The World Photo-Imaging Market in Review

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Abstract

This presentation reviews the impending transition within the industry from a "prints" business model to one that incorporates a wide range of photo products - the emergence of a true digital fulfillment business model.

Introduction

As I talk with many imageprocessing retailers around the world, I continue to be amazed by their tenacity to cling to the "print business model" despite the significant decline in both the number and the price of prints being made outside the home. To set the tone for this conference, we at the Photofinishing News International Consulting Group are very enthusiastic about the opportunities within this industry: rather than preparing for its death we feel it is actually undergoing a rebirth, and that those organizations which can adapt to new business models can embrace an exciting, although challenging, future.

An Industry in Transformation

While this conference is an evolution of the biennial Conference on Photofinishing Technology, the name change reflects reality. As I talk with many imageprocessing retailers around the world, I continue to be amazed by their tenacity to cling to the "print business model" despite the significant decline in both the number and the price of prints being made outside the home. Today, digital has shifted the control of the images from the imageprocessor to the consumer.

In addition to "losing control of the images", imageprocessors have witnessed a rapid increase in the number of competitors who are providing fulfillment for digital product orders. And long-time imageprocessing system manufacturers, who historically faced only a few significant competitors, now suddenly find that there are many smaller competitors that, in many cases, are more nimble and more advanced than they are.

Increasing complexity leads to fewer prints

Whereas in the old silver-halide world getting prints was easy and straight forward (just drop off your roll of film to be developed at your local photography shop, drug store or Wal-Mart) the "family memory keeper" is now faced with a large number of options, including the worst possible outcome for retailers, which is not printing the pictures at all. See Figure 1.

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Figure 1 *There are many choices for the new digital imaging consumer, including "view-only"!*

Several barriers stand between the photos sitting on the hard drive or memory card and the consumer's decision to have these photos printed. Whereas obtaining prints from film was a simple process of dropping off the film and returning later to pick up the prints, today the process has become more complex. And the new barrier is SELECTION.

1. Digital prints are ordered after viewing the pictures, so that any "bad" pictures can be eliminated before they are printed. Then, consumers still must cull through many images to select those that they wish to have printed. Consequently, many of the "good" pictures are only kept digitally, leaving possibly just a few of the very best to be printed. In the "good old days", all the photos were printed (often in duplicate) and only then did consumers decided which ones to keep and which ones to discard.

2. Digital prints may be ordered weeks after the event, often long after the emotional "buzz" has worn off. Even though the picture taker may have every intention of printing the picture when it is taken, that same picture often goes intentionally unprinted when rediscovered weeks later.

3. The process is complicated and boring. Consumers need to go through the tedious process of navigating complex software in order to select/edit/submit their pictures for printing. If this process was easier and more enjoyable, more pictures would be printed.

With these barriers keeping consumers from printing more of their photos, we believe that in order to capture more of the printing dollars, retailers must take it upon themselves to serve as a guide for the consumer, solving their problems and making the process more enjoyable/rewarding for them.

Total Prints Decline on Low Printing Ratio in Digital

Even though digital prints are projected to continue growing, this is more than offset by the decline in traditional film prints, bringing the total prints – including prints made at home - down, according to forecasts by Photofinishing News International Consulting Group. Figure 2 shows our estimates of the number of prints made from digital images in the U.S.A. alone. These figures are only for prints from digital still cameras and do not include those images saved on cameraphones or digital camcorder.

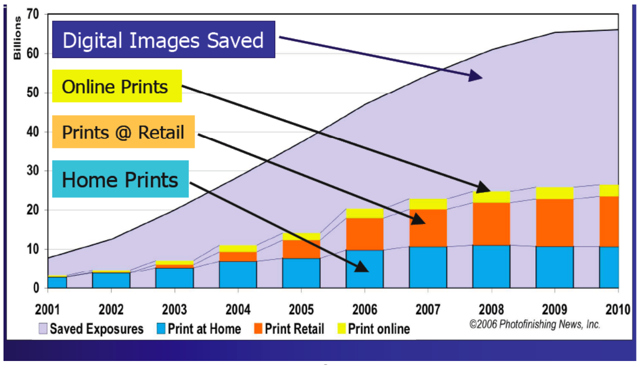

Figure 2 Digital prints made in the U.S.A. compared to digital images saved.

