon?

GoPro remains committed toward regaining its growth momentum, backed by its camera portfolio, a smooth distribution channel, and interesting products like Fusion. Fusion is a waterproof, mountable 5.2K spherical camera that the company launched last year.

GoPro is focused on intense restructuring, streamlining its supply chain and expanding its market. As a result, its significant investments toward its expansion plans in Asia, China and Japan and counter the aforesaid challenges might take some more time to deliver credible top-line growth.

For 2018, the company has a target to limit operating expenses to below \$400 million compared with \$476 million incurred in 2017. A large part of the reduction can be attributed to the company's decision of exiting its drone business and reducing employee headcount.

The company's turnaround efforts might yield results in the long run. But for now, it appears that investors don't believe GoPro's initiatives can outweigh soft demand and operational weakness that the company is struggling with.

Another factor that ended the golden era is going public. The following points give you insight about the situation:

- **iPhone/Android**

People start replacing GoPro cameras with iPhones & Android phones. Due to excessive involvement of social media, people feel comfortable to upload images on social networking sites through these phones but GoPro require transfer media probably be laptops or computers for sharing.

- **Strategic Focus?**

GoPro's strategic focus moved to Media Company rather than sticking to its roots i.e. making cameras.

- **Got Flanked by True 360 camera**

GoPro is using dual camera to give 360 effect whereas other camera manufacturing companies are using single camera to give that effect. This as a result leads to loss of revenue for GoPro.

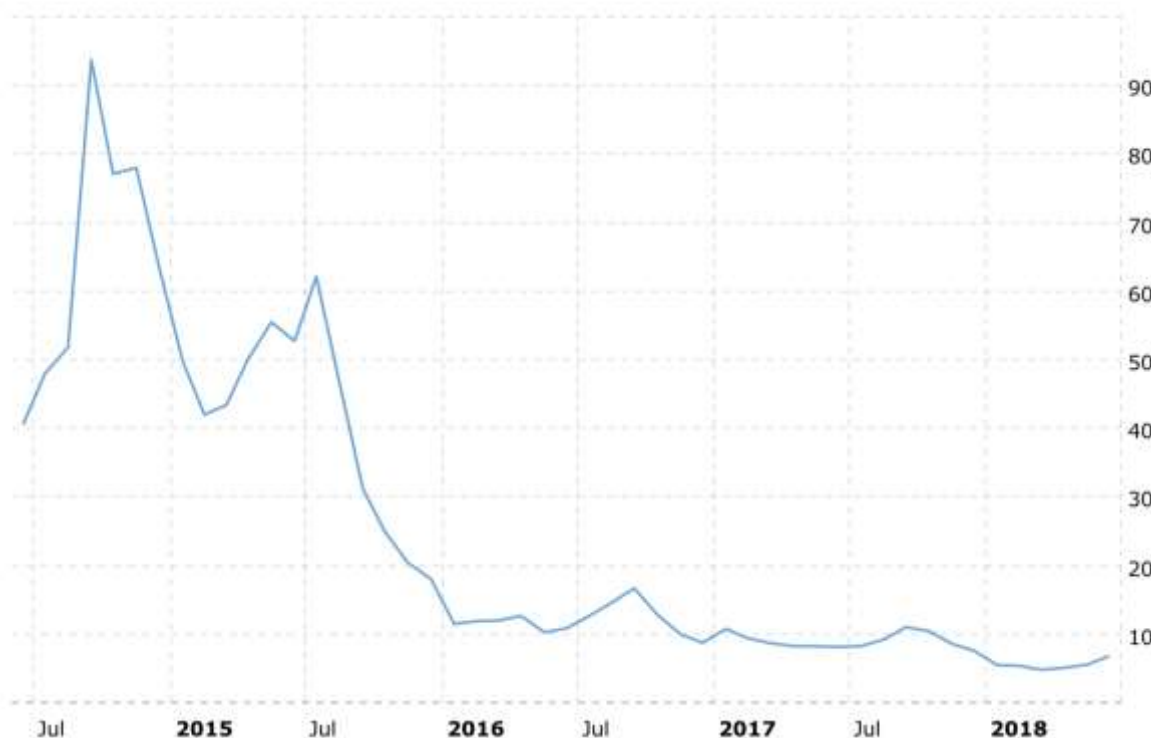


Figure 1: Market Price Per Share of GoPro over the years (<http://www.macrotrends.net/stocks/charts/GPRO/prices/gopro-stock-price-history,28/06/2018> [online])

The X axis and Y axis of the above figure shows years & \$/share respectively. When GoPro's first initial public offer was out, it fetched \$3 billion by quoting \$24/share.

