# The New Personalized Photo Products Business Model

*Don Franz, Photo Imaging News*

## Abstract

In the consumer photofinishing business, the print business model is not only becoming rapidly outdated, it is even becoming unviable. It has been replaced by a model focusing on promoting life stories, produced in the form of multi-image prints, calendars, posters and especially photobooks. Franz reviews the development of the worldwide personalized photo products market, and how it is changing the industry.

## Introduction

I'm going to look briefly at the changing photo imaging output market and the transition from a print-based retail business model to this new business model.

## An Industry undergoing traumatic transformation

At the previous TDF conference, I spoke about The World Photo-Imaging Market in Review. In the ensuing two years, there have been significant advances in software enabling consumers to quickly and easily do many things with their digital images, along with an explosive growth in the production of personalized photo products, accompanied by the onset of cannibalization of print production by photobooks.

**Figure 1**


*Today, there are multiple customer personalities for photofinishers*

We recently completed a study of the U.S. professional social/ portrait market that involved extensive interviews with different professional photography segments as well as a survey of U.S. consumers. From this we can conclude that consumers want to get much more involved in the creation of their own memories through life stories. So, rather than photofinishing retailers catering to a "single" customer during the film era, today's family memory keeper has two personalities – and may switch between them as circumstances dictate.

## Who is the photofinishing customer?

During the film era, the need to identify who was the photofinishing customer rarely arose. It was the family memory keeper. As photography moved into digital, this need began to arise. Photo retail outlets, especially those of the specialty photo retailer, were redesigned to appeal to and serve the emerging digital customer. In the U.S.A., the Photo Marketing Association did extensive research and identified a retail persona called Jennifer as the most important customer. Stores were redesigned to cater to the needs of this Generation X mom.

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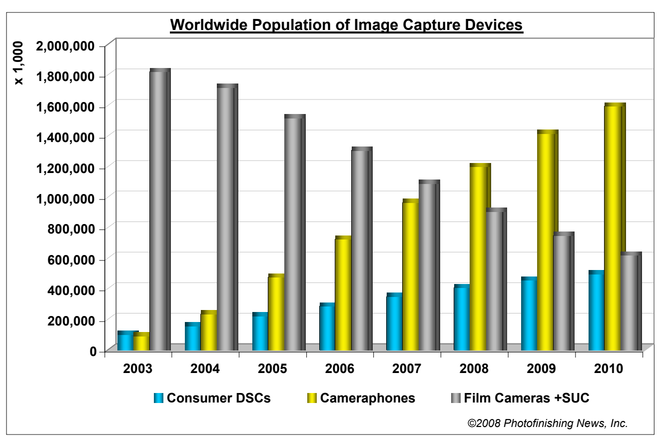
After extensive research in Japan, Noritsu has identified three different classes of customers, each with their own interests, and recommends that photofinishing shops consider establishing separate sections to appeal to each group. These are defined as Creative, High-End Amateur and Family Memory Keeper.

With the emergence of a wide variety of personalized photo products as a way of reliving and sharing memories, these customer groups can be further divided by their interest in participating in the creation of the life stories. See Figure 1. And we need to recognize that the same customer might fit both personalities at different times.

## More images are being captured every year

We read about the huge number of image capture devices being sold every year. In 2008, we estimate that 140 million digital still cameras were sold worldwide, along with 22 million digital camcorders and 820 million cameraphones. There were also 13 million film cameras and 170 million single-use-cameras purchased throughout the world.

