

Picture Perfect Profits: Color Picture Books Are Hot

Wednesday, September 12

Graph Expo 2007



Presented by Steve Johnson

President, Copresco

Contributing Editor, American Printer

© 2007 by Steve Johnson. Information contained in appendices is copyright by the respective owners. Neither Steve Johnson or Copresco endorses any product, service or statement included in the appendices. Information is believed to be accurate, but cannot be verified.

What Is a Color Picture Book?

Conventional Wisdom says: A color picture book is a printed bound book whose chief contents are photographs taken with a digital camera. Color picture books are the spiritual successor to photo albums, scrapbooks, wedding albums, memory books, or any other form of book that used to be filled with photo prints pasted to the pages.

More conventional wisdom:

- Ordered online on a website.
- Created using preformatted templates
- Automated workflow (no prepress)
- Very short run, often single copy (but nobody says “on demand”)
- Shipped via common carrier to end user
- Payment in advance

In fact, the definition is still evolving...and you may help define it!

Johnson's observations:

- All of above elements are not essential
- Market is consumer (although there might be a middleman)
- Quality is mid-grade (although it varies widely)
- Physical aspect (page count, paper, binding, dimensions) varies also

The most interesting observation: **the playing field is level.**

- No single aspect of marketing or production is new or earth-shattering.
- No single niche has a leg up (yet). Photo finishers, conventional printers, digital printers and web developers all have a chance to succeed.

Comparison of Digital Camera Adoption and Printing Methods in the United States, Canada and Australia

Sources: PMA Consumer Imaging in Australia 2007, PMA Consumer Imaging in Canada 2007, and 2007 PMA U.S. Digital Imaging Survey. Note: Figures from January 2007 for United States, March 2007 for Australia, and July 2007 for Canada.

Text (in italics) by Kristy Clairmont, PMA Marketing Research Analyst

Comments by Steve Johnson, Copresco

Digital camera ownership in Australian and Canadian households exceeds that of U.S. households. Digital camera penetration has reached 62 percent in both Australia and Canada with the United States lagging behind at 57 percent.

The variance isn't overly important for us. Two points are important:

1. When this market finally matures, camera ownership will = digital camera ownership. In the United States, this figure nears 100% on an individual basis, and surpasses 100% on a per household basis
2. Digital cameras are penetrating markets that film devices never did, especially in the developing world, which is not included in this study.

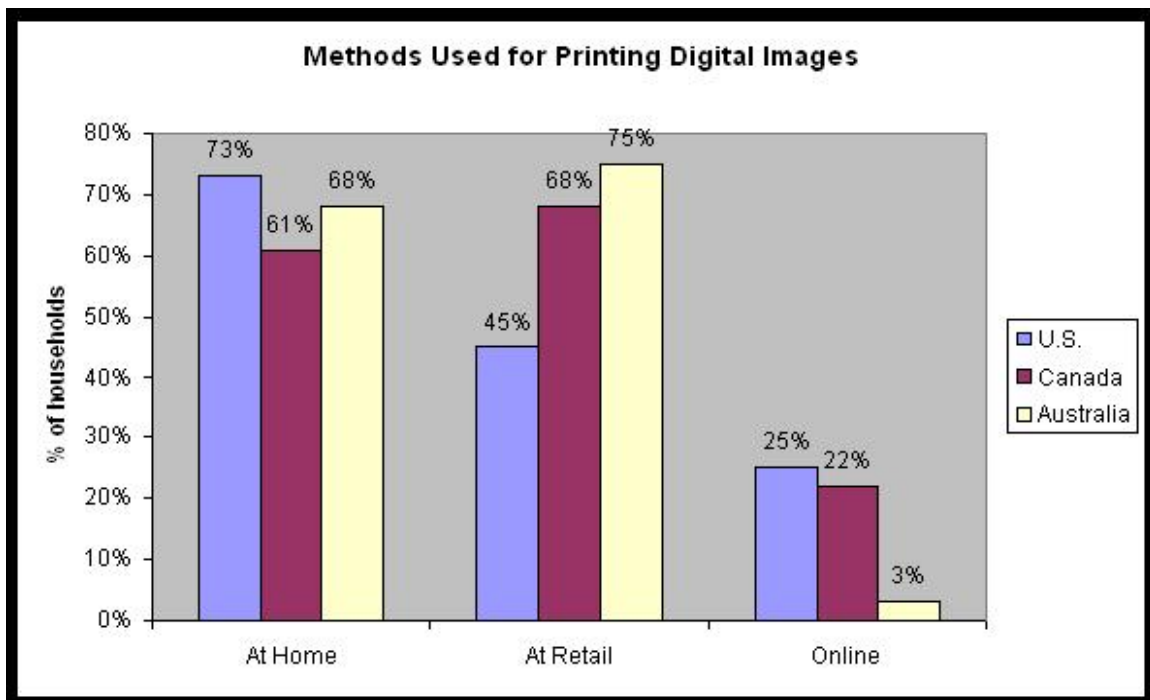
Sixty-five percent of digital camera households in both Australia and the United States printed pictures they took with their cameras while only 60 percent of Canadians printed their pictures.

Unlike film, which was generally developed as soon as the roll was exposed, digital prints are archived on hard drives ("digital shoeboxes") and uploaded to sharing websites. Unprinted digital images can be printed weeks, months or years after the taking. These aren't lost prints, these are a potential gold mine!

Printing at home appears to be most common in U.S. households. Seventy-three percent of U.S. households made prints at home, followed by 68 percent of Australian households and 61 percent of Canadian households. Retail printing fares most popular among Australian households with 75 percent of households

using this method. The United States does not put nearly as much emphasis on retail printing with only 45 percent of households doing so.

Online printing is apparently gaining popularity in the United States and Canada with 25 percent and 22 percent of households taking part in online services, respectively. Online printing evidently is not as big of a hit in Australia seeing as only 3 percent of households were involved with online to mail or online to retail methods.



The gross figures (how many) aren't relevant. There really isn't any accurate way to count. Everyone does agree that the market is huge, and growing at exponential rates, with no end in site.

Another important difference from film: printing methods are not mutually exclusive. The digital images that were printed at home in 2007 (when this survey was conducted) may very well be printed again as a part of a color picture book in your printing establishment!

Trends in Digital Photography and Digital Photo Output

In the above-referenced study by PMAI, the percentages are most important. Of the billions of digital pictures taken, how many are printed at home, how many through traditional retail channels (stores), and how many on-line?

For “traditional printers” (including digital printers, but not photo printers) the market is a “sub-share” of the on-line portion.

Fortunately, the online market is where the growth is, so traditional printers (or non-traditional photo printers) are challenged to grow our market share in a fast growing market. This is the easiest of marketing challenges.

Johnson’s observations:

- Some think retail photo processing will make a strong and lasting comeback, and take back market share. Johnson doesn’t agree. Film processing at a retail outlet is a throwback to...well, to film!
- In fact, continued rapid growth in number of digital images (total pictures taken) means there is plenty for all.
- Ongoing improvements in digital camera technology mean today’s raw images are of generally of very high quality, giving printers more potential to add value. Plainly stated, there are not only more pictures, but more pictures with enough quality to warrant printing in a photo book.
- Cell phones are digital cameras. Pictures taken with cell phones are ridiculed at our own risk. Cell phone camera quality is also improving exponentially. To young people, cell phone photography is no novelty.
- The pervasive presence of broadband connections and high-speed cellular services make internet-based photo websites practical for all.