In October 2014, GoPro recorded a peak of \$98/share and raised \$10 billion from its shareholders. After that some of the strategic decisions went wrong and GoPro's share continued to fall till the news of GoPro becoming Media Company were out. Unfortunately GoPro couldn't survive by neglecting its core competences and went for liquidation in January 2018.

Years	Revenue (billions)	Gross Margin (%)	Operating Expenses (millions)	Net Margin (millions)	Growth (%)
2014	\$1.4	45	\$490	\$128	41
2015	\$1.7	42	\$618	\$36	16
2016	\$1.18	39	\$835	-\$419	-27
2017	\$1.18	32	\$548	-\$167	-

Table 1 : Revenue, Operating Expenses & Growth Rate of GoPro over the years

(<http://www.macrotrends.net/stocks/charts/GPRO/revenue/gopro-revenue-net-income-history,28/06/2018>[online])

The above table shows that in compared to 2013, 2014 recorded a growth of 41% in Net Profit. In 2015 Growth Rate declined to 16% in spite of increase in Revenue. The Depreciation in growth rate is only because GoPro spent \$128 millions more on operating expenses which is not at all needed. GoPro should know that he has gone through the golden era and satisfying customers since past 10 years.

Spending millions on advertisements is a wasteful activity. GoPro suffered a loss of \$419 millions in 2016 which reduced the growth rate to 27% due to the spending of \$835 millions on operating expenses in spite of terminating 300 workers. GoPro continued to make losses in 2017 of \$167 millions. The operating expenses reduced to \$548 millions because GoPro terminated 250 workers & Tony Bates in 2017.



Figure 2 : Balance Sheet of GoPro over the years

(<http://www.macrotrends.net/stocks/charts/GPRO/balance-sheet/gopro-assets-liabilities-equity-history,28/06/2018>[online])

Figure 2 shows the quantum of Assets & Liabilities and proposition of Equity Share Capital over the years. The equity share capital marked at its highest in the early 2015 and recorded the share value of \$98/share. The reason

behind it is GoPro showed revenue of \$1.7 billions in 2015 and Shareholders buy shares of a company only if they observe growth in terms of revenue especially for those seeking capital appreciation. GoPro would continue to grow till he has not spent millions on operating expenses. In 2016, when the annual reports of GoPro were out and accelerating growth rate turned into negative, shareholders sold their shares with the anticipation that revenue will fall. With the downfall in its share value, GoPro lost its brand value too in eyes of public.

