

# Knowing Your Industry

## The Picture Industry in Facts & Figures

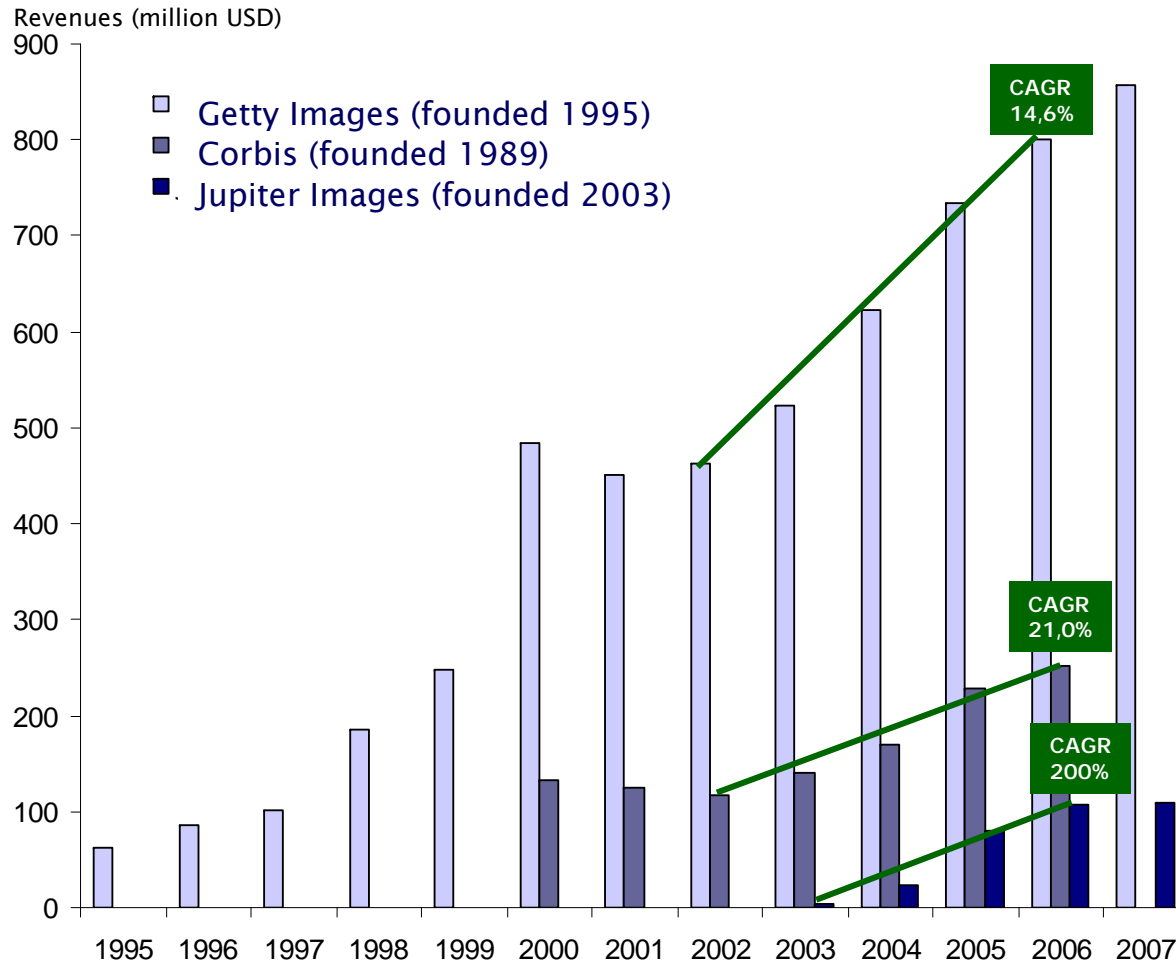
1. Evolution of the Industry
2. The Alliance Disease
3. Industry Survey 2008

Johannes Glückler © Professor of Economic Geography © Catholic University Eichstätt-Ingolstadt  
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# Evolution of the industry

Phase	Key events
Foundation	<ul style="list-style-type: none"> <li>▪ 1848 invention of photography (Louis Daguerre, Fox Talbot)</li> <li>▪ First generation of agencies in the 1920's in Europe &amp; U.S.</li> <li>▪ Lead firms: <i>Keystone, Dephot, Free Photographers Guild</i></li> </ul>
Diversification	<ul style="list-style-type: none"> <li>▪ Oil crisis in the 1970s: Expansion into commercial photography and advertising</li> <li>▪ Innovation: picture catalogue, sophistication of licensing</li> <li>▪ Lead firms: <i>The Image Bank, Tony Stone</i></li> </ul>
Digitization	<ul style="list-style-type: none"> <li>▪ 1995: "I can't understand why any picture library can consider going on-line" (Sal Shuel, BAPLA)</li> <li>▪ Innovation: searchable online picture archives</li> <li>▪ 1998: Getty Images sets up e-commerce platform and increases online sales from 14% to over 90% in 2003 (to 100% in 2008)</li> <li>▪ Lead firms: <i>Getty Images, Corbis</i></li> </ul>
Commodification part I	<ul style="list-style-type: none"> <li>▪ New License model: royalty-free photography in 1991</li> <li>▪ Innovation: Unlimited usage right, standardized pricing, market share 7% in Europe, 15% in the USA (2000)</li> <li>▪ Lead firm: <i>PhotoDisc</i> (acquired by Getty in 1998)</li> </ul>
Commodification part II	<ul style="list-style-type: none"> <li>▪ New License model: Microstock in 2000</li> <li>▪ Innovation: mass commodification of imagery, user-generated content</li> <li>▪ Lead firm: <i>iStockPhotos</i> (acquired by Getty in 2006 )</li> </ul>

