

Stock photography was a nothing industry seven years ago. The market was the most fragmented on earth, to the point where no one believed there was a market. That changed when two young bankers decided to go into business together and raise some money. It took them two years to discover this global US\$7 billion business. But now Mark Getty has something to show the world.

Something out of nothing

By Tom Rubython in Monte Carlo

Mark Getty is the grandson of Paul Getty, the legendary oilman once reputed to be the richest man in the world. His great-grandfather spawned a great family dynasty with some good members and some bad. The family history has a habit of bestowing great entrepreneurial genes on one member of each generation. The first generation was his great-grandfather, Jean Paul; then followed Paul, his grandfather, his late Uncle George, and the fourth generation genes have landed on him.

He did his apprenticeship in merchant banking, getting a job with Hambros Bank, where he met a kindred entrepreneurial spirit in the form of a South African-born banker called Jonathan Klein. They had something in common: they both dreamed of starting their own business.

The friends soon started dreaming together, and not only did they have obvious talents, they also had access to capital from their high-level contacts. Jonathan Klein remembers: "Mark joined Hambros Bank in 1990. I was a director of the bank and he and I became friends. One of my responsibilities was running the media group."

Klein was also involved in South African projects for the bank, and Getty worked with him on these projects, sometimes taking the plane south. He continues: "Mark and I got to know each other. That is what a long flight will do for you – any long flight – and we became friends."

Most people start with an idea and become entrepreneurs as a by-product of that. Mark Getty and Jonathan Klein started as entrepreneurs and set about looking for a product. Getty remembers: "I was looking to find a business, which was fragmented worldwide in its application and would be transformed by changes in technology."

The only problem was that they did not have a business or even any idea of a business. So they formed Getty Investments LLC, but it took them another two years until 1995 to find

anything to do. Klein says: "We had a dream of bringing together the various Getty trusts and creating a vehicle, and we decided to do that at the end of 1993. We set up Getty Investments, having raised a little bit of money from the Getty family, Jacob Rothschild and from Hambros." In fact Getty and Klein raised around #35 million, of which 80 per cent came from the Getty family interests, 10 per cent from Jacob Rothschild and 10 per cent from their own employer Hambros.

Once they had the #30 million commitment they started looking for a business in earnest. It seemed an easy problem to solve: #30 million in search of a business. But it proved more difficult than they could possibly have imagined. Every good business that came up for sale was eagerly courted by venture capitalists with deeper pockets. After setting up in November 1993, they did not find a business until March 1995.

Then out of the blue, Chris Innes, an ex-colleague, came up with the idea of stock photography. It turned out that Hambros had been given the job of selling just such a business. Klein remembers: "We told Chris to go away because we didn't even know what he was talking about." But before he went away they asked him what stock photography was. Getty says: "He told us and we became absolutely fascinated."

Getty remembers it well: "I said 'no, I haven't even heard of it'. He said all those pictures that you see in every magazine and every newspaper and every brochure come from somewhere, they come from agencies. So we looked at it and it is a fascinating business."

Getty and Klein had a tremendous advantage – they weren't known in the photography business. They were not regarded as competitors and therefore everyone shared market information with them as potential new investors. Klein agrees: "We had a tremendous advantage that we weren't in the industry, so we weren't seen as competitors. We were just two guys in a small office and the name of our company was Getty Investments and those ▷

advantages meant that the whole industry opened its doors to us. To do our due diligence about the industry we found out the truth, because no one was protecting themselves. We saw the industry players, we saw photographers. We spent time with art buyers at ad agencies, publishers, and we soon discovered that this business hit all of our key criteria. More excitingly, we were able to potentially get ourselves a very strong position with relatively small amounts of money."

Klein also discovered that he was looking at the wrong business to buy. Everyone kept telling them that if they entered the market, then they should buy Tony Stone Images, the premier player in the market. But Stone wasn't for sale.

