

White

Understanding Stock Licensing Models

Stock Artists Alliance

Paper

Report

Increasing pressure on individual photographers to diversify their business models have many considering stock as a way to achieve this goal. While most engage in Rights Managed licensing, some are considering the Royalty Free model. Confusion about the differences between these two licensing models has left many photographers concerned how their decisions could impact their bottom line as well as that of the overall photography industry.

The StockArtistsAlliance, a global trade organization has created this white paper to assist photographers in making a better, more informed business decisions on how to best market their images so that their businesses will continue to prosper in the years ahead. SAA advocates the Rights Managed licensing model vs the Royalty Free model as we believe it to be the most equitable for all parties involved.

Definitions

The basic distinction is that a Rights Managed license is defined by USE, whereas Royalty Free is a license defined by UNIT.

Rights Managed (RM) license fees are based on specific USE. Since all uses are recorded, clients will know ahead of time if there is any conflicts or concerns. The RM model allows clients to license an image with varying degrees of exclusivity, such as by category or geography in a specified time period.

Royalty Free (RF) licenses are based on UNITS and the RF license fee is essentially a standardized 'purchase price' for that unit. A unit could be a single image, a collection of images, or even a subscription period allowing unlimited access to images. The terms of an RF license grant clients virtually unlimited usage rights, so that the same image can be used by any company for any number of uses with few restrictions.

A Brief History of Stock Licensing Models

Picture libraries had long existed as a niche resource for commercial and editorial image users, but it was not until the 1980s that stock started to become widely used as an alternative source. For clients accustomed to assignment pricing and dealing directly with photographers, stock collections offered an attractive option for finding immediately available images without paying for the related production expenses.

The original stock business model was Rights Managed (RM), also referred to as Rights Protected. This “license by use” model grew out of the traditional pricing structure and terms of assignment photography, so was universally understood and accepted by all parties - photographers, agents and clients. Stock agencies maintained extensive files of RM images and promoted a select group in printed catalogs that were published several times a year. Stock agencies serviced clients by researching and compiling images for clients to review, and fulfilling orders by shipping them transparencies.

As the quantity, diversity and quality of the stock image collections improved, so did the level of clients and uses. With the rapid evolution of digital technology in the early 90s, the stock industry moved quickly from analog to digital and the image “catalogs” moved from print to searchable web sites. The need for client service declined as more of the functions were automated. Digital technology also provided the tools for the development of an alternative stock business model, Royalty Free.

Introduced in the early 90s, Royalty Free offered clients a streamlined approach to stock image licensing by exploiting the economies of digital search, e-commerce and digital delivery. It also introduced simplified pricing, casting aside the traditional “license by use” model and shifting to a unit-pricing approach. With the introduction of Royalty Free, the stock industry moved into the commoditization of the image licensing process.

RF was originally marketed as CD collections that bundled groups of up to 100 images by theme and consisted largely of simple “clip art style” imagery. Priced at a few hundred dollars for a disc, this was an unprecedented bargain for image users. With the growth of searchable websites, RF expanded to online delivery of single images. Single images offered clients the option of purchasing a range of file sizes (from 1MB to 70MB) with varying price points (from \$29 to \$499).

While CD collections continued to sell, single images quickly became the dominant RF product.

The Royalty Free business model had initially targeted lower budget users and uses, but that all changed when the broader market of existing stock users responded enthusiastically as well, perceiving RF as a “bargain” and “hassle free” alternative to RM. *Visuell*, a leading international publication in the picture licensing industry, described RF's appeal to clients in this way:

“Even though RF is on no account cheaper than RM material in many application areas, clever marketing strategies – supported by pithy claims like “Buy once and use as often as you like” – appeal to the way of thinking of those who like to save a penny or two.”

Clients of all sizes and budgets bought up CDs and built up in-house picture libraries to use everything from comps to ads. Now that higher budget clients were purchasing RF single images, RF marketers shifted strategy quickly to meet the growing demand and address their image needs. Having saturated the market with basic CD collections, they focused on developing higher production images of people in lifestyle and business settings - the top-selling Right Managed subjects - and directly targeted RM clients and uses.

