

PROPOSED NEW STOCK PHOTOGRAPHY BUSINESS MODEL

By: Jim Pickerell

For more information about what's
happening in the StockPhoto Industry
check out **www.selling-stock.com**

For subscription information email:
info@selling-stock.com

Developing A New Business Model

Still stock photography needs a new business model that combines the best features of each of the existing models – RM, RR, RF, Subscription and Microstock – into a system that enables all images to be easily licensed for any use whatsoever, and each use priced based on the *value received by the customer*. To accomplish this, many advocates of the current models will need to give up some long held beliefs. In our rapidly changing world, hanging onto these old ideas could be a prescription for disaster.

In order to outline my thoughts relative to such a new model it is necessary to come to some general agreement on several of the industry's fundamental issues. Below I'll briefly outline a few issues that I think are important, but are often forgotten or overlooked. Then in the next few days I'll explore in more detail how each will impact the stock photo business in the future.

I encourage you to comment on any of these thoughts, particularly if you disagree. If my view of these issues is flawed then conclusions based on them will certainly be flawed.

Issue 1 – Amateurs - Technological advances have made it possible for amateurs to make their images available for commercial uses.

Issue 2 – Customer Growth - There has been an explosion of customers who want to use imagery, but the majority of these new customers have very small budgets for photography. Meanwhile, sales to traditional stock photo customers have been sluggish for some time and there are signs the needs of these customers will decline.

Issue 3 – Professional or Amateur – The fees paid for commercial use of a stock photo should be the same for an amateur as for a professional.

Issue 4 – Reasonable Price - Commercial users have no right to expect to pay nothing for photos that provide them with significant economic benefit. In fact, most recognize that they should pay a “reasonable price” for the pictures they need. But, reasonableness is based on the intended use of the picture, not a specific fixed price regardless of how the image will be used. Some customers can justify paying much more than others given the use they intend to make of the image.

Issue 5 – Basing price on the size of a digital file delivered is extremely unfair to the customer, as well as the seller. File size has almost no relationship to how an image will eventually be used, or the value received the customer will receive from its usage.

Issue 6 – The explosion of growth in content means the average return per image (RPI) will fall. However, it is no less expensive to produce images than it used to be.

Issue 7 – The only reason for pricing something below the cost of production is a reasonable assurance that through multiple use enough income will be generated to cover the cost of production and provide a profit.

Issue 8 – Simple System - Buyers want a simple, easy to use and understand pricing system that allows them to use any image they can find at a price they can afford.

Issue 9 - Is it all about the customer? Customers will always want more for less, but at some point there has to be enough revenue for the producer to justify continued production.

After I've worked through the discussion on the above points I'll get on to outlining in Chapter 2 a possible new business model that could make all images available for any use and still maintain that important element -- simplicity.

New Business Model – Issue 1

Issue 1 – Amateurs - Technological advances have made it possible for amateurs to make their images available for commercial uses.

Webster's defines amateur as: "one who does something for pleasure, not for money" and, "one who is somewhat unskilled." For our purposes, I've got a few problems with this definition. The prime motivation of the amateur may be pleasure, but in most cases the amateur is also willing to accept money. And the amount of money he gets often has a direct relationship to the pleasure he gets, not only because of what he can do with that money, but because it is an acknowledgement of the regard the public has for his image.

The concept that the amateur photographer is "somewhat unskilled" doesn't seem to me to hold true, or be important. I have seen many pictures created by amateurs that are much more creative and artistic in terms of the idea and concept for the photo than similar pictures produced by people attempting to make their full time living from photography. In many cases the most important ingredient in a good picture is a rapport with the subject and being in the right place at the right time. At that point, anyone – amateur or professional -- who has good equipment and is reasonably skilled in using it is likely to produce a good picture.

Webster's defines a professional as someone who is,

“engaged in a specified occupation for pay”. By this definition the professional could be taking pictures for the purpose of receiving pay, but might not be earning his full living from this endeavor. It seems to me the key difference between the amateur and the professional is that the amateur is NOT trying to support himself from the money earned taking pictures and for the professional the money earned from stock is an important element of his total income. However, it is also important to keep in mind that many “professional” stock photographers are not earning their total income from the licensing of stock images.

Given these definitions we can now move on to the fact that amateurs will be aggressively competing with professionals from now on. There is no way to stop or slow down the number of new amateurs entering the market.

I suppose, at some point, all the people with cameras will be making their images available for commercial users to consider and at that point there may be a leveling off or new entrants. But at the moment there is no indication that the growth in numbers of amateurs entering the market is slowing. It is also important to recognize that there will be a huge number of amateur images competing with the relatively few produced by professionals and the proportion of amateur images will continue to increase.

There are certain subject areas where the amateur competition will be much more intense than others. There will be a higher percentage of amateur images relative to professional in categories such as: scenics, nature, wildlife, travel, still lifes. In those subject areas that require the use of models or complex lighting there may not be quite as high a percentage of amateur produced images relative to professional. But, many of the people selling pictures in the microstock environment are showing a lot of skill at using lighting and virtually all are getting good model releases when they take pictures of people.

New Business Model – Issue 2

Issue 2 – Customer Growth - There has been an explosion of customers who want to use imagery, but the majority of these new customers have very small budgets for photography. Meanwhile, sales to traditional stock photo customers have been sluggish for some time and there are signs the needs of these customers will decline.

There is dramatic customer growth among micropayment users. iStockphoto's statistics shows a dramatic increase in customers quarter by quarter. Oleg Tscheltzoff of Fotolia claims revenue has been growing 10% a month for over 18 months and he sees no end to this growth trend in sight.

On the other hand, my examination of the traditional industry indicates that printed products (the core users of still imagery) will experience a steady decline with no likelihood of a turnaround. To understand why the needs of traditional stock photo customers will decline it is important to review three of my recent articles. The are:

“Are You Ready For A Steady Decline?”

April 11, 2007

“Getty Dramatically Lowers Prices For Web Use”

August 27,2007

“Prediction: RF Images Sold By Microstock Portals”

August 30, 2007

Are You Ready For A Steady Decline?

If you want to continue to take pictures for a living, it's time to start learning to shoot video. Why? because newspapers and magazines, the life blood of professional still photographers, are beginning to move away from print and toward online. Once online offerings have been established, video and sound become more appealing and a better way to tell stories than with still images. There is already movement in that direction and it's a trend that can only increase.

It's not only editorial photographers that need to be concerned, but advertising photographers, as well, if they shoot images that are used in print publications. There will be fewer ad pages in the publications that survive.

Many in the stock photo business want to believe that newspapers and magazines are such an important part of our culture and the way we receive information that they will always be with us. Thus, there is no reason for concern. I agree that print publications will not disappear completely, or overnight, but consider a few facts.

There are a steady stream of stories about newspapers and magazines losing readership and advertising. Some publications are folding, but almost every one is much less profitable than it was a few years ago.

According to Dave Morgan of Online Spin, ad revenue in most large newspaper markets is expected to drop 3% to 5% per year for the next five years. If we take away papers that are dumped on schools, hotels and in free trials, paid newspaper circulation in the U.S. is expected to drop 3% to 7% per year

over the next five years.