# Revenue development of the market leaders



Source: Annual Reports, Business Press

- Global stock photo market

- 1990: 2 billion US\$
- 2005: 2 billion US\$  
(Financial Times Deutschland 21.01.2005)

- Hypothesis: without RF the market would have grown up to 6 billion US\$ (luminous)

- Market share of the big three: > 50%

# Royalty free – Virtualization of customer relations

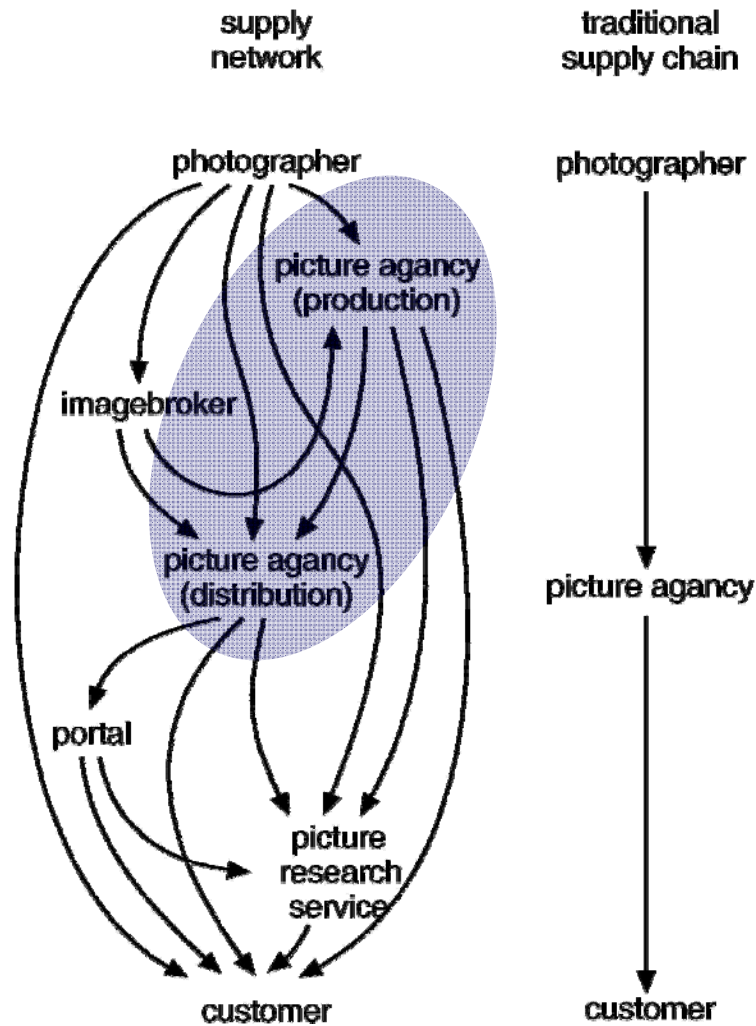
	Rights Managed	Royalty Free
Mean price per image (US\$)	585 (2005)	235 (2005)
Share in revenues 2005	43%	37%
Share in revenues 2002	56%	27%
margin 2003	66%	78%
margin 2002	66%	80%

Getty Images, annual reports 2003, 2005, 2006

„Getty reported a 5.2 percent year-over-year decline in revenue from rights-managed imagery during the first quarter of 2007“

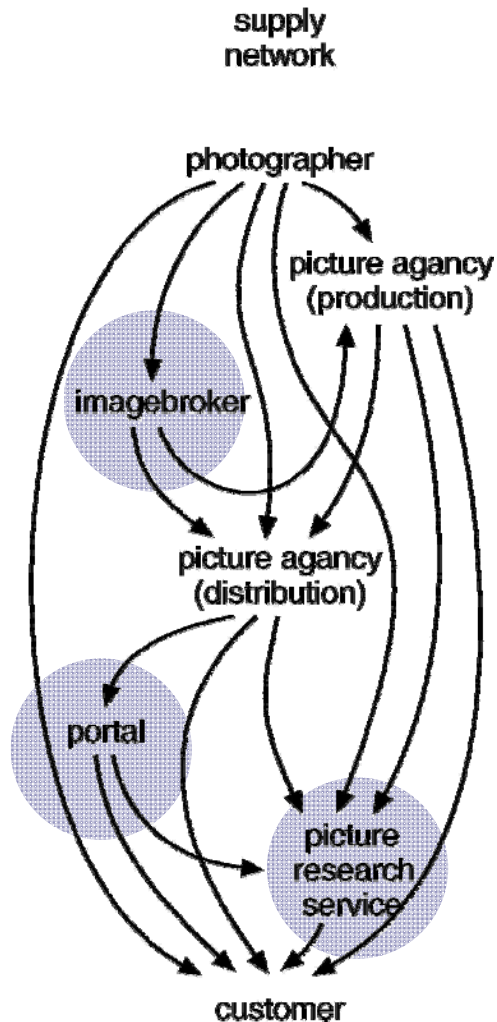
- Royalty Free
  - Single royalty payment for unconditional use
- Organizational innovation
  - Transfer from the music industry at the early 1990s
  - *PhotoDisc* pioneers royalty free market offering in Seattle
- Expansion:
  - 7% Europe, 15% USA (2000)
  - 20% Europe, 30% USA (Czichon 2007)
  - Example of Jupiter Images: share of RM in overall revenues < 15%