But suddenly that changed. By sheer coincidence, Klein's brother Robin introduced him to Tony Stone Images. Robin Klein had been running a business called Innovations and sold it, and was contacted by British venture capitalists 3i, which owned 18 per cent of Tony Stone and wanted to dispose of the stake. Klein says: "We dropped everything and concentrated on acquiring Stone, which we did in March 1995."

The stock photography business pressed all the right buttons for Mark Getty. The reasons were simple. There was no big player in the sector, certainly nothing as sophisticated as a publicly quoted player. They found Tony Stone to be a business strong on cashflow and profits, and it became the first company in their new organisation, which they christened Getty Images. Stone didn't disappoint them and it was to be the first of about 30 acquisitions, all in the same sector. Getty Images almost effortlessly became the global leader in the imagery business.

Getty paid a hefty price for Stone, some US\$40 million, but felt it was worth every cent. Klein became responsible for operations and Getty looked after strategy. It was the perfect partnership, and so it proved. Getty says: "Over the last seven years since we made our first acquisition, we acquired 30 companies and never regretted it for a moment."

The purchase of Stone was followed by that of the Hulton Archive, one of the great photography archives of the world. The cost of Hulton was a relative bargain at US\$20 million. More early acquisitions proved bargains, before anyone woke up to the value of such assets. Three years later they bought the world's leading sports photography agency, Allsport. The final acquisition was a company called Photo Desk, based in Seattle. It cost US\$150 million and shifted the whole focus of the company to the United States.

The other acquisitions in-between all cost a few million dollars each, paid for by a mix of cash and shares.

Right from the start, they had a clear philosophy to apply to the acquisitions. Getty assessed the value on the basis of the cashflow

rather than the value of the asset. Mark Getty created a new company and a new industry.

It was not about the value of photography and image assets, but simply the cash they threw off. Getty is firm that this philosophy has been the key to the whole business: "We do not value an image, we value the business. Images do not have any intrinsic value, or rather very few images do. Maybe the great image of Marilyn Monroe with her skirt up in the air probably has an intrinsic value. The images that you and I see every day are only valuable in so far as they get into magazines like yours or into newspapers or into advertising. We value the business based on the cash that they generate."

Klein and Getty found stock photography to be not only a good business but a great business, and could not believe the margins it generated. Getty says: "It is a fabulous business. I am still kind of amazed at what sort of business it is. This is a business with 75 per cent gross margins and a business that is worldwide in its applications. It is a business in which we are the leaders by some distance and have a very important position in the industry."

Getty Images now has annual sales approaching US\$500 million, and recently made its first quarterly profit after seven years of building up the business. The profit would have come a few quarters sooner had it not been for 11th September. And there is everything to play for. Mark Getty believes the company can double its sales and market share in the next five years.

The total photography market in global terms is generally estimated to be worth between US\$6 billion and US\$7 billion, but in truth no one knows because it is very diversified. The market is split into two, with assignment photography a market worth US\$4 billion and stock photography, which is worth US\$2 billion. Getty has around 23 per cent of the stock photography market and 10 per cent of the whole market. It is aiming for 50 per cent of the stock photography market and 20 per cent of the whole.

Getty is clear what the market is: "Because we are the only public company in the industry, our estimate is that the market is worth US\$6 billion to US\$7 billion, and slightly more than half of that is commissioned photography; that is, the relationship between the magazines and the photographers directly. The other half is people like us – agencies where you go and buy off the shelf." But Getty is firmly in the right half of the business. Commissioned photography has been losing market share over the years to stock photography. Getty puts this down to convenience,

cost-effectiveness and quality. And he puts some of it down to Getty Images itself. With the rise of Getty has come the respectability for the whole industry.

Advertising agencies and marketing services companies account for 65 per cent of Getty's income. Many of the images on billboards and adverts are supplied by the company. In addition, countless company and product brochures have Getty pictures. Getty says: "You might see a picture of a sunset in Monte Carlo on a brochure that HSBC sends you for a mutual fund, or unit trusts that they have, or equally on the same day that picture of the sunset in Monte Carlo might be used on a poster, or on the cover of *High Life* magazine for British Airways. So we license these over and over again."