Corresponding Trends in Digital Printing and Finishing

Digital print quality has “arrived”. For the first time it can be stated with confidence that photo quality (notice that “offset quality” is not an issue) can be consistently produced if the right workflow is in place.

- The universe of digital presses available for color picture book production has risen to a point where there is real competition among vendors, and real choice for their customers.
- Some manufacturers are making efforts to specifically target the photo print and photo book market with their machinery, most notably Xerox with the iGen and Hewlett Packard with the Indigo.
- Vendors who recognize the photo market often provide or have arrangements with partners to provide integrated, front-end (automated prepress) and back-end (inline binding) solutions designed with picture books in mind.
- As digital printing goes mainstream, finishing solutions more suitable to one-off production are proliferating, allowing bind quality to match that produced by traditional higher volume bookbinding methods.

Opportunities in Color Picture Books

This is one type of print that won't be clobbered by the web or other digital technology. In fact, it was "invented" and enabled by these very things.

- Color management is important. This should be an advantage for commercial printers.
- Strict color consistency is less so, since most orders are quantity of one. This allows some latitude for color drift on digital devices, if managed within controlled tolerances.
- Some "wiggle room" is allowable for delivery dates, within reason. This leaves some room for a workflow model that batches orders of similar specification.
- Unlike the photo print processing days of yore, there should be no returned or credits for customer furnished bad prints. The customers have already deleted their bad photos before uploading them to us.
- Color picture books may be broadly defined to include pocket picture books, wedding albums, informal memory books for birthdays, prom, holiday. Don't forget about calendars! Constantly introducing new products that fit well into your workflow can be a key to success.
- Some might say photos are the ultimate variable data print job.

If you are an experienced digital printer, color picture books may be the ideal product/service on which to focus your knowledge.

Corresponding Challenges

There are some challenges involved in color picture books. Photographers and film processors know all about them, but they may be new to commercial printers.

- Overall quality is important. 106 lpi, tape binding, index covers and other vestiges of digital print's infancy have no place here. Customers are used to continuous tone photoprints, and expect similar appearance.
- Permanence is more of an issue than ever before, and it has not been fully addressed. Wedding albums, memory books and yearbooks are expected to last "forever." Light and colorfastness are crucial, as is binding resilience. Printers should test in these areas before adding new equipment. DO NOT take equipment vendors at their word; these factors have not been tested thoroughly enough.
- Integrated workflow systems are not mature: bodies, covers, bindery need to be truly integrated. Most "turnkey" systems... aren't.
- For traditional commercial printers, mindset changes are in order: there is no sales force, no conventional proofing, no manual color correction or "cleanup" of customer materials. If this sounds too good to be true, remember there are no author's alt charges either!
- This is a highly seasonal business! Much of the annual sales volume is clustered around the Christmas holiday season. A proactive and ongoing marketing campaign will be needed to keep costly equipment busy all year.
- Don't forget the bindery! Your current bindery lineup may be of little or no use in the color picture book business. Don't underestimate this fact.

Strategic Positioning Decisions

You are defining this bold new market! Consider carefully!

- Do you have access to millions of dollars in venture capital? If not, Shutterfly.com may not be the best example for you. Consider: is there a niche that fits your firm especially well?
- The big photo sites host members photos. For free. If you are an internet provider, this may make sense. If you are a printer or photo finisher, such a service may not be cost-effective.
- Can you add photos to a blog? Enable sharing with friends? Are you comfortable with “whiz-bang” programming, or do you prefer a more straightforward “upload your files” approach?
- Is outsourcing the front end software a logical option for your company?
- Is the end user/consumer your target audience? Perhaps you will be more comfortable using your sales force to target intermediaries. Example: yearbooks, church directories, even wedding albums may be sold through professional photography studios. This route may also boost quantities to reach DI offset press run lengths.
- What price range are you targeting? What unique or at least different service or product will you offer to justify your price?

In closing: Color Picture Books are a wide open market. Research, plan, strategize, and boldly seize this new opportunity!

Appendix A: URLs for Useful Internet Sites

If you do not relish typing all of these URLs yourself, these links (and a few more) will soon be posted for a while on Steve Johnson's website at

<http://www.copresco.com/stevemsg.htm>

Associations and Conferences

An excellent place to begin is the **Photo Marketing Association International**. If you are serious about entering the photo book market, you'll want to join so you have access to all the members-only content. <http://www.pmai.org>

Memory Trends Expo is the national scrapbooking conference.

<http://www.memorytrendsexpo.com>

Color Picture Books on the Web: the Big Three

Shutterfly may be the best overall example of a consumer-oriented website offering users a total package. The blatant objective of the site is to entice you into ordering prints, including color digital picture books.

<http://www.shutterfly.com> <http://www.shutterfly.com/summermemories>

http://www.shutterfly.com/shop/product_c18000/Photo_Books

Shutterfly's offerings include licensed products. If a color picture book of your little darling isn't good enough, make a book with your child sitting on the steps with all the Sesame Street characters.

Kodak sells empty scrapbooks and photo albums as well, in case you want to order prints and assemble a book yourself, the old fashioned way. Kodak's prices seem a bit more realistic than most. <http://www.kodakgallery.com/>

Snapfish is owned by Hewlett Packard. Guess what type of equipment they use to print your photobooks? <http://www.snapfish.com/>

<http://www.snapfish.com/storephotobooks>

Winkflash is nipping at the heels of the big boys. <http://winkflash.com>

Color Picture Books on the Web: a Plethora of Techniques

Couture Book has a concept that printers might be very comfortable with. The push is for high end quality, ostensibly targeted to the fashion industry. Just photo books, and no attempt to be low cost. The online movie is worth a visit to the site, as long as you have a high speed connection and Flash 9. The movie is a blatant plug for HP Indigo, but provides an insight into their workflow. My favorite part is the faux smyth-sewing with needle and thread.

<http://www.couturebook.com>

My Photo Pipe targets professional photographers. Like so many of these site, the actual printing of picture books is farmed out.

<http://www.myphotopipe.com> <http://www.blurb.com/partner/photopipe>

<http://www.myphotopipe.com/myphotobook>

Lulu approached photobooks as an extension of its on-demand book business.

<http://www.lulu.com> http://www.lulu.com/en/products/photo_books

CaféPress does a masterful job of putting images on clothing and coffee mugs, but seems to be backing away from single run picture books.

http://www.cafepress.com/buy//-/c_804/fpt_____H

<http://www.cafepress.com>

Kaboose has recipes, games, parenting advice and, yes, color picture books.

<http://www.kaboose.com>

Seattle Film Works is attempting a transition from traditional film processor to online printer. Their site includes an affiliate program.

<http://www.photoworks.com> <http://www.photoworks.com/photo-books>

Sony shows us that even huge companies don't succeed automatically.

<http://www.imagestation.com/> Uh Oh!

<http://www.imagestation.com/shutdown.html>

Club Photo is another online train wreck. <http://www.clubphoto.com>

Internet Photo Sites that aren't working hard to sell prints...yet.

Note: All of these sites offer color picture books in some way; they just aren't pushing the product line very hard.

Flickr is owned by Yahoo and uses partners to print. Printing features are hard to find on this, the most popular photo site on the web. <http://www.flickr.com>

Webshots desperately needs a makeover, yet it is one of the top photo sharing sites on the web. <http://www.webshots.com>

Photobucket is also hugely popular for photo posting and sharing.