# Reorganization 1: Specialization on core competencies



- The production agency
  - USP: the ‚picture collection‘
  - Market intelligence, strategic production planning and production of new imagery
  - Sales partnerships even within domestic markets (up to 70% of revenues with sales partners)
- The sales agency
  - USP: control on market access
  - Customer relations, visibility and mass imagery
  - Partnerships for stock procurement through production agencies

# Reorganization 2: Intermediation through navigators



## Technology: Internet-Portals

- USP: Visibility and traffic
- Agencies use portals to increase visibility and develop brands.
- Different organizational forms: search engines, portals (e.g. Alamy), subscription systems (e.g. APIS)
- Pluralization of distribution channels

## Expert Service: Picture search

- USP: expertise customer tailored creative service to media clients
- Commission payment by picture provider, free service for customer.
- Well received in the German media world

# Technology drives competition: the Alamy experience

## Total Sales Growth

Year	Sales (USD)
2001	129,440
2002	897,844
2003	4,363,774
2004	12,225,538
2005	18,863,505
2006	24,237,364
2007	29,254,226



- The business model
  - Innovation 1: the unedited collection
  - Innovation 2: technology
  - Fairness: Owners earn the majority share of royalties
- In the two years between 2005 and 2007 the number of photographers submitting pictures more than doubled
- Alamy has now more than 12 million digital photos and receives far over a million new images per quarter
  - From 220 agencies
  - From over 5,000 photographers
- 60% of the image stock are rights-managed photos

# Royalty Free 2.0 – Mircopayment/Microstock

*"For Getty, entry into the microstock business presents the risk of cannibalization of its higher price business by its lower priced business as this new product attracts customers away from its mature product."*

*Chris Ferrone (About the Image)*

*"We're excited to enter the microstock space, and we view it as an attractive, complementary business given our assets and expertise. We plan on building a substantial, fast-growing and profitable business in this category."*