Feeling pressured by growing client demand for RF – and the impact it was having on their core RM businesses - one by one, nearly every established stock company launched an RF division. They were joined by new companies who invested primarily in the RF business. It's fair to say that RM was moved to the back seat while stock distributors re-focused their resources on RF and, as a consequence, allowed the unimpeded encroachment of RF on RM.

In less than a decade, stock changed from a world of Rights Managed catalogs and analog files to a digital marketplace with two directly competing licensing models, both widely used by image buyers. Today, it is estimated that RF accounts for over half of the volume of licenses made while RM continues to generate significantly more revenues, estimated at two thirds of the total stock market. Looking ahead, it's clear that the industry is facing serious challenges should it continue on this course.

The Impact of Royalty Free

A clearer picture is now emerging of how the Royalty Free business model has adversely affected the market for stock imagery. The consequences of this “simple” solution to stock licensing that gives away so much for so little are becoming more apparent to any observer willing to take a closer look.

Lost Revenue

Current industry revenues are estimated to be around two billion dollars a year but have flattened out in the past few years after a period of growth. There is compelling evidence to suggest that Royalty Free is responsible for diminishing the revenues made for image licensing by a significant amount. RF has not only deflated the fees paid per license but by offering unlimited use, it has lost the potential for future revenue as well.

We are seeing the fallout in the growing disconnect between image usage and purchase intentions. Surveys of image buyers suggest that more of them are re-using RF images, especially those who are most cost sensitive. So, after the huge short-term revenue gained by the sales of RF CDs, the consequences are reduced purchasing by the very market that the RF marketers were originally targeting.

Another issue relates to the inability to track RF uses since clients simply pay the unit purchase price and feel that they essentially “own” the image, regardless of the fine print. This perception of a carte blanche license, which has been perpetuated by RF marketing approach, has certainly led to extensive unauthorized use of RF images. For example, a design firm purchasing RF CDs with a license for one client may then use the images on projects for many different clients.

As Royalty Free brands reposition themselves at the high end and low end of the spectrum to target different users, we are seeing new strategies to attract budget users through increased promotions and deeper discounting. A growing segment is RF subscription sites which offer unlimited access to an online collection for one flat fee in the hundreds of dollars. One subscription site actually mentions that there is a “maximum download” of 200 images per day allowed. So, RF images that once sold for dollars are now being sold for pennies.

We can only speculate as to the magnitude of lost revenues for the stock industry because of the “over generosity” of the RF model, as well as from what appear to be extensive unauthorized uses.

Illogical Pricing

According to the skewed logic of RF single image unit pricing, a small local client printing a poster would pay more than a major corporation pays for an insert in a widely distributed brochure. This results in a huge potential loss of revenues from major clients who should and easily could pay more equitable fees for the license of images.

RF pricing logic is even more flawed in an increasingly digital world. Take the example of a client needing an image for a large electronic use versus another client needing an image for a small print project. Since Royalty Free only “values” image units, the small print license costs four times what the electronic use costs, regardless of scale and scope of the uses.

The disconnect between price and use becomes an increasing concern as the media mix shifts away from print and more into electronic media. With the spreading use of broadband both at home and work along with the growth of online advertising (expected to double in the next five years) and emerging new digital media, there will be increasing demand for imagery.

As image use for digital media applications expands, we expect the net effect will be an overall DECREASE in the average size of image resolution needed. By offering lower prices for smaller files, RF is in effect “discounting” electronic media uses, giving away even more to clients than it has already. So, a licensing model that prices images by FILE SIZE offers a flawed business model for the digital age.

The Rights Managed model, by basing price on usage, needs to capitalize on the opportunity presented by the expanding digital markets. However, to do so, stock distributors will need to rethink RM pricing to accurately “value” electronic media uses, rather than undervaluing them as is the case with large publishing clients for whom digital use is considered an “add on” to a print license, or bundled into a bulk deal.

In the emerging marketplace, the VALUE of imagery in digital media usage needs to be fully recognized by image distributors and compensated for by image users. This will require some major overhaul of the current stock pricing approaches.