<http://www.photobucket.com>

Picasa is owned by Google, who doesn't seem to be taking it seriously. Of course, if they ever do decide to get serious, it could have a serious impact on the marketplace. <http://picasa.google.com>

<http://picasa.google.com/features/features-print.html>

Fotolog is ripe for adding picture books services <http://www.fotolog.com>

Apple helps people print their photos at home, and isn't pushing color picture books hard. What would happen if they decided to add 'em to iTunes??

<http://www.apple.com/ilife/iphoto>

<http://www.apple.com/ilife/iphoto/prints.html>

Slide is a "media sharing network" ripe for adding user friendly printing services to its mix. <http://www.slide.com/>

Twango is now owned by cellphone maker Nokia. No color picture books yet.

<http://www.twango.com>

Sites with products and services that may be useful for building a business

Komotion's Showzam enables photo displaying on a website.

<http://www.komotion.com>

<http://www.shozam.com>

PNI Digital enables digital storefronts

<http://www.photochannel.com>

Qoop facilitates printing products from images stored on photo sharing and social networking sites. <http://www.qoop.com>

My Photo Fun is a vendor in the European market. The software that runs their site is available for licensing by printers. <http://www.myphotofun.com>

Photo enhancing products, which can be automated

<http://www.imagetrendsinc.com>

<http://www.ononesoftware.com/ACR>

<http://www.portraitprofessional.com>

Digital Press Vendors

This is a test. If you can't find these guys yourself, you may not be ready to enter to enter this marketplace!

Finishing for Digital Books

Zookbinders is big in this market.

<http://www.zookbinders.com>

<http://www.zookbinders.com/products/photobook.php>

Fastbind Short run casebinding systems

<http://www.maping.com>

Exact Bind also has casebinding systems

<http://www.exactbind.com>

Book Production Systems has information with a Xerox slant.

<http://www.bookproductionsystems.com>

Printers on the Web

These aren't meant to be comprehensive, or even the best; just two examples of finding a niche and getting it right.

Blurb is unabashedly selling print. Download their "how to" book pdf.

<http://www.blurb.com/> <http://www.blurb.com/create/book/explore>

http://downloads.blurb.com/how_to_make_a_book.pdf

Color Centric is also a digital book printer. Xerox uses them as a showcase.

<http://www.colorcentriccorp.com> They print Lulu's books.

...And lastly, know your target audience. Think that no one would ever use a cell phone to photograph a party, then upload images to a printer, on the spot?

You need to read the **Beloit College Mindset List**.

<http://www.beloit.edu/~pubaff/mindset/2011.php>

Appendix B: Interesting Articles and Studies

Sony shuts ImageStation, sends customers to Shutterfly

According to the Sony ImageStation site, the site is closing Feb. 1, 2008.

Uploading, sharing and shopping will be discontinued Nov. 12.

Shutterfly Inc., Redwood City, Calif., announced it was selected by Sony Electronics Inc., San Diego, Calif., as an online photo service provider for ImageStation members with the phase out of that service. Most site features such as upload, sharing and shopping will be disabled on Nov. 12. With this agreement, current Sony ImageStation members will be able to easily transfer photos from their ImageStation accounts to a Shutterfly account. On Feb. 1, 2008, the ImageStation website will be permanently closed and any images left behind will be deleted, says the company.

"We have confidence that the exceptional customer service Sony has provided to its users in the past will continue during this transition with Shutterfly," said Steve Haber, senior vice president of the Digital Imaging and Audio Division of Sony Electronics.

According to a FAQ on the ImageStation site: "Sony Electronics has decided to close ImageStation, its photo sharing service, in order to focus on the company's core businesses, products, and services.

"In the early days of digital photography Sony realized the need to provide an online photo service to support their digital camera customers. In the years since, many capable online photo services have become available and our customers now have a broad range of options for storing, sharing, printing, and creating photo gifts."

GfK Asia reports Asian mobile devices sales top \$22 billion

GfK Asia Pte. Ltd., based in Singapore, releases its 2007 mid-year "Pan Asian Mobile Phone and Digital Imaging Summary," which shows retail sales of color cameraphones continued to dominate the mobile phone market across the 12 countries assessed across the region in the first half of 2007. Of the three categories assessed in the Asian region -- color with camera, color displays without camera, and monochrome -- color cameraphones reported an overall increase of approximately 44 percent in volume, with over 78 million units sold, and 28 percent increase in value, totaling almost US\$18 billion in sales from January to June 2007 when compared to the same time period in 2006. The overall mobile phone market totaled almost US\$22.5 billion in sales in the first half of 2007.

"In the first half of 2006, per unit values plummeted, driven by competitive pressures and high growth in cheaper monochrome handsets in particular country markets," said Stanley Kee, GfK's commercial director, Mobile Phones and Digital Imaging. "While per unit values are still declining in the first half of 2007, the decline is slower than during the same period last year, because color handsets with cameras are gaining market share. The steadying of unit values has allowed the value of the total market to expand as the sales volumes continue to grow."

While China continues to hold the lion's share in Asia in terms of overall mobile phone sales volume and value, with 77 million units sold in the first six months of 2007 and over US\$11.5 billion in retail mobile phone sales during the same time frame, India also holds a significant share at 35 million units sold and over US\$3 billion in sales value in the first six months of 2007. China and India are growing at similar rates, with volumes up 46 percent and 44 percent respectively, and total sales value increases of 28 percent and 32 percent respectively against the same period in 2006.

The region's digital imaging market continued to grow steadily, with volume increasing 20 percent to 7.8 million units and sales value increasing 15 percent to over US\$2.6 billion against the same period in 2006, according to GfK Asia. The increase was driven by steady growth in the majority compact segment (18 percent volume growth and 7 percent value growth) and very strong growth in the smaller DSLR segment (77 percent volume growth and 68 percent value growth). China dominates the regional market, with 50 percent of the units sold in Pan Asia and 49 percent of the dollar value of the total Pan Asian market.

For the first six months in 2007, as in the same time period for 2007, the majority of digital camera sales in Asia were in the compact category, but with DSLR volumes and sales values in China more than doubling over the same period in 2006, the DSLR segment is gaining market share, according to GfK Asia.

Mobile phone data for this report cover China, Hong Kong, Taiwan, Cambodia, Korea, Singapore, Thailand, Malaysia, Vietnam, Indonesia, India and the Philippines. Data for digital imaging sales are from Australia, China, Vietnam, Singapore, Malaysia, Hong Kong, India, Indonesia, Korea, Taiwan, New Zealand, Philippines, and Vietnam.

Canon named leading U.S. digital camera brand in recent study

Recent results from a technology-based study conducted by Ipsos Insight show Canon as the leading brand in the United States for digital cameras.

Approximately one-quarter (24 percent) of Internet users chose Canon as best manufacturer out of a list of 15 brands. Canon's endorsement is highest among those who are younger, college-educated, and with high annual incomes, according to the study. Conversely, Eastman Kodak Co. receives strongest support from older, less-educated consumers, reports Ipsos.

Although Rochester, N.Y.-based Kodak has lost some ground in sales in recent years, these results show Kodak has strong brand support for its cameras in the United States. "Our study results show that consumer perception of the Kodak brand has been more positive than the brand's actual market share figures would reflect," says Leslie Rich, vice president with Ipsos Insight's Media, Entertainment, and Technology Practice.