Getty sold US\$454 million worth of images last year. It would have been a lot more but for the recession that struck the marketing services industry after 11th September. It was the first down year that had struck the company, just as it struck almost every other media and marketing company. The first budget that got cut after 11th September was the marketing budget and that immediately hit Getty's revenues.

The company earns attractive margins of around 27 per cent, and the current target is to raise that to 30 per cent. The overall business does not yet earn money because of the high cost of amortising acquisitions and digitising the library. Getty laid out US\$80 million last year to digitise its whole image library. But the cash flow is positive overall.

It is acquisitions that have cost the money, and that prompted the company to go public on NASDAQ on 2nd July 1996.

Before that, Getty was, as a private company, already making acquisitions for paper rather than cash, something that is rather difficult for a private company as there is no definitive basis for valuation. Either the vendor was losing or Getty was losing out. Public companies never have so many problems. The solution was of course to pay cash, but this was not a scenario in which quick growth could be achieved, nor one Getty could sustain. There are also tax implications with acquisitions for cash.

Getty says simply: "When we were private we had endless arguments with the companies we wanted to acquire because they would value our paper very cheaply and we would value our paper very highly, so going public means that you don't have that argument. It is what it is. There is an objective value for it and that made life a lot easier."

The problem came to a head when Getty moved to purchase the giant privately held sports photography agency called Allsport. Although the sellers wanted to sell and the buyers wanted to buy, they couldn't agree a price because they couldn't value the currency. That problem was solved forever on 2nd July 1996.

The decision to go public on Nasdaq was a brave one. The company was, at that time, thoroughly UK-based in London and reporting its figures in sterling. But the Nasdaq quote proved to be unproblematic.

And the strategy proved perfect. Acquisitions for paper proved effortless, whereas before they had been a pain. They rushed off to make 29 acquisitions and made many of their staff shareholders. In addition, all were given share options.

In amongst that, Getty and Klein managed to keep hold of 25 per cent of the company despite all the acquisitions and watering down of the equity. They also managed to instigate a generous share-option scheme for staff. If targets are met and options exercised, they will hold another 18 per cent of the company.

The two also settled down to a great working relationship. Whereas in the beginning they did everything together, Mark Getty is now based in the UK and does the strategy, and Klein runs the business from Seattle. Klein says: "Mark is a tremendous long-term thinker and we balance his long-term thinking with my day-to-day rigour and focus. As well as that, we are both hand-in-glove on all the strategies."

Now, however, the acquisitions have stopped. Both Getty and Jonathan Klein feel the company is as big as it needs to be, and they are focusing on the bottom line and moving from the start-up loss-making stage to the profit stage and solidity.

When the dust settled, they found the only serious competition in the market place was from Corbis, an images company that has been built up privately by Microsoft's Bill Gates. Gates felt that images would be important to the future of the internet, and decided it was a good place for him to put some of the vast amount of cash his Microsoft dividends were generating.

Ironically, both are headquartered in the American city of Seattle – Corbis for obvious reasons, and Getty's because its biggest acquisition was historically based there.

Gates has given Corbis a slightly different emphasis than Getty's, and tends to value images as opposed to the cashflow that they generate. Gates has bought up electronic rights to a host of famous images. It is more editorially than commercially led.

Now, with the company stabilising, Getty is looking round at the competition and still finding none except Corbis. No one except Gates had trodden the same furrow, and six years after going public Getty is still the only public company in the business.

Despite having Gates' might behind it, Corbis has only a quarter of Getty's sales. Getty says: "Our competition is the status quo and we love nothing more than upsetting the applecart, and changing the way that things are done."