Image Overload

Royalty Free images continue to flood the marketplace, and the sheer volume of RF content is dominating image searches by clients. A key factor is that the RF image inventory is proliferating at a far greater pace than RM due to aggressive production and loose editing standards. In contrast, Rights Managed collections are accepting diminishing numbers of images and editing more tightly than ever.

Also, most clients use the “default” setting when searching for stock images online which means that they look at RM and RF images side by side. What they are now accustomed to seeing is a selection of RM images surrounded by a much larger volume of RF images, including many close “similar”.

Another reason is that the RF collections are represented across multiple distribution channels – some brands use over a hundred – so buyers see these images everywhere. In contrast, RM images have far more limited distribution channels, usually geographically distinct, so the net effect is that RF images are increasingly dominating what clients see.

The continuing popularity of Rights Managed licenses is all the more remarkable given the intense competitive environment in which RF imagery dominates, along with its “bargain” pricing and unlimited usage rights.

Rights Managed, with its tracking of usage rights, has traditionally provided image users with information on competitive uses and the option for “exclusives”. In contrast, clients who use Royalty Free images are exposing themselves to potentially embarrassing usage conflicts as there is no information on licensing history as well as a much higher volume of uses.

A recent example is two major computer companies using similar RF images for their Back-to-School promotions. *The Inquirer* headline read:

“This young lady going back to college appears to have a bit of trouble deciding whether she wants a Gateway or a Dell PC”.

It is hard to understand the appeal of Royalty Free to major companies who invest millions to build their brand identities. For them, neither the RF bargain rates nor the unlimited usage would appear to be sufficient incentive to gamble with the potential consequences of conflicting uses by anyone else who can pay a few hundred dollars for an image, let alone a chief competitor.

Another issue arises from the particular appeal of Royalty Free images to those clients with “sensitive” products such as certain pharmaceutical products, sexual aids, tobacco and weapons. While these are all lawful uses, RM brands often have “sensitive subject policies” in place so that images cannot be licensed if they are unacceptable to the photographer or talent.

As a result, these types of clients are particularly attracted to Royalty Free. The consequence of this “benefit” to one kind of client is the embarrassment to another as in the following case reported by the *Cincinnati Enquirer*:

“The black-suited man in the print ad wears a wide, satisfied smile. But is he selling computer software - or a sexual aid? Actually, both.”

When the billion-dollar software company learned that the Royalty Free image it had licensed for a major ad was the same image used on the cover of a sales brochure for erection-enhancement tablets, they pulled the ad and complained that they wouldn’t have used the photo if they’d known its history. The response from the RF company spokesperson summed it all up accurately:

“The upside of a royalty-free image is unlimited use. It’s also less expensive. The downside - and we make it very clear to our customers - is that it can be used by any company in any number of uses with no restrictions.”

It appears that the terms of the “simple” RF model are not so clear to some of the top users of stock imagery and who may only have seen the benefits and not considered the liabilities. As more cases of conflicts arise, we expect client frustrations to increase.

Devaluation of Images

Royalty Free has also dramatically affected how clients VALUE images. By giving away virtually unlimited rights for anywhere from a few dollars to a few hundred dollars, RF has diminished both the financial and the creative value of professionally created images for clients. Today, clients working with photographers on assignment increasingly question the costs associated with an image, and more and more are pressuring for lower fees and more rights in commissioned work.

Furthermore, stock distributors give buyers conflicting messages about the “value” of images by representing RM and RF side-by-side on their web sites in printed promotions, and through increased discounting (such as free image downloads and half-off deals).

The fallout is that RF has discounted images, both in terms of economic value and what clients perceive as “reasonable” compensation for original photography by both assignment and stock photographers alike.

The producers and distributors of Royalty Free have irrevocably changed the stock industry in just a decade. By flooding the marketplace with a glut of images offered to clients at overgenerous terms, RF has spurred the devaluation of professional photography and created a tougher business environment for professional photographers to make a living.