In 2006 The Washington Post lost 3% of its readers, 4% of its ad revenue and 14% of its classified recruitment ad revenues - and these revenues fell almost twice as steeply in the 4th quarter as in previous quarters indicating steeper declines ahead. While ad revenues on www.washingtonpost.com are growing at a substantial rate the web operation generated only 14.5% of total Washington Post ad revenue in 2006.

In 1950 on average every household in American bought 1.23 newspapers per day. By 1990 only 67% of households bought a newspaper and by 2000 it was down to 53%.

The problem is not just in the U.S. The most recent figures available from the World Association of Newspapers showed that daily paid newspapers in the European Union saw a 0.61 percent drop in circulation in 2005 and a 5.26 percent fall over the five years through 2005. However it is not just the fall in circulation that is the problem. As costs rise, advertisers have to pay more to reach fewer readers and many advertisers are saying enough is enough and looking for other ways to get their message to consumers.

Statistics show that people are not spending as much of their free time reading publications as they have in the past. They spend a lot more time watching TV (video and sound), getting information online and playing games.

And if that's not enough, consider what Warren Buffet, the world's second richest man has to say. For more than 15 years he has argued that the newspaper business has a declining growth potential. In his recent annual letter to shareholders he pointed out that the young are getting their information from the internet and the old - the ones who read newspapers - are going to their graves.

Advertisers pay for audience - The Right Audience

Print journalism can not exist without advertising. There are very few publications, other than some very expensive scholarly ones that are supported entirely by subscription fees. Most print publications are useful only as long as they are an effective tool for advertisers.

Readers never look at or read the vast majority of the content (including ads) in print publications. There are at least two factors that come into play here. One is time. There are many more demands on a reader's time than there used to be. Also each reader's interests are narrow at any moment in their lifetime — and getting narrower in relation to total information available. In an effort to supply something that will be of interest to everyone publishers try to put a little bit of everything into their publication. The end result is not enough of anything to satisfy the customer. This disconnect makes it increasingly unlikely that newspapers and magazines will help advertisers achieve their goal of getting their message to potential customers in a cost effective way.

What readers want is a summary of information that is of interest to them at the moment — and the ability to drill down when the summary points to something of greater interest. They are not interested in a broad brush of information that someone thinks they “should” be interested in, but in fact is of absolutely no interest to them.

Young people are much more inclined to get information on the net and they want it faster. The morning newspaper is publishing yesterday's news - the same news the reader saw on TV the night before. The Internet provides news and information throughout the day.

The Dallas Morning News has noticed that the peak period for traffic on its web site is between 8am and 4pm. People are getting their news while they are at work after they have received their morning newspaper (with yesterday's news) and

before the nightly news comes on.

Advertisers are looking for ways to get better value for their advertising dollars. In general, they are decreasing print ad budgets and pumping more money into online because new search-engine marketing tools allow them to drill down more precisely to potential customers who are really interested in buying their goods and services. The Internet also allows them to tell their story with motion and sound.

Most print publications will eventually die due to the huge costs of printing and distribution. And with the Internet these costs are eliminated. The product is available instantly as soon as the story is produced. Eventually, the Internet will provide readers with ways to quickly locate stories they want to read or refer to, and print out anything they don't want to read on the monitor. In many instances this functionality already exists and it can only get better.

With the Internet there are no mailing or shipping costs. Printing costs if there are any are fully absorbed by the reader rather than the publisher. (As I write this, I'm printing out a 260 page report that I want to examine and mark up in some detail. The report will be printed out in less time than it takes me to write one page.)

While newspapers may be hit first and hardest, many magazines are also getting thinner, or folding. Think about the recent folding of Meredith Corporation's Child magazine. The magazine had a circulation of 740,534 in the last half of 2006, but that was an 18.5% decrease from the previous year. Advertising had fallen 14.4%. Publications may have big circulations and still fail because the costs are overwhelming.

Meredith is launching a web site in July that will have the Child content along with that of Parents, American Baby and Family Circle. Once a publication is online it makes more sense to use video imagery rather than stills to tell many of their stories.

Those newspapers that are looking to the future believe

it will be in supplying content online and on mobile devices. Many publications are moving to expand their internet operations and for most the internet side of the business is much more profitable than print.

On the other hand Buffet says, “The economic potential of a newspaper Internet site - given the many alternative sources of information and entertainment that are free and only a click away - is at best a small fraction of that existing in the past for a print newspaper facing no competition.”

The question is, given the much lower cost of operating a web site, will that “small fraction” be enough to provide the producers with a profit, or will there be enough readers willing to pay something for certain information and opinion from recognized experts despite the wealth of free information on the web?

An interesting trend at the major networks is that they do short stories on air, but then encourage listeners to check out information on their web site that is provided in much greater depth. More and more people seeking information will be looking for ways to be kept up to date with quick summaries of everything that might be of interest to them in particular subject area that interest then have an easy way to link, or get more in depth information.

The next time you watch TV look at the ads. How many of those ads are really of interest to the typical viewer of the program? Most are only of interest to a small segment of that viewer population. And how many times are they repeated in an hour? Marketers are going to find more cost effective ways to reach the right customers rather than spending increasing amounts of money on mass advertising.

Thoughts From Dirck Halstead

Dirck Halstead of The Digital Journalist (www.digitaljournalist.org) says that by 2016 most of the “major camera

manufacturers that are now associated with still photography will probably be out of business.” He continued, “Of the majors now selling cameras, I would put my money on only Canon to survive. That is because they have a farsighted video division, which will provide the research and development that will be a key to their survival.”

“Video... will undoubtedly become the main means of acquisition in photography. Today, almost all the manufacturers of prosumer video cameras have moved to High Definition. These cameras, off the shelf, are capable of delivering a 2-megapixel still image. The Dallas Morning News is now equipping their still photographers with Sony Z1U video cameras, and they have created an algorithm that allows those frame grabs to be boosted to 16 megapixels, which only two years ago was the maximum you could get out of a professional 35mm camera. The Dallas Morning News is regularly running 4- and 5-column front-page pictures from these video grabs. Then, they put the streaming video on their Web site.”

“The financial imperative to newspapers is clear. Their salvation, in a time of plummeting ad revenues on their broadsheets, lies with their online versions. Online demands video. For this reason, we can comfortably say that in 10 years photojournalists will only be carrying video cameras,” Halstead continued.

The advertising community is scared and doing everything it can to delay the inevitable. The goal of agencies is to convince the companies that pay them big bucks to produce major national campaigns that such campaigns are the best way to sell products and services. Unfortunately, the results for dollars spent are in steady decline and companies will only buy this argument so long.

Consider this little story told by Jan Leth, executive creative director of OgilvyInteractive North America. The agency was assigned by Six Flags to do a promotion for the amusement park’s 45th anniversary. “They wanted to give away

45,000 tickets for opening day to drive traffic. So we got a brief to do whatever: ads, microsite, whatever.” While the creative people were trying to plan the project, the creative director went off and posted the ticket give away on Craigslist. “Five hours later, 45,000 tickets were spoken for,” Leth said. “No photo shoot. No after-shoot drinks at Shutters,” and with some irony he continued, “Now, the trick is, how do we get paid?”

Are You Ready? Are You Preparing For Your Next Career?