The family history has a habit of bestowing great entrepreneurial genes on one member of each generation. The first generation was his great-grandfather, Jean Paul; then followed Paul, his grandfather, his late Uncle George, and the fourth generation genes have landed on him.

Other competitors, such as Reuters and AP, are on the fringe. But Getty says: "In a sense we are competing with that direct relationship between a photographer and customer. But when you are buying, you just want the best, you want it quickly and you want it cost-effectively."

The acquisitions may have stopped two years ago, and although there are still some holes, Getty still only has a whole-market share of less than 10 per cent, meaning there is plenty of natural growth to go for. Getty's main growth will come from convincing customers to give up commissioned photography and move to using photography that is in stock. Getty says: "There are across the world a lot of advertisers and publishers whose natural inclination is 'I need a picture, I'll call someone to do an assignment, I'll commission someone.' People didn't know that they could get great quality very efficiently and much more cost-effectively than sending someone to Monte Carlo for the weekend to stay in a great hotel and shoot some pictures and still not know whether they got the picture that they wanted. Across the world there are a lot of people who are working in that kind of mentality. Of course, there are some subjects and some types of photography which will never lend themselves to buying from an agency – for example fashion. You cannot buy the picture of Claudia Schiffer in tonight's outfit for the cover of Vogue. You have to go and shoot it, but most everything else does lend itself to buying." It's a compelling sales story and even more so now that the digital revolution has enveloped the whole industry. Getty is ahead of everyone else and has now digitised its entire library.

The huge investment in digital has seen Getty Images virtually become an online company, which is gradually having a huge effect on costs. Getty says: "Everything in our news and sport is now digital and that has effectively happened in one year. Primarily because the new Nikon camera is that good."

Digitisation had vexed both Klein and Getty ever since they started the business. They needed a plan and a strategy. Inside three years, they moved from not having a single digital or internet sale to being practically entirely on the internet. It has been a tremendous achievement.

When they started the business, Getty and Klein didn't even think about the internet effect. But Getty knew that technology would change the business, and he was not sure whether it would be positive or negative. He says: "The internet wasn't there and I am not a technologist, and therefore it wasn't really something I was thinking about. But I knew technology was going to transform the business because that was one of the key criteria that we were looking at. At the time, we were just looking at digitisation and there were all sorts of proprietary products that people like Kodak had that would help you digitise your

artwork. But the internet suddenly married digitisation with distribution and we noticed – like everyone in the world did – when Netscape went public there was a lot of attention to it. We paid a lot of attention to it and we accelerated our spend on transforming the business significantly, and it has been fabulous. We are one of the largest e-commerce businesses in the world as a result."

The solution to the digitisation process and moving the company to e-commerce came through an acquisition which turned out to be the most expensive but also the best.

That acquisition was of a Seattle-based business called Photo Desk. In 1997 the two partners were waiting for a flight at Los Angeles airport when someone told them about Photo Desk, which was selling digital images over the internet. It was the first time they had heard of this being successfully done and they were intrigued. They didn't hang about. Mark Getty remembers: "We called the company from LAX airport and we said 'we

would like to come and see you' and they said 'when?' We said 'today' and we went and bought that business." The deal went through in February 1998 and it was a signal for massive change. They didn't want the company,

they wanted its know-how and paid handsomely for the privilege. Photo Desk's technology became Getty technology.

Getty effectively reversed into Photo Desk after it had absorbed it financially. Jonathan Klein changed his life – uprooting himself from London, moving to Seattle and taking head office with him. Getty remembers: "Photo Desk dramatically changed the business because it was a digital business rather than an analogue business. We decided to strip out its technology team, make its technology team a Getty team and not a Photo Desk team, push all our spend into digitising our original business and thereby to a degree almost ignoring them and moving all our senior people to Seattle from London."

It was such a drastic quick reorganisation that it almost became a 'bet the company' decision. Getty agrees: "It was not as easy as the drop of a hat. People had families, histories, schools, etc. We felt that if we were going to be digital you should be in an environment where that is all people think about, and Seattle is that kind of an environment. In my mind that was the transforming event."