Thanks to Royalty Free,

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The Royalty Free

Proposition to

Photographers

The introduction of Royalty Free sent a shock wave through the first generation of stock photographers who were accustomed to a business of exclusive relationships with their stock “agents” and Rights Managed licensing. They watched as the industry – and their own representatives - embraced this new licensing model that not only commoditized images by selling them as “units” for low prices, but also offered the creators of the images a dramatically reduced share of the revenues.

Even so, success stories circulated widely about photographers who had shot RF and this fueled interest among other photographers to engage in shooting RF. No doubt this was a boom time for the pioneering RF companies and their contributors as clients snapped up the first generations of RF CDs. These collections of simple objects were so economical to produce and in such great demand that they were highly profitable for both photographer and distributor. As the RF business grew, competition intensified, productions became more expensive, and the compensation offered to photographers declined as the RF content developers could always find someone to shoot for less.

Another source of images has been to re-route existing inventory from RM files into the RF collections. Some companies have sought out content from RM photographers with back catalog images and outtakes that they had rarely or never licensed, and some RM shooters profited from the sale of their archives of older images. Companies with both RM and RF divisions have encouraged their RM contributors to submit to RF images that would not make the RM “cut”, the rationale being that it is better to make some money than none.

To make matters worse, stock photographers have watched their acceptance rates for Rights Managed images diminish and many have experienced declining revenues from a number of factors, RF among them.

Each individual needs to clearheadedly assess the “deal” being offered by the stock business models and assess whether it works for them. Many successful Rights Managed shooters have made the decision against shooting RF - regardless of income potential and distributor pressure to engage - because they object to the terms of the business model. Some have been fortunate as they are in a financial position that makes that decision easier to make. One Rights Managed shooter with a successful business responded this way:

“My reaction to their offer was why should I take LESS for shooting RF than RM? I am delivering the same caliber of shooting, I have the same overhead and they want me to work for peanuts. When I asked why, the response was ‘it’s a different business model’. That made zero sense to me.”

Other photographers, looking for new revenue sources, feel compelled to carefully consider whether the RF business model presents a viable business opportunity for them. For those new to photography or new to stock, any offer may sound like a good offer. Even those who prefer the Rights Managed business model may be considering RF as a “next best” means to establish relationships, get images into the marketplace and generate income.

To a student or new photographer with minimal cash flow, it’s hard to walk away from anyone offering you an entrée to the stock business. As one photographer who had been recruited for RF shoots in the late 90s observed:

“I think the RF deal is a lot more appealing to those new to stock. That could mean new to photo biz (students) or coming from assignment side. When I try on what you were offered, I can see it clearly when I imagine a primarily assignment shooter evaluating the biz proposition (especially 5-10 years back).”

Coming from the assignment business, a day rate and small share of royalties may sound like a good deal. One assignment photographer, a newcomer to stock, described his experience of being recruited to shoot an early collection of business images:

“Back when RF was first emerging on the scene, I was mostly doing assignments and happened to be asked to shoot quantities of images for what was then an unknown entity. Triple day-rates for weeks on end and all I had to do was show up - it was an offer I couldn’t refuse at the time. Truth be told, I couldn’t have afforded to set up the shoots with numerous locations and countless models. I grappled with the offer, but justified it as a buyout with a small royalty rate as incentive. I tried negotiating a higher royalty in lieu of higher day-rates, but they weren’t interested. Given I was new to the stock industry, I never imagined the potential this new model held - at least for the agency. After a couple discs, they moved on to other, cheaper means to fill their library. Hiring an employee was their logical next step.”

RF content developers have continued to economize their production models by reducing the fees, expenses and percentage terms offered to photographers. Some have hired staff shooters to develop image inventories on a work-for-hire and/or minimal royalty basis. One major RF brand has well over 10,000 RF images online by a single prolific staff shooter. As the wholly owned RF content continues to grow, it will increasingly dominate the inventory and individual contributors will start to be squeezed out.

With the “easy money” days of RF production long past, photographers considering the RF proposition are looking at a very different profit equation. Fewer images are accepted, production costs are rising, competition has intensified, and the terms of the deal are set up to maximize the payout down the road for the content developers and distributors and not for the photographers.