Getty Dramatically Lowers Prices For Web Use

In an effort to reach the customers currently using microstock Getty Image has announced a new Web-use price of \$49 for a 500k 72DPI file of any of its images, regardless of brand or pricing model. This fee entitles the purchaser rights to use any selected RM image on any commercial or editorial Web site, email, mobile devices or multimedia project for one year. RR buyers get the same rights for up to 10 years and rights to use an RF image in perpetuity.

This is a major reduction from Getty's RM prices in January 2007, when Selling Stock published a detailed analysis of the company's Web pricing strategy that included five different categories of commercial/advertising use and two for editorial and publishing. Within each category there were extensive breakdowns related to size, number of Web sites and length of time of use. The base price for the smallest use in each category and the top figure for the most extensive use is shown in the following chart.

	Base Price	Maximum Price
ADVERTISING		
Web Ad - Over the Page	\$660	\$2,228
Web Ad - In the Page	\$530	\$2,862
Web - Corporate or Promotional Site	\$315	\$3,528
Web - Promotional Email	\$875	\$9,975
Mobile Device - Advertising	\$725	\$3,031
EDITORIAL		
Publishing - Web/Electronic	\$120	\$315
Mobile Device - Editorial	\$125	\$528

The price for commercial use of an RR image on the Web was \$650, and the price for editorial use was \$200. Any of these uses can now be obtained for \$49.

At the end of 2005, Getty CEO Jonathan Klein indicated that about 10% or roughly 60,000 of Getty's total RM licenses were for Web use. Sources indicated at the end of 2006 that this percentage had grown to 15% or more. It is possible that much of the 9,000 image drop year-over-year in the reported number of RM images licensed in the last quarter was due to a falloff in Web usage. The company has never given any indications of the number of RF licenses that were for the smallest file size, which might be an indication that the image was used on the Web.

Volume Gamble

Getty believes this new low price will help it capture a portion of the market that might otherwise go to competitors, particularly microstock. But microstock images of this file size license for between \$1 and \$2.

A few figures are worth contemplating. At a minimum price of \$315 per usage, 60,000 RM images would represent \$18.9 million, and in theory, many of the images used on the Web were priced at a much higher figure. That same number selling for \$49 equals \$2.9 million or a \$16 million loss in revenue. To stay even, Getty would need to license rights to 385,714 at the \$49 figure.

We know that many Web design firms have budgeted \$50 per image as the price they feel they can afford to pay. Conversely, it is hard to understand why firms that can get satisfactory images for \$2 or less would be willing to pay \$49.

At \$2 per image, customers would need to purchase 9,450,000 images to generate \$18.9 million. Yet, we know that iStockphoto will license rights to between 16 million and 18 million images this year, and their number may be no more

than 30% of total microstock images licensed. Thus, it may be possible for Getty to generate enough volume at \$49 per image to offset the losses from the significantly lower price.

Getty told image suppliers that soon it will begin a significant promotional push to announce this new price to existing customers and prospects. This promotion will consist of a landing page, paid Internet search campaign, outbound email campaign and Web site merchandising. RF is already e-commerce enabled and it expects to have RR and RM e-commerce enabled by the end of September.

Image suppliers should find it easy to gage the success of this initiative by watching their sales reports and comparing the volume of units licensed with previous orders. In most cases, photographer's royalties for such uses will be from under \$10 to a maximum of about \$20. The royalties paid to image partners will be somewhat less.

Prediction: RF Images Sold Via Microstock Portals

In light of Getty Images' latest moves, I predict that very soon (certainly in less than a year) virtually every company producing RF images will try to sell their images through as many microstock portals as possible, as well as traditional portals.

Getty's Valueline prices leave these companies little alternative. If Getty is at all successful in upselling microstock customers, the rest of the RF industry will have to compete. Just lowering prices to match, or slightly undercut, Getty's will not do the job. It is highly unlikely that any traditional seller of RF would gain enough new customers to offset revenue losses resulting from its existing customers purchasing images at one-fifth or less of the existing prices.

And it's pointless to ignore Valueline in the hopes that only a few of traditional RF's current customers will switch to the much-lower priced products. In the best case scenario, these sellers will lose some customers and revenue.

The only way traditional RF producers have a chance of upselling to the millions of microstock buyers, is by participating in the microstock market. As many as an estimated 85% of microstock buyers will never search traditional stock photo sites because they believe they cannot afford the images.

The risk, of course, in moving to a microstock strategy is that traditional buyers will start purchasing RF images from microstock sites. To some extent that will happen, but hopefully, enough customers will continue to go to portals they have

used in the past that offer both RF and RM so the traditional market won't disappear entirely.

There are some advantages for those who choose to join microstock portals. First, they will benefit from sales to that 85% of buyers who only use microstock portals, and who will only pay \$1 or \$2 for the images they purchase. This may not represent enough revenue to offset the loss revenue on the other side, but it is something. The losses can't be avoided. Added to the revenue that can be gained by upselling to a small percentage of microstock customers may be the best option in a difficult situation.

Second, the image quality of a traditional RF producer may be high enough, compared to the average microstock image; meaning, such images will get a disproportionate share of downloads. Thus, traditional RF producers could earn much more per image than the typical microstock supplier.

Microstock companies could make their sites more customer-friendly and attractive to traditional sellers, by allowing customers to narrow their image searches to only those that are 50mb in size and fully model-released. Also, raise the level of microstock offerings by bringing in more professionally shot images. That would generate more revenue for the microstock company. And it would give customers the same level of confidence they have when searching for Valueline images or on traditional Web sites.

The biggest losers will be traditional distributors who don't own content. If they don't lower prices, they will lose customers. But if they match Getty's prices, it is highly unlikely they will gain enough new customers to offset the lower price.

The Valueline prices of \$19 and \$49 may seem low, but sources indicate that this may only be an opening gambit for Getty. Many in the company seem to believe that after competitors try to undercut and customers get used to the offering, price points will settle out at about \$9 and \$29.

New Business Model – Issues 3

Issue 3 – Professional or Amateur – The fees paid for commercial use of a stock photo should be the same for an amateur as for a professional.

If an amateur produces a photo that meets the need of a commercial customer, there is no reason why the commercial customer should expect to pay the amateur less than he would pay a professional. The price should be based on the value of the image to the customer, regardless of who produced it.

The good news is that virtually all stock photo customers – commercial and non-commercial – agree with this principle and base their decisions on what they can afford, not on the professional qualification of the person who produced the image, but on how the customer is going to use the image and the budget for the particular project. Only after they have found the right image do they start worrying about price.

Professional qualifications and experience are important when hiring someone to produce images based on an oral or written description of what's needed. They have no relevance when the image in question has already been produced and the customer can easily judge whether the image is suitable, or not, for the intended use.

Most commercial customers have a budget and a price they will pay depending on the planned use of the photo, and will gladly pay that amount to whoever has produced the image - regardless of his or her professional status. Budgets can

vary greatly depending on use. In some cases the customer may want to use the image for a school homework paper, or as wallpaper on a cell phone and won't pay more than \$1.00. In other cases the client may want to use the same image for an advertisement or many copies of a brochure and be more than willing to pay \$1,000 or more for his planned usage. But the person who is willing to pay \$1,000 will not complain if the seller only asks for \$1.00 for the use.