The Ipsos study also examined ownership of various consumer tech devices. More than two-thirds (70%) of U.S. Internet users reported owning a digital camera and nearly the same amount (61%) reported owning a home printer capable of printing photos. Strongest ownership of digital cameras occurs among young Internet users, while strongest ownership of home printers occurs for the more mature Internet users, according to the report.

"Aside from mobile phones, these two products -- digital cameras and home printers -- are the most common technological devices in households right now. Americans are embracing their love for digital photography and sharing images within their social networks. The online photo storage and sharing industry will benefit from this and continue to grow," says Rich.

Consumers also indicated a desire for cheaper ink cartridges when provided a list of features and functionalities they would be most interested in.

Manufacturers face stiff competition in the ink cartridge business from non-traditional players like national drug store chains and local grocery stores.

Americans 65 years and up most likely to print images received via the Internet

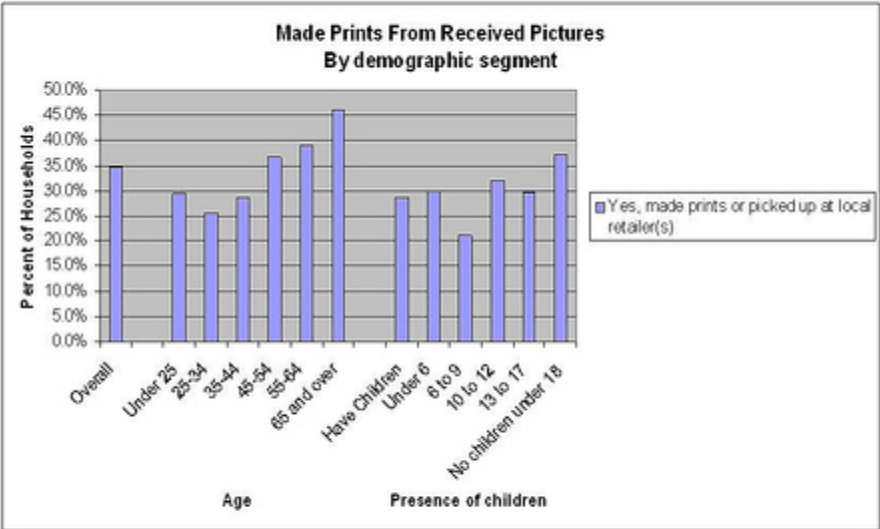
According to the 2007 PMA U.S. Digital Imaging Survey, 39 percent of U.S. households received pictures via the Internet or on CD/DVD from family, friends, and relatives. Of these households receiving images, about 35 percent actually made prints in 2006, down from 39 percent in 2005. Perhaps this is due to the growing popularity of photo sharing sites such as Flickr, where people can store and share a large amount of images quickly, securely, and in many cases, with no charge. Factors such as presence of children and the age of the household head may influence the amount of prints being made from the received images.

Households with young children are most likely to receive pictures via the Internet or on CD/DVD from family and friends, whereas households without any children are least likely to receive images. On the other hand, only 29 percent of those households with children actually printed the images they received, whereas 37 percent of households without any children present made prints of the images they received. Households without children printing more received images is likely to be a reflection of seniors, such as grandparents, or singles who do not take many pictures themselves.

More than half of people age 25-34 received pictures via the Internet or on CD/DVD from family or friends, compared to only 24 percent of those households where the head is age 65 or older, making them twice as likely to receive digital images.

Interestingly, almost half of the oldest households made prints from the images they received in comparison to 39 percent for those age 55-64, 37 percent for those age 45-54, 29 percent for those age 35-44. Only 26 percent of those ages 25-34 made prints from images they received, compared to 29 percent for those under 25 years old. This may be due to the fact that more than half of people age 65 or older do not have an Internet connection in their home. If Internet

usage was more prevalent among older households, the percentage of images received and printed in that age group is likely to be even higher. Therefore, while younger people are more likely to receive digital images, older people who do receive them pose a much greater likelihood of printing the images.



PhotoWorks partners with The Knot wedding resource

PhotoWorks Inc., Seattle, Wash., the online digital photo-publishing company, today announced a strategic partnership with The Knot Inc., New York, N.Y., the nation's leading wedding resource. Under the agreement, PhotoWorks will provide TheKnot.com users with film processing, including image scanning and uploading, as part of a special single-use camera package sold exclusively on TheKnot.com's Wedding Shop.

"Some of the best, most memorable photos from a wedding can be captured by friends and family with single-use cameras. We are excited to provide TheKnot.com with the technology needed to allow their members to easily shoot, share and print those memories," said Andy Wood, president and CEO of PhotoWorks.

Select 5-packs of single-use cameras available on TheKnot.com Wedding Shop will include prepaid envelopes for easy mail-in film processing, scanning and image uploading, as well as a notification email once images are available online. Purchasers of the packs also will receive a PhotoWorks coupon good for 25 free prints on their first processing order. In the coming months, TheKnot.com customers will be able to create and purchase personalized photo products, including photo books, keepsake boxes, greeting cards and more, using their digital photos hosted on TheKnot.com gallery.

A look at printing methods used by various U.S. demographics

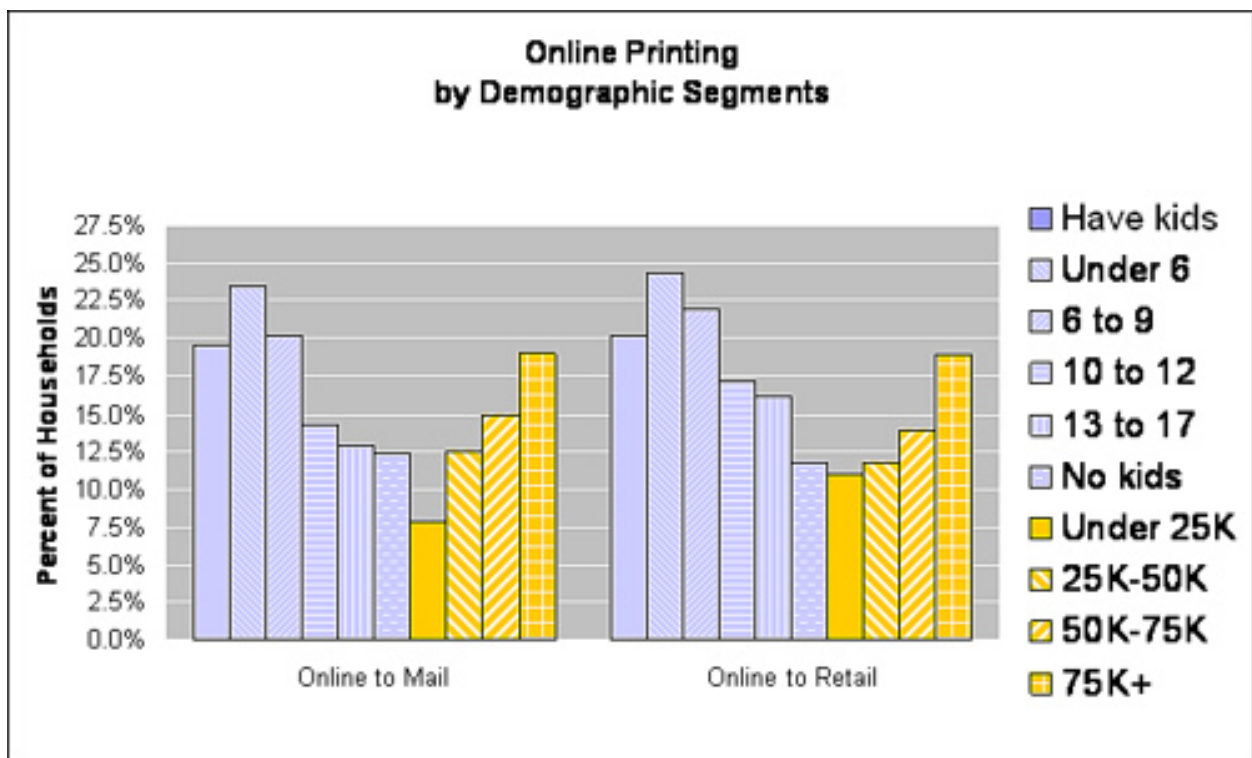
According to PMA Marketing Research, there is not a great deal of variation in individual printing methods across U.S. demographic segments, however, there are a couple of exceptions worth noting. U.S. households without the presence of children under 18 years of age were slightly more likely to use photo printers, 33.1 percent, compared to 25.6 percent of those households with children. This is likely to be a reflection of singles and older households generally having less of a need to make large quantities of prints. Online printing appeared to have the most pronounced activity taking place when compared across demographic segments such as presence of children and income level.