A shock to most photographers is that Royalty Free contracts offer them such low royalties, usually netting them TEN PERCENT or less of total licensing revenues.

While the royalty rate stated in the contract may be higher (up to 25%), that does not figure in the standard “distributor’s cut” that can be as high as 50% off the top. So, the photographer’s share of the license fee is actually at best 12.5% (and often under 10%) of total licensing revenues. That’s because RF transactions involve two middlemen – a content developer AND a distributor -who take a combined share of 90% of the revenues.

Why are RF royalties so low? A commonly heard rationale is that RF has higher “marketing costs” than RM. Yet, RF and RM images are processed, uploaded and delivered by the same electronic systems. RF companies have also claimed to need the much higher share of the RF license fees because RF prices are lower than RM. Yet, a common claim to photographers is that the volume of sales offsets their lower share.

SAA asked one industry insider who’s been involved on the distributor side for both RM and RF the question: Why are Royalty Free royalties so low? Here was their response:

“Royalty-Free is all about marketing and economies of scale. It’s expensive to get it rolling and reach critical mass. Once established, each agency between the photographer and the end-user charges whatever the market will bear. To RF agencies, photographer royalties are a major expense to be reduced whenever possible. It’s much cheaper today to acquire existing picture collections or contract inexperienced free-lancers than it is to create quality content in-house. RF agencies will take any advantage they can get.”

In short, it appears the only reason why this inequitable RF royalty deal persists today is because it was offered by the RF companies and then accepted by enough photographers to make it stick.

So, can shooting Royalty Free be profitable?

The answer is clearly yes, as the small group of high-volume production-oriented stock photographers who have become RF “superstars” can attest. However, it must be recognized that they were in an ideal position to profit from RF by leveraging both their production experience and financial success from highly successful RM careers to heavily invest into RF.

The top RF producing photographers have full time staffs, long histories of production-intensive stock shooting and huge image archives. Yet, the only pertinent issue is whether their success provides a road map that is relevant to individual photographers trying to break into the stock business today.

SAA has spoken with a number of stock photographers who have done some RF shoots or moved existing images into RF collections. Some have generated significant ongoing incomes from RF; others have made very modest returns. While a number of photographers have “dabbled” in RF, it has become a profitable business model for relatively few.

The reason is the RF profit equation. Since RF profits come from the VOLUME of licensing, RF companies profit from their huge share of the revenues (90 percent) that compensate for the low price point. For the photographers, that volume also has to make up for the minimal share of revenues that they receive.

Consider a comparison between two single images, one RM and one RF. Looking at single image pricing only, we would conservatively estimate that the average RF license fee is well under \$200, whereas the average RM license fee exceeds \$500. Assuming an RF royalty of 10 percent and RM royalty of 40 percent, the RF image would need to be licensed TEN TIMES more often than the RM image for the photographer to net the same amount (\$200 in this case).

A top Rights Managed shooter, in considering the RF proposition, offered these comments when asked if Royalty Free can be profitable for photographers today:

“Costs must be tightly controlled and a shooting script must be strictly adhered to. Only photographers who are used to high levels of productivity will be able to make an RF shoot day worthwhile. Photographers who are employed directly by RF generators, or who are powerful enough to drive a better deal for their services, can make a reasonable amount. This is especially true if the expenses are paid by the company. Photographers who do occasional projects for large companies at their own expense will invariably find sales do not meet expenses.”

While some have found a way to make a profitable business out of shooting Royalty Free, many others have not fared well. In the stock business today, there is no “easy money” equation, and with the rock-bottom royalties and production intensive approach, this is particularly true with Royalty Free. Yet, it is hard for photographers to make a balanced assessment of the RF profit equation when there’s no information available to them beyond the anecdotes of the success stories.

The squeeze has definitely been on photographers from a number of fronts to “diversify” into RF. Content developers and distributors, along with some RF photographers and industry “pundits” are all urging photographers to shoot RF. According to them “RF is an opportunity to seize or lose”.

