

Getty Images

In early 2013, Jonathan Klein, CEO of Getty Images, had reason to be happy with the journey of his company to date. Co-founded in 1995 by Klein together with Mark Getty, Getty Images had established itself as the leading, business-to-business, visual content licensing company (as measured by revenues). Getty Images licensed pre-shot images and videos to customers such as advertising and graphic design agencies, corporations, and publishing and media companies. It had grown from licensing a small collection of analogue creative images to fewer than 30,000 customers in 1995 to licensing a collection of over 80 million digital creative and editorial images, as well as videos, to more than 1 million customers in over 100 countries in 2012.

From the very beginning, the founders' vision had been to consolidate the fragmented stock photography industry, accelerating the transition to digital images, reducing costs, and improving revenue models and margins. Between 1995 and 2012, Getty Images had acquired over 100 companies and collections, from small, family-run firms to larger agencies to direct competitors, in an effort to cover all market segments with a wide range of offerings and licensing models.

Klein believed that one of his company's core strengths was its ability and willingness to embrace potentially disruptive threats. For instance, when the Internet fostered the emergence of online-based microstock photography agencies in the mid-2000s, many industry observers had predicted a severely negative impact on traditional, high-end stock photography agencies like Getty Images. Rather than fight the trend, Getty Images embraced it by acquiring one of the microstock leaders – iStockphoto – in February 2006 and turning it into the fastest-growing part of its business.

Going forward, Klein was confident that the existing lines of business would continue to grow and further penetrate into new geographic markets. He was, however, keen on exploring additional avenues for growth. One such avenue had been opened by the rise of social media and publishing platforms such as Blogger, Facebook, Google Plus, Pinterest, Tumblr, Twitter, Word Press, YouTube and others, which thrived on image- and video-sharing by their users. Many images and videos shared on these sites were professionally created (as opposed to user generated), yet neither users nor the publishing platforms had proper licenses for this content. In this context, Getty Images had to find licensing models, products, or services that would allow it to extract some of the value created by its images. Second, Getty Images perceived a promising growth opportunity with the thousands of small and medium-sized businesses (SMBs) that were increasingly using images and videos to promote themselves online. The difficulty there, however, was reaching SMB customers in a cost-effective way.

Stock Photography Industry Background

Images were widely used in print and digital media: advertising and marketing materials, websites, blogs, books, magazines, newspapers, and other products. Instead of hiring a photographer for specific assignments, the stock photography industry offered pre-shot images that were readily available for licensing. Stock agencies such as Getty Images and Corbis managed, marketed, and licensed images, on behalf of their photographers to business customers.

Agencies sourced their images either directly from photographers, through smaller agencies, who themselves sourced images from individual photographers, or from companies that produced images as a by-product of their core business (e.g., a media company or sports league). The latter two sources were referred to as “image partners.” Getty Images distributed the work of over 100,000 photographers and over 300 different image partners. A particular image could be represented exclusively through one agency or through multiple agencies.

Pricing and Licensing Models

Three main pricing models were used in stock photography:

- Rights-managed (RM) was the original pricing model. It allowed for limited use, with the fee depending on the particulars of the use (e.g., for billboard advertising in a specific geography and industry for a specific duration).
- Royalty-free (RF) pricing had been introduced in the early 1990s. It allowed buyers to use specific images across multiple projects for a fixed fee that depended on the quality of the image and the size of the digital file size selected by the customer. RF images could be purchased à la carte or through a subscription model (the latter had been introduced in the early 2000s).
- A subscription allowed buyers to download up to a certain number of images per period in exchange for a monthly (or yearly) fee or to purchase a package that allowed a certain number of downloads during the course of a year.

Of the three models, only RM images could be licensed exclusively because past and current usage could be identified through a rights database. In 2011, according to a survey conducted by Graphic Design USA, 32% of surveyed designers had licensed their images under the RM model, 98% had used the RF à la carte model, and 54% had used the RF subscription model.¹ In 2006, the corresponding percentages had been, respectively, 55%, 91%, and 36% (see **Exhibit 9**).

Market Segments

The traditional market segment for premium photography of stock photography was served by Getty Images, Corbis Images, and a number of smaller regional or subject-specific stock photography agencies. Editorial images – i.e., images of live news, sports or entertainment events – were licensed by Getty Images (the market leader) and by agencies like Reuters, the Associated Press, Agence France-Presse, and many smaller ones. The suppliers for the traditional market segment were largely professional photographers who were targeting customers and projects that required high-quality images supported by strong legal protections. Images were typically licensed to these customers through RM and (à la carte) RF models. An image could cost hundreds or thousands of dollars. In addition to licensing, the agencies also provided a range of services to their customers, including search for images with specific themes, large project management, rights clearance of images needed, and protection against copyright liabilities.

Pioneered by iStockphoto, microstock was the fastest-growing segment of the stock photography market. Microstock agencies sourced their images almost exclusively online from a wide range of photographers, who were mainly photo enthusiasts and hobbyists. The licensing model for microstock images was RF (both à la carte and subscription). The price points were significantly lower than in the traditional segment. For instance, the vast majority of images on iStockphoto were priced between \$2 and \$100 per image. As of September 2011, the largest microstock agencies were iStockphoto, Shutterstock, Fotolia, and Dreamstime.

Industry Structure

Over the years, the originally fragmented stock photography industry had undergone considerable consolidation within both segments. At the same time, major players in the traditional segment had entered the microstock segment: Getty Images acquired iStockphoto in 2006; Corbis created Snapvillage.com in 2007, which was subsequently closed and replaced by Veer Marketplace; Jupiterimages acquired StockXpert, before being itself acquired by Getty Images in 2009.

In recent years, a number of forces had significantly affected the demand and supply of the industry. On the supply side, photography production costs had dropped substantially, as digital cameras and photo-editing software had become more affordable and easier to use. This had increased supply from both professional and amateur photographers. At the same time, the Internet and digitization technologies had made the uploading and downloading of images very easy. Furthermore, social networks such as Flickr.com (owned by Yahoo!), Picasa.com (owned by Google), Facebook, and Instagram (owned by Facebook) made sharing photographs an everyday phenomenon.

The Internet had also brought several significant changes on the demand side. Consumers and advertisers had gradually shifted from print to digital media (see **Exhibit 1**). Furthermore, an increasing number of SMBs were creating websites and pages on social networking sites, all of which needed images. Thus, the explosion of digital media, particularly on mobile devices, had expanded both the number of potential customers and demand per customer.