*(Gary Shenk, Corbis President)*

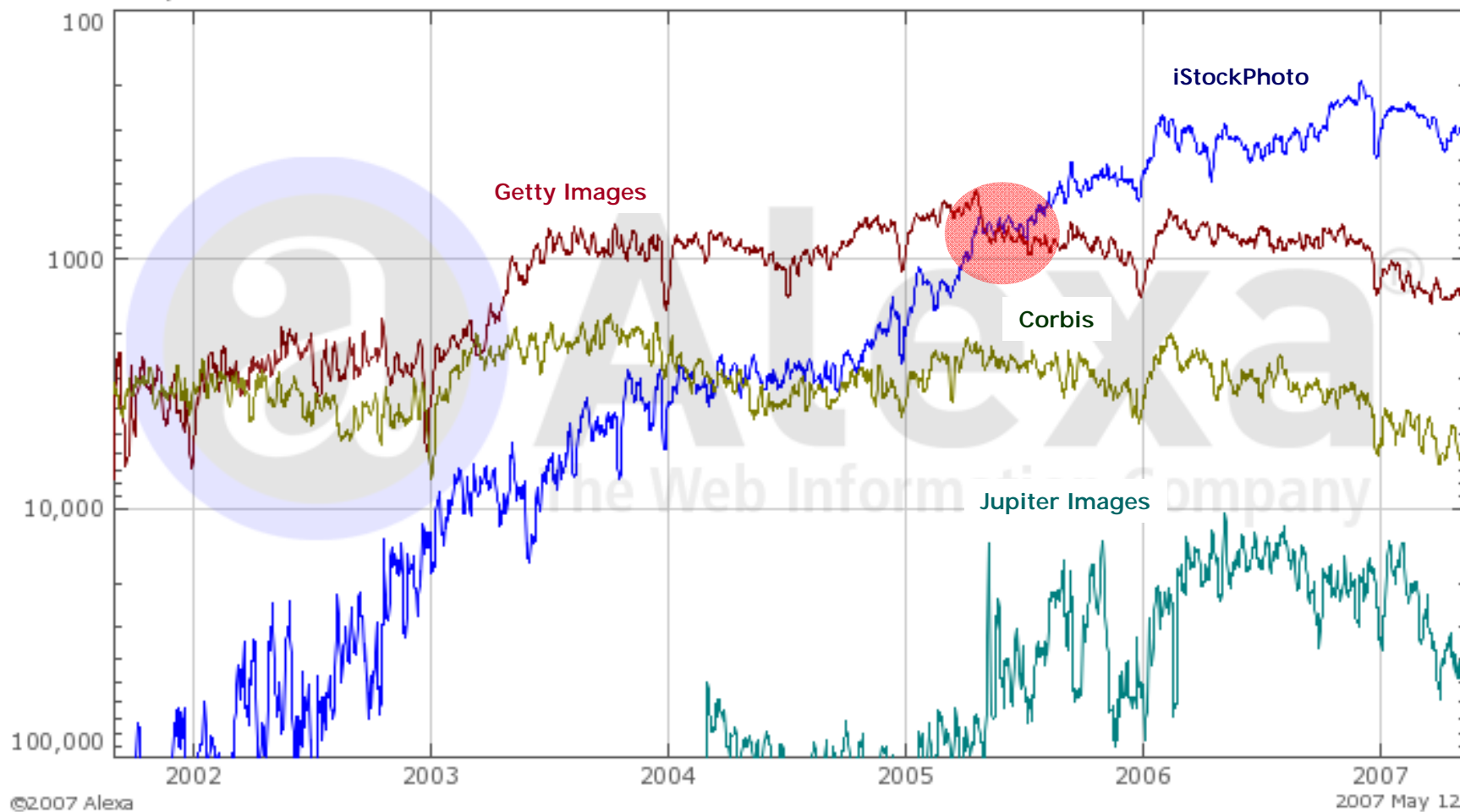
- Getty Images enters 2006
  - Bruce Livingston founds iStockphoto in 2000 (CAN),
  - 23.000 photographers supply photos to the agency
  - 1 Mio. registered users
  - Getty buys iStockphoto for 50 Mio. US\$.  
(Photodisc 160 Mio US\$, Image Bank 190 Mio. US\$)
- Corbis enters 2006
  - Strategic entry to develop the market segment.
- Jupiter Images enters 2006
  - Minority ownership of Hungary based HAAP Media
  - Stock.xchnng (250.000 user created free images, 0.5 Mio. registered users)
  - Stockxpert.com (1 US\$ per image)



# Web prominence as a competitive edge

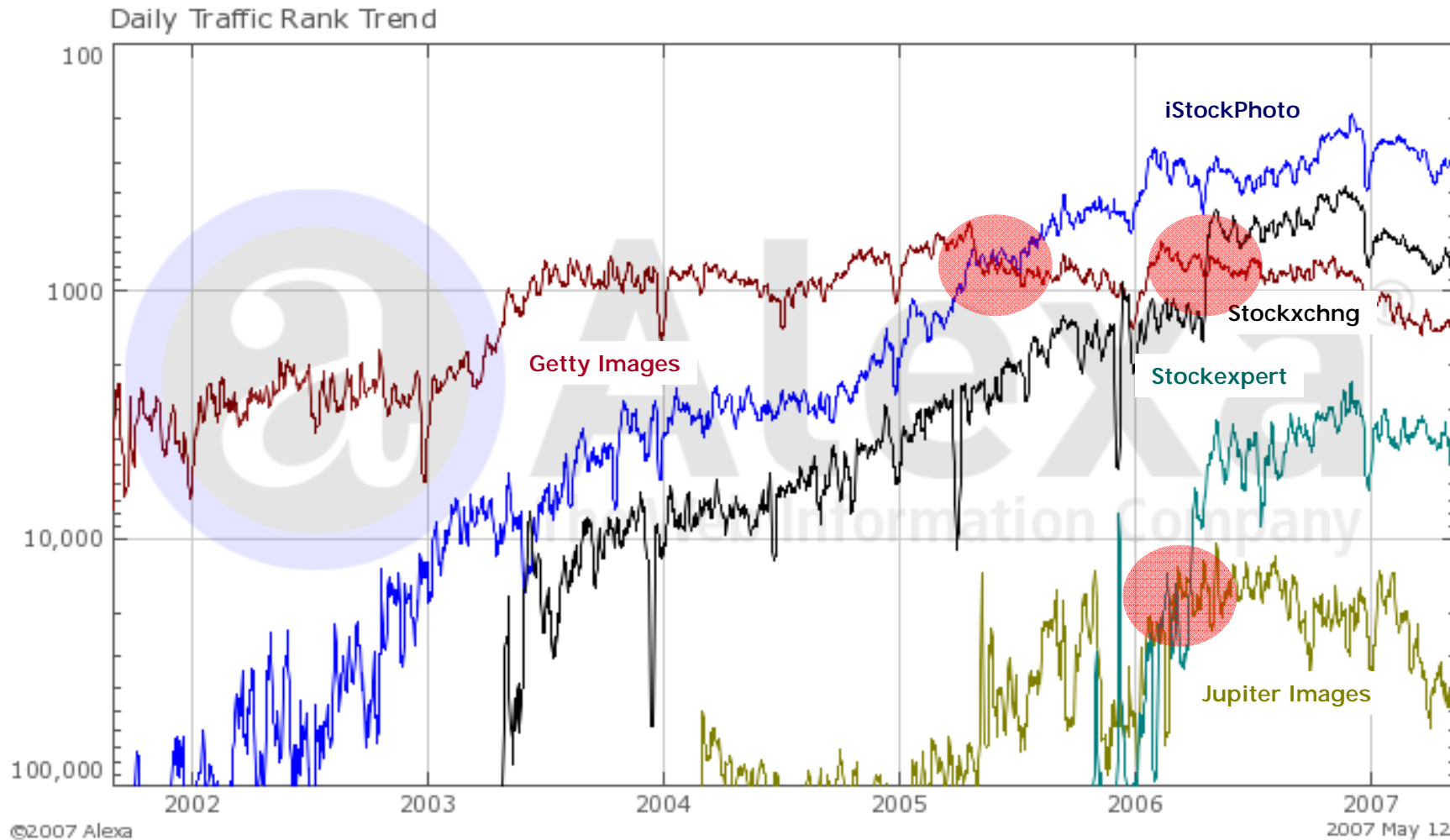
The daily traffic rank reflects the traffic to the site based on data for a single day. the rank of a site reflects both the number of users who visit that site as well as the number of pages on the site viewed by those users

