

Straight Talk on Stock Licensing Models

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Stock Artists Alliance

INTRODUCTION

Image creators are having a hard time these days, which is odd considering that everyone says the business of image licensing is about the images. Professional photographers feel increasing pressure to diversify their business opportunities, and many consider stock as a way to do so. The decision to invest in building a stock career is a significant one, especially in the face of a tough, rapidly changing business climate. It is a difficult time for image creators to thrive.

Through my experiences with SAA, I see a highly independent profession that is made up of talented shooters from a range of backgrounds and specialties. They are quickly coming up to speed on digital technologies. They run their own small independent businesses. They join professional organizations for support in terms of education, networking, advocacy and community. SAA was borne out of the need to provide a resource dedicated to the interests of stock photographers.

They are working within a business transformed by corporate methods and values. They struggle with accepting new terms of doing business that they perceive as leading to the commoditization of their creative work and detrimental to their careers as independent professionals. They balk at accepting a minority share of revenues from the licensing of their images. Their concerns are rational, thoughtful and commendable.

SAA recognizes the urgent need to expand industry-wide understanding about how stock licensing models work for the creators, users and distributors of images.

We all need to be talking and engaging constructively to address the issues that impact our industry. We must seek to make informed business decisions about how to license images, and also consider the impact of these decisions on the business on which we depend. SAA's White Paper and this article are two steps to encourage a dialogue. There is much information and insight that needs to be shared and I offer this as a start.

LICENSING MODELS DEFINED

There are fundamentally two approaches to how stock images are licensed: "license by USE" and "license by UNIT."

Rights Managed (RM) is the dominant "license by use" model, basing license fees on the particulars of that use. The "managed" aspect of RM means that there is a finite limited use. Since all uses are known, clients can identify past or current competitive uses of an image and will have the possibility of licensing an RM image with some degree of exclusivity.

Rights Protected (RP) is a more stringent variation, in which there is built into the license some level of exclusivity or competitive conflict avoidance. The terms RM and RP have been used interchangeably for some time now.

Royalty Free (RF), in contrast, is a license based on UNITS and the RF license fee is essentially perceived as a standardized "purchase price" for that unit. A unit could be a single image (priced by file size), a collection of images (priced by CD or "virtual" CD) or a subscription allowing access to a collection of images (priced by time period). The terms of an RF license grant clients virtually unlimited rights. The same image can be used by any company for any number of uses with few restrictions.

It's fair to say that RF is a "sore subject" within the stock community and has spurred such heated debate because most stock photographers - along with many other industry professionals - are uncomfortable on some level with the RF business model.

A VERY BRIEF HISTORY

“License by use” was the original stock licensing model. Since it was consistent with the traditional pricing structure and terms of assignment photography, this approach was universally understood and accepted by all parties - photographers, distributors, picture buyers and clients.

Introduced in the early 1990s by stock distributors, RF introduced the concept of a “license by unit” model. By standardizing unit pricing and by first exploiting the economies of digital search & delivery, RF was quickly adapted by clients as an amazing bargain for acquiring images.

Despite the discomfort of many distributors, the competitive pressure they felt to meet growing client demand for RF - and the impact it was having on their core RM businesses - resulted in nearly every established company launching an RF division. They were joined by new companies who invested primarily in the RF business. It's fair to say that the “license by use” model was moved to the backseat while stock distributors refocused their resources on RF and, as a consequence, made possible the unimpeded encroachment of RF on RM.

In less than a decade, stock irrevocably changed from a world of printed catalogs and analog files to an Internet marketplace with two directly competing licensing models, both widely used. Today, it is estimated that RF accounts for the larger share of licensing volume while RM continues to generate the larger share of revenues. Today, variations and hybrids are appearing which combine these models and invent new ones. The evolution of stock licensing models continues as distributors fight for market share by seeking to appeal to clients with an even bigger bargain or a better offer.

THE RF SHOCK WAVE

The introduction of RF 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 RM licensing terms. They watched as the industry embraced this new licensing model that not only commoditized images by selling them as “units” for low prices, but also offered the image creators a dramatically reduced share of the revenues than the RM model.