**Figure 2**

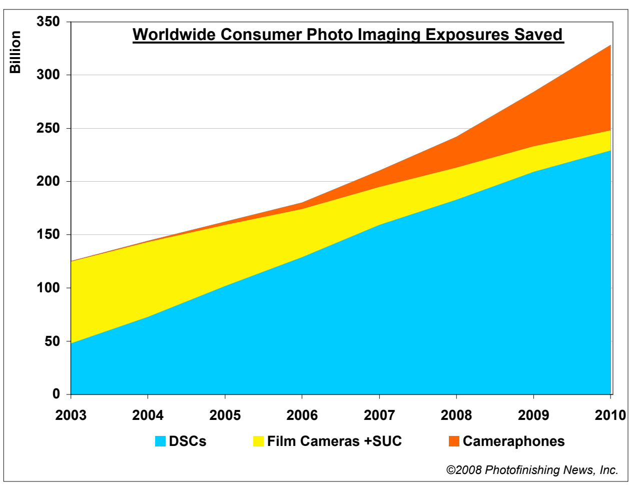


Yet these numbers can be very deceptive when considering the number of exposures that are being created every year. A better representation is the number of "active" devices, which are shown in this slide. On average, cameraphones, which are provided under service agreements with mobile carriers, were being replaced in less than two years - although that period now appears to be getting longer, and film cameras, including single-use models, are still being used, albeit less frequently than previously. Active film cameras are defined as those that use at least one roll of film each year (remember the "two Christmases on a single roll during the best film days?).

The number of exposures being taken and saved with the various image capture devices has reached an unprecedented level, and continues to grow. For cameraphones many images are taken, viewed or sent, then erased. Our estimates include assumptions of the percentage of cameraphones owned that are actually being used for capturing images. Since so many mobile carriers supply cameraphones with an extended service agreement, the worldwide usage today is estimated at 50%. As the number of digital cameras per household has increased, the number of exposures per camera in these multiple-camera households has declined.

Consequently, figure 3 shows our estimate and forecast for the number of images being saved by users of the three most popular capture devices. However, we know that still images are being generated from digital camcorders, but have not developed estimates yet.

**Figure 3**




One evolving opportunity for photofinishers is processing the increasing number of video clips being created in both digital still cameras and cameraphones. These are being uploaded to YouTube and social network sites such as Facebook and MySpace, but they are not being addressed by photofinishers, most of which developed their businesses around prints – still images. There is at least one kiosk company, Obló Multimedia, which has the capability of downloading film clips already integrated into its software.

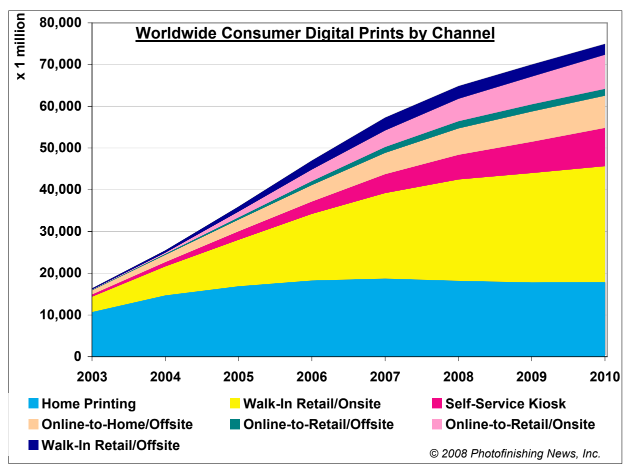
The total number of prints being generated worldwide from captured images has begun again to increase, in part because the negative effect of the declining numbers of double prints from film is virtually finished. Yet it begins to decline again after 2010 as consumers in developed countries begin to make photobooks and albums instead of prints along with greater use of digital photo frames, which are experiencing explosive growth, and web-sharing (Sharpcast). At the same time, more and more consumers in developing countries that are still using film today are embracing digital as the necessary infrastructure develops in their countries. There was a slight rise in 2008 as the result of several "picture-taking" events and disasters that have occurred last year.

Ironically, some of the photofinishers expected to reap the benefits from these events did not. For example, the minilab shops surrounding the venues for the 2008 Olympic games in Beijing were located in a high security area and their normal customers were unable to visit them during the Games. As a result, their business actually declined during that period.

## Digital prints slowing as printing ratios decline

Figure 4 shows our estimates of the distribution of worldwide prints (we use 4x6" equivalent numbers) by printing channel. While home printing continues to grow in absolute print volume, its share of the overall printing market has flattened out. While more people in developing countries are using home printing, in the mature printing markets the actual volume of home printing has already plateaued. These figures do not include those images saved on cameraphones or digital camcorder.