Copyright

In the context of stock photography, the owners of copyrighted work were independent photographers or their employers. Copyright owners had the exclusive rights to reproduce, prepare derivative works, distribute copies, perform, and display the work publicly. One limitation to the owners' exclusive rights was the "fair use doctrine," which allowed for limited use of copyrighted materials without permission, for purposes including criticism, comment, education, and research.

Copyright could be transferred either as an assignment or as a license. An assignment of copyright was similar to the sale of personal property: the original owner could no longer control how the assignee used the rights that had been transferred. A license was an agreement in which the copyright owner maintained its ownership of the work, but allowed a third party to use the relevant copyrighted material without fear of a copyright infringement suit. Stock photography agencies were essentially in the business of licensing copyrighted images on behalf of their owners.

Licensing was required for both commercial and noncommercial uses (beyond fair use). Commercial use involved, however, additional hurdles: any image that depicted identifiable persons, brands, trademarks, places, or buildings required explicit permissions. Stock images were categorized as editorial or creative, depending on whether commercial use was allowed. Editorial images depicted newsworthy events or illustrated matters of general interest, such as news, sports and entertainment.² Because these images typically contained recognizable people and objects, they could not be licensed for commercial use. In contrast, creative images were typically trend-researched, art-directed, and shot by professional photographers.³ They often featured generic objects or people, with permissions from the subjects, and might be used for commercial purposes.

Creative Commons

Creative Commons (CC) licenses were created in 2001; they allowed authors of creative works to give others the right to share, use, and build on the work in question. CC licenses were not an alternative to copyright; they simply allowed the author to modify copyright terms from the default "all rights reserved" to "some rights reserved." There were six license types, each with a different degree of restrictiveness. The least restrictive type let others distribute, remix, tweak, and build upon the owner's work, even commercially, as long as they credited the owner for the original work. The most restrictive type allowed others to download the owner's work and share it as long as they credited the owner, but they could not change it in any way or use it commercially.⁴

Examples of online communities that used CC licenses included Wikipedia, Google, and Flickr. In 2009, Google started embedding the ability to filter search results by using CC licenses inside its Image Search tool. Flickr, a division of Yahoo! Inc., was the world's largest online photo- and video-sharing community. In August 2011, Flickr reported that it was hosting more than 6 billion images, and about 4.5 million photos were being uploaded daily.⁵ Flickr allowed its users to choose the open licensing model Creative Commons (CC); as of July 2012, the site hosted over 231 million CC-licensed images (**Exhibit 2**). Twenty-nine percent of these CC-licensed images allowed commercial use (up from 22% in 2006), and 71% allowed only noncommercial use (down from 78% in 2006).⁶

Infringement and Enforcement

Copyright infringement was any violation of the exclusive rights held by the copyright owner, e.g., using all or part of an image without permission or hiring someone else to re-create the image.⁷ Most images that could be obtained through online searches did not have copyright clearance for usage. Thus, individuals and businesses that used images found online to build their websites or Facebook pages were likely violating copyright law. According to PicScout, a company that used image-recognition technology to track content on the Internet, 8 out of 10 uses of RM images detected on commercial websites were used without permission in 2009. These statistics were based on 5 million RM images, which constituted only a small percentage of total licensable images.⁸

Images were copyrighted the moment they were created. To qualify for the minimum damage protection, however, the owner had to have the work in question registered. A group of published photographs could be registered for \$65.⁹ Penalties for infringement were monetary. In the United States, the basic damages to be paid by the infringer ranged between \$750 and \$30,000 per work, to be determined by the court. A copyright owner who could show willful infringement could be entitled to damages of up to \$150,000 per work.

Digitization technologies and the Internet made it very easy to upload, download, copy, and distribute digital files. This created challenges for copyright law, which sought to protect copyright owners without excessively hindering the development of useful online services. An important

provision in the Digital Millennium Copyright Act (DMCA) of 1998 provided a “safe harbor” for online service providers from liabilities, provided they met specific requirements, such as expedient removal of infringing content upon receipt of takedown notices.¹⁰ Still, as of late 2012 the issue of websites that contained links to infringing materials remained unsettled in copyright law. Furthermore, legislators in the United States were proposing an “orphan works” doctrine, which would permit the free use of an image without penalty if the user failed to locate the copyright owner after conducting a “reasonable search.”¹¹

Two well-known legal cases illustrated these issues. In 2000, A&M Records, Inc. and other music recording companies had sued Napster, a peer-to-peer file-sharing platform, for contributory and vicarious copyright infringement under DMCA. Napster lost the case, had to shut down its service in 2001, and declared bankruptcy in 2002.¹² In 2007, Viacom, one of the largest media companies in the world, had launched a \$1 billion lawsuit against Google and YouTube. Viacom alleged that YouTube had engaged in massive copyright infringement by allowing users to upload and view copyrighted material (e.g., TV shows) owned by Viacom. In 2010, a District Court ruled in favor of Google and YouTube, invoking the DMCA. Viacom appealed the ruling, and in April 2012 a Court of Appeals sided with Viacom, ruling that the DMCA did not protect willful infringement, even if indirect. The case was set to return to a district court for a new trial.¹³

Getty Images Background

Klein had co-founded Getty Communications with Mark Getty in March 1995; Getty became the company’s chairman, and Klein became the CEO. In February 1998, the name was changed to Getty Images with the acquisition of PhotoDisc, Inc. Getty Images proceeded to acquire more than 100 companies.

Klein recalled his original vision:

We saw an opportunity to consolidate the highly fragmented stock photography industry and take advantage of the massive change brought about by digitization technology to build a sustainable business with global reach. We brought scale and business expertise to what was at the time a “cottage industry” of small players, many of which had yet to benefit from professional business management practices. I also think we had an enormous advantage by being from outside the industry: we had no sacred cows, no ingrained biases. If we saw a promising new pricing model, we would adopt it. That’s why we were so quick to embrace royalty-free licensing (through the PhotoDisc acquisition) and microstock (through the iStockPhoto acquisition). The flip side of being outsiders is that early on we did not understand the culture of the industry very well. For instance, our early public statements about our focus on customers may have worried some photographers that we were too commercially minded.