For example, *Picture* magazine - extensively read by emerging professionals and students - recently ran an feature article on stock which describes RF as “the profitable business model of the day” and credits several successful shooters for recognizing that the RF business model is “not to be feared or avoided, but embraced and developed.” The message is summed up in the title: “Smiling All the Way to the Bank.”

Another example is an online advice columnist called “Ask Mr. Smarty” who offers a sound put-down to any stock photographer who resists the RF offer:

“The old-timers would have you believe that choosing whether or not to produce RF is a moral issue...IT’S NOT...it’s a BUSINESS decision. In just over a decade RF has already reached a point where it probably accounts for at least half of all the stock industry’s revenue. It ain’t going away, and while the dinosaurs who refuse to change with the times keep their heads buried in the sand, I personally know of several photographers who are laughing at them all the way to the bank.”

The message to photographers is that the RF “business decision” is an easy one and blithely glosses over the hard facts and concerns that SAA is addressing in this Paper. Furthermore, this kind of name-calling poisons an already stressful business environment, and disrespects the business decisions of fellow professionals.

Royalty Free is a “sore subject” within the photography community and has led to such heated debate because most stock photographers – along with many other industry professionals - are uncomfortable on some level with the RF business model.

It is a harsh reality for stock photographers that Royalty Free is such a firmly entrenched business model for both stock users and stock distributors. RF clearly had a detrimental (and divisive) effect on stock photographers and diminished their ability to profit from their images.

SAA’s position on the Royalty Free proposition to photographers is frankly expressed in one of our SAA Issue Posters:

“You are invited to accept a much lower share of royalties, lose control over your images and your ability to maximize profits from your work. Welcome to the RF business model. Royalty Free licenses give your stock distributor most of the revenues while lowering their overhead with standard pricing, no rights control and e-commerce sales. RF gives the stock buyers your images for any use, anytime, anywhere, forever”.

The Opportunity

for

Rights Managed

Photographers

The good news is that Rights Managed continues to offer a viable business opportunity for stock photographers. RM continues to claim a significant segment of the market and maintain strong appeal with discriminating image buyers. We know from industry surveys that clients continue to perceive RM as offering the “ *freshest* ” images and they associate it with the highest quality, so the future of RM depends on the continued involvement of the best photographers creating the best images.

Rights Managed contracts also continue to offer significantly higher royalties to the photographers. Despite the declines over the past few years, most RM contracts still offer between 30 and 50 percent of the TOTAL license fees received, depending on the specific contract terms offered and whether a sub-distributor also takes a share.

Some new RM brands have been recently introduced with high quality and distinctive positioning, offering more options to clients. Of note, we are also seeing the introduction of RM brands by formerly “ *all-RF companies* ” which is further evidence of the continuing viability of the RM licensing model.

There have also been positive developments to simplify the RM licensing process, thereby addressing a key issue with clients looking for a “ *hassle free* ” shopping experience. We are seeing efforts by the top distribution channels to streamline their RM pricing structure with simplified online pricing calculators and options for “ *packaged* ” uses.

An important new industry initiative called PLUS, the Picture Universal Licensing System, is a work-in-progress with the goal of introducing a standardized and universally recognized licensing vocabulary to simplify the Rights Managed licensing process. This inter-organizational coalition, which SAA has joined as an Advisory Council member, is a significant step in the right direction.

On the marketing and distribution front, there are emerging a variety of newer business models offering fresh options to photographers who are looking for more independence and control over how they choose to market their images. Portals, brokers, cooperatives and networks are based on more collaborative approaches that share information with photographers about image needs, search results, licenses made, and provide a range of optional services and variable contract terms.

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SAA's next White Paper and upcoming educational events will explore these new options available today and the ideas in development for tomorrow - that will help Rights Managed stock photographers to best profit from their images.

About SAA

StockArtistsAlliance (SAA) is a global trade association dedicated to the interests of Rights Managed stock photographers worldwide through advocacy, education and community. SAA is a robust and growing community of professional photographers joined by dedicated photography students and allied professionals. With the support of the global photography community, we continue to expand our programs and initiatives.

We invite you to learn more about what SAA is doing to help stock photographers at <http://www.stockartistsalliance.org>.

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