Certainly, households with children are more likely to take interest in online printing resources than those without children. Additionally, for both online to mail and the online to retail method, U.S. households with young children under 6 years of age provide the most stimulation for the market, with numbers steadily declining as the children get older or are non-existent. Twenty-four percent of printing households with children under 6 years old used online to mail services compared to 12.9 percent and 12.4 percent of those households with children between the ages of 13 and 17 and those without any children present, respectively. Online to retail falls from 24.3 percent for households with children under 6 years old to 16.2 percent and 11.8 percent for those households with older children or none at all, respectively.

Another factor that appears to influence online traffic is annual household income. Not surprisingly, as income levels increase, the percent of U.S. households using online printing climbs as well. High income households are about twice as likely to use the online to mail method for printing purposes, coming in at 19 percent as opposed to only 8 percent of low income households doing the same. Likewise, online to retail methods are used by only

11 percent of low income households and 18.8 percent of high income households.

A key element in this equation is that higher income households are more likely to have access to faster internet connections, making them more apt to partake in online ordering. Forty-five percent of total U.S. households have broadband internet connections. Only 21 percent of low income households have a broadband connection compared to the 66 percent of high income households subscribing to broadband. In addition, personalized gift products are now flooding the photo market and may be fueling some of the online orders since U.S. households with younger children and higher incomes are most likely to purchase customized products.



Source: PMA Marketing Research. Note: Data reported is for U.S. households.

By Kristy Clairmont, PMA Marketing Research Analyst

Digitize photos to preserve memories

When Hurricane Katrina hit New Orleans, Karen Duncan and her family were ordered to evacuate their home. Among the possessions that they took were two large trunks, filled with photographs, birth certificates and their dog's immunization records, reports The New York Times. "This is not going to happen again," Duncan said. "The next time, I'm carrying a digital flash drive -- not trunks -- loaded with my pictures."

Preserving records from aging, maintaining documents online for backup, and preventing photo or document damage are a few reasons to consider converting to digital. Digitizing records, whether documents or old photographs, "preserves history and lets people tell their stories," says Mark Cook, marketing director for Kodak Gallery. Consumers may scan or upload their photos themselves, or utilize a service that will do it for them. ScanMyPhotos.com, for example, scans customer photos for \$50-\$100, depending on amount. Digital photos may be saved to CDs, flash drives, external hard drives, and various online photo-storing sites as well.

PhotoWorks launches self-publishing

PhotoWorks Inc., Seattle, Wash., an Internet-based personal publishing company and photography community, launched My Storefront, a new consumer-driven website that lets all PhotoWorks members become sellers. With My Storefront, PhotoWorks has combined e-commerce and self-publishing capabilities with traditional photo site features such as photo sharing and storage with the ability to make photo books and other gifts, which can then be sold.

"There has always been a divide between photo sites that allow people to print, share, and make gift items, and sites that allow people to self-publish. PhotoWorks is bridging that gap by offering all of these great features through one comprehensive photo site," said Andy Wood, president of PhotoWorks.

By using PhotoWorks My Storefront, sellers don't have to worry about Web hosting, payments, fulfillment, and customer service. Every My Storefront page has a unique Web address based around a "username" selected by the owner. Buyers can purchase from multiple storefronts and the main PhotoWorks site in a single shopping cart and checkout process.

Currently, PhotoWorks members can sell their photo books through My Storefront. In the coming months, PhotoWorks also will allow members to sell prints, cards, photo gifts, calendars, and digital downloads. Rights management features will let people securely sell images, and products featuring their images. Plus, site capabilities like widgets -- which allow users to preview products on their own websites -- will give users the tools to be successful producers and marketers.

My Storefront opens up all kinds of new opportunities for both professionals and amateurs. Children's book authors can publish their ideas without having to find an agent or a publisher; graphic novelists have another place to sell their work;

aspiring chefs can try their hand at a cookbook; artists can sell prints; and event photographers can use My Storefront to reach attendees, says PhotoWorks.

The Wall Street Journal compares top five photo sharing sites

With the number of photo-sharing services available online, it can be difficult for potential users to choose which is best for them. In the Aug. 1 issue, page D8, of The Wall Street Journal, five major sites that offer photo storage and sharing services were compared. Kodak EasyShare Gallery, Shutterfly, Snapfish, Flickr and Photobucket were among those compared.

Each site is initially free and rich with features. Two of the five sites, Kodak Gallery and Snapfish, require a purchase at least once a year or photos will be deleted. Each site offers free accounts and all except Shutterfly will upgrade accounts for \$25 a year. Photobucket and Flickr were the top contenders for creating communities with continuous sharing, while Kodak Gallery, Snapfish, and Shutterfly focus on acting as repositories for uploaded images, one event at a time. These sharing sites have storage limitations, while the others don't, says the article.

The article outlines the pros and cons of each site, beginning with Kodak Gallery. The site seems to have the best options for editing photos and is a straightforward way to share photos with friends, says the article. The other four sites offer personal websites as free features, where Kodak only offers this option with paid accounts.

Shutterfly is simple, but not attractive or user-friendly, says the article, although all of its features are free. It doesn't require any purchases in order to keep accounts from being deleted and it doesn't require friends to sign in before viewing a shared album, but it also does not allow videos to be uploaded.

Snapfish is HP Co.'s photo-sharing site, and has the most restrictions. The site requires that users purchase something at least once a year to keep accounts and guests who view albums must always sign in. Snapfish does offer nice sized

images in photo slide shows and high-resolution versions of photos can be downloaded for a fee of 25 cents for one and five cents for more than one.

Flickr seemed to be preferred over Photobucket. According to the article, the Flickr site felt cleaner, with fewer distractions and less advertisements than Photobucket. Each site offers things like tagging and both use terms that can be confusing, says the article. Neither site requires annual purchases, and both allow free high-resolution downloads of photos. Instead of one-time sharing, the sites use photostreams, or constantly updated photo blogs that friends can check, says the article. Flickr allows users to meet people who have interests similar to theirs by searching through Groups. Photobucket lets users create a Remix -- a presentation made of user photos and/or videos after they're dragged into a storyline and mixed in with music, transitions, and graphics.

Each site offered its share of pros and cons, appealing to different users according to desired features. The Kodak Gallery offered the best editing features, Flickr was great for community and high-quality photos, and Photobucket allows users to post photos easily on outside sites.