The industry badly needs a system that will allow all sellers – amateur or professional – to make their images available **AT ALL PRICE POINTS**. At the moment we have great polarization between amateurs and professionals. Every producer is required to choose one model, or the other, and thus misses the potential benefits that the opposite model can offer. Neither side is being well served by this polarization.

New Business Model – Issues 4

Issue 4 – Reasonable Price - Commercial users have no right to expect to pay nothing for photos that provide them with significant economic benefit. In fact, most recognize that they should pay a “reasonable price” for the pictures they need. But, reasonableness is based on the intended use of the picture, not file size and not a specific fixed price regardless of how the image will be used. Some customers can justify paying much more than others given the use they intend to make of the image.

Any specific image may be used in a host of different ways. Each use has a different value depending on who the customer is and the economic benefit the use is likely to accrue to him.

So how do we determine what is reasonable for any specific use? RM has developed a very elaborate system based on size of use in the finished product, circulation and other factors. While this may be a fair system it loses when it comes to simplicity. In addition, given the human involvement required to calculate and negotiate prices based on complex usages RM sellers tend to set relatively high bottom prices below which they cannot afford to go. This prices many small uses out of reach for many customers.

New Business Model – Issue 5

Issue 5 – Basing price on the size of a digital file delivered is extremely unfair to the customer, as well as the seller. File size has almost no relationship to how an image will eventually be used, or the value received the customer will receive from its usage.

Pricing images based on file size was first introduced by the developers of RF who look at stock photography as nothing but a commodity. Originally it was favored by users because it was cheaper. Now, in many cases images sold in this way are no longer cheaper, but the pricing system is still favored by many for its simplicity.

One of the big problems with pricing based on file size is that sellers end up knowing almost nothing about how the image will be used. Why should we care?

RF advocates argue that if a user is going to make a “larger” use of an image he will need a file with more pixels, but that defines large in terms of square inches of the eventually display which has only a minor relationship to the real value of any usage for any specific customer. Yes, size -- one-quarter, one-half or full page -- has always been a factor in determining usage, but circulation has been a much more important factor and that is totally disregarded when we price based on file size.

Let’s look at a few uses. A picture might be used on a student’s personal web page, or by a non-profit for a fund rais-

ing campaign or repeatedly on CNN. They all need the same file size should they all pay the same? Are they all getting equal value from the usage?

Or how about users who intend to reproduce an image quarter page and all need the same file size for reproduction? One is a national non-profit creating a fund raising brochure to be mailed to 100,000 people, another a text-book publisher that wants 10 year use for 2 million impressions in print and on the web and a third is a small local business that intends to use the picture in his yellow pages ad. Based on the value each receives should they all be paying the same price?

One way to solve this problem and maintain simplicity is to price the usage so the customer receiving the smallest benefit can still afford to use the image. This is the microstock model. Granted, customers who could afford to pay more will get their usage at bargain basement prices, but the theory is we'll make it up in volume. That can work for a little while as long as the market is growing exponentially, but when it begins to mature and there is no longer a host of new customers entering the market there is a problem.

(It is interesting that microstock started out making images available for free. Then they discovered, "hey, we've got costs in delivering these images," and they raised the price to \$1.00 to cover their costs -- not the costs of the producers.)

Consider what happened with traditional RF. Initially, it was offered on CD's with large numbers of images at a fixed price for the CD, or at very low single image prices. But when the number of users began to plateau they realized that there were only two ways to grow revenue. In the CD environment they started to cut the number of images offered on a given CD and create more titles, all at the same prices they had been charging before. With single images the only way to grow revenue was to increase price. The problem with that was that budgets of many of the low end users had little elasticity and they were forced to drop out of the market. For a long time

that didn't present a big problem for the RF seller because the higher revenue for those who could afford to pay, more than made up for the loss of revenue at the bottom end.

But there were a couple of unintended consequences. That group of users who could no longer afford RF grew began to look for other alternatives. Welcome microstock. And a couple years ago traditional RF discovered that they had reached a point where they could no longer raise prices without losing more in volume than they gained by the higher price.

Some readers may jump to the conclusion that if RF is so bad, then we should return to RM pricing based on narrowly defined usage parameters. I'm not suggesting that. Remember RM has a major problem also. It is too complex and a high percentage of customers demand a simpler system. Also, it really has no strategy for dealing with the host of low end users. What I said when I began this series is that we need to develop a new business model that combines the best features of existing models and minimizes the weaknesses. I'll explain this point in more detail when we get to my recommendations for a new business model.

New Business Model – Issue 6

Issue 6 – The explosion of growth in content means the average return per image (RPI) will fall. However, it is no less expensive to produce images than it used to be.

In November 2003 I began tracking Getty Images return-per-image by dividing the total number of RM and RF images on the Creative section of their site into the total revenue generated in the previous four quarters. This has revealed some startling trends.

First, let me provide some explanation of the numbers below. Since last fall I have included the Rights Ready numbers in the RM category because Getty combines these two when it reports revenue. Currently there are 905,922 RM images and 269,770 RR for a total of 1,174,692.

There are currently 844,227 images on the Getty Web site, but Getty has recently pulled 120,000 off its site and placed them into its Valueline brand that the company will distribute through Punchstock at discount prices

Getty's RM revenue for the last four quarters has totaled \$317.6 million and RF revenue totaled \$321.07 million for a combined total of \$638.67 million.

The total revenue growth for RM over the four year period has been \$49.3 million or about 18% while the number of images on the site has grown 340%. In the RF category the revenue has grown an impressive 160%, but keep in mind

that about 124% of that growth was due to price increases, not increased usage. And the company also acquired two very large RF distributors – Digital Vision and Stockbyte – during the period. During this same period the total number of RF images on the site grew 509% causing the average return per image to drop about 50%.

Average RPI

Year	RM	RF	Combined RM & RF
2003	\$775.29	\$652.58	\$732.87
2004	\$673.54	\$634.63	\$659.25
2005	\$413.20	\$558.02	\$464.13
2006	\$332.83	\$319.73	\$327.00
2007	\$270.37	\$332.98	\$298.59

Number of Images

Year	RM	RF	Combined RM & RF
2003	346,091	189,523	535,614
2004	434,346	252,161	686,507
2005	751,495	404,016	1,155,511
2006	973,933	787,281	1,767,214
2007	1,174,692	964,227	2,138,919

In the last four years Getty’s gross revenue from still image licensing has grown about 50%, but not nearly as fast as the number of images added to the collection. As a result image suppliers have found that they must produce more and more images each year just to stay even.

In order to determine the number of images in the file, each November I have searched the RM section for horizontal, vertical, panoramic and square and then totaled the four figures. I used the same procedure to find the number of RF images.

This technique results in a rough approximation of the average return-per-image rather than a precise figure as im-

ages are being added throughout the year and there is no way to tie actual images available to revenue generated for a shorter period. Nevertheless, since the same procedure was used each year, I believe the trends are an accurate reflection of what has been happening.

Photographers should keep in mind that these averages reflect the gross return for Getty. Photographers or Image Partner agencies will receive a small portion of this based on their royalty percentage. It should also be recognized that these numbers are only averages. Some photographers will see much better results and others much worse.

Getty to Launch Valueline

Getty Images will use Punchstock.com to launch a new RF brand called Valueline on August 31. Prices for Valueline images will be \$19 for a 1mb low res image and \$49 for all other RF file sizes from 10mb to 300mb.