Getty Images issued its IPO in July 1996 and moved to the New York Stock Exchange a few years later (see **Exhibits 3 and 4**). It remained a public company for 12 years (see **Exhibit 5** for the evolution of Getty Images’ stock price as a public company). The company’s stock price rose significantly between 2002 and late 2005 due to strong revenue and profit growth driven by the company’s core rights-managed and royalty-free product offerings. Between 2006 and 2008, the stock price went in the opposite direction. The decline reflected slowing revenue growth and a general investor concern that market demand was rapidly shifting toward low-priced digital offerings and away from Getty’s traditional print media business. This perception had underestimated the offsetting growth coming from digital use of Getty Images’ products by existing and new customers.

In July 2008, Getty Images was acquired by the private equity group Hellman & Friedman for an estimated \$2.4 billion and was delisted from the New York Stock Exchange following the acquisition.¹⁴ In August 2012, Hellman & Friedman sold Getty Images to the Carlyle Group for \$3.3 billion.¹⁵ At the time of the sale to Carlyle, Getty Images reportedly had an archive of 80 million images, available through three main channels.¹⁶ GettyImages.com contained high-end images, offered under both RM and RF models. iStockphoto.com contained mid-tier and microstock offerings, all of which were offered under the RF model. Finally, Thinkstock.com offered low-end microstock images under a subscription model. In addition, the company had the market leading editorial imagery business and video business.

In late 2012, Getty Images had 30 offices in 21 countries; its sales force and distribution partners were present in 146 countries. In addition to the English-language site, Getty Images' websites were localized in more than 15 languages, including Japanese, French, German, Spanish, and Italian. The company derived 47% of its revenues from North America; 39% from Europe, the Middle East, and Africa; 12% from Asia Pacific and Australia; and 2% from Latin America.

Supply Side

The structure of Getty Images' supply side had changed substantially over the company's 18-year history. The company's supplier base for creative photography had expanded from several hundred to tens of thousands of photographers. This change was closely related to the development of photographic technology during the 2000s, which turned virtually every person equipped with a digital camera into a potential supplier. Andrew Saunders, Getty Images' senior vice president for creative, explained, "Technological development has had a double impact on image sourcing: it has lowered barriers to entry, but it has also made it more difficult to cut through the clutter and locate higher quality content."

In 2012, Getty Images worked with a combination of photographers who were full-time employees (for editorial images only) and independent suppliers, which ranged from individual photographers to organizations such as National Geographic, FIFA, and Bloomberg. For images not produced by its in-house photographers, Getty Images typically did not purchase them outright; instead, it acquired the rights to sell the images to its customers. Getty Images took virtually complete control over the presentation and pricing of images to its customers. Getty Images paid suppliers a royalty, which averaged just below 30%; differences in royalties were largely driven by exclusivity (exclusive images commanded higher royalties for their providers) and differences in quality or production costs.

In 2011, iStockphoto had close to 100,000 contributors from over 180 countries. Fewer than 10% of these contributors were exclusive, but exclusive contributors accounted for approximately three-quarters of the iStockphoto revenues. In 2012, among the top 500 iStockphoto contributors (in terms of credits used for their files), 464 were exclusive.¹⁷ Exclusive contributors to iStockphoto were not allowed to submit RM images anywhere else (except for other Getty Images collections), even if those images were rejected by iStockphoto. Advantages of being an exclusive contributor to iStockphoto included higher royalty rates (15%–20% for non-exclusive and 25%–45% for exclusive contributors), higher realized prices per image, fewer restrictions on the number of submissions, better access to information about customer demand and search-return orders, and more opportunities to participate in Getty Images' premium collections.

Getty Images took a proactive approach to its supply side. It engaged in creative research, leveraged its internal data, and solicited information from customers to identify key advertising and demographic trends. It used this information to define image needs, which it shared with its photographers. Getty Images also worked to identify and nurture talented photographers. For example, it entered a deal with Flickr to identify promising photographers and offer them the opportunity to sell their images through Getty Images.

Sell Side

Getty Images' customers fell into three categories: advertising and design agencies (29% of total revenues), corporations (41%), and media companies (30%). Getty Images served its customer needs in the traditional market segment through GettyImages.com and in the microstock segment through iStockphoto.com and Thinkstock.com. Getty Images contained both creative and editorial images, while iStockphoto and Thinkstock focused on creative images only. Getty Images categorized its images into collections according to type and quality. Within each collection, pricing was the same for all images.

GettyImages.com

As of January 2013, GettyImages.com listed 3.2 million creative RM images, 3.1 million RF images, and 41.3 million editorial images (licensed through the RM model). Licensing fees for RM images offered through GettyImages.com varied, depending on how the images were used. For example, the rights to use an image from the Stone+ collection as half an ad for 100 billboards, for a month, in the U.S. and for the automobile industry cost \$3,750. The same image used for web, app, or software advertisement for the same duration, the same country, and the same industry was priced at \$1,110 (see **Exhibit 8**).¹⁸ For RF images available through GettyImages.com, the license fee depended on the size of the digital file. For example, an image from the PhotoDisc collection cost \$15 for a 153KB file to \$412 for a 49.1MB file.

iStockphoto.com

Founded by Bruce Livingstone in 2000, iStockphoto had begun as a site where designers swapped images for free. iStockphoto had transformed the stock photo industry in two major ways. First, it had created a dynamic online community that encouraged passionate dialogue and sharing. Most importantly, it had pioneered the microstock segment with prices as low as \$1 per RF image.

The rise of crowdsourcing and microstock agencies in the early 2000s had been seen as a disruptive force to the traditional segment, in which Getty Images operated at the time. Recognizing this trend, Klein and his management team decided that it was "better to own the disruptor than to fight it." In February 2006, Getty Images acquired iStockphoto for \$50 million. By then, iStockphoto had \$7 million in revenue. It was offering about 1.2 million images to more than 1 million members worldwide and was receiving applications from more than 30,000 contributing artists for approval.¹⁹

Shortly after the acquisition, iStockphoto launched its international expansion by creating localized sites in French, German, and Spanish. Getty Images also supplemented iStockphoto with its patented search and "controlled vocabulary" tools, which significantly improved image search and retrieval. In 2012, iStockphoto.com and GettyImages.com continued to have separate customer interfaces, even though they had been fully integrated from an organization perspective and were in the process of integrating back-end technologies.