U.S. online photo finishing revenue expected to exceed \$1 Billion by 2011

A new forecast report from Mass. based InfoTrends says online photo services continue to experience steady growth, resulting in increased revenue for web-based print providers. InfoTrends reports online photo services generated just under \$450 million in revenues from prints and photo merchandise in 2006, and that figure is expected to grow to more than \$1 billion by 2011.

This growth is the result of significant increases in the overall volume of prints and photo merchandise, a consumer shift toward retail and online printing, and a stabilization of print prices after several years of decline. InfoTrends also projects the total number of uploading members will rise at a Compound Annual Growth Rate of approximately 13 percent from 2006 to 2011.

Challenges remain for online businesses. The success of new online story-telling offerings continues to impact consumer use of photo sites, leading them away from printing, as web-based photo viewing becomes the norm for an increasing percentage of the population. In addition, many late adopters of digital camera technology are not expected to share and print as many pictures online as early adopters did. Rapid growth of net-to-retail photo printing is also likely to attract consumers who may otherwise have printed through online pureplays. InfoTrends expects online photo services will continue to expand in image management and storage, custom merchandise, and mobile imaging.

"As retail activity increases, online photo services may become more of a conduit to retail fulfillment. Financially, these businesses may be faced with revenue sharing deals instead of enjoying manufacturer's margins on everything they sell," commented Alan Bullock, associate director at InfoTrends. "On the other hand, there are still many new customers to be gained, and retail partnerships such as those recently announced between Shutterfly and Target, Kodak Gallery and Best Buy, and Kodak Gallery and Target, can expose many

more consumers to available products and services, and should result in overall growth."

"Fogeys" flock to Facebook, says Business Week

Palo Alto, Calif.-based Facebook, the online hangout for college kids and recent graduates, is growing up, reports a recent BusinessWeek article. The site has amassed an audience of 33 million Web users, initially by catering to kids who use the social network to talk with friends, share photos, and swap music tips -- all while consuming ads from Generation-Y brands like Apple, Jeep, and Red Bull.

Lately, an influx of older users -- professionals in their 30s and 40s -- is changing the face of Facebook, says the article. Among Silicon Valley executives, journalists, and publicists, Facebook has become the place to see and be seen. Factor in plans by Microsoft Corp., Facebook's biggest business partner, to help turn the site into a tool for making professional connections. According to the article, Facebook could be on the cusp of expanding its advertising roster, increasing value as a possible buyout target or initial public offering candidate, and challenging professional-networking site LinkedIn as the place for recruiters and investors.

Older users are behind the recent traffic surge at Facebook, which says it signs up 150,000 new users a day. In June, 11.5 million of the individual visitors to the site were 35 or older, more than double the number a year before, according to market researcher ComScore Media Metrix. The 35-and-up crowd now accounts for more than 41 percent of all Facebook visitors.

Today, Facebook's main professional value is "building social capital" among business contacts, says co-founder and vice-president of product engineering, Dustin Moskovitz. He's referring to the informal banter, such as through status updates and games with industry friends on the site that can grease the wheels for interaction when work needs to get done.

Informal interaction could be just step one in Facebook's plans to burnish its professional credentials, says BusinessWeek. Microsoft is helping the company with technology that could turn Facebook's data on members' names, ages, connections, and tastes into directories of users accessible by business software programs.

In May, Facebook announced that it would let third-party software developers tap into its user data to build miniature software programs that could make the site more useful. Microsoft recently released design software that can let nontechnical users combine Facebook data with elements of other websites and blogs like Microsoft's Virtual Earth and Yahoo's Flickr to create new programs.

In July, myPhotopipe.com Inc., Atlanta, Ga., an online provider of digital photo processing, photo finishing, photo sharing, and related services for the professional and serious amateur photographer, announced an agreement to acquire a minority interest in Digital Gallery Ventures LLC. The Scottsdale, Ariz.-based company creates Facebook applications for digital photo editing and printing. myPhotopipe.com will be the only printing partner for Digital Gallery LLC.

Shutterfly revenues up 52 percent in second quarter, losses stabilize

Shutterfly Inc, reported second-quarter revenues were \$29.9 million, up 52 percent from the \$19.6 million recorded for same quarter last year. The company's quarterly loss was \$2.4 million, compared with \$2.1 million last year.

"Strong execution across our business drove robust growth across the board -- in overall revenues, in revenues from personalized products and services, in orders and in transacting customers," said Jeffrey Housenbold, president and CEO. "Shutterfly continues to grow rapidly in the expanding markets for social expression and personal publishing."

In the quarter, Shutterfly said it had 731,384 customers, who placed 1.46 million orders with an average value of \$20.44. The prior year quarter had 517,518 customers placing 1.04 million orders worth an average of \$18.86 each.

Shutterfly Inc.

In thousands of U.S. dollars

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Net revenues	\$29,877	\$19,637	\$56,582	\$36,520
Net loss	\$(2,439)	\$(2,093)	\$(3,500)	\$(3,658)

In other highlights, "Personalized Products and Services" -- defined as "Non-print revenues" including folded greeting cards, calendars, photo books, photo-based merchandizing, and other products -- grew 88% to \$15.6 million in revenue in the quarter. Gross profit margins were 50.4% of revenues, as compared to 50.3% of revenues for the second quarter 2006. The company ended the second quarter 2007 with \$104.0 million in cash and cash equivalents.

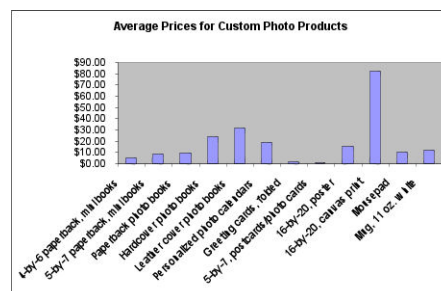
Custom photo product offerings, prices remain competitive

Currently, PMA Marketing Research has been surveying the websites of leading online firms and major retail photo sites and tracking the prices and activities associated with customized photo products. It is apparent the photo market has experienced some shifting. The demand for prints may be declining, but only to make way for more unique ways of displaying life's priceless memories. In recent times, sales of customized photo gifts have accounted for a respectable amount of revenues in a market that once relied more on the sale basic prints.

The market for personalized gift products has been growing for quite some time, and it appears that this progression will continue to propagate. Many personalized photo gifts are now standard offerings, as depicted by the fairly stable prices, indicating the competition taking place between the various sectors of the market. Driving summer sales of custom products appears to be particularly important for the prominent online photo sites, as indicated by summer specials taking place. Exclusive photo sites such as Snapfish, Shutterfly and Kodak EasyShare Gallery make up a large portion of the online photo market, but retail photo sites are also becoming more and more elaborate. This is made possible by the strategic partnerships continuing to fuse in the digital market.

Overall, average prices for various custom products may be experiencing a slight decline given the abundance of options when it comes to choosing just where to place an order. Several online sites and retailers are offering a myriad of custom products at prices that are below the market average. Popular photo books are offered on virtually every online and retailer photo site. Average prices for 4-by-6 and 5-by-7 soft cover mini books are \$5.53 and \$8.38, respectively. Standard books weigh in at an average price of \$24.34 for the hardcover (cloth, linen, suede, etc.) and \$31.41 for a leather cover version. Standard size soft cover photo books are also emerging at an average price of

\$9.39. Greeting cards and postcards are also gaining popularity, averaging \$2.03 and \$1.22, respectively. Many of sites exhibit posters and canvas prints for the average price of \$15.27 and \$82.19, respectively. Other miscellaneous gift items such as personalized photo calendars, mugs, and mousepads are being sold for an average of \$19.06, \$12.19, and \$10.15, respectively.