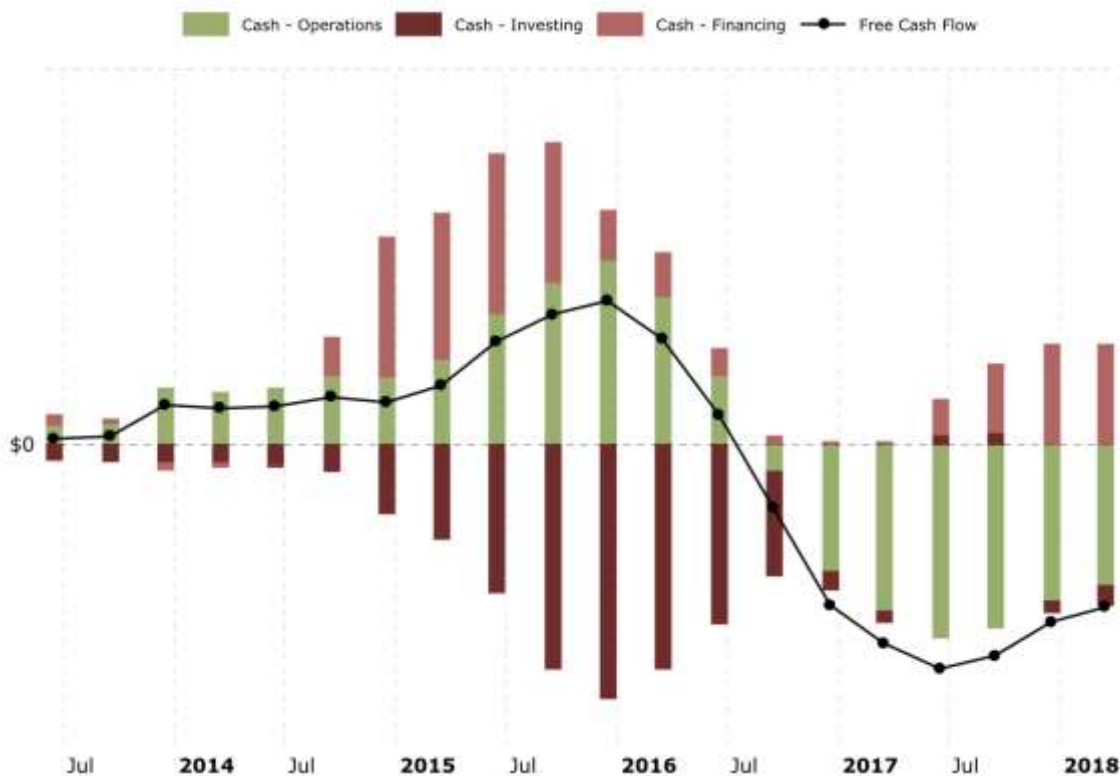


Figure 3 : Cash Flow Statement of GoPro over the years(<http://www.macrotrends.net/stocks/charts/GPRO/cash-flow/gopro-cash-flow-history,28/06/2018>[online])

Nick Woodman started GoPro with \$230,000. His great entrepreneur skills never relied him in fetching capital through borrowed funds. In the year 2014, GoPro's decision to go public raised the proportion of cash flow from financing activities prior to that Nick is utilising his own funds in conducting all operating activities of GoPro. GoPro's financing activities continued to diminish in 2016 due to poor brand image. Spending excessive cash into operating expenses reduced investing activities and flow of cash. Operating activities start to increase from 2014 due to widening of activities starting from going public to Media Company. Activities widespread but couldn't generate revenue which declined investing activity and shifting from private company making professionally quality images to company going public reduced financing activities.