In 2009 and 2011, iStockphoto launched two premium collections – Vetta and the Agency – that were priced at a significant premium compared to other images on the site. For example, an image in the Agency collection was priced between \$79 and \$300, while an image in the regular collection was priced between \$2 and \$19. Over time, the average price per image at iStockphoto had increased from under \$10 in 2008 to almost \$20 in 2011, largely driven by higher-quality exclusive content.²⁰

As of late 2012, iStockphoto had 12.5 million images and was rumored to generate 2012 revenues of approximately \$260 million, ahead of Goldman Sachs' 2008 estimate of \$122 million.²¹

Thinkstock.com

Getty Images had launched Thinkstock.com in 2010. Thinkstock provided an RF subscription service that covered 10.1 million images from the GettyImages, iStockphoto, and Jupiterimages collections.²² The subscription service allowed for 25 image downloads a day for \$299 a month or \$2,496 a year. The site also offered image packs that allowed for limited numbers of image downloads per year: from 5 downloads for \$99 to 250 downloads for \$1499. As of December 2012, Thinkstock represented less than 10% of Getty Images' total revenues. Thinkstock's revenues were, however, growing at over 30% per year.

E-commerce vs. Assisted Sales

Getty Images reached its customers both through its sales force (about 600 employees) and its websites (e-commerce). Getty Images' sales force largely focused on the traditional market segment, where customers had more complex needs and were demanding high-quality images and service, but also sold Thinkstock subscriptions and large iStockphoto credit packs where appropriate for customer needs. By working closely with customers, sales people added value by helping determine the types of images to look for and locating the best possible matches to customers' needs. They also spent time reaching out to customers regarding newly available images, and, for infrequent and new customers, educating them on copyright-related issues (e.g., what rights were needed depending on usage).

For GettyImages.com, sales-force-assisted sales accounted for 60% of revenues and e-commerce brought in the remaining 40%. For iStockphoto, over 90% of revenues came from e-commerce. Through Gettyimages.com and iStockphoto.com, customers could browse, search, find pricing information, and license images directly online. Except for a very small percentage of images in entertainment and sports, Getty Images made all of its images available online. Customers typically sought assistance from a sales person if they were looking for more complex transactions (e.g., if they needed access to an image across multiple media types, or some form of exclusivity).

Sales people were compensated with both fixed salary and commission, the latter ranging from 20% to 40% of their total compensation. Getty Images was planning to roll out a new sales compensation plan starting in April 2013. When asked about the motivation for the change, Michael Teaster, senior vice president of sales, explained, "In 2012, almost all growth came from better penetration into big customers. Our historical plan did not give people sufficient incentives to grow by acquiring new clients, new contacts within existing clients, and selling new products." In addition to incentivizing growth into new customers, the new plan was also designed to cultivate longer-term growth by developing annual growth targets, instead of quarterly targets.

Connect API

In February 2012, Getty Images announced the release of Connect by Getty Images, an automated content distribution service targeting companies with frequent content needs. Connect was an application programming interface (API) that integrated with customers' publishing tools and allowed customers to search and download content from Getty Images' collections. Teaster explained, "The purpose of Connect is to make it as convenient for the customer as possible, as easy as turning on and off the water tap." Connect was often made available free of charge and revenues came from the resulting increase in image licensing. Pricing and rights of images accessed via Connect were flexible. Customers could purchase via traditional à la carte or subscription methods, but alternative models such as revenue-sharing and cost-per-impression could be applied in order to better serve customer needs.

As of December 2012, over 100 companies were using the Connect API; they included media companies, providers of digital media and advertising services, and mobile and web-based application developers. An example was Zazzle, an online retailer that allowed customers to use Getty Images content to create customized goods such as T-shirts, mugs, cards, and smartphone cases. Getty Images received a share of resulting sales.

Non-Image Offerings

Video Getty Images had over 1 million stock videos, which could be used in the production of commercial motion pictures, television and web advertisement, promotional videos, documentaries, and other video-based media. Getty Images' video collections included contemporary and archival footage, varying in length between several seconds to 1–2 minutes and covering a broad range of topics (e.g., aerial coverage of a city, a short sequence from a fashion show). Getty Images offered videos from its own collections (Archive Films, Image Bank Film, Digital Vision, Photodisc, and iStockvideo) and from collections of image partners (e.g., Universal Studios, Warner Bros. Entertainment, Dick Clark productions, Discovery FilmSource, and AP Archive).

Like images, videos were licensed through both the RM and the RF models via GettyImages.com and iStockphoto.com. The stock video market was smaller than the stock image market: footage and multimedia generated less than 10% of Getty Images' revenues in 2012. According to an industry survey, the stock footage industry experienced a compound annual growth rate of roughly 12%.²³ New technologies continued to simplify the creation of stock video and expand the use of stock video. As a result, Getty Images expected the video market to continue to grow and become a larger portion of company sales.

Music In 2007, Getty Images had also entered the music licensing business with the \$42 million acquisition of Pump Audio, a New-York-area music licensing company. As videos became more broadly used in advertising and small-scale media productions (e.g., videos on YouTube), demand for accompanying music increased as well. Legitimate use of music required a synchronization license, a master use license, and a public performance license if the product was to be broadcast to the public. Getty Images believed it could best leverage its expertise in the pre-priced and pre-cleared model, satisfying customers' need for simplifying the complex licensing process. The company did not intend to compete in the traditional segment of the music synchronization market, which was mostly driven by low-volume, high-priced sales of well-known artist materials.

As of December 2012, Getty Images offered about 170,000 music clips (typically 1 to 3 minutes in length), of which 120,000 were rights managed and 50,000 were royalty free. Music was still a small part of Getty Images' business: it accounted for less than 5% of its total revenues in 2012.

Copyright Enforcement

As Getty Images accelerated its transition to digital images starting in the early 2000s, copyright infringement became a much more serious issue (see **Exhibit 11**). The increasing use of online search engines for images (e.g., Google), social media and other online sharing services for digital content (e.g., Facebook, Flickr, Instagram, Pinterest, YouTube) made it even more difficult for photographers and image licensors like Getty Images to protect the use of their images. Large organizations (firms or nonprofits) usually relied on their employees to design their websites and check copyright status. In contrast, small organizations typically hired volunteers or freelance designers and assumed – usually incorrectly – that they had rights to images downloaded online.²⁴

As a result, Getty Images found that it sometimes had to send payment request letters to websites that used RM images without a proper license (the nature of the RM licensing model made it more difficult to enforce copyright of RM images). In parallel, the company engaged in a variety of public relations campaigns (on its own or through industry associations) aimed at raising awareness of copyright infringement liability risk, particularly among small organizations.

