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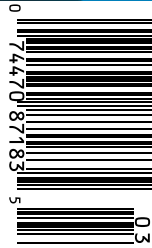
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Stock Options

How to profit from buying and selling royalty-free images

BY LORNE CHERRY

A LOT HAS CHANGED SINCE MY LAST LOOK AT THE ROYALTY-FREE IMAGE market almost three years ago. At that time, the fledgling royalty-free market was but a thorn in the side of those traditional, often way-too-expensive-for-us, legalese licensed, right-protected, content providers. These large players dismissed PhotoDisc, Digital Stock and distributors such as myself as just kids and their toys. And to make matters worse, many of the photographers and illustrators that read this publication thought my promotion of royalty-free was ignoring and devaluing the creative process, and as such, I received a thorough thrashing at the hands of those who believed that “royalty-free” meant working for free.

Were they ever wrong! Time, technology and our relentless pursuit of value have finally rationalized the creative content market, with royalty-free not only becoming a significant force but rather the dominant force. Over the past two years, our company has sold over two million dollars worth of royalty-free stock photography and illustration, making us Canada’s largest distributor. Currently, royalty-free sales account for almost 20% of our sales volume, up from 10% three years ago.

And we’re just the tip of the iceberg.

Include direct sales from content providers, combined with sales through the Internet, and you can add an extra zero to that \$2 million. A second zero puts you in the neighborhood of worldwide sales, since Canada is but a small player in the international market of royalty-free content distribution. These numbers are significant, not only because they illustrate the explosive growth of the market, but also, as I will argue later on, the refinement of quality, sophistication of distribution, and most important, profitability of royalty-free images for both buyer and seller.

Paralleling developments in the stock market, merger-mania has gripped the big traditional rights-reserved content providers and distributors as they struggle to acquire the technology and high-growth of the much smaller royalty-free pioneers. Getty bought PhotoDisc; Bill Gates bought Corbis; Corbis bought Digital Stock; Adobe bought and then sold off Image Club. And then there’s a whole bunch more market shuffling that doesn’t matter.

Central Stock, Rubber Ball Faces collection. Among their best sellers.

What does matter is the trend towards consolidation of both content production and distribution. Indeed, analogies and parallels with today's stock market are remarkable: the royalty-free curve just keeps getting steeper, often without profits to earning ratio logic. Perhaps the rise is not as steep as Internet-driven stocks, but damn close.

Without boring you further with real industry numbers, simply put, any growth market is profitable for those players who are in early and understand the workings of the market. And if you create content for almost any medium, you're probably a player in this highly transitional, and often difficult-to-understand royalty-free content market — like it or not. So listen up.

HOW TO BUY ROYALTY-FREE: HI-TECH IS NOT ALWAYS BEST!

If you buy royalty-free strictly through the Internet, you're discarding long-term profit in favour of shortsighted savings. Here's why: One medium-res (10MB uncompressed) image from PhotoDisc costs approximately \$100 Canadian. One PhotoDisc CD with 100 to 200+ images cost between \$229 and \$449 Cdn. respectively, plus \$12 average for next day Purolator delivery. Do the math and that's less than \$3 per image. Even if you only use five images off the entire disc over the next five years, you're much farther ahead in dollars and cents by purchasing the CD. And you'll slowly build a library of billable assets that your agency can use to generate profit on future projects. In sum, even at \$400+ these CD's are a bargain when compared to one-image-at-a-time acquisition.

Relying on the Internet as your sole source of content distribution has other pitfalls. The images that generate creative ideas are often as important as those that you are deliberately searching; therefore browsing through a catalogue will always trigger more activity in your right hemisphere than any on-line search. Moreover, if you build a complete library of royalty-free catalogues, you overcome the limitations of relying on any one company to find the right image, while at the same time saving the hassle of having to search multiple Internet sites.

But even with all its current limitations, Internet distribution of royalty-free is still growing faster than the CD market. Now if only we could eliminate some of the aforementioned weaknesses with...

A CANADIAN ONE-STOP INTERNET SHOP?

Currently our company is undertaking negotiations to build one Canadian Internet site where you can search the offerings of all the major royalty-free content providers together with the small, specialty providers (whom often have very interesting and eclectic collections). And in keeping with my

John Foxx. Distinctively European in flavour.

Comstock, from Idée Fixes collection. Making a late run from a solid position in the traditional market.