**Figure 4**




Although growth in the number of digital images being printed is slowing, the intense competition for this business has had an even more deleterious effect on the industry – prints are being sold at unsustainable prices. In the U.S., some online photofinishers offer prints as low as 8¢ and in Europe retail prices of 9 eurocents are available. With the industry closing so many wholesale photofinishing plants, can these prices be maintained?

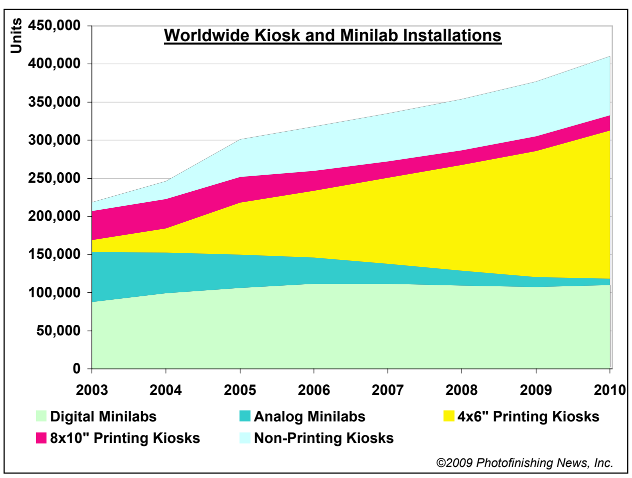
Ironically, Webprint, a relatively new online finisher in The Netherlands, sells 4R prints at 5 eurocents each and the owner emphatically states that he is making money - and selling 150-200,000 prints/day. His company is growing at more than 200% every year. At the same time, we have calculated that producing one high-end photobook by a central lab generates a margin equivalent to that of more than 500 4x6" prints.

## Migration from Prints to Services and Software

The continuing evolution of software for the manipulation and usage of digital images has empowered consumers worldwide to not only get involved in the creation of their own life stories, it has also taught them new applications for these memories. It wasn't too long ago that the number of services/products available on kiosks at photofinishing retailers was very limited, in part because we didn't feel that the average consumer was capable of handling a wide range of choices. Today, applying the long tail approach, kiosk software may offer consumers 300 or more products and services. One kiosk maker, Lucidiom, has a selection of more than 2,500 products to offer retailers.

With the arrival of a wide range of personalized photo products available through kiosks, retail shops are learning that providing more kiosks boosts business because customers can take their time creating these life stories. In many cases, these kiosks are only input/order stations, without an integral printer. We also see the emergence of more Web-connected "super kiosks" which can serve as an input station, accept Internet orders, direct fulfillment to local or remote facilities and operate without the intervention of shop personnel. In many retailer applications, these systems will eliminate the need for onsite minilabs. Our forecasts for worldwide minilab and kiosk installations are shown in figure 5.

**Figure 5**




## The Personalized Photo Products Business Model

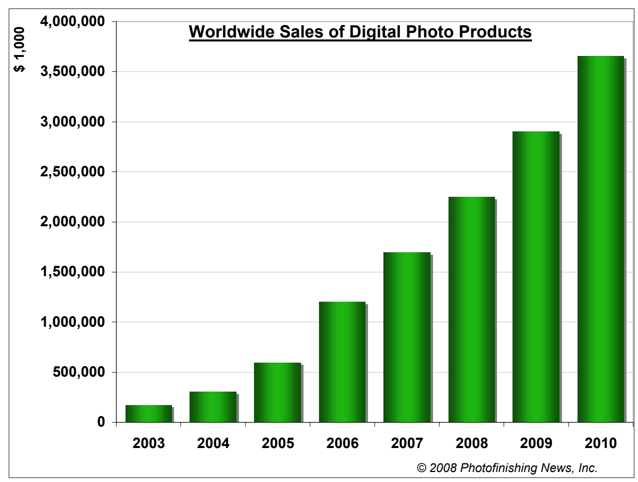
What are personalized photo products? Basically, most non-print products and services fall into this category. In the early stages of this category development, the primary products were mugs and mouse pads. With the introduction of digital presses, greeting cards became the dominant product, and may still be today in terms of units produced. But photobooks have emerged as the revenue driver. For the 3rd quarter of 2008, 54% of Shutterfly's $36 million in sales was derived from personalized products and services.