Daily Traffic Rank Trend



# Web prominence as a competitive edge

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# Getty Images Inc

**SOLD!**



2008/Q1 net earnings of \$23.8 million down 37% from \$38 million during the same quarter last year

- In March 2008, the private equity firm Hellman & Friedman buys Getty for £1.2 billion.
- The stock picture agency will be delisted from the New York Stock Exchange. Mark Getty will keep his 15% share in the firm
- Klein expects growth to continue organically, especially in the 'user-generated' space (i.e. non-commissioned imagery). Istockphoto is believed to be the most profitable part of the company.
- Business analysts: The stock imagery market shifts from single to multimedia. The next business model succeeds if it has a technical infrastructure that would be able to licence any content (photography, audio or videos).

*„The employees and offices will stay the same. It's just a change of ownership. Hellman & Friedman are not in the imaging business, so they won't integrate us with any other companies and they won't shut us down.“*  
Jonathon Klein, CEO

vs.

*“This deal affects the wider stock market” [...] It's another systemic change. The market will either continue to expand with an increasing number of players, or it could retract itself with more consolidation among the larger players“*  
Dan Heller, Analyst

# The next step...

## Micropayment, Look Out . . .

*Stock Asylum Staff Report  
May 11, 2007*

### Free high-quality photos for minor uses?

Well, not yet. But this is one possible result of an experiment SuperStock will launch with Pixsy, a web-based search engine that aggregates images from a number of sources.

The two companies soon will introduce three targeted web sites featuring SuperStock images. When the sites launch in a few weeks, they will be for viewing images only.

But, with these new sites, SuperStock clearly is considering the possibility that third-party advertising could replace licensing fees usually paid by image users who want photos for modest applications like personal web sites and PowerPoint presentations.



If the experiment goes that far, SuperStock could undercut even the micropayment web sites, which charge very low fees for royalty-free photos produced by amateur photographers and entry-level professionals.

SuperStock would be pulling images from its collection of 1.4 million images, most of which were produced by professional stock shooters.

- SuperStock operates the picture search engine Pixsy.
- Strategy: to replace royalty payments with third party advertising.
- Consequence: Free imagery, cannibalization of the Micro payment segment
- State: experimental phase

# Latest trends and expectations

“Just look at your TV schedule to understand what I mean; **nine hundred channels but nothing worth watching**. Can YouTube videos feed the cultural needs of a civilized society?” (Zave Smith)

“the **role of technology**, and how it will likely impact buyer behavior, will drive change in a significant way.” (Patrick Donehue, PACA)

“buy it cheap or make it special” (Haim Ariav)

“The emergence in the 1990’s of a few huge stock photo corporations resulted from forward-looking business persons seeing a disparate industry where consolidation, supported and enhanced by new technologies, would allow for more **efficiency**. Getty’s astounding growth and success through 2005 affirms that vision.” (Chris Ferrone, abouttheimage.com)

“the **need for stock imagery has increased dramatically** with the introduction of websites, blogs, newsletters, and other outlets that did not exist ten years ago” (Oleg Tscheltzoff, Fotolia)

“One trend that I am starting to notice is that distributors are starting to treat their best photographers with respect again. They are realizing that without great content, the best sales force in the world will come home with empty pockets” (Zave Smith)

“The industry stock photographers face will become less cohesive as **more innovations emerge**, making business **strategy more complicated**. A successful career in stock photography has **always demanded a combination of creative and business talent**.” (Chris Ferrone, abouttheimage.com)