To further enhance its digital rights-management capabilities, in 2011 Getty Images acquired PicScout, an Israeli company that was building image-tracking technologies.²⁵ PicScout's technology could identify the digital fingerprint of images appearing online, even if they had been blurred or edited.²⁶

Before the acquisition, Getty Images had been one of PicScout's main customers, leveraging its technology to crawl commercial websites and identify infringing use of rights-managed content. After the acquisition, Getty Images started leveraging PicScout's platform to mitigate copyright infringement in three additional ways:

- Offering an API to third-party platforms that would enable them to validate content being used by their users
- Offering a reverse image search service, so that Getty Images customers could verify whether an image was licensable via Getty Images' sites
- Offering post-usage identification and licensing options to customers and third-party platforms so that they could cover their users and their own exposure to copyright infringement risk.

Competitive Landscape

Corbis

Getty Images' closest competitor was Corbis. Corbis had been founded by Bill Gates in 1989, with the original vision that people would someday decorate their homes with digital artwork, displaying images on flat-screen monitors. Corbis remained a private company, with 20 offices in a dozen countries in the Asia-Pacific region, Europe, and North America. The company's imagery represented contributions from more than 30,000 photographers. Highlights of the Corbis archive included images from Ansel Adams, the Bettmann Collection (one of the largest and best-known collections of historical photographs), the Smithsonian Institution, and the Andy Warhol Foundation.

Corbis competed with Getty Images in the traditional segment through CorbisImages.com, which offered images under both the RM and RF models. As of January 2013, the website contained 828,070 RM creative images, 1.7 million RF images, and 11 million editorial images.²⁷

In 2007, Corbis had entered the microstock segment with the launch of SnapVillage.com. Initially, one of its innovative features was that contributors could choose the selling price listed for their images among five different options – \$1, \$5, \$10, \$25, and \$50 – and change their price choices at any time. In 2009, because of low sales, SnapVillage was rolled into Veer, a separate brand that Corbis had purchased two years before. Veer.com became Corbis's sole microstock subsidiary. The price-setting feature of SnapVillage was dropped and Corbis took complete control over pricing on Veer.com.

Corbis continued to grow its image offerings through acquisitions and partnerships (**Exhibit 10**). Notably, in 2011 it formed a partnership with The Associated Press (AP), which allowed both organizations to post each other's photos on their respective websites. The agreement covered a total of more than 10 million photos, with AP and Corbis supplying about 5 million each.

Similar to Getty Images, Corbis also offered high-definition and royalty-free video clips through its Corbis Motion website. Meanwhile, Corbis's GreenLight division offered its corporate, advertising and media customers access to and rights clearance for clips from iconic music or films, celebrities and entertainment content.²⁸ For instance, GreenLight helped Chevy clear the necessary rights in order to use Thomas Edison's likeness in a commercial for its Chevy Volt electric cars.²⁹ Typically, GreenLight secured rights from movie and TV studios, record labels, celebrities, talent and entertainment agents, and so on. In some cases, however, it managed well-known personality rights directly, including those for Charlie Chaplin, Thomas Edison, Albert Einstein, and Steve McQueen.³⁰

News Agencies

In the editorial space, Getty Images was competing with traditional news agencies. Two of the world's largest were The Associated Press and Reuters. Adding to its traditional editorial images, The Associated Press' AP Images division started offering creative and microstock images through partnerships with other players (e.g., its 2011 agreement with Corbis). In April 2012, the AP partnered with Fotolia, one of the world's leading microstock agencies. The partnership allowed AP to offer a collection of over 15 million RF images priced as low as \$0.84 per image through a monthly subscription plan.³¹

Reuters (a division of Thomson Reuters) provided up-to-the-minute photographs and videos from its global network of over 600 photojournalists and videojournalists. At the end of 2011, its online archive comprised over 5 million images.³² In 2005, Reuters had acquired the London-based Action Images sports photography agency. The acquisition brought Reuters an archive of 7 million sports images stretching back over 50 years, with more than 1.5 million accessible online.³³ The head of news and pictures at Reuters had commented at the time of the acquisition that the deal allowed Reuters to compete effectively with the leading sports photography company, Getty Images.³⁴

Shutterstock

In 2012, New York-based Shutterstock was one of the leading microstock agencies. It had been founded in 2003 by Jon Oringer. As of April 2012, Shutterstock offered more than 23 million RF images and video clips.³⁵ Its 40,000 contributors came from more than 100 countries. The company's revenues had grown from \$30 million in 2007 to \$170 million in 2012.³⁶ Shutterstock operated worldwide: the Americas contributed 35% of revenue, Europe contributed 37%, and the rest of the world contributed 28%. Shutterstock had 237 employees in 2012.

Similar to Thinkstock.com, Shutterstock offered two licensing services: subscription and fixed image packs. With a subscription, customers could pay \$249 per month or \$2,559 per year for up to 25 downloads per day. Or, they could opt for packages of limited numbers of downloads per year: 1 download for \$19, 5 for \$49 or 25 for \$229.³⁷ The subscription service accounted for 59% of Shutterstock's 2011 revenues, with the remainder coming from the sale of fixed image packs.

Shutterstock went public in October 2012 on the New York Stock Exchange, reaching a market valuation of \$721 million on its first day of trading³⁸ (see **Exhibits 6** and **7**).

Fotolia

Founded in 2005, Fotolia was among the top microstock agencies globally, and the leader in Europe. Fotolia had 21 million RF images, vectors, illustrations and videos, and websites in 13 languages.³⁹ It offered both pay-as-you-go and subscription licensing services. Its subscription service was more flexible than that of Shutterstock and Thinkstock. For example, its monthly subscription ranged from \$249 for up to 25 downloads per day to \$1,743 for up to 250 downloads per day. Fotolia also offered subscription plans with monthly download limits rather than daily limits.

In May 2012, Kohlberg Kravis Roberts & Co. (KKR) acquired 50% of Fotolia for \$150 million.⁴⁰

Conclusions

Klein and his management team were confident that Getty Images' existing business lines would continue to grow steadily, led by editorial photography, microstock, video, and international expansion. They were particularly keen, however, to explore two novel growth avenues.