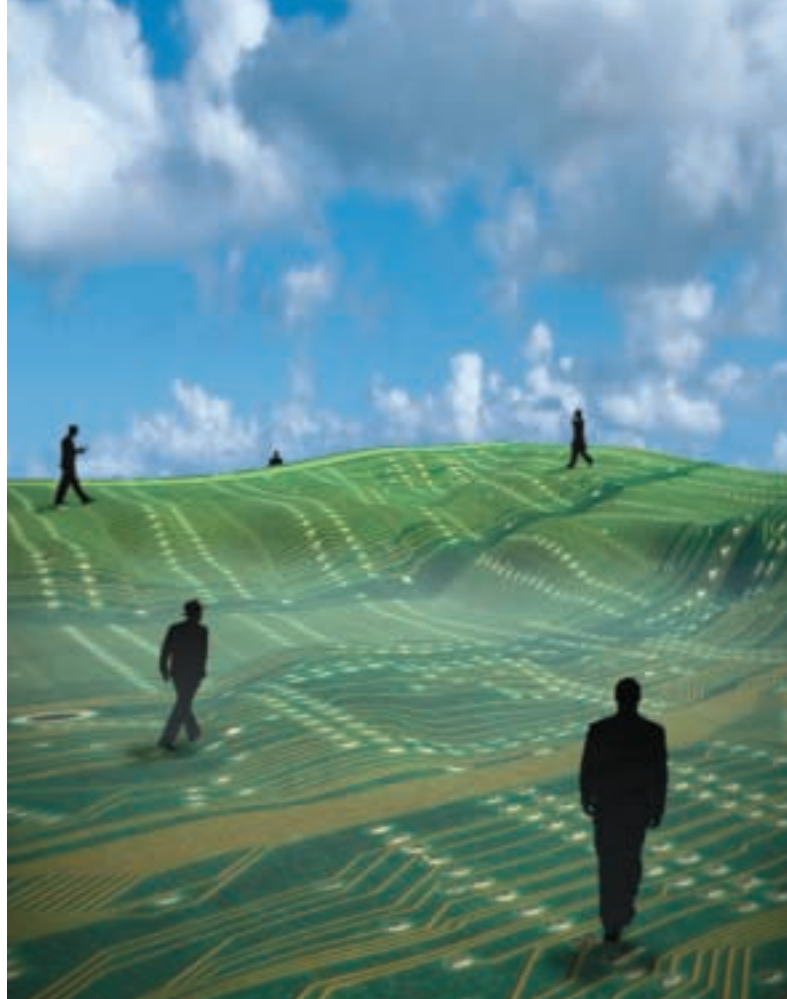




Image Farm (Road Signs collection).

A small Canadian supplier with aspirations to grow much bigger.

thoughts above with respect to the importance of hard-copy catalogues for browsing, the site would distribute royalty-free content via the Internet, thus eliminating the lag and costs of Purolator, while at the same time ensuring

that registered members of the site would automatically receive updated hard-copy catalogues by regular mail. (PDF-based catalogues are still too large to download, but

the idea has future merit.) E-commerce-enabling a site with a catalogue and a search engine capable of sorting through 250,000 images while negotiating with large (and overly-protective) content providers is a daunting task, so completion of this project is still at least a year away.

Keeping the site Canadian is important, because credit card companies force you to pay exorbitant foreign exchange rates when you download from a U.S. site. And some credit card companies and banks are beginning to surcharge foreign currency transactions from 3 to 5% on international transactions.

Finally, don't forget to add brokerage and U.S. shipping charges if you are buying a CD from the U.S. or abroad. The bottom line: it costs as much as 10% more to deal with the U.S. and 15%-20% more for overseas. So much for NAFTA and the Internet opening the borders — it's far cheaper to purchase in Canada, whether

on-line or not. More fuel for the argument over keeping our Internet URL and warehousing in Canada.

LEGAL STUFF YOU NEED TO KNOW

Many of the licensing restrictions of royalty-free have loosened in the wake of a market share war last year that some say was started by Adobe. Few royalty-free houses now charge for an upgrade license that was once needed to use an image on a resaleable item such as a T-shirt or book jacket. But not every publisher has adopted this, so read the fine print (and if you hate fine print, then phone!)

Some publishers have watermarked their low-res content in order to prevent theft of those low-res images via the Internet or comping CD. (Yes, it's royalty-free, but you still have to pay for it initially!) I have mixed feeling about watermarking: it costs the companies much more than it saves them. And nothing is more unprofessional than presenting a comp that's watermarked. Your client doesn't need to know the source of the image, and the watermark will definitely detract from whatever idea you're trying to get across.