Even so, success stories circulated about some photographers who profited from RF, especially when it was first introduced and clients snapped up the first generations of RF product. As the business grew, competition greatly intensified, productions became more expensive, and the compensation offered to photographers declined.

Today, most stock photographers continue to engage in RM licensing. Others engage in RF, and many more have considered it but have serious reservations about doing so. They question the RF business proposition to photographers, and how a decision to engage in RF might impact their RM business and the industry in general.

They feel the pressure from many fronts. They are being urged to shoot RF, to submit images that do not make the RM “cut” for RF, or to move RM images already online but not selling well into RF. The argument being that it's better to make something from your images (on any terms), than get nothing at all.

It presents a conundrum for photographers who value the “license by use” model. Is it smarter to engage in RF or not? A first step is to consider what might give pause, by looking critically at the impact of RF on the stock industry up to now and into the future.

LOST CUSTOMERS, LOST REVENUES

Current stock industry revenues are estimated to be between 1.5 and 2 billion dollars a year and have flattened out in the past few years after a period of growth. There is compelling evidence to suggest that RF is responsible for diminishing the potential revenues to be made through image licensing by a significant amount. RF has not only deflated the fees paid per license, it has given away potential for future licensing revenue as well. Another source of lost revenues is the high level of unauthorized uses suspected for RF images, a result of the misperception by clients that RF is a carte blanche license.

IMAGE OVERLOAD

The sheer volume of RF content is dominating image searches. In addition, the same images are everywhere, as many RF collections are represented on over a hundred distribution channels. In contrast, RM images have far more limited distribution. New RF images continue to flood the marketplace, due to aggressive production and relatively loose editing standards. Yet, the emphasis on developing “top volume” and “creatively edgy” content leaves many client needs unmet.

Despite the glut of RF images everywhere, Right Managed continues to claim a significant segment of the market and maintains strong appeal among discriminating image buyers. Industry surveys confirm that clients continue to perceive RM as offering the “freshest” images and they associate it with the highest quality, confirming that there continues to be high value associated with RM licensing model.

CONFLICTING USES

Clients who license RF images sometimes get stung by competitive and embarrassing usage conflicts. 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.”

Another kind of conflict arises from the particular appeal of RF images to clients promoting “sensitive” products, as in the following case in which the billion-dollar software company licensed the same image as the marketer of erection-enhancement tablets. *The Cincinnati Enquirer* reported:

“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.”

As more cases of conflicts arise, we expect client frustrations to increase. The ease of RF unit pricing is hardly 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.

PRICING FOR THE DIGITAL AGE

According to the logic of RF pricing, an image used in print should cost a lot more than an image used electronically. So, the RF license for a textbook insert costs more than an Internet home page, and a single POS poster costs more than a web banner ad.

The disconnect between price and use in RF licensing becomes an increasing concern as the media mix shifts away from print and more into electronic media. With the spreading use of broadband 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 images in smaller file sizes.

By discounting electronic media uses, RF has trapped the industry into a pricing equation that undervalues licenses for the growth sector of the market, a serious issue looking forward that needs to be addressed for the health of the industry.

DEVALUATION OF IMAGES

RF has also dramatically affected how clients value images. Giving away virtually unlimited rights for anywhere from a few dollars to a few hundred dollars diminishes both the financial and creative value of professionally created images for clients. Today, more assignment photographers are finding that clients working with them increasingly question the costs associated with producing an image, and more and more are pressuring for lower fees and more rights in commissioned work.

ROCK BOTTOM ROYALTIES

A shock to most photographers even today is that RF contracts offer them such low royalties, usually netting them TEN PERCENT or less of total licensing revenues. The published royalty rate in an RF contract may read up to 25 percent, but that does not figure in the standard “distributor’s cut” that might be 60 percent or more off the top of each license fee paid. Nearly all RF transactions involve two middlemen - a brand company and a distributor - who take a combined share of 90 percent of the revenues, so what’s left for the photographer is usually 10 percent or less.