Initially, the new brand will be seeded with 100,000 images created prior to December 2005 from the Digital Vision, Photodisc and Stockbyte collections. Most of these images are wholly owned by Getty, but a few are owned by photographers who receive royalties on each sale. In addition, Valueline will contain about 20,000 images from other sources (presumably image partners) that will add breadth and depth to the collection, per announcement said.

Too Many Images

After an aggressive program of image acquisition that has more than doubled Getty's RF image collection since November 2005, the company has now decided there are too many RF images on its site. The site has 876,039 RF images and that does not count the 120,000 that have been removed in

preparation for launching Valueline. The average annual return per RF image (RPI) in November 2005 was about \$558 and now, the added images, the RPI is down to about \$326. While the number of single image RF on the site has increased about 146% since November 2005, the average annual revenue from RF has only increased in the range of 9%.

Getty's basic search-return-order prioritizes brands first and then delivers images based on how recently they were added to each brand. As a result, older images are seldom seen. One problem — newer images are not always the best for a particular customer's needs. With Valueline Getty can give these older images a high priority in Punchstock's search return order and push all the other brands on Punchstock farther down. It gives older images a better chance of visibility and generating revenue.

Microstock Implications

Sources within Getty have indicated that this move is a “direct results of Getty's loss of sales to low cost non-Getty RF brands” (read microstock). This, and Getty's move yesterday (Getty Dramatically Lowers Prices For Web Use) indicate that the company has recognized it's not successful in up-selling microstock customers to Getty's traditional priced products. Getty is dramatically lowering the price of its traditional product to draw customers away from the microstock sites and get them to use the slightly higher-priced Valueline images.

Huge Risks

This strategy has huge risks for the industry, and in the long run probably for Getty. All the other RF brands on Punchstock, which include virtually all of the world's RF companies, may now be forced to lower their prices to compete with Valueline. Chances are, these other brands will lose sales to

Valueline, significantly decreasing Punchstock's overall revenue, unless there is a dramatic increase in the total number of images purchased.

There is no indication that the total number of images used at traditional prices has been growing. Thus, if customers who have been paying \$250 for an RF image can now get what they need for \$49, and no more images are sold, the impact on the traditional side of the industry will be pronounced.

Many image buyers may leave other traditional stock portals and race to purchase quality Digital Vision and Stockbyte images at prices significantly below what they would pay elsewhere. The reduced price should make older Valueline images more attractive. This could hurt the rest of the industry, but keep Punchstock's revenue strong. On the other hand, one of the sites they may be leaving is Gettyimages.com. Meaning: Getty gains a \$49 sale on Punchstock, but loses a \$250 sale on Gettyimages.

Last quarter, Getty licensed rights to approximately 240,000 RF images for gross revenue of \$59.68 million. If even 5% of those customers find the images they need on Punchstock instead of Getty Images, that could cost Getty almost \$2.4 million in the next full quarter. To make up the loss, it's got to sell 49,000 \$49 images to microstock buyers or 126,000 \$19 images.

Why Switch?

Customers purchasing images at Microstock prices has been growing dramatically, but the only way Getty wins is if it can upsell a significant number of Microstock customers to this new higher priced imagery. What is not clear is why Microstock customers will want to use these images, which are older and often out-of-date.

It is also unclear why a customer would pay \$19 when he can get an image that will work for \$1 or, for a slightly

larger file size, pay \$49 when he can pay \$3 to \$5 for an image. While the Valueline prices are low from a traditional point of view, they may not be low enough to attract the microstock customers in significant numbers.

It is far from a foregone conclusion that this will work to Getty's advantage, but it seems very likely that image producers will lose.

New Business Model – Issue 7

Issue 7 – The only reason for pricing something below the cost of production is having a reasonable assurance that through multiple use enough income will be generated to cover the cost of production and provide a profit.

Many of the things we use every day are priced below the cost of production. A few examples are: rental apartments, seats in a football stadium or a car rental. The apartment rental fee for a month or a year will not pay the cost of building and maintaining the apartment. The price of a seat to see a football game, or even the sum total of the amount everyone pays for all the seats in the stadium will not begin to cover the costs of building that stadium and the other factors that go into that day's entertainment. The price to rent a car for a day doesn't cover the cost of building that car.

But, if you rent a car for a week instead of a day you pay more because you receive more value. If you buy a season ticket to football games you'll pay more than for a single ticket because you receive more value. If you rent the apartment for several years rather than one you'll pay more because you receive more value.

Why is this important? Because value received should be the basis for pricing image use just as it is for pricing uses in these other areas of commerce. When a customer asks why you charge them more than you're charging "X" to use a particu-

lar image, the answer is that in your judgment the customer is receiving more economic benefit than “X”.

But there is another unknown factor that goes into the pricing of a stock photo that other types of rentals usually don’t have to worry about.

In the rental of an apartment or a stadium seat or a car there is usually a way, through some complex calculations, to determine how much revenue is likely to be generated before the asset is used up. This gets us to the reasonable assurance element of this model. There is no way that I’ve been able to determine to calculate how many times a given image, or a collection of images will be licensed over any extended period of time.

It may be possible for a photographer with a reasonable sized collection to predict that because his collection generated “X” last month, it will generate about the same next month. But it is very difficult to extend this logic very far into the future because the photographer has absolutely no control over the amount of content brought into the marketplace, or at the price point it is brought to market. If the overall world collection is growing at a much faster rate than the photographer’s collection it is likely that his revenue will go down, no matter how good his images are, because he is facing stiffer competition.

New Business Model – Issue 8

Issue 8 – Simple System - Buyers want a simple, easy to use and understand pricing system that allows them to use any image they can find at a price they can afford. None of the existing pricing systems adequately addresses this issue.

Every microstock image is currently at a price that anyone can afford. The biggest problem for microstock buyers is that there are images available through other licensing models that they would like to use, but can't because the prices far exceed their budgets. The problem for microstock sellers is that a significant percent of buyers would happily pay more to use their images, but existing prices are fixed very low.

Subscription provides images at prices volume users can afford, but as with microstock many of the images customers would like to use are not available through subscriptions. Also, subscription prices are too expensive for those who do not have a continuing need for volume. In addition, subscriptions buyers are usually required to make an investment before they know how many images they may need in the future and whether they can find what they will need on the subscription site. Some subscription sites solve some of these problems by also licensing individual uses at microstock prices.

These models are simple, but do not take into account (1) the cost of production and (2) the fact that any image may be used in a host of different ways with different values and

economic benefits accruing to the customer.

Traditional RF sellers have priced their product so high that a huge percentage of potential buyers can't afford to use them. Also, basing their price on file size creates a problem in determining how the customer intends to use their image.

Traditional RF sellers are caught in the middle. They are being undersold by microstock which offers RF at much lower prices. In addition, they cannot get the higher prices that RM sellers command, and many of the RF images deserve, because the RF pricing system is based on file size delivered, not usage. Traditional RF also loses to RM because it has no good system for making images available at lower price points based on usage.

RM suffers because it is not a simple system. Images are priced based on usage and complex negotiations are often required. RM has an advantage over other models in that it has detailed information about how the image is being used. RM sometimes has an advantage over RF when based on usage it can price its images lower than RF prices.