On the very near horizon is tamper-proof digital watermarking that electronically embeds the source and owner of the image within the image. Invisible to the naked eye, yet digitally encoded and readable with new programs, this

Forget what you've heard about earning revenue with your old stuff or leftovers that you couldn't sell to clients. Dealing with the acquisitions department of a royalty-free company is akin to finding a new job or client.

technology has promise (Adobe's new Acrobat 4 has a very similar feature). Look for the major royalty-free publishers to endorse digital watermarking very soon, as it will stop (or at least slow) the proliferation of illegally obtained and unpaid images via the Internet, especially the 72 DPI versions that are so easy to download/copy. With this technology, cyber-cops can track-down illegally used images within sites in a matter of seconds via powerful search tools. Enforcement is another matter, especially with respect to sites that originate in other countries; but together with software anti-piracy's newfound legal teeth, this technology may help ensure that content providers and distributors remain profitable.

A third important legal issue deals with content creation. Before you send any photograph off for consideration as royalty-free content, make doubly sure that the appropriate model releases are in place. If not, you face legal action

when an unreleased model's picture shows up on the Internet site of the KKK. After all, just one

PhotoSpin. Unprecedented attention to quality.



lawsuit can ruin your whole day, especially in the shark-infested legal waters of the US of A (I know from first-hand experience). That said, and as the market matures, even the smallest content distributors and providers will insist on industry-standard royalty-free contracts that have survived legal challenges.

THE PLAYERS — BIG GUYS YOU'VE HEARD OF & LITTLE GUYS THAT DESERVE YOUR ATTENTION

PhotoDisc

It's not easy being the market leader — competitors chasing and challenging you, your every move scrutinized as you guard your impossible-to-hang-on-to market share. But PhotoDisc has done an admirable job maintaining the number one spot. Recent releases bring its total collection up to over 200 discs, and with no less than 11 resource books and comping CD's, they are still steamrolling over all comers in the very competitive North American market.

The Seattle-based company's strength is multi-faceted: high quality, good value, strong distribution (a major weakness of other contenders in Canada), and innovative marketing — no easy feat when you take into consideration that PhotoDisc is now owned by Getty. This is not a knock against Getty, but rather an inference that small independent companies seem to be refreshingly devoid of corporate quagmire. Small companies tend to pay less attention to the numbers of competitive share, and share prices, and other beancounter-driven issues that often cloud creativity in monolithic mega-corporations. Getty has largely let PhotoDisc do its own thing, and it shows in its refreshing new content and recent upgrades to its now much-easier-to-use website.

Gone are the clichéish two Armani-suited businessmen shaking hands in front of a skyscraper, along with disc titles such as *Business and Industry* (although surprisingly, that remains one of our best sellers) in favour of titles such as *Infomedia 1, 2 and 3* (now three discs of great techno-objects) and *Wired Business*, to mention two of my favourites. (And I haven't even told you all the good stuff in the works from PhotoDisc, as I hide behind my non-disclosure clause.)

PhotoDisc has also re-scanned much of its earlier content to bring it up to the preferred 28MB file standard. And unlike others, the company is not afraid to retire out-of-date stuff and replace it with fresh content. Moreover, PhotoDisc has finally rid itself of the legal baggage brought on by unscrupulous photographers that sold their wares to the company without obtaining proper model releases.

PhotoDisc is a company that understands the Canadian market (at least better than the rest) having good distribution, direct sales and customer service north of the 49th. With Getty's resources now firmly backing PhotoDisc, the market leader in Canada they shall remain. Proof? At new-Media 99 the PhotoDisc booth was packed. Can't say that

about the other royalty-free booth.

(Ok, I admit it, I do have a certain bias towards these folks, having worked with them for almost five years; actually, it's a love-hate relationship, as I search for a balance between their former distributor-based distribution model in Canada and their slow but sure shift to direct distribution via the Internet.)

Corbis

Corbis' millions of images made it a dominant player in the rights-protected market, and now, with its acquisition of Digital Stock (the name Digital Stock is gone), Corbis is poised to do battle with the market leader. Or so they hope. Although they've got the content, Corbis is still behind in developing distributor relationships, at least in Canada. In its defense, the company has established a Canadian office and is working toward better representation. Bottom line: Corbis has the resources and the images to be a major player. Watch for more from them over the next twelve months.

Comstock

Although they initially tried to resist the royalty-free wave in favour of protecting their large vested interest in the traditional market, in the past year or so the folks at Comstock have made a heavy push into promoting a rapidly expanding line of discs that now approaches 100 titles. Some collections, such as *Idée Fixes*, are positively kinky; others follow the tried-and-true conservative style that has been Comstock's bread and butter for many years. With a significant inventory of images to draw on, a new website that adds an extra dimension to the marketing thrust, and strong Canadian representation, this is a source to be reckoned with.