With the amount of households owning digital cameras still growing, it is no wonder the custom photo gift market as a whole is maturing as well. Excluding the production of CDs and DVDs, 18 percent of U.S. households had devised a personalized gift product of some sort. Twenty-seven percent of digital camera households created custom gift products and 6 percent of non-digital camera households did the same. These figures are even higher when we incorporate the assembly of CDs and DVDs which may later evolve into the production of a personalized photo gift.

The remaining question is what will it mean for retailers when the custom photo products on the market become too conventional? They just may have to conjure up more novel approaches toward keeping consumers intrigued.

PMA Data Watch: Online photo prices -- how they compare

On a quarterly basis, PMA Marketing Research makes it a priority to monitor the most current prices and activities of several online photo sites. While many prices remained consistent, approximately one third of the online sites listed experienced some fluctuations this quarter. Many of these changes benefit customers. Previous online photo price postings can be viewed on the PMA Marketing Research website.

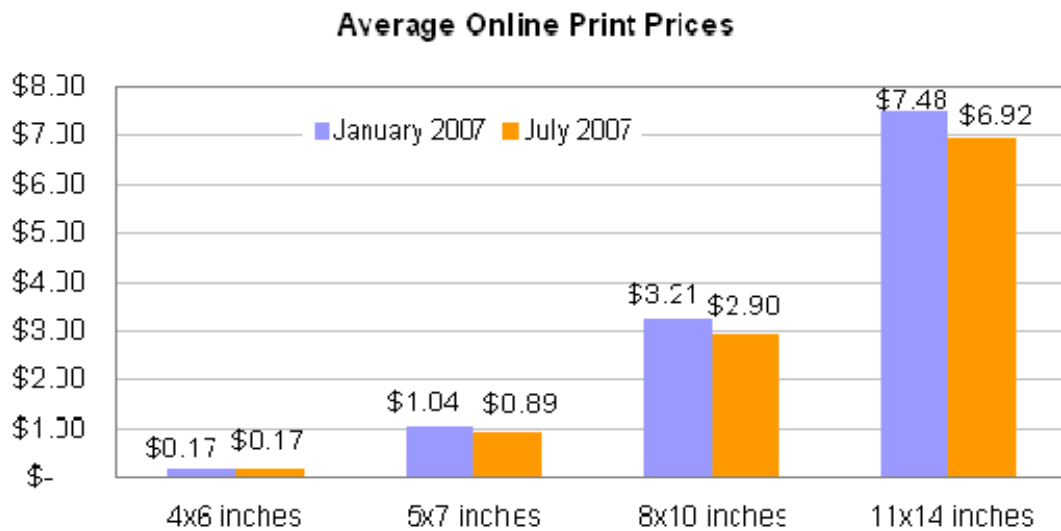
Overall, print prices seem to be on the decline, also pointing out the high level of competition going on between various options available to customers. Since January, the average price for a 4-by-6 print has remained stable, however, average prices of 5-by-7, 8-by-10, and 11-by-14 prints decreased from \$1.04 to \$0.89, \$3.21 to \$2.90, and \$7.48 to \$6.92, respectively.

Changes in structure of online photo sites seems to be on the rise, indicating the fierce competition taking place in the industry. Yahoo! Photos is closing its website on Sept. 20 and directs customers to the replacement site, Flickr. Photo sharing is highly emphasized on Flickr. Prints or other photo product fulfillment are handled by outside vendors linked into Flickr. Another change taking place is the conversion of Best Buy imagelab to Best Buy Photo Center at Kodak Gallery. (The Best Buy imagelab site closed on April 2.) Since merging with Kodak EasyShare Gallery, Best Buy Photo Center has lowered the price of 4-by-6 prints and shipping to match that of Kodak. Lastly, Club Photo has been removed from the market only to have Winkflash jump to retrieve photos for previous members at their discretion. Winkflash also offers customers a much lower price when it comes to the online ordering of any size prints.

Personalized gift products are among the most popular products featured on virtually every website. Many sites offered special discounts to promote the sales of these products. most common were greeting cards and invitations for special occasions and photo books to showcase summer events and trips. Many online

photo sites are also putting a great deal of emphasis on photo storage, at least up to a certain capacity, as well as photo sharing. Lower print prices also seemed to be the consensus for most of the sites that reflected changes in prices this quarter.

A more detailed report on online photo prices is available for members only on the PMA Marketing Research site [here](#).



Average prices exclude Canada; Average prices exclude volume discount rates

Shutterfly not worried about big competitors, looking outside the photo market

Shutterfly Inc., Redwood City, Calif., is focusing on acquisitions outside the photo arena, and aims to remain independent despite increasing competition as the industry consolidates, reports Reuters. Chief Executive Jeffrey Housenbold says he is looking at targets such as greeting card companies and stationary makers.

"Where we are also playing is in the greeting card industry, dominated by Hallmark and American Greetings, which haven't innovated in 100 years, and the scrapbooking industry, a \$3.1 billion industry," Housenbold told Reuters. "We are looking at assets across the Internet that help people express themselves and self-publish."

Shutterfly, citing InfoTrends data, says it leads the market with about a 31 percent market share, just ahead of the Kodak Easyshare Gallery and HP's Snapfish. Housenbold tells Reuters he is not threatened even by the prospect that Google Inc., which runs the Picasa photo service might some day use its deep pockets to elbow into the market.

Housenbold said bigger rivals often are unfocused and begin to lose relationships with customers and a focus on innovation. He is confident that Shutterfly will continue to be a rival for larger companies.

Online photo business grows more competitive

Internet photo sharing sites that were virtually unknown a year ago are growing quickly as more consumers go online to share and develop photos, reports Investor's Business Daily. That's prompting bigger players such as News Corp. and Google to acquire promising startups.

In May, News Corp. purchased Photobucket.com, the Web's leading online photo site. Analysts say Photobucket will help bolster the company's MySpace.com social networking service, reports Investor's Business Daily. MySpace has let its users share videos, but not photos.

Google also stepped in, acquiring a little known site called Panoramio. The service lets consumers store photos and link them to maps. Panoramio is Google's second foray into online photo-sharing. In 2004 Google acquired Picasa. Traffic to Picasa's new photo-sharing site, which works closely with the software, jumped from 587,000 visitors in April 2006 to 3.5 million in April this year, says comScore.

Photo sharing is a sign of the Internet's evolution, says Greg Sterling, head of Sterling Market Intelligence. Young people tend to be big users of photo sharing sites; their shifting tastes mean unknown services can grow popular quickly.

"There is a sort of buzz factor," he said. "It's exactly like fashion; the same sort of mind-set applies."

In addition to ads, some photo-sharing sites make money by selling users physical prints of their photos and subscriptions for more storage, says Investor's Business Daily.

Traditional retailers -- which stand to lose photo-processing sales -- are quickly moving online. In October Wal-Mart launched an improved version of its online photo center. Upgrades included a redesigned site with unlimited long-term storage and improved printing and sharing services. According to comScore,

traffic to Wal-Mart Stores' Photo Center, which had little online presence a year ago, is up over 700 percent -- far and away the most growth of any online photo site.