RM has been unable, or unwilling, to compete at the very high volume, very low priced end of the market. This inability is due partially to the difficulty in determining who the low end users are, and defining categories narrowly enough that only legitimate low end users can take advantage of the extremely low prices. To compete in the low end market RM will need to make images available at fixed prices because the low end buyers demand a simple transaction, and at such price points RM can't afford the overhead of negotiation.

RR's advantage over RM is a much simpler pricing structure that takes usage into account to a certain degree. However, in the belief that customers demand a very simple system Getty (the only company selling RR presently) has oversimplified the model. RR has an advantage over RF in that it offers fixed prices based on use rather than file size. For certain uses RR prices are lower than RF.

RR has tried to pick one fixed price in each of several very broad fixed categories of use and has tried to pick a number that is in the middle ground of normal RM pricing. As a result for a large number of uses the RR prices are too high and customers have no choice but to turn to RM or RF. For larger uses RR loses the advantage RM offers because there is no way to negotiate a higher price as there is with RM. In addition RR has made no attempt to address the really low end of the market.

As can be seen all of these models have flaws. A new model needs to try to incorporate the best features of each of the existing models without getting trapped by the problem areas.

New Business Model – Issue 9

Issue 9 - Is it all about the customer? Customers will always want more for less, but at some point there has to be enough revenue for the producer to justify continued production.

Since Getty Images came into existence CEO Jonathan Klein has always focused on the concept that, “It’s all about the customer.” Back in 1998 in a keynote address at Photo Expo he said, “Our industry - and when I use this phrase I am focusing on the stock photography business - has found it very difficult to think of our product and our business from the perspective of the customer.”

Customers will always want more for less, and this can present a problem when – as is the case in the stock photo industry – for the most part, the producers businesses are separate from the sellers who set the price and negotiate the sales.

Unfortunately, in the stock photo business it is very difficult to determine the “cost of production” because in almost all cases the largest share of costs are laid on the photographer or image producer who is not allowed to participate in setting the price for the usage. Consequently, the only costs the seller worries about are its own.

The seller will lower price to increase volume until it reaches total market saturation. At that point the seller may begin to raise prices to increase revenue and profits. Sellers tend to believe that because their costs are covered and because

they give the producer a percentage of sales that the producer is adequately compensated. But, if they have no idea what the producer's costs are, they have no way of determining whether the compensation provided is adequate to the producers needs.

In most industries the one setting the price for a product knows what it costs to produce and bases the price on costs plus a certain degree of profit. In the stock photo industry we have several problems. We have no idea what a specific image, or even a collection of images, will generate in number of sales over a period of time. We can not depend on the rate of growth in new customers and we have no idea how competition will affect sales. Thus, we are constantly at risk of establishing prices that don't cover costs.

We've all heard about companies that were put out of business by Walmart despite the fact that their sales volume was increasing. Walmart keeps demanding that the product be sold for a lower and lower price until the company eventually reached the point that the price of the product is lower than it costs to produce. To some degree the same thing has already happened in the stock photo industry and the number of producers put out of business seems likely to increase.

Chapter Two

Modified Rights Ready Pricing

Modified Rights Ready Pricing

My proposed new pricing strategy can best be described as a Modified Rights Ready (MRR) model. It uses some of the basics of RR as designed by Getty Images, but overcomes many of the problems with Getty's model.

In an effort to achieve maximum simplicity in some cases Getty lumped different types of uses into a single category and ignored important categories at the low end. I have broadened the number of categories to 16.

In an effort to provide a single price for any use within a category Getty was forced to pick an average price that gives away far too many large uses for prices that are dramatically discounted from previous RM prices. I have solved this problem with a simple sliding scale within each category that makes it possible to charge more for large uses than Getty's RR strategy allows.

The sliding scale makes it possible for customers with relatively small planned uses to afford MRR images. With Getty's RR strategy these customers are forced to go elsewhere for the images they need.

MRR also makes it possible to sell RM images to Microstock users. According to my estimate approximately 3% of the total images licensed in 2007 will be RM while well over 90% will be Microstock. With this model RM sellers can penetrate the Microstock market and still maintain prices for commercial use at current levels. This is accomplished by tightly defining the types of use that qualify for low prices.

For RF and Microstock sellers MRR takes into account the value received by the customer, enables them to get better prices for commercial uses and a better understanding of the customer's intended use. While the price structure is slightly more complex than the current RF and Microstock strategies, it is much simpler than RM and offers a greater degree of variability than RR.

With MRR all images are available for any type of use rather than the choice being limited by the pricing model. This may not be important to commercial customers who tend to choose images based on what works best for their project rather than price, but price currently locks most Microstock users out of access to RM and traditional RF images.

The 16 basic categories of use include 8 Commercial categories - Print Advertising, Printed Marketing Material, Outdoor Advertising, Indoor Advertising, Product and Packaging, Web and Electronic, and All Commercial Uses. In the Editorial area there are 3 separate use categories including: Inside Magazines or Newspapers, Inside Books, and Web/Electronic/Broadcast use. And finally there are 5 other use categories that include: Internal Company, Non-Profit, Educational, Personal and Other.

With one click customers can any one of the 15 categories and get a definition of the uses allowed and a price for unlimited use for a single project. One more click gives the customer a breakdown of prices for different circulations within the category. Thus, with two clicks the customer can easily get a price for virtually any use. (Prices for the Other category will need to be negotiated, but these uses represent no more than a fraction of 1% of total uses. Most customers will never have a use that falls into this category.)

Personal use, Educational and Non-Profit customers will benefit from having a larger selection of images to choose from and commercial customers will benefit from having slightly better prices for most uses. Granted, a small percentage

of commercial customers using Microstock images will have to pay more, but everyone insists this group is a very small percentage of total customers.

This strategy focuses on pricing simplicity without forcing equality between personal use and all types of commercial use. Customers aren't demanding that every user be treated equally, but rather a process that makes it easy to determine a price. Some argue that commercial customers often don't know exactly how they will use an image when they begin the purchase process. Sometimes a customer may not know whether the image will fit into a layout as a quarter or full page, and the exact number of copies to be printed, but I believe every customer will know the category where their usage fits and that's all they need to get a price.

Usage licenses are tied to a specific client and end use. The model focuses on delivering customers the best image for their particular needs at a reasonable price for value received.

MRR benefits sellers using all the current pricing strategies – RM, RR, RF, and Microstock. It benefits customers by giving them one simple, universal pricing model for all images rather than several different choices, each with a limited selection of images. Individual sellers would still be able to adjust the prices within their MRR model.

Finally, an important reason for considering MRR is the indications that there will be a decline in the use of print and TV as advertising mediums and a dramatic increase in web uses. Unfortunately, with the present systems, we have very little idea as to which images are being used on the web and how often. MRR gives us the opportunity to track that and to make timely adjustments as the uses change.

MRR Prices

Below is a suggested strategy for MRR pricing. All the prices are for non-exclusive use of an image in a single proj-

ect or campaign. Multiple uses of a picture for several different campaigns, or by different customers must be negotiated. Exclusive uses must be negotiated. Price is unrelated to size of used, the length of time of the image will be used or the users industry. The only factor affecting price is circulation with the exception of cover uses that must be negotiated.

If the customer’s planned use falls into more than one category the customer must pay the appropriate price for the quantity of use in each category. For detailed definitions of the uses included in each category see MRR Use Definitions.