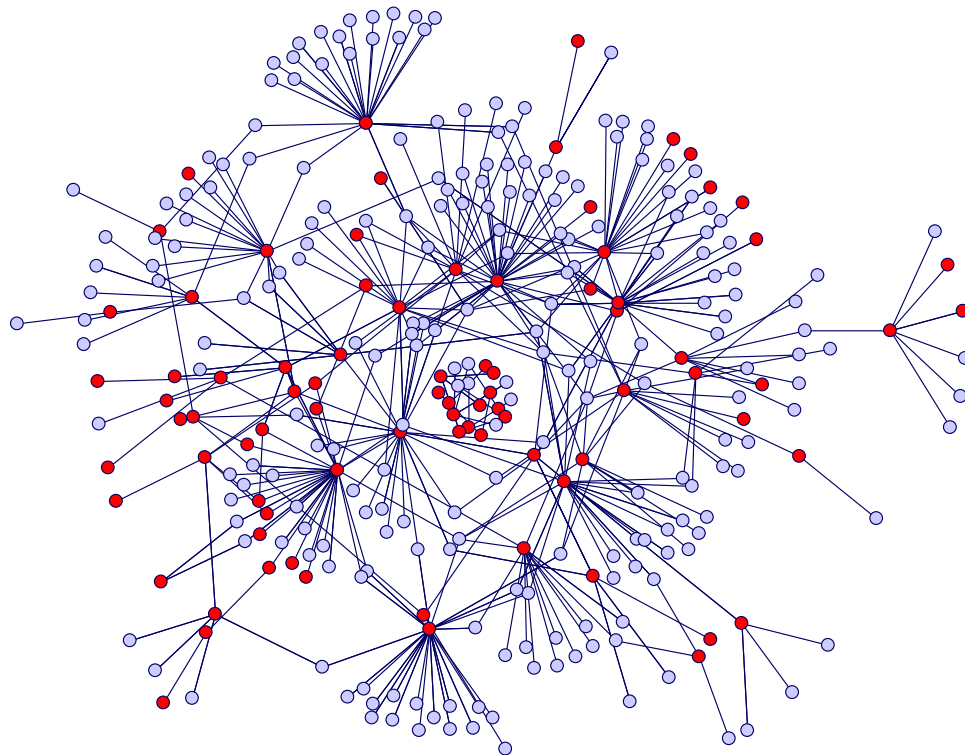
“Success will depend on whether image sellers are willing to **look to the future with open minds rather than being slaves to the status quo**. For those who are willing to address all these issues sales can get better.” (Jim Pickerell, Selling Stock)

# The alliance disease

Analyzing domestic sales partnerships in Germany

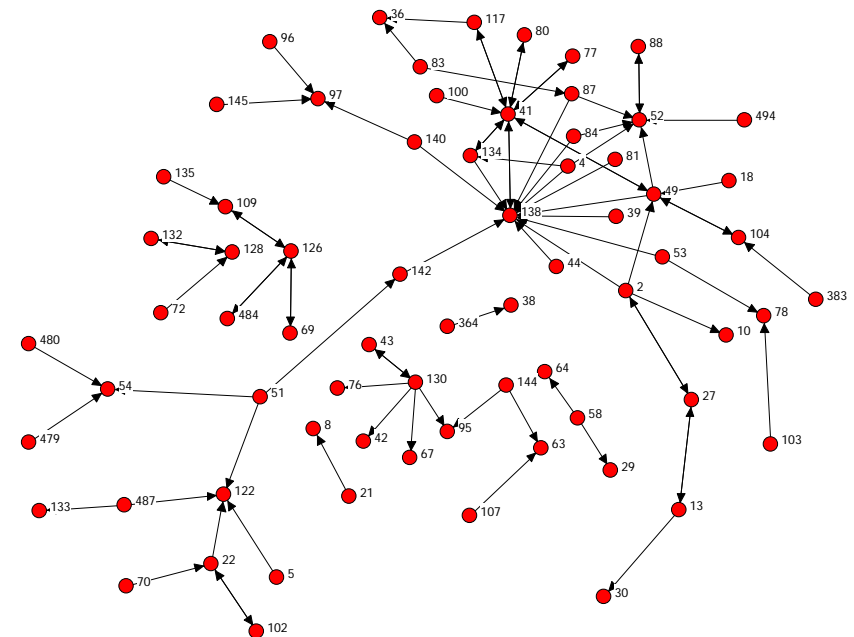
# Alliance network of picture agencies in Germany, 2005