EyeWire

Founded in Calgary, under the name of Image Club, these Canadians were arguably the originators of royalty-free content. Starting first with crude (by today's standards) clip-art and innovative fonts, the company was swallowed-up by Adobe, where it wallowed in second-tier status as Adobe seemed unsure about what to do with it. So it was sold back to a group of its founders, a little worse for wear. Masters of direct marketing with a top-



PhotoDisc. High quality, good value, strong distribution.

notch mailing list and a gorgeous catalogue, EyeWire needs to embrace more traditional distribution so that its images and fonts are easier to obtain. Sad that this originating Canadian company now faces, in my opinion, an uphill battle.

Artville

Artville burst onto the scene about two years ago, carving out a strong niche in royalty-free illustration (as opposed to photography). Its philosophy of commissioning some of the world's best digital illustrators to avoid the clip-art look has paid off — the company has come from virtually nowhere to enjoy the status as a major niche player. With the move this year to more business-oriented subject matter (that sells well) and the release of a second browser book more balanced in photography, Artville is well positioned to entrench a strong market position. If you haven't seen this stuff, log onto www.artville.com and check it out. You'll be surprised at the unique creative possibilities that open up with vector and bitmapped illustration, especially when used with *Painter 5.5* and the new *Painter 3D*. Three years ago, you'd have paid an illustrator three to five grand to produce some of images available in the Artville collection.

Central Stock

Central Stock is unique in that it is a compilation of over 15+ small, independent publishers of royalty-free content backed by professional marketing, distribution and kick-ass starter kits. Among the best sellers are: the *Rubber Ball Faces* collection and *Master Series Illustration*. Interesting and eclectic, Central Stock is certainly worth your time. And if you're thinking of getting into the high-stakes royalty-free market and want any chance of success, Central Stock may be your ticket to worldwide distribution. Strangely, some of the smaller companies represented by this Florida-based distributor do not allow for the purchase of a single image — a philosophy I'll hope they all change.



THE SIGNIFICANT OTHERS (DARK HORSES WORTH BETTING ON)

John Foxx

Distinctively European in flavour, Foxx's images have enjoyed stronger sales in French-speaking Canada than in Ontario. A recent new release (Volume 4) of backgrounds is interesting and seems to provide a better catalyst for Canadian recognition.

PhotoAlto

Not to be confused with Palo Alto, the birthplace of all things digital, PhotoAlto is another European collection of 40+ discs recently introduced to Canada. Interesting road-signs and literally off-the-wall graffiti. Good collection of European landmarks.

Dynamic Graphics

Remember these guys from your clip-art days? Well, they're back as a master distributor of royalty-free content (although they don't really produce much of their content, rather they re-market some of the better, smaller collections, similar to Central Stock). Strengths of this long-established American company include the *Digital Vision Library*, nice starter kits and good support.

PhotoSpin

A cool California company that seems to be run by professional photographers — not shareholders. Unprecedented attention to quality (RGB and CMYK images to 32MB, in-

The cost to produce and distribute an image catalogue in sufficient quantity can approach \$250,000, so this business is not for the timid.

cluding alpha channels). Interesting object collection. A lower-line PhotoSpin collection sells for \$99 Canadian, yet is every bit as good as more expensive collections from other publishers.

PhotoSpin also offers a unique service: you send them any table-top prop via Fedex and they'll light it to your specs, add an appropriate background, shoot to your specs, and send you a bill for much less than you could hire the job out for — an interesting concept that flies in the face of freelancers. Again, I have mixed feelings about this. Still, I *do* admire this company's philosophy of not being afraid to challenge industry norms or go up against the big boys.

Other companies that I've left out: **PhotoEssentials** (Australian), **Eclectic Collections** (nostalgic images produced in Canada), **Stockbyte** (interesting, mainstream content from the

Central Stock, Master Series Illustration.

UK), **Cartesia**, and **Digital Wisdom** (cool maps and terrain reliefs), **LifeART** (high-end medical illustration), **Image Farm**, (a small but growing Toronto-based company whose *Hand-Painted Backgrounds* collection decorated the lead article in our last issue), and all the independent publishers that make up **Central Stock**. (I've purposely left out Corel as its content has poor color correction and I consider it just clip-art.) And I haven't mentioned half a dozen or so other major and minor publishers who are not widely available in Canada.

Finally of note is the recent appearance of stock giant **Masterfile** in the crowded royalty-free arena.