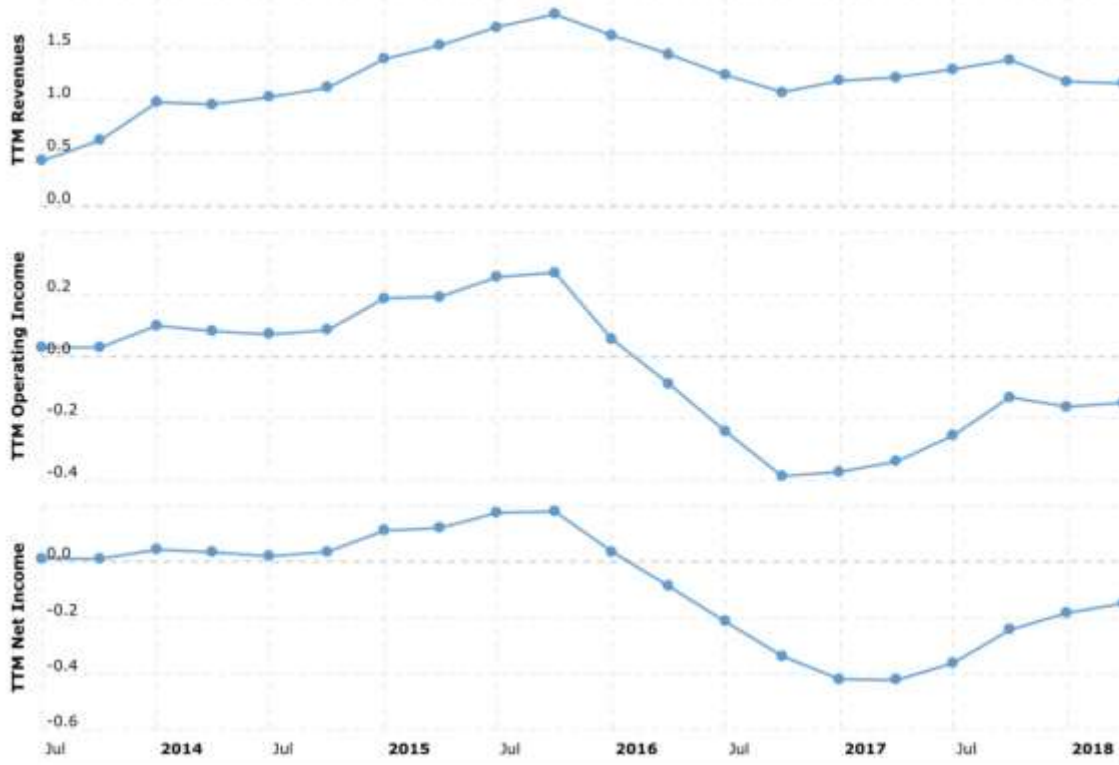


Figure : 4 Historical Revenue, Operating Income & Net Income of GoPro(<http://www.macrotrends.net/stocks/charts/GPRO/revenue/gopro-revenue-net-income-history,28/06/2018>[online])

A Failed Attempt of Corporate Turnaround

From the above graph we can see a slight bulge in the Net Profit of July 2015 that is entirely because GoPro decided to turn into a media company and hired executives from Hulu&HBOsports but this GoPro's strategy of corporate turnaround proved unsuccessful resultant in downfall in company's revenue. GoPro too acquired some of the techno-enriched companies in Austin and Paris but none of them helped in improving the adverse condition and the share went to \$6/share in January 2018 with a net worth of \$840 millions.

The Hero 5 Black camera, which launched in 2016, failed to appeal to consumers this holiday season. GoPro cut the price on Dec. 10, which helped sell-through at the expense of margins. "Despite significant marketing support, we found consumers were reluctant to purchase HERO5 Black at the same price it launched at one year earlier," reads GoPro's press release. The company saw sell-through more than double in the two weeks following the price cut.

The new Hero 6 Black performed as GoPro expected during the holiday quarter, but the company is still slashing the price. The premium model now goes for \$399, down from \$499. Given the concerns about less expensive alternatives eating away at GoPro's action-camera market share, this price cut is not a good development.

GoPro's new spherical camera performed well, but the company is officially abandoning its highest-profile product. The Karma drone once hailed as GoPro's saviour before launching late and suffering a recall, is no more. GoPro will exit the aerial market after selling its remaining Karma inventory. Intense competition and a hostile regulatory environment were cited as factors behind the decision. The badly bungled launch didn't help, either.

Due to the drone-market exit and weak demand, GoPro plans to lay off hundreds of employees. The current workforce of 1,254 employees will be whittled down to fewer than 1,000. This will cut costs, but it's also an indication that GoPro's growth story is dead.

SWOT Analysis of GoPro

Strengths:

- Added with high growth rate
- Having potential and durable quality
- Fine quality digital picture
- Trusted by filmmakers across the world

- Strong competitor in the market
- Have competitive advantage over other competitors

Weaknesses:

- Having dubious profitability in comparison to other competitors
- Hesitant to compete cameras of other companies
- Lazy and unconvinced tax structure
- Depend on small business units, which reluctant in spreading its business around the world
- Still unknown due to limited market exposure
- Still not sure about its competitive market

Opportunities:

- Looks for new acquisitions in the market to spread its market
- Take advantage of the growing economy and spread its products in the market
- It can enhance the growth rates of the product and also increase its profitability
- Exhibits in the global markets to increase sale and exposure of product to new and quickly emerging markets across the world
- It can maintain its income level at the constant increase
- It can venture the capital and attract attention of buyers to its products
- It introduces new products and services at reasonable reason and ensures the quality of their products and services to the clients.