The figures I have provided are my best judgment of what is fair, equitable and possible in today’s market. Sellers are free to use the basic template and adjust the prices in any way they choose. I believe experience will show us that some of these prices will need to be adjusted and possibly some circulation points will need to be changed or added. Nevertheless, this is a reasonable starting point.

PRINT ADVERTISING	\$2,500
Less than 1,000,000 circulation	\$1,700
Less than 500,000 circulation	\$1,350
Less than 100,000 circulation	\$825
Less that 25,000 circulation	\$650
 PRINTED MARKETING MATERIALS	 \$1,400
Less than 500,000 pieces	\$1,050
Less than 100,000 pieces	\$720
Less than 15,000 pieces	\$580
Less than 3,000 pieces	\$450
 OUTDOOR ADVERTISING	 \$3,000
Less than 250	\$1,885
Less than 50	\$1,625
Less than 20	\$1,400
Less than 5	\$1,200

INDOOR DISPLAY & ADVERTISING \$1,755

Less than 5,000	\$1,325
Less than 1,000	\$1,025
Less than 250	\$905
Less than 50	\$775
Less than 5	\$620

PACKAGING \$2,700

Less than 5,000,000 pieces	\$2,200
Less than 1,000,000 pieces	\$1,850
Less than 500,000 pieces	\$1,375
Less than 100,000 pieces	\$1,125
Less than 25,000 pieces	\$950

PRODUCTS \$1,200

Less than 250,000 pieces	\$1,025
Less than 100,000 pieces	\$890
Less than 50,000 pieces	\$760
Less than 25,000 pieces	\$620
Less than 10,000 pieces	\$480

WEB OR ELECTRONIC OR BROADCAST (Commercial)

\$1,175

One web site	\$890
Multiple web sites	\$1,175
more than 3,000 emails	\$1,025
less than 3,000 emails	\$765
Television	\$870

ALL COMMERCIAL USES \$5,000

INTERNAL COMPANY	\$450
Newsletter or Magazine	\$300
Electronic Distribution to Employees	\$140
Power Point Presentation only	\$10

EDITORIAL MAGAZINE (Inside use)		\$300
Magazine less than 100,000 copies	\$200	
Magazine less than 25,000 copies	\$125	
Magazine less than 10,000 copies	\$75	
Newspaper only	\$75	
EDITORIAL BOOK (Inside use)		\$700
Less than 1,000,000 copies	\$600	
Less than 250,000 copies	\$425	
Less than 100,000 copies	\$320	
Less than 40,000 copies	\$250	
Less than 10,000 copies	\$190	
WEB, ELECTRONIC, BROADCAST (Editorial)		\$200
Web	\$140	
Mobile	\$80	
TV broadcast - National	\$700	
TV broadcast - Local or Cable	\$400	
NON-PROFIT		\$165
Newsletter or Magazine	\$125	
Web and Power Point	\$49	
Power Point only	\$5	
EDUCATIONAL		\$45
Reports, Classroom handouts	\$20	
Web	\$25	
Power Point only	\$5	
PERSONAL (non-professional, non-commercial)		\$2
OTHER (Call to negotiate)		

This strategy focuses on pricing simplicity without forcing equality between personal and all types of commercial

use. Customers aren't demanding that every user be treated exactly the same, but rather that the process is fair and makes it easy for them to determine a price. Some suppliers argue that often commercial customers don't know exactly how they will use an image when they begin the purchase process, and thus need even a simpler set of prices.

I agree that sometimes a customer may not know whether the image will fit into a layout as a quarter or full page, and the exact number of copies to be printed, but I believe every customer know the general broad category where their usage fits and that's all they need to know to get a price.

For the most part there are no limitations as to how long an image may be used except that the use is limited to a certain project and circulation. RF sellers may have some problems with this since in many cases they offer unlimited use in multiple projects for a one time fee. However, indications are that very few customers actually use images in multiple projects unrelated to a single campaign.

MRR Usage Categories Defined

The following describes the uses that are included in each category of the Modified Rights Ready (MRR) business model. Any use not specifically included in the first 15 definitions fall into the "Other" category and must be negotiated. In addition uses in several different categories is not permitted unless each category is purchased, or they are all commercial uses and that category is purchased.

COMMERCIAL USES

Print Advertising Non-exclusive use in any print campaign in newspapers, magazines or free-standing inserts that is intended for commercial or promotional purposes. (Fee does not include web use in the same campaign. If web use is

desired it must be purchased as an additional use. See below.)

Printed Marketing Material Non-exclusive use in any brochure or other printed material including direct mail, annual report, sales catalog, public relations, external presentation or report, calendar, card or sales giveaway. (A PDF version of the finished piece may be distributed electronically.)

Outdoor Advertising Non-exclusive use on print or electronic Billboards, Kiosks, Outdoor Posters or Transit Displays. Indoor Display or Advertising Non-exclusive use as In-Store Displays, Posters, Banners, Hang Tags, Point of Purchase promotions, Trade Shows, Table Tents, Counter Cards, or Internal Wall Décor.

Products and Packaging Non-exclusive use for retail product packages such as for foods, drugs, toys, software, video tapes, CD-Rom Discs, Also included are Bank Checks and hang tags. Products Non-exclusive use for retail products such as games, toys, greeting cards, retail calendars, retail postcards, retail posters, phone cards, event tickets, T-shirts.

Web or Electronic or Broadcast Non-exclusive use in any web, electronic or broadcast media - including Internet, email, mobile devices, electronic kiosk, television, video, feature film, theatrical productions or movie theater screen ad - intended for commercial or promotional purposes.

All Commercial Uses Unlimited use in any medium for a single client and a single campaign or project intended for commercial or promotional purposes. [This does not include press kits or release of the image for uncontrolled use by others (see Other below.)]

INTERNAL COMPANY USE

Internal Company Use in any medium intended for internal company use such as newsletters of corporate magazines, brochures or collateral, video, intranet or internal email.

EDITORIAL USES

Magazine or Newspaper, Inside or Back Cover

Non-exclusive use in a magazine, newspaper not intended for commercial or promotional purposes. Use applies to a single issue or edition and all reprints or printed versions of the original use. Use includes the right to publish the finished printed piece in electronic format as well. Sections of newspaper considered inside, not cover. (Front cover use not included. See Other below for more explanation.).

Book Use, Inside or Back Cover Non-exclusive use in a single edition of a book including all reprints of the original use for ten (10) years. Use includes the right to publish in electronic format so long as there is less than 10% change in content. (Each new edition requires a re-license, but customer does not have to re-license the image for reprints of different versions of the same edition.) Additional languages must be negotiated. Front cover use is not included and must be negotiated separately.

Web or Electronic or Broadcast Non-exclusive use in web, electronic or broadcast media - including Internet, mobile devices, television or film - not intended for commercial or promotional purposes. Use applies to a single edition, issue or program and all copies or versions of the original use appearing in electronic or broadcast format. This includes such uses as: Editorial - Web or Electronic or Mobile, Editorial TV - News or Talk or Commentary, Documentary or Educational Program

and Documentary or Educational Film.

NON-PROFIT USES Includes non-exclusive uses by a non-profit organizations for newsletters, magazines, web sites, email, power point presentations or in a broadcast format as a public service.