In May Shutterfly, the Web's only publicly traded online photo sharing company, launched a partnership with Target to offer online photo ordering and related services on the retailer's website. (Target also offers online customers the option to use Kodak Gallery through its site online.) Over the last year, traffic to the Shutterfly site has dropped 7 percent, to 3.3 million visitors in April, says comScore.

On June 12, Yahoo-owned Flickr launched its service in seven more languages, including Chinese. Yahoo is throwing more weight behind Flickr as it prepares to shut down its older Yahoo Photos site this fall, says Investor's Business Daily. Flickr lets users post up to 100MB of photos a month for free. Those who want to show off more pictures can pay \$24.95 a year for unlimited uploads and premium features. The company also sells ads on its site.

Over the last year, consumer traffic to Yahoo Photos has dropped 27 percent, falling to 7.6 million visitors in April. Visitors to Flickr jumped 68 percent over the same period, hitting 7.8 million visitors in April, says comScore.

Appendix C: Relevant Opinions

Who is buying all those photo books?

Not me - I have looked at several online options for creating them, but have never gotten around to actually producing one. Prior to getting a digital camera, I used to throw all of my prints into a shoebox, thinking I would eventually make an album or scrapbook. That was six shoeboxes ago. Now I just save my photos on CDs and throw the CD in a box.

But apparently my fellow consumers aren't so lazy. A recent PMA Marketing Research report found that 21.4 percent of households that made no prints from their digital cameras in 2006 purchased some other photo-related product or service such as a photo book, personalized calendar, or other item.

The association further noted that this figure practically doubled from 2005 when only 12.3 percent of the members of this group made photo-related purchases. According to PMA: " In terms of absolute numbers, the size of this group went from about 7 million households in 2005 to almost 15 million households in 2006."

When it comes to personalized calendars, however, the O'Brien family is definitely doing its part. Every year my sister and sisters-in-law join forces to assemble a calendar featuring my sixteen nephews and nieces. Which brings me to my next question. Do men buy photo books? Because we know they don't buy very many greeting cards - the Greeting Card Assn. (GCA) (<http://www.greetingcard.org>) reports that women buy 80 percent of them.

I'd also like to know if photo book vendors have to cope with seasonal demand: super busy in November and December but super slow in January?

Katherine O'Brien, Editor, American Printer Magazine

Someone is going to have to come up with a better name!

Ok, I have to confess. I still refer to a digital camera image (a data file) as a photograph. But what is it really? Clearly the industry has already redefined what a photograph is and the rest of us just haven't caught-up, or we just haven't figure out a better name.

So what do we say when we take a nice "picture" on our digital camera? Wow, I have a nice data file of you? I have a nice digital image of you? Or, you make a great tif or jpeg? Oh well, we'll figure this out later...or maybe not.

The bottom line is that the photo industry has already transformed itself. I was blown away the first day at PMA with the number of people who want to print photo books and similar products.

Clearly the technology has already enabled another whole category, and we saw evidence of this everywhere on the show floor—from necklaces and ornaments to personalized postcards, key rings, T-shirts, purses, mugs, mousepads, birthday cakes and more. Formally know as "ancillary photo products," these novelty items are anything but secondary.

But just like the term "photograph," we haven't found a new name to reflect this booming business trend. What was a "photo," is now an image, and what was ancillary is really now "main stream."

It really is interesting to see all the options for photo-(there's that name again, ugh) taking consumers. The most exciting part for me, was talking to all the young entrepreneurs who wanted information about printing technology, finishing and the all-important workflow to produce photo (here we go again...) products for our kids, and the next generation of photo-consumers. What are all these really young entrepreneurs going to do next? Stay tuned...

Oh, another thing is scrapbooking. There is actually a “scrapbook pavilion” at PMA – Who would have guessed ? And it is HUGE!

So much for the term “ancillary products”, I rest my case...

And please, someone come up with a better name...

Tony Leone, Workflow Customer and Field Engagement Team, Xerox

Picture Perfect Profits

Ask any consultant, academic, or equipment vendor about digital opportunities, and they'll give you a knowing look and say, "Color picture books are hot!"

You'll probably nod in agreement, then call me to ask, "Johnson, what in your world are color picture books?"

Forget shoeboxes full of photos or disks filled with digital images. The photo book market (for lack of a better name) is predicted by Dr. Frank Romano of the Rochester Institute of Technology to grow to surpass a billion dollars by 2010.

Consider a few facts about what can be loosely called the amateur photography market. This includes Joey's first birthday, where the photographer, the subject, and the image quality all fit well under the amateur label. The amateur moniker also applies to the wedding and yearbook business, where the photographer is professional, but his subjects are not.

At the top end is the doctor by day whose picture taking hobby has become so serious that he now hires professional models for his art photo sessions. Though he is an amateur, his quality of work is anything but.

In all of the above the resulting photos are not for resale, but are created strictly for the pleasure of the interested parties. (The wedding photographer sells prints, but his market is limited to his subjects.) If amateurs want to see their photos in print, they will have to take responsibility themselves.

For a century pictures have been printed by exposing photo-sensitized paper to light projected through film. Those days are gone. Photographers at the very high professional end still use film, as do some high school classes. These people aren't our market.

The color picture book market encompasses every picture taken for pleasure or posterity. All of these prints that were once printed by color photo labs, by camera shops, and by the corner drug store, now have the potential to be printed digitally, using laser, ink-jet, or even offset technology.

The playing field has been leveled by digital photography. Traditional photo labs no longer have the compelling edge that projecting light onto sensitized paper once gave them.

We have room here for one example to demonstrate what color picture books are in the minds of our potential customers, and what they expect from their vendors.

I have four kids. Each has a birthday party every year, attended by four grandparents, fourteen aunts and uncles, fourteen cousins, plus some great aunts and uncles.

That's about 44 people, many taking pictures. Adults use digital cameras, teens use camera phones. We might wind up with two hundred good photos all told.

In the old days, each shutterbug would have taken their film somewhere to be developed. A few dedicated souls would dutifully paste them onto elaborate scrapbook pages. Many would toss them into a drawer, to sort "later".

Now, everyone uploads their pictures to their home computer as soon as they leave the party. Some email me sample photos that night. Within a day party pictures are posted on personal websites and on public photo sites that allow members to display and share pictures for free.

People still want their pictures printed, to show Aunt Sara (who refuses to own a computer,) to pass around the office, and to look at while sitting on the couch. We could order digital prints of each picture. Or, we could order a color picture book.

We impose the two hundred photos good party photos onto pre-formatted templates that we choose on-line, two per page. Now we have a one hundred page book, filled with photos of adorable children or grandchildren from ten different households. A nice little digital printing order.

Do a good job for me, and I'll order more books. Four times each year, plus Christmas, Thanksgiving, and Fourth of July. My siblings will do the same for each of their fourteen kids.

We are used to paying for photo processing, so do a good job, make life easy, make my children look good, and I'll fork out a pretty penny for a priceless keepsake.

Not ready to buy an iGen? The single mother with an only child and no extended family also wants the best for her angel. She'll have fewer pictures, so lighter duty equipment and a format with fewer pages would serve her well.

Or target the family with twelve grown brothers and sisters, with an average of five kids each. Earn their business, and print their picture books on an offset press. There are many possibilities, and the market color picture book market is still being defined. What opportunities can you think of?

Steve Johnson, Johnson's World 8/07, American Printer Magazine