The first was to generate revenue from social media platforms, which enabled image- and video-sharing, e.g., Blogger, Facebook, Google Plus, Pinterest, Tumblr, Twitter, Word Press, YouTube, and others. On these platforms, users posted professionally created images alongside images that they or others created. To drive deals with such sites, Klein was hoping to leverage a service developed by PicScout and called ImageIRC Post-Usage Billing.⁴¹ If a social media platform agreed to adopt the service, the latter would check the digital "fingerprint" of any image uploaded by the platform's users. If the image were part of Getty Images' collection, the corresponding photographer's name would be credited to the image and the platform would be charged a previously agreed-upon fee for use of the image. PicScout's service was similar to YouTube's Content ID, which allowed licensors of audio and video content shared by YouTube users to either block the content or impose proper acknowledgements.

In September 2012, Getty Images had announced that SparkRebel, a social sharing and shopping site for fashion products, would become the first social media company to implement the ImageIRC Post-Usage Billing Service.⁴² Klein and his team hoped that similar partnerships would follow. The difficulty in striking licensing deals with social media sites, however, was finding a mutually acceptable pricing arrangement. Many of them did not yet have a clear business model—even though they derived significant benefits (e.g., increased user traffic) from the presence of professional images.

The second promising growth path was to expand Getty Images' customer base to reach SMBs. According to one estimate, 58% of SMBs in the United States did not have a website.⁴³ According to another estimate, SMB advertising and marketing on digital media would increase from \$5.4 billion in 2012 to \$16.6 billion by 2015.⁴⁴ While they represented an attractive target segment, SMBs were notoriously hard to reach in a cost-effective way. Indeed, Getty Images had determined that the traditional approach of bidding on keywords in search engines was too expensive and did not justify the lifetime value of SMB customers. In this context, Klein was wondering what other channels or platforms could be leveraged in order to reach SMBs.

Exhibit 1 U.S. Advertising Spending (\$ billion)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Print	63.2				44.3	44.4	36.0	33.8	33.8	33.1	32.6	32.3
Digital (online)	12.5	16.9	21.2	24.9	28.5	26.3	32.0	37.3	42.5	47.8	52.0	55.3

Source: eMarketer database, accessed January 8, 2013; Advertising Age, various issues.

Exhibit 2 Breakdown of Creative Commons Images on Flickr by Licensing Models (2006–2012)

Date	4/1/06	4/1/07	4/1/08	4/1/09	4/1/10	4/1/11	4/1/12
Total number of CC images (millions)							
License type							
BY	11	33	64	100	140	180	220
This license lets others distribute, remix, tweak, and build upon your work, even commercially, as long as they credit you for the original creation							
BY ND	10.8%	11.2%	11.4%	12.4%	13.4%	14.1%	14.7%
This license allows for redistribution, commercial and non-commercial, as long as it is passed along unchanged and in whole, with credit to you.							
BY AS	3.1%	3.6%	4.0%	4.3%	4.6%	4.9%	5.2%
This license lets others remix, tweak, and build upon your work even for commercial purposes, as long as they credit you and license their new creations under the identical terms.							
BY NC	8.0%	7.8%	8.1%	8.3%	8.7%	8.9%	9.0%
This license lets others remix, tweak, and build upon your work non-commercially, and although their new works must also acknowledge you and be non-commercial, they don't have to license their derivative works on the same terms.							
BY NC SA	14.5%	14.2%	14.1%	14.0%	13.8%	13.6%	13.6%
This license lets others remix, tweak, and build upon your work non-commercially, as long as they credit you and license their new creations under the identical terms.							
BY NC ND	31.3%	27.9%	28.4%	29.0%	29.0%	29.0%	29.1%
This license only allowing others to download your works and share them with others as long as they credit you, but they can't change them in any way or use them commercially.							
	32.2%	35.4%	34.0%	32.0%	30.6%	29.4%	28.3%

Source: Creative Commons, License statistics, http://wiki.creativecommons.org/Metrics/License_statistics#Raw_data.

Exhibit 3 Consolidated Financial Statement for Getty Images (\$ million)

	1995 ^a	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total Revenue	71.4	484.8	451.0	463.0	523.2	622.3	733.2	806.6	857.6	878.2
Cost Of Goods Sold	(28.1)	(140.7)	(122.4)	(128.1)	(148.3)	(172.7)	(196.9)	(206.8)	(228.2)	(240.1)
Gross Profit	43.2	344.2	328.6	334.9	374.9	449.6	536.3	599.8	629.4	638.1
Selling General & Admin Exp.	(30.3)	(249.8)	(234.8)	(208.5)	(210.0)	(225.1)	(252.1)	(302.7)	(335.9)	(345.7)
Other operating expense	(6.7)	(168.1)	(140.3)	(77.1)	(61.6)	(56.3)	(58.8)	(72.7)	(92.0)	(96.5)
Operating Income	6.2	(73.7)	(46.5)	49.4	103.3	168.1	225.4	224.4	201.6	195.8
Finance Income, Net ^b	(1.9)	(12.8)	(16.9)	(13.3)	(3.8)	5.8	4.7	6.6	5.3	2.3
Unusual Items ^c	0.0	(77.7)	(35.3)	0.0	(11.8)	0.0	0.0	(26.3)	(5.2)	(10.5)
Income Before Tax	4.3	(164.2)	(98.7)	36.1	87.7	173.9	230.1	204.7	201.6	187.6
Income Tax Expense	(2.5)	(5.2)	3.4	(14.6)	(23.7)	(67.5)	(80.7)	(74.2)	(75.8)	(75.9)
Net Income	1.8	(169.3)	(95.3)	21.5	64.0	106.4	149.4	130.4	125.9	111.7
Assets		1100.6	993.1	1025.1	1224.1	1451.6	1662.2	1714.4	2012.2	1985.8
Equity		683.5	599.5	668.0	835.8	1063.1	1241.4	1248.2	1427.9	1467.9
Net income/sales	2.6%	-34.9%	-21.1%	4.6%	12.2%	17.1%	20.4%	16.2%	14.7%	12.7%
Net income/equity		-24.8%	-15.9%	3.2%	7.7%	10.0%	12.0%	10.4%	8.8%	7.6%
Net income/assets		-15.4%	-9.6%	2.1%	5.2%	7.3%	9.0%	7.6%	6.3%	5.6%

Source: Company annual reports and Capital IQ database, accessed December 2012.

^a All are 12-months fiscal period ending in December, except for 2008, which is 12 months ending in March 31, 2008.

^b Net financial income includes net interest, investment, and currency exchange gains.

^c Unusual items include restructuring charges, merger and related restructuring charges, impairment of goodwill, and other unusual items.

