

**January 2007****Multi-Client Study**

Photo Merchandise- Opportunities Beyond Prints

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Project Objectives

This study is designed to provide companies that are interested in the North American photo merchandise market with critical business planning information. It will:

- Segment and profile the customers for photo merchandise and gifts, including demographics, purchasing patterns, awareness, and unmet needs
- Explore opportunities for different types of content including professional, licensed, published, and stock images and graphics
- Forecast the market for photo merchandise by key product categories
- Identify opportunities and strategies for retailers, service providers, and technology vendors

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Introduction

For over 100 years, the photography industry has generated its revenue and profits from sales of film and prints. In the past 8 years, digital photography has forever altered this business model. Digital cameras have dramatically reduced the use of film and the prints made from film. Consumers are also printing a smaller percentage of the digital photos that they take. The net result is fewer prints being made, from film and digital combined, by consumers than when film was in its heyday. These changes have resulted in lower revenue and profits for most vendors and retailers involved in the photography market.

Examining the digital portion of the photo printing market, InfoTrends projects that digital print volume will show steady growth over the next three years. By 2009, InfoTrends expects that digital print volume will peak and then begin a gradual decline. Simultaneously, digital print prices are falling due to competition among retailers and countless online photo services, some of which are offering 4 x 6 prints for as little as 5 cents each. These factors will lead to a decline in digital print revenues even as volumes are growing.

The combination of a reduction in total prints and a decrease in prices is leaving photofinishers looking for something to replace the profit margins of the past.

Photo merchandise appears to offer such an opportunity. This broad category, which includes photo greeting cards, photo books, calendars, enlargements, photo mugs, and much more, offers consumers a variety of high-value products with high margin potential for photofinishers. Consumers appear to want to purchase these items, and InfoTrends expects that photo merchandise revenue will surpass \$800 million in 2010. These facts have attracted the attention of retailers and online photo services, which are now developing and introducing new photo products.

Methodology

InfoTrends conducted extensive primary and secondary research on the photo merchandise market including a review of published material, phone interviews with both equipment and service providers, and a consumer end user survey.

The survey was administered in the U.S. and Canada via web-based questionnaire in September, 2006 to a panel balanced to represent the age and gender mix of the general population. The survey yielded 5,250 usable responses.

All respondents were asked a series of demographic profile questions. Following the primary qualifying question (During the last 12 months, have you purchased any photo cards or other merchandise items from an online site or retail store?), the 4,074 non-buyers were asked two additional questions to assess their reasons for not purchasing photo merchandise and the likelihood of future purchases.

The 1,176 buyers surveyed went on to a few more demographic questions, followed by a series of category-specific qualifying questions to determine whether they would be presented later with a series of more detailed questions about the following types of photo merchandise items:

- Photo Cards – including greeting cards, folded photo cards, photo note cards, and photo post cards
- Photo Books
- Photo Calendars
- Specialty Photo Prints – including unframed enlargements (larger than 8 x 10), framed prints (any size), photo collage prints, and canvas prints
- Photo Apparel Items
- Photo Mugs
- Photo Mouse Pads

The photo merchandise buyers were also asked questions about product quality and customer service; interest in purchasing items containing professional, licensed, published, or stock images and other content; experience with do-it-yourself photo merchandise items; and a number of other related topics.

From this primary and secondary research, InfoTrends generated supporting data tables, charts, and a market forecast that are used in this report. Where appropriate and useful, responses have been broken down by gender, age, presence of children, type of photographer, photo activity, and other demographic factors.

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