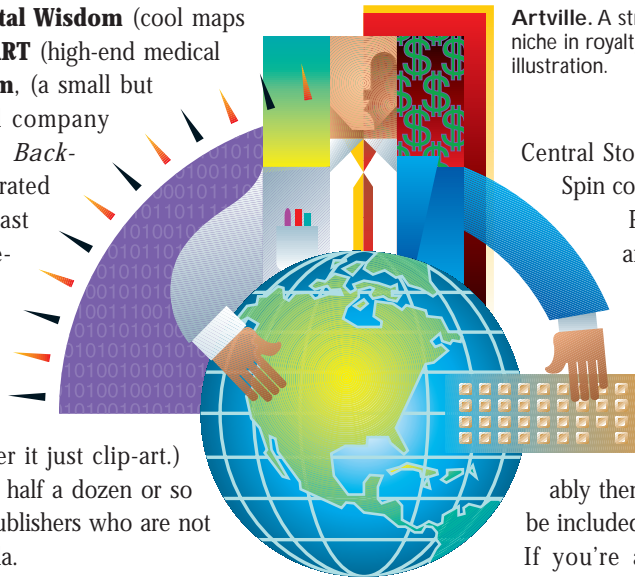
SELLING INTO THE ROYALTY-FREE MARKET

Forget what you've heard about earning revenue with your old stuff or leftovers that you couldn't sell to clients. Dealing with the acquisitions department of a royalty-free company is akin to finding a new job or client. You must only show your best stuff — and it had better be good. If successful, your images may be seen and used by thousands or even millions of people. Indeed, it's possible to earn thousands of dollars selling into the royalty-free market — but it's not easy money. Only the very best images will even be considered for inclusion in a royalty-free disc. Here are some tips:

Business images sell the best, provided it's up-to-date stuff. Clichéish stuff still sells surprisingly well, but try to be innovative and extremely current. For example, prop an office/technology shot using an iMac or new G3, not an 'old' putty-colored computer. Similarly, pay attention to items such as cellular phones and laptops, these things are becoming dated quite quickly.

The next best seller is people shots; once again, innovative lighting and camera angles are very important. The object and background market is also quite lucrative, but that market is getting very saturated, and it's becoming more and more difficult to find something that hasn't already been done. Offbeat and out-of-the-mainstream work may include some of your best creativity, but it may not do well in the stock market — our shelves are filled with wonderful work that didn't sell because it's difficult to use in an ad.

To check a sampling of what I consider the best royalty-free work (and what has sold well in Canada and the US) look at any of the new PhotoDisc Volume releases, (Volumes 52 to 68), PhotoDisc Object Series (*Infomedia* is our best seller) and Rubberball's *Faces 1&2* (interesting perspec-



Artville. A strong niche in royalty-free illustration.

tives). Illustrators should look at Artville's business illustration titles and the MasterSeries' Illustration within Central Stock's collection. Most of the PhotoSpin collection is also quite innovative.

Photographers may submit work to any one of the major companies listed above (John Foxx uses mostly its own photographers). It's best to call the acquisitions department to get their exact requirements (usually a dozen or so shots of your best work, preferably

themed so that more than one shot can be included in a collection).

If you're an illustrator (and a good one),

Artville is perhaps the best collection to be a part of. Artville typically evaluates very strong portfolios and may then commission an entire disk on one particular theme to one illustrator in order to ensure continuity.

If you're a would-be publisher of royalty-free images and feel smothered by the proliferation and marketing of just too many CD's together with high marketing costs, welcome to the big leagues. To be successful, you'll need to produce a browser CD and printed image catalogue. Marketing tests have shown that producing only a browser or catalogue is doomed; they must be given out together free or at minimal cost to art directors and designers.

The cost to produce and distribute an image catalogue in sufficient quantity can approach \$250,000, so this business is not for the timid. Few distributors will buy into your starter kits unless they cost less than \$8 CDN. Thus, these necessary starter kits must be produced in quantity and distributed worldwide. Too expensive to undertake? — Central Stock is a strong co-operative resource for content publishers who want to gain international distribution without investing in expensive marketing materials.

Coming soon — royalty-free stock video footage and music. With Apple's *Final Cut Pro* and the new streaming video technologies driving the market for low-cost digital stock footage, watch for high growth in this yet untapped market. But that's another column.

If you've hung in there for this long, you've viewed the ever-changing royalty-free content market from three unique perspectives: the buyer, the content creator, and the content distributor.

More complex than you thought? Thoroughly confused? Good. I've done my job well.

Until Seybold, relax a little and enjoy the summer. *

— **Lorne**

LORNE CHERRY IS PRESIDENT OF COMPUTER GRAPHICS WAREHOUSE.