Exhibit 4 Breakdown of Revenue for Getty Images

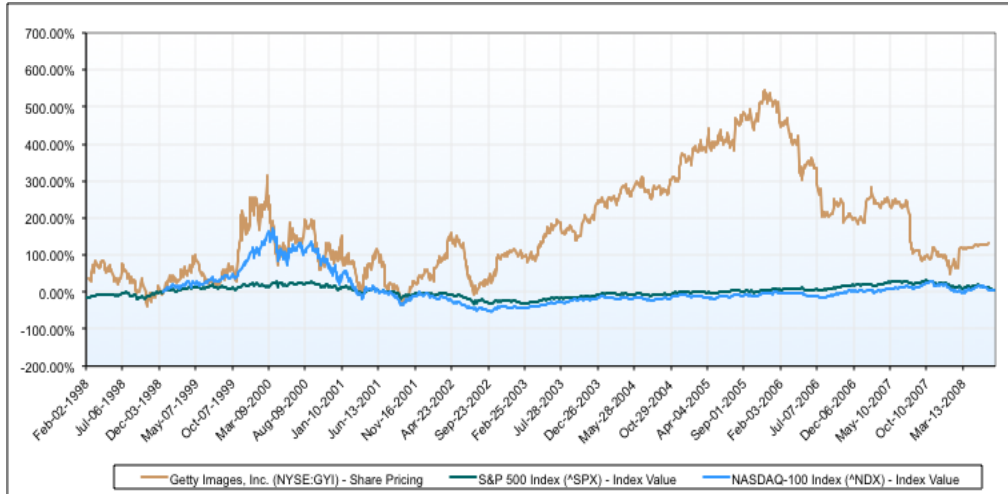
Years Ended December 31	2002	2003	2004	2005	2006
Portfolio Revenue as a Percentage of Total Revenue					
Rights-managed still imagery	56%	52%	48%	43%	40%
Royalty-free still imagery	27%	31%	33%	37%	38%
Editorial imagery	10%	10%	12%	12%	13%
Film	6%	6%	5%	5%	5%
Other	1%	1%	2%	3%	4%

Gross Margin (%)					
Rights-managed still imagery	66%	66%	67%	67%	66%
Royalty-free still imagery	80%	78%	76%	80%	84%
Editorial imagery	89%	82%	82%	78%	74%
Film	72%	72%	72%	71%	72%

Approximate Average Price per Image (in \$)					
Rights-managed still imagery	535	560	590	585	550
Royalty-free still imagery	105	150	200	235	250
Film	565	615	630	580	490

Source: Company annual reports and Capital IQ database, accessed December 2012.

Exhibit 5 Getty Images' Stock Price



Source: Capital IQ database.

Exhibit 6 Consolidated Financial Statement for Shutterstock, 2007–2012 (\$ million)

	2007	2008	2009	2010	2011	2012
Revenue	30.0	52.7	61.1	83.0	120.3	169.6
Cost of revenue	(9.2)	(16.9)	(21.8)	(32.4)	(45.5)	(64.6)
Gross profit	20.8	35.8	39.3	50.6	74.8	105.0
Sales and marketing Exp.	(6.9)	(9.3)	(10.9)	(17.8)	(31.9)	(45.1)
Research and development Exp.	(1.0)	(1.1)	(2.4)	(4.6)	(9.8)	(16.3)
General and administrative Exp. (1)	(12.4)	(4.8)	(6.2)	(8.4)	(10.2)	(21.6)
Operating Income	0.6	20.6	19.7	19.8	22.9	22.0
Interest income	0.0	0.0	0.0	0.0	0.0	(0.5)
Income Before Tax	0.6	20.6	19.8	19.8	22.9	21.5
Income Tax Expense (2)	(0.4)	(0.9)	(0.9)	(0.9)	(1.0)	25.7
Net income	0.2	19.6	18.8	18.9	21.9	47.2
Assets	2.8	3.4	11.1	13.9	24.9	147.1
Equity	-	-	-	-	-	76.9
Net income/sales	0.6%	37.2%	30.8%	22.8%	18.2%	27.8%
Net income/equity	-	-	-	-	-	61.4%
Net income/assets	0.6%	37.2%	30.8%	22.8%	18.2%	27.8%

Source: Shutterstock S-1 and Shutterstock 10-K, 2013.

^a Includes non-cash compensation of \$917, \$2,032, \$1,833, \$1,114, \$2,122, \$1,657 and \$1,657 for the years ended December 31, 2007, 2008, 2009, 2010, 2011, 2011 pro forma and 2011 pro forma as adjusted and \$791, \$2,157, \$1,485 and \$1,485 for the six months ended June 30, 2011, 2012, 2012 pro forma and 2012 pro forma as adjusted, respectively.

^b For 2009, 2010 and 2011, and the six months ended June 30, 2011 and 2012, we operated as a New York limited liability company for federal and state income tax purposes, taxed as a partnership, and therefore were not subject to federal and state income taxes. Following the Reorganization, we will become subject to income taxes at an assumed combined federal, state and city tax rate of 39.4% for the year ended December 31, 2011 and for the six months ended June 30, 2012, respectively. Such actual combined tax rate will depend on many factors and may be higher or lower than the assumed rate.

Exhibit 7 Operational Data for Shutterstock (2007–2012)

	2007	2008	2009	2010	2011	2012
Paid downloads (million)	22.6	34.0	34.0	44.1	58.6	76.0
Revenue (\$ million)	30.0	52.7	61.1	83.0	120.3	169.6
Images in library (million)	2.6	5.1	8.9	13.3	17.4	23.3

Source: Shutterstock S-1 Form, March 5, 2013.

Exhibit 8 Examples of Pricing for Images on GettyImages.com

A sample RM image from the Stone+ collection

	Example 1	Example 2	Example 3
Use	Publishing and editorial	Advertising - Print, Display and TV	Web and app Web, app or software advertisement
Format	Magazine interior	Display - Billboard	
Size	Up to 1/2 page	Up to 1/2 of ad	
Circulation	Up to 10,000	Up to 100	
Distribution	Print only		Mobile app - Ad
Duration	Up to 1 month	Up to 1 month	Up to 1 month
Territory	United states Publishing-	United states	United states
Industry	Periodicals	Automotive	Automotive
Posted price	\$235	\$3,750	\$1,110

An example RF image in the PhotoDisc Collection

Size of the digital file	Pricing
153KB, 280 x 189 px (3.89 x 2.63 in.) - 72 dpi	\$15
502KB, 505 x 340 px (7.01 x 4.72 in.) - 72 dpi	\$41
1MB, 722 x 486 px (10.03 x 6.75 in.) - 72 dpi	\$113
3.01MB, 1249 x 841 px (17.35 x 11.68 in.) - 72 dpi	\$185
8.59MB, 2112 x 1422 px (7.04 x 4.74 in.) - 300 dpi	\$268
28.5MB, 3848 x 2591 px (12.83 x 8.64 in.) - 300 dpi	\$361
49.1MB, 5095 x 3430 px (16.98 x 11.43 in.) - 300 dpi	\$412

Source: GettyImages.com.