Alliance network of German based agencies  
N = 314 picture agencies



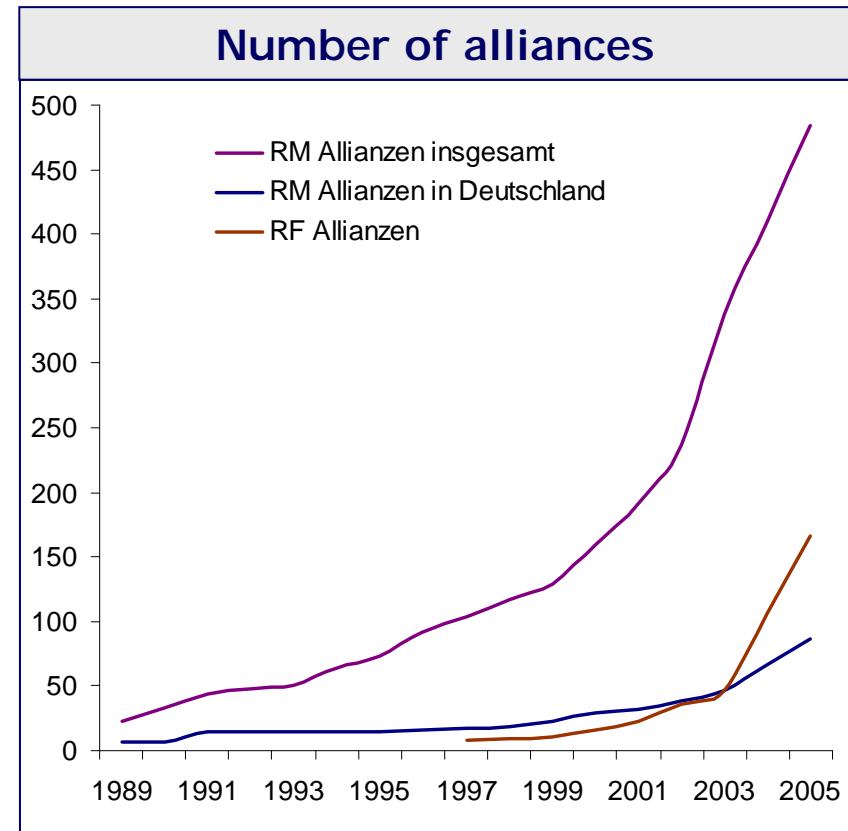
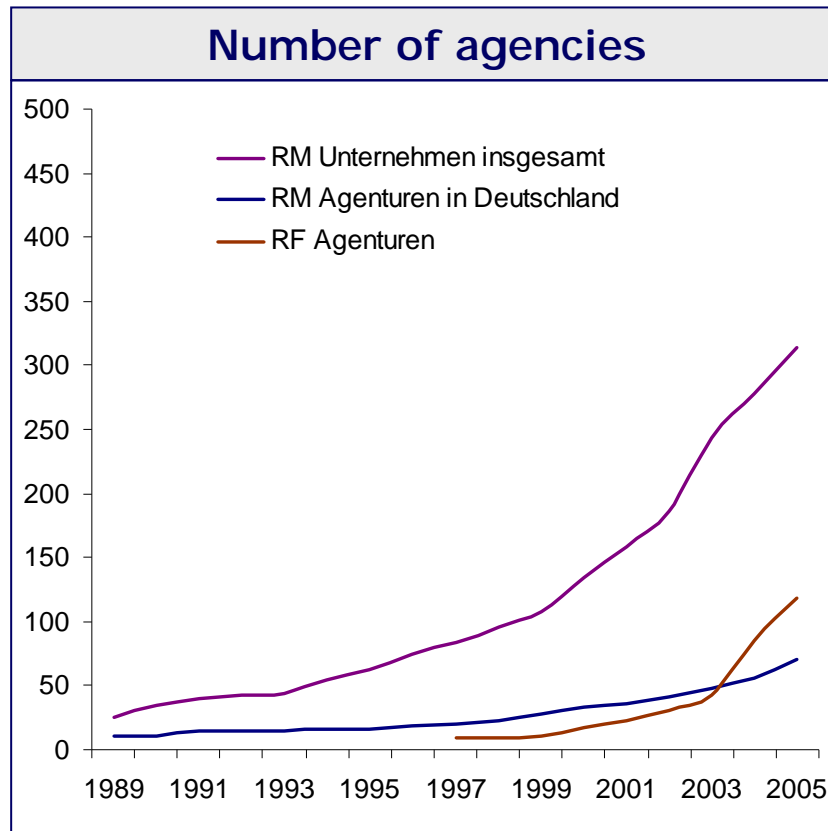
blue = international  
red = Germany