However, the total number of pictures taken continues to grow, and any increase in the percentage of photos printed would greatly benefit the industry. Within the industry, we often compare the print volumes being made at home with those made at retail or through online finishers. But the real issue is not the relative market share of these channels, it's how can we get consumers to do more with the images that they consume, or that they take. For instance, if retailers can convince consumers to print even 1% more of their digital photos, this would result in an additional ~545 million prints representing ~$140 million revenue.

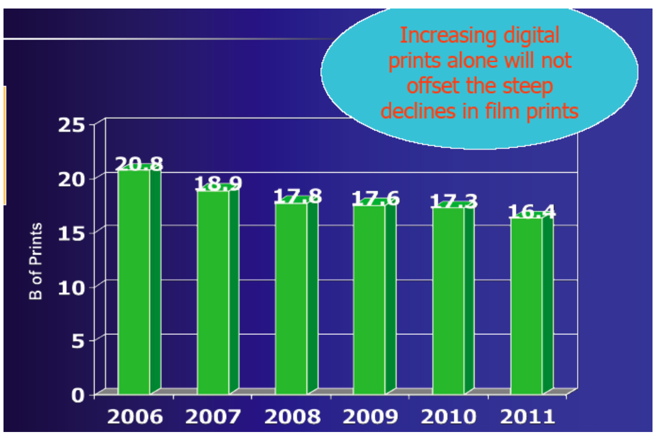

Figure 3 **Digital and Analog Prints made in the U.S. Retail Channels**

Higher Margins on Lower Volumes?

Our projections of the total number of prints that will be produced through retail channels are shown in Figure 3. We forecast that the combined analog and digital prints will never again return to their former highs. And, to compound the impact on retailers, print prices continue to go down, especially for larger orders off digital prints online, and even at major retailers.

What measures must the industry take to promote more printmaking? Information must be provided to the consumer through advertising and marketing. In the days of yore, the major film makers would have funded such consumer education programs. Today, this is not longer happening and, worse yet, consumers are being given no or even wrong information about how to get prints from their digital cameras. In Europe, CeWe Color, the world's largest independent photofinishing group – which is presenting a paper later in this conference – has taken over the role of promoting digital prints in Germany. During Photokina, CeWe Color had posters throughout the exhibition as well as throughout Cologne, promoting 9 eurocents digital prints. And earlier this year, online finisher HP/Snapfish introduced a special promotion offering 1 eurocent prints in Europe. In the U.S., Wal-Mart has been leading the campaign with print and TV advertising.

But, if we're making fewer prints, and at a lower price each, where are profits going to come from?

We believe that revenues can be maintained on even higher profit margins by helping consumers move away from 4x6" prints, toward more profitable "Personal Photo Products" (PPP), which include everything other than traditional standard prints (i.e. mugs, enlargements, mouse pads, photobooks, posters, calendars, etc.). To illustrate how much more profitable PPP are, we feel that the profit earned from one high-end photobook, selling for $30-$40, is equivalent to that earned from 500 standard 4x6" prints.

Migration from Prints to Services and Software

Returning to our analysis of the U.S. major retail channel, we have developed some estimates for the market value of the various services offered to consumers. This is shown in Figure 4.