Consider a quick comparison between the net revenues that a photographer will receive from an RF versus an RM image. Looking at single image prices only, it’s reasonable to estimate that an average RF license fee is less than \$200, whereas the average RM license fee is over \$500. Assuming the photographer nets 10-15 percent from RF license and 30-40 percent from an RM license, the RF image would need to be licensed 5 to 10 times more often than the RM image for the photographer to net the same amount.

A commonly heard rationale for the minimal royalties offered to photographers is that RF has higher “marketing costs” than RM. Another common claim to photographers is that the volume of RF sales offsets the lower share paid to them. In short, it appears the only reason why photographers get an average of 10 percent of RF license fees is because the deal was accepted by enough photographers to make it stick.

THE TOP OF THE PYRAMID

Can RF be profitable for a photographer? The answer is yes, for a relatively small group of high-volume production-oriented stock photographers. The RF “superstars” tend to have staff support and extensive archives. They were in an ideal position to profit from RF by leveraging their production experience and financial success from already prosperous RM careers. Their success stories are impressive, but most photographers today cannot easily replicate their business models.

PRESSURE TACTICS

While it’s hard for photographers to make a balanced assessment of the RF profit equation, the squeeze has definitely been on photographers from a number of fronts. Content developers and distributors, along with a few highly successful RF photographers and industry pundits, are spinning variations of the same message: RF is an opportunity to seize or lose. Here’s how one online stock advisor offers a sound put-down to anyone resisting 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.... 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.”

This kind of pressure to move into RF is dismissive of the hard facts and concerns such as those addressed here and raised by respected industry professionals and trade organizations who are dedicated to the best interests of photographers. Moreover, it has had a detrimental (and divisive) effect on the community of professional photographers who are facing numerous challenges in their businesses.

ASSESSING THE RF DEAL

Many successful RM shooters have made the decision against shooting RF - regardless of income potential and 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 this decision easier to make. However, to a student or new photographer with minimal cash flow, it’s hard to walk away from anyone offering an entrée to the stock business, regardless of the terms.

RF brands continue to cut costs 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 or minimal royalty basis. As the wholly owned RF content continues to grow, it will increasingly dominate the inventory.

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 brands and the distributors and not for the photographers.

AS FOR RM ...

The good news is that RM licensing continues to offer a viable business opportunity for stock photographers. RM licenses continue to command significantly higher license fees, and royalties to the photographers. RM photographers can expect a significantly higher share of licensing revenues with a range of 40-65 percent across the industry, though down as low as 25 percent if a sub-distributor also takes a share.

Progress has been made on the distributor side to streamline the RM licensing process through simplified online pricing calculators and options for “packaged” uses. An inter-organizational coalition has come together to support an important new industry initiative called PLUS, the Picture Universal Licensing System that is developing a standardized licensing vocabulary, another step towards simplifying the online purchasing possibilities for buyers.

More education efforts are needed to promote clearer understanding of licensing terms. Increased awareness among clients will illustrate that a distinct benefit of a RM license is the ability to provide them with information on competitive uses, the option for a degree of exclusivity, as well as the value of “sensitive use” restrictions. And RM distributors need to uphold high standards of usage tracking to leverage a core asset of their RM businesses.

IN CLOSING

We’ve looked at the stock licensing models of today. It would appear that there is plenty of room for improvement.

The challenge is how can stock licensing models evolve to do a better job of meeting the needs of all parties involved in the transaction. “Better” cannot just mean bigger profit margins for distributors or lower prices for clients. It must also mean a fair deal for image creators.

Stock is no longer a boom market for photographers, but it can provide substantial income to those who find a way to successfully engage, especially as part of a diversified business plan. If the business of stock is indeed all about the images, then it must be fairly focused on those who create the images.

SAA invites your comments and encourages an ongoing industry-wide dialogue about this topic.

About SAA

The Stock Artists Alliance is the only trade association dedicated to the business interests of professional stock photographers. SAA supports its worldwide membership with substantial information resources and ongoing advocacy initiatives. Learn more about SAA and the benefits of membership at <http://www.stockartistsalliance.org>. Contact us at info@stockartistsalliance.org