Threats:

- It can face strict government regulations over production and transportation of products
- Faces problems in changes in the price of products as other companies may exhibit their products are highly subsidised rates
- Face competition of products of other companies in new markets
- Strong competition of products in existing markets

GoPro+: A Bang back Outcome of Leap Frog Strategy

In January 2018, GoPro hired JP Morgenfor Liquidating all of its assets and writing off its liabilities. In spite of being open for selling GoPro should subsequently opt for Turnaround followed by Retrenchment Strategy and bring into existence a new private company – GoPro+. GoPro is known for its professionally quality images. People love to click & loved to be clicked by GoPro camera's. He should stick to his core competency and start making great cameras in the name of GoPro+. He must utilise all his technologies and come back with the thing who made him lived the golden era. He must focus more on differentiation aspect and cut down avoidable operating expenses.

Elements for successful Turnaround of are:

- **Change in Top Management**

Top management of GoPro+ must frame effective strategies and must delineate all the efforts of human & financial resources in the successful completion of objectives- To acquire lost market share. GoPro+ must also hire technical competent & specialised employees for its working. GoPro+ must incorporate the concept of Responsibility Accounting in which responsibilities are decentralised into Revenue centre, Cost centre, Profit centre & Investment centre. Revenue centre are responsible for maximising revenue. Cost centre is responsible for minimising cost. Profit centre is totally dependent on the revenue centre & cost centre because if revenues were maximised and cost is minimised then it will result in increase of profit and that profit is further used by investment centre to use it effectively for higher returns.

- **Initial credibility-building activity**

GoPro+ must take actions for building the reputation of the company in the eyes of the customer. GoPro+ must stick to its roots for building credibility amongst the public.

- **Neutralising external pressures**

Effective strategies must be incorporated to neutralise the pressure of competitors and other external forces. GoPro+ must add on features like easy sharing on social media to compete effectively with iPhone & Android. GoPro+ must conduct environmental scanning to identify the most influential external force and frame proactive strategies to treat it as an opportunity and not as a threat. To monitor competitor's

move GoPro+ must use Michael Porter Five Forces Model and look after new entrants, rivalry firms, suppliers bargaining power, buyers bargaining power and substitutes and modify his strategies accordingly.

- **Initial control**

Nick Woodman must initiate control on some of the key success factors of GoPro+. Research & Development, Positioning, Advertising & Channels of Distribution are some of the areas which require his attention. Research & Development must be given due importance because GoPro+ is banging back through differentiation & unique camera features. Since GoPro marked a poor positioning in past few years. He must position himself as improved and with unique features. Selective distribution channel should be selected specifically for film makers, photographers and pocket friendly cameras for general public.

- **Identify quick payoff activities**

Quick payoff activities must be identified to reduce the liabilities at its minimum. GoPro+ must fasten its operating cycle so that debts get paid off easily. Working capital management must be done with due care so that regular activities must not get hampered.

- **Quick cost reduction**

Budgetary Control plays an important part in cost control & reduction. It also helps in increasing the efficiency of management. Sales budget, Production budget, cash budget, expenses budget must be made so that variance can be calculated. GoPro+ must reduce adverse variance and promote favourable variance.

- **Revenue generation**

GoPro+ can re-generate the company's revenue by sticking to its core competences – making professionally quality images. He should focus more on generating wealth than profit. GoPro+ must also retain a part of revenue for future growth and expansion.

- **Liquidation of Non-Performing Assets for generating cash**

GoPro+ must liquidate all its Non-Performing Assets to generate adequate cash to pay off its liabilities. GoPro+ must utilise cash for operating & investing activities to get higher returns.

- **Mobilisation of the organisation**

GoPro+ can also mobilise its organisation for better organisational culture & values.

- **Better Internal coordination**

Coordination is the essence of effective strategic management. All departments must coordinate properly to fulfil the objectives of the organisation. GoPro+ must coordinate departments for effective strategy implementation and to avoid loopholes in their functioning.

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