Domestic alliance network in Germany  
N = 70 picture agencies



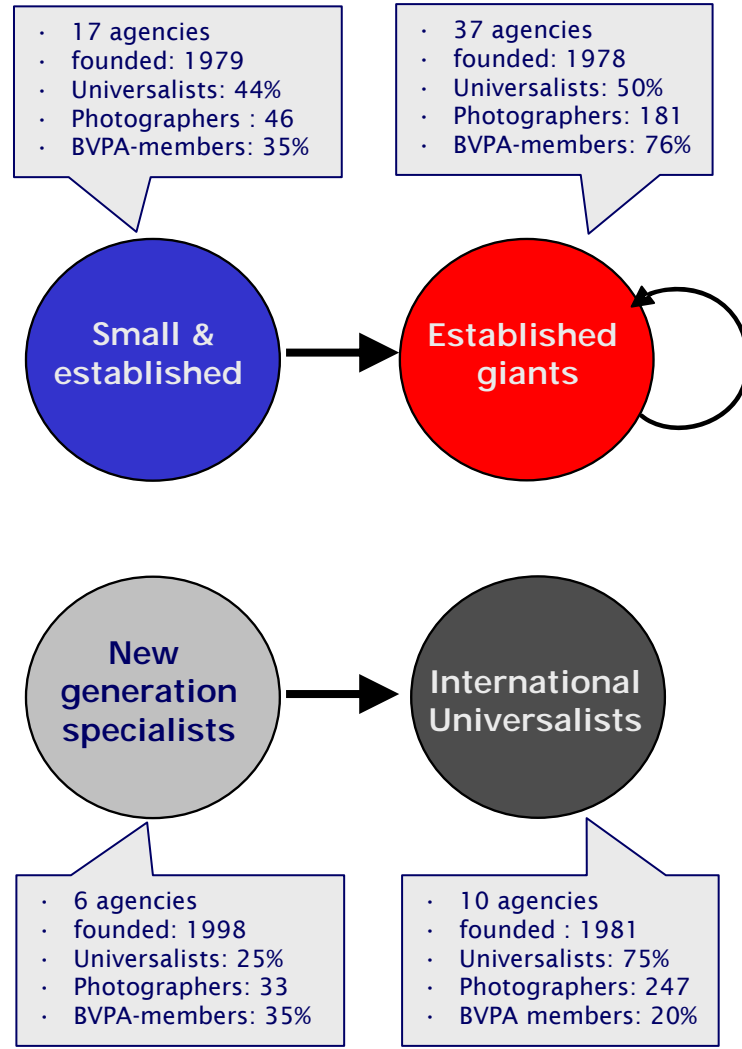
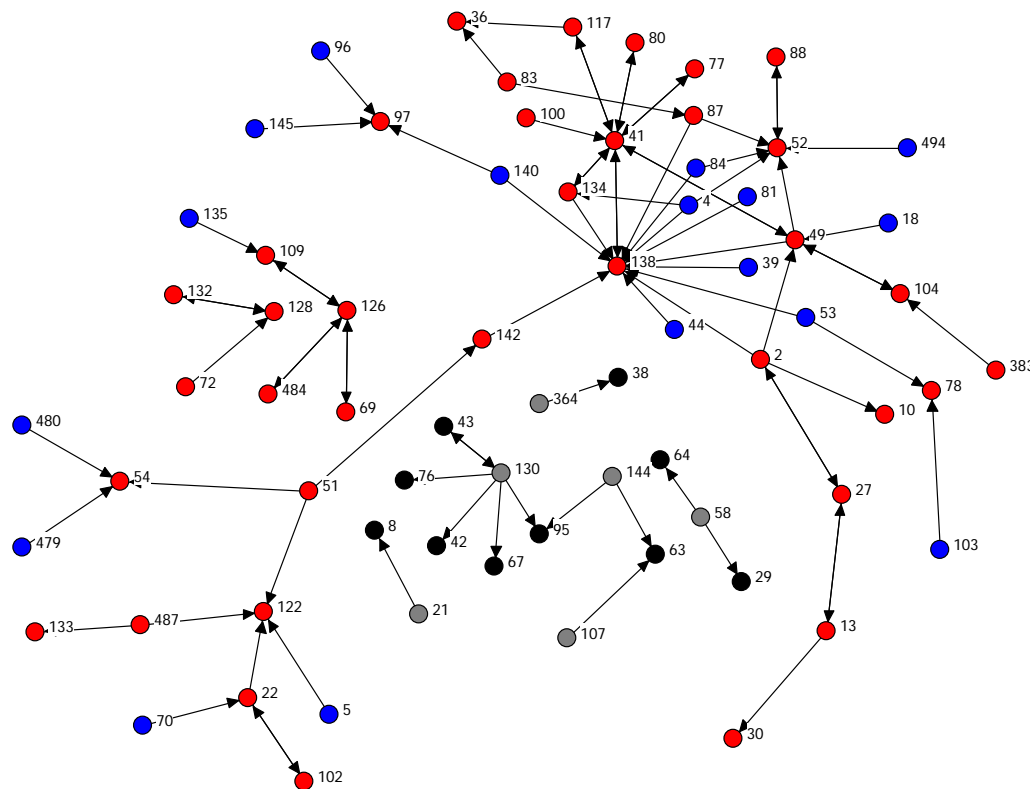
# Growth of network size and number of alliances

(1989-2005)





# Network strategies – hypergraph analysis



# Sales partnership: yes or no?

	Advantages	Disadvantages
give	<ul style="list-style-type: none"> <li>• Focus on the product (Collections) and on its development</li> <li>• Multiplication of sales channels at lower marketing cost</li> <li>• Specialization</li> </ul>	<ul style="list-style-type: none"> <li>• Losses from redistribution of income from royalties</li> <li>• Loss of market access, distance to the customer</li> <li>• Increasing dependence on distribution network</li> <li>• New competition in production</li> </ul>
take	<ul style="list-style-type: none"> <li>• Increase of image stock (scale)</li> <li>• Complementarities of image stock (diversity)</li> <li>• Actuality of image stock</li> <li>• Control of market access at lower production cost (keywording, scanning)</li> </ul>	<ul style="list-style-type: none"> <li>• Overlap and redundancy in image stocks between competitors,</li> <li>• price competition</li> <li>• Loss of uniqueness</li> <li>• Threat to agency profile and market reputation</li> </ul>