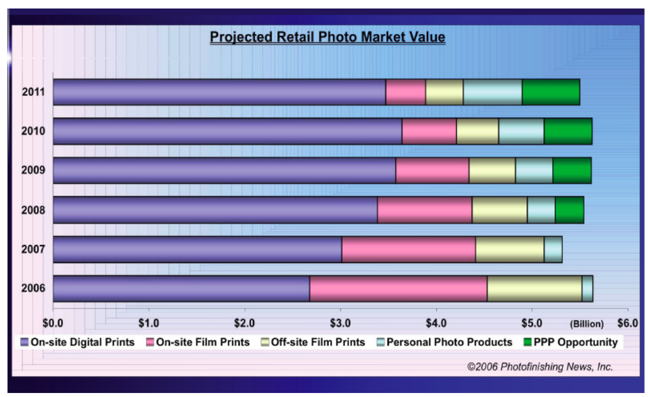

Figure 4

We have five services categories: digital prints produced on-site (most digital prints are currently being made on-site), film prints produced on-site, film prints produced off-site film prints, personal photo products (if no extra promotional effort is invested), and what we're calling a personal photo product opportunity. We believe that, if retailers educated their customers on the availability of these personal photo products, and invest properly in promoting them, then in 2011 their "photo" revenues will be roughly the same as in 2006. However, with much higher margins on these products, their profits could be significantly greater.

In order to take full advantage of the PPP opportunity, many companies in the industry are putting less emphasis on hardware and more on the development of software and "intelligent" kiosks in order to sell more of these higher-profit products. CeWe Color at Photokina was showing its 3-Step photobook creation software which semi-automatically designs the product. Since this may be described in more detail during a later presentation, I will not provide the details now.

Another notable kiosk software was demonstrated by Obló Multimedia, which used face recognition software to center the images in template locations, included "upsell" software which, for example, took images from which prints were being made and automatically put them into a "sample" album for customers to consider buying, or even into a sample DVD with music; and it is done in a way that leaves them feeling better served. Another kiosk company, Lucidiom, has taken the "Long Tail" approach of offering a much broader choice of products to consumers and has expanded its kiosk offerings from a few to 28.

KIS/Photo-Me has shifted its entire marketing philosophy from selling machines to selling tools for making personal photo products under the "My Creativ' Corner" theme. This can be seen at the PMA at the end of this week.

These developments, as well as software making the photo selection and editing process easier, should help retailers realize more profits in an output industry with roughly flat volumes.

The Need for Open Systems Integration

Many of the innovative developments are coming from smaller high-tech companies. Consequently, while retailers once sought out a single, large, well-known supplier for "everything", they now face a fragmented industry with many different vendors offering only pieces of the entire system.

We estimate that in the U.S. retail channels, personal photo products today represent maybe $0.6 billion, or 12 percent, of the total revenue. By 2011, we project that these products will represent 28 percent, or $1.8 billion, a huge growth. Yes, there are obstacles to printing from cameraphones and digital cameras.

We need to have a free exchange of digital images between retail, online and home, and between different retailers. Yes, such a goal faces a major challenge because retailers have, in the past, been able to have total control their customers: When a customer enters the store, she is your customer. Now we're looking at a different paradigm, meaning that the customer may want to have prints made at one retailer, and send prints or personal photo products to friends or family members for whom a different retailer is more convenient.

And customers may want a wide range of products that are produced by other companies. What does this mean to a major retailer, or even a small retailer? It means they must undergo a transition; from being a "manufacturer" of a few photo products to being a supply chain manager for providing a multiple of products to their customers. They need to be able to offer their customers a variety of things, but they also need to be able to manage the production and delivery of these products.

Similarly, the business model of a single company providing the entire imageprocessing solution to a retailer is evolving into one where a systems integrator will combine the best pieces from various suppliers into the optimum solution. The age of strategic and tactical partnerships is here. That is the purpose of this conference.

At the end of today, each attendee will get a chance to talk about his/her company and products. This should give everyone an opportunity to learn about potential partners for the future.

Author Biography

Don Franz serves as a group publisher for Photo Imaging News, with editions in English, Chinese and Spanish. After founding the first industry publication almost 25 years ago, Don's company has evolved into the Photofinishing News International Consulting Group which publishes extensive global market research, and offers forecasting and consulting services, which are supported by a broad team of analysts in the U.S.A., China, Australia, Japan and Europe.