As mentioned earlier, a major contributing factor has been the evolution of photobook creation software. Whereas only a short time ago it was so complicated that I have been told 70 percent of all photobook orders started by customers were never completed, today it has become as simple as an automatic 2- or 3- click process for those consumers who don't have the time or inclination to get involved in the creation process. And now software for Web or PC operation has the same "look and feel." This enables consumers to start creating a book at home, take the file to a retail outlet and continue working with a friend or assistance from store personnel, or access the file on the Web from a remote location. The frustrations of not being able to complete the creation and ordering are removed.

Kiosk software will even automatically upsell consumers as they create their orders - using their own images. At the completion of a print order, the images are automatically assembled into a sample photobook that can be viewed on-screen, and photobook orders are made into sample CDs/DVDs with music, etc. And many products, especially photobooks, can be produced onsite at photofinishing retailers.

The end result is an explosive growth of personalized photo products, as shown in figure 6.

**Figure 6**




These estimates include photobooks, calendars, greeting cards, collages/posters, CDs/DVDs and mugs. But the opportunity for "photo imaging retailers" is almost unlimited. Ton Marsman, president of Webprint considers his company to be a Web 2.0 company, and offers his customers free lifetime storage of their photo images. This year, that amounted to a storage requirement of 1 Terabyte every day, and next year he expects this to jump to 3 TB/day. Is this expensive? He commented that, on average, every picture stored is used three times.

In a recent presentation, Marsman commented that he was disappointed by the lack of promotion of photo products in the industry. His facility has a complete bindery. The biggest market segment for Webprint is photocards, a product line he only introduced 3 years ago. Marsman estimates that, in the Netherlands alone, 400 million cards are purchased every year. Other popular photo-related products include canvas prints and calendars. The calendars are produced on both digital presses and traditional photo systems, and each order includes a “pencil” so that consumers can write on the calendars.

He showed fascinating slides of some of the various products that he sells: wallpaper on photo paper (which is selling well); roller prints (also on photo paper); T-shirts and polo shirts; glass and Plexiglas; wood - he showed a table top that had placemats with photos of each family member imaged at their “usual spot”; mirrors, name plates for doors and personalized books (with more text than photos).

## The Need for Open Systems Integration

To really be successful, the personalized photo products business model must 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.

## More than just hardcopies

We have heard that many customers who order a hardcopy photobook also order a DVD version. While the hardcopy version combines photos, text and graphics, the DVD photobook can offer so much more: music, video, animation, voice/audio and maybe in the future scents. For today’s younger generation, music plays a much greater role in their life stories than pictures. Is this industry addressing these opportunities?

In the U.S., February 17 was a significant date for this industry: All television broadcasts in the U.S. switched to digital. A major promotion at this year’s Consumer Electronics Show was new digital TVs that were Web-enabled – designed to access Web content. Missing in these promotions was the ability to network these TVs to your home computer and photo-imaging networks.

Four years ago, CeWe Color, the largest independent wholesale photofinisher in the world, demonstrated a prototype digital album that could be stored on a server and accessed from any digital TV merely by using the remote. Unfortunately, it was ahead of its time. Maybe the time is now.

## Author Biography

*Don Franz serves as a group publisher for Photo Imaging News, with hardcopy and PDF editions in English and Chinese. After founding the first industry publication devoted to photofinishing almost 25 years ago, Don’s company has evolved into the Photofinishing News International Consulting Group which has an Excel-based Syndicated Global Market Research and Forecasting service, and offers consulting services, which are supported by a broad team of experienced industry analysts in the U.S.A., China, Australia, Japan and Europe.*