EDUCATIONAL USE Includes non exclusive uses for reports, classroom handouts, web and power point presentations, posters, study prints or any use in a school or educational environment

PERSONAL USE Includes non-exclusive use for personal web sites, mobile devices, home display, school reports, and uses that benefit the individual and his/her family, but are not licensed in any way to a broader public. Such uses are unlimited

OTHER Any use not specifically included in one of the above categories requires special negotiations. These include: Cover uses of Brochures or Magazines and the Front page of a single issue or edition of a Newspaper, (all lead pictures on inside sections of a newspaper are priced as inside editorial) and all Exclusive uses. In addition uses such as: Press Kit or Press Release, Wall Décor, Museum Use, Trading Cards, Art Rendering, Art Reference, and all stills in film or TV except for TV editorial must be negotiated.

Chapter Three

Advantages TO MRR

Advantages Of MRR For RF Sellers

All image sellers win with MRR. Possibly the biggest benefactor of such a pricing strategy is traditional RF (TRF).

With its current file size based pricing strategy TRF is forced to sell its images for large commercial uses at prices significantly below what customers can afford, or would gladly, pay. The top price for the largest TRF file is nowhere near the price commercial customers pay to use RM images when the distribution of the project is large. And yet in every sense RF images are equal, and often superior, to RM images in quality. Customers with large planned uses that don't require exclusivity (the vast majority of cases) search for the best image regardless of whether it is RM or RF. They rejoice when the right image happens to be RF, thus offering them usage for much less than they would otherwise expect to pay.

For several years RF has attempted to solve this problem by raising the price of the larger file sizes under the theory that larger uses require larger file sizes. But, since file size really has no relation whatsoever to the value a customer receives from most uses, as prices have increased TRF simply priced itself out of certain markets. Markets that are particularly price sensitive include book publishing, general editorial, non-profits and most web site uses.

By converting to a simple usage based pricing structure TRF would have the ability to charge many commercial customers much more for certain types of usage while still keeping their fees for editorial and non-profit low enough that those

segments of the market could afford to use RF images.

MRR enables producers to charge higher fees to those few customers who intend to make large uses of the image. Such fees more adequately reflect the real value received by the customer.

On the low side, under the current file-size system, TRF sellers can easily start offering their images as microstock as well as through traditional outlets. Microstock then becomes just another RF price point. Many TRF sellers are already beginning to test out this strategy.

But the microstock strategy also has great risks. A significant number of TRF's current commercial customers may start buying the images they need at microstock prices of \$2 to \$10 per image rather than at the current TRF prices. In fact, many TRF customers already seem to be headed in this direction. They are finding that certain microstock images are very satisfactory for their needs.

In addition, as TRF suppliers increase their participation in microstock they will begin to raise the level of quality and variety of the microstock offering making it even more likely that TRF buyers will begin their searches on microstock sites.

As a result TRF is caught in the middle. It will steadily lose customers because its prices are too high and dollars because its prices are too low.

TRF needs to find a way to reach out to the huge number of new customers microstock has identified without losing any of its existing customers. A pricing system based on use rather than file size seems the only solution. Pricing based on file size has served TRF well for 15 years or so, but the realities of the market have changed dramatically and it is time for a major adjustment in strategy.

One small consideration is that MRR, as I've designed it, only allows unlimited use for one particular project within a category and for one particular customer when an image is

licensed. While this is for the life of the project it is slightly more limiting than traditional RF. This may be a problem for a few customers given that in the past some TRF sellers have allowed RF images to be used in multiple projects for multiple customers. However, only in very rare cases do customers want to use the same RF image in many different unrelated projects, or for different customers, and it seems unlikely this will be a major issue.

TRF will find it very difficult to grow unless it modifies its pricing strategy. MRR seems to be the best available and least disruptive option for this purpose. While MRR is a slightly more complex than the current RF strategy, it is still very simple compared to traditional RM and much more equitable to RF sellers. To grow TRF must find a way to extract more revenue from the customers who receive great benefit without pricing themselves out of the small user market.

RM Sellers Win With MRR

RM sellers are also winners under the MRR strategy. Many photographers will focus on the facts that size of usage is being ignored, and that a few customers will get really big uses for less than they might have paid in the past.

Granted, RM may lose a few high end sales, but the increased volume of sales resulting from the ability to compete in all segments of the market should make up the difference. There may be some loss in exclusive uses because customers will now be able to purchase exclusive rights to RF images, but that loss won't be dramatic if the RM images are truly the best.

I urge RM sellers to consider how much revenue those very occasional big sales actually generate and compare that figure with the additional revenue they may recognize from being able to compete in the market segment now controlled by RF and Microstock.

Current RM sellers have chosen to address only about 3% of the total market for stock images, a market segment that is declining rapidly. I estimate that in 2007 there will be about 48 million images licensed at microstock prices and another 5 million at traditional prices. About 1/3 of the traditional priced images, or 1.6 million of the 5 million, will be RM and more than 50% of these will be licensed for prices under \$150. Thus, probably less than 1.5% of the total images licensed will be RM images licensed for prices greater than \$150.

RM sellers insist that their images should never be made available for low prices, but despite that insistence they

often receive royalties of \$5, \$10 and \$20 on their sales statements. If RM sellers were to find a way to participate in the whole market the vast majority should end up earning more, even taking into account the potential loss of a few top end sales.

MRR will make it possible for RM images to compete on equal ground with RF. RM sellers will no longer lose sales simply because their images are priced too high. This doesn't mean that RM must lower all prices to RF levels. By carefully categorizing types of use, all images can be made available at prices all customers can afford.

Seller must take a realistic view of the value a customer receives from the use of an image and price accordingly. Sellers must also scale back the existing very complex pricing structure to one that is simpler and easy to understand.

With the MRR pricing model RM will be able to sell into the biggest growth segment of the market. Granted \$2 per image licensed may not be all that attractive, but if there are enough sales at this price, or higher prices for non-profit or web use, the additional revenue could be a nice supplement to current sales generated by the existing market. The important point is that use categories must be structured so existing RM customers continue to pay about the same to use images as they have been paying in the past, and do not qualify to pay the lower prices designed specifically for customers with minimal budgets.

In reviewing my description of MRR prices, don't pay too much attention to specific numbers. These can be adjusted. More important is to recognize that RM customers have been complaining for some time that the process of determining a price is much too complicated. If RM sellers want to compete they must adopt a much simpler pricing strategy. RM sellers also need to accept that in some cases individual buyers will pay a little less than they might have paid for previous RM uses, and certain ones will pay a little more. If the prices are

set appropriately everything will average out and be fairer for everyone.

Some of my MRR uses may be priced a little low. But this is easily adjusted once some actual demand is determined. If in using this pricing strategy a high demand for a certain use category is discovered that may be an indication that the price is low for the category and could be raised a little. On the other hand if the seller discovers that everyone is buying usage at the 3,000 piece price for brochures and no one is purchasing at higher volumes it could be an indication that the higher volume prices are too high and customers are under estimating their usage in order to be able to afford the image. Individual prices can be adjusted without changing everything. It may also turn out that there needs to be a few more breakdowns for some categories of use.

Rather than being against RF and Microstock, RM sellers should do what they can to encourage adoption of a strategy that levels the playing field and enables everyone to earn more money.