Exhibit 9 Graphic Design USA, Annual Stock Visual Surveys of Graphic Designers

	2006	2009	2011	2012
Have you licensed Rights-Managed?	0.55	0.45	0.33	0.32
Have you licensed Royalty-Free?	0.91	0.95	0.93	0.98
Have you used microstock?	0.36	0.74	0.66	0.67
Have you used subscription service?	0.36	0.42	0.52	0.54
How many stock sites do you use in a year?				
One			0.11	0.14
2-3			0.45	0.37
4 and more			0.44	0.47
For which types of media do you use stock?				
Print			0.92	0.96
Online			0.74	0.76
Package/POP			0.41	0.51
Sign/Exhibit/Environment				0.48
TV/Film/Video			0.14	0.18
Mobile devices			0.1	0.13

What influences your use of a site (2012)?		Do you use stock more than 20 times a year?	
Rank	Reason	2000	0.18
1	Price	2005	0.39
2	Quality of Collection	2010	0.54
3	Ease of Search	2012	0.7
4	Freshness of Images		
5	Wide Variety of Types		
6	Breadth of File		
7	Advanced Site Features		
8	Exclusive Content		
9	Colleague Recommend		
10	Boss Told Me To		

Source: GDUSA, Annual Stock Visual Survey, various years, www.gdusa.com, accessed January 10, 2013.

Exhibit 10 Sample of M&A Deals of Getty Images and Corbis

Getty Images

Announced Date	Target	Size (\$mm)
Oct-27-1997	PhotoDisc, Inc.	148.19
Feb-06-1998	Allsport Photographic PLC	-
Apr-23-1998	Allsport Australia Pty Limited	0.65
May-05-1999	Art.com, Inc., Prior to Acquisition by Allwall.com	202
Aug-09-1999	EyeWire Inc	-
Aug-24-1999	Online USA, Inc.	-
Sep-21-1999	The Image Bank	183.2
Nov-04-1999	Newsmakers, LLC	-
Feb-28-2000	Visual Communications Group, Ltd.	223.4
Apr-01-2003	Mission Studios Limited	-
Jul-1-2004	image.net, Ltd.	23.24
Sep-1-2005	MedioImages Inc.	-
Oct-05-2004	Bongarts Sportfotografie GmbH	-
Apr-20-2005	Digital Vision Limited	165
May-13-2005	Photonica	51
Feb-09-2006	iStock International, Inc. (nka:iStockphoto LP)	50
Apr-06-2006	Stockbyte	135
May-02-2006	Laura Ronchi S.p.A.	-
Feb-21-2007	MediaVast, Inc.	202
Feb-27-2007	Michael Ochs Archives, Inc.	-
Mar-12-2007	Scoopt Ltd.	-
May-01-2007	Publisher's Toolbox, Inc.	-
May-04-2007	Evolvs Media, Inc.	0.36
Jun-19-2007	Pump Audio, Inc.	42.5
Oct-22-2008	JupiterImages Corporation	96
May-03-2011	Photolibrary Pty Ltd.	-

Corbis

Announced Date	Target	Size (\$mm)
May 5, 1998	Westlight Inc.	-
July 14, 1998	Corbis Outline	-
June 15, 1999	Sygma	-
February 16, 2000	Sekani, Inc.	25
February 29, 2000	Tempsport SA	2.46
March 2, 2000	Saba Press Photos Inc	-
March 22, 2000	Stock Market Photo Agency, The	-
April 10, 2000	Second Line Search	-
April 6, 2005	The Roger Richman Agency, Inc.	-
July 8, 2005	Image 100 Ltd.	-
July 27, 2005	eMotion, Inc.	-
September 29, 2006	Australian Picture Library Pty Limited (nka:Corbis Australia Pty Limited)	-
November 6, 2007	Veer Incorporated	-
July 20, 2011	Splash News & Picture Agency, Inc.	-
August 24, 2011	Demotix, Ltd	-
January 8, 2012	Norm Marshall & Associates, Inc.	-

Source: Compiled by casewriters based on Capital IQ database.

Exhibit 11 Results of 2011 Piracy Survey

1. How many transactions do you license annually?

Categories	<10K	10K-100K	100K-1M	1M-5M	5M+
Response	0.22	0.22	0.30	0.15	0.11

2. How much of your licensable content is registered at the U.S. Copyright office?

Categories	None	Less than 10%	10%-25%	25-50%	50-75%	75%-100%
Response	0.23	0.19	0.2	0.11	0.04	0.23

3. Where does infringement occur?

Categories	Advertisement (web)	Editorial (web)	Professional/ commercial blog	Editorial (print)	Personal blog	Advertisement (print)	Not applicable
Response	0.49	0.43	0.4	0.38	0.32	0.32	0.11

4. How much annual revenue is generated from infringement settlements?

Categories	None	Less than \$10K	\$10K-\$50K	\$50K-\$100K	\$100K-\$500K	\$500K-\$1M	\$1M+
Response	0.19	0.38	0.12	0.12	0.10	0.03	0.06

5. When an infringement is found or reported, which of the following remedy actions are pursued?

Categories	Took no action when infringement is found or reported	Request that the infringer provide appropriate credit	Request that the infringer remove the imagery	Request that the infringer pay a settlement/appropriately license the content
Response	0.08	0.21	0.66	0.81

6. If you used a technology partner when tracking infringements, what percentage settlements are pursued?

Categories	None	Less than 10%	10%-20%	20%-40%	40%-60%	60%-80%	80%-100%
Response	0.17	0.21	0.08	0.12	0.04	0.13	0.25

Source: Adapted by casewriters from 2011 Piracy Survey Results, Picture Archive Council of America, http://www.paca.org/pdfs/Piracy_Survey_Results_2011.pdf, accessed January 2013.

Note: The survey was based on participating agencies' activities in 2009 in the North American market. Participation from general membership was 52%. PACA had over 100 companies in North America and over 50 international members.

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