When Klein got to Seattle and settled in his new headquarters it was a signal for him to start a revolution in the company. With all the acquisitions, Getty was a fragmented business, and he wanted to make it one business. He says: "We have gone from more than 20 finance systems around the world to one. We have gone from 88 separate offices around the world to 35. We have gone from almost 20 sales order-processing systems to one and 13

websites to one. Once he got rationalising, he found he could take out a whole swathe of costs and reduced the staff count from 3,000 employees worldwide to 1,800. Klein says: "So we spent the last two years building the plumbing, the infrastructure, and the reason why we refer to this stage as the end of the beginning is that in the first quarter we made a profit for the first time and we generated significant free cash."

Photo Desk also delivered another benefit. Having developed the business of stock photography as far as it could go, and started the digitisation process, Getty Images needed a system to manage the business it had bought. But it also saw a future for selling a system that would manage other imagery assets as well as its own. Getty says: "Clearly we have already become the first part of that equation as marketers of images. The second part includes a number of things. For example we are developing a product that manages digital assets, called digital asset management."

Getty believes every marketing company, every advertising agency and every large company will at some point in the future need digital asset management systems, and sees the market as having huge growth potential. And that extends right the way down to digital drawings and blueprints for organisations like architects. The system will embrace everything that can be deemed an image.

The opposing view to such an argument is that if the customers become too sophisticated they may buy fewer images. Getty admits that may be true, but he believes efficient systems will actually encourage more business. He explains: "What I am talking about now is basically an enterprise solution. The sell is very different and it is a hosted solution, whereby we come to you and say we will manage your digital assets, you will pay us a set fee, and the fee will be on a workstation basis." Klein says: "Our customers license a lot of pictures from us and we provide them with a service under which they can sort through them. They can see what the rights are, they can see the previous purchase history, and that obviously links directly to gettyimages.com so that they can buy more." It's bold thinking, but with their track record in the business, few will bet against them being right. It is a bold move to turn Getty Images into the Microsoft of photography.

Klein says: "We set out seven years ago to consolidate a fragmented business and apply technology to it. We have done this. We have gone from an acquisitive business to an organic growth business. We have gone from a heavy, heavy capital expenditure business to a low capital expenditure business, and we will generate cash this year of between US\$50 million and US\$60 million."

Klein is now obsessed with building Getty Images as a serious brand in photography. Getty Images, rather than the names of the individual brands, is increasingly being used in photo credits. Eight months ago it launched gettyimages.com in North America, followed by Europe five months ago.

Both men are very proud of the business

Most people start with an idea and become entrepreneurs as a by-product of that. Mark Getty and Jonathan Klein started as entrepreneurs and then looked for a product.

they have bought. They are particularly proud of the Allsport sports agency they acquired at the same time they went public. They are busy expanding that business into as many sports as possible. It is heavily involved in global sports such as the World Cup, Olympics and Formula One, and is now stretching out. But apart from sports, Getty is also expanding its news photography and even moving as quickly as it can into assignment photography.

But the good news is masked by the scars of 11th September. The marketing services industry was devastated and that was Getty's main market. But that aside, Getty Images is a high-margin, profitable, cash-generative business and has achieved everything its partners could have wished for when they alighted on it. As Klein says: "We have a very nice business model." It certainly is that.



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HOW THE DARK DAY OF 11TH SEPTEMBER SAW GETTY'S STAFFERS IN THE FRONT LINE

On Tuesday 11th September, Mark Getty and Jonathan Klein had gathered 65 presidents and vice-presidents of the Getty Images companies around the world at the group's Seattle HQ. But during the West Coast night, events on the other side of America shook the executives from their beds.

Getty, Klein and their top managers – like every other American – huddled around TV sets, unable to believe what they were witnessing. As airports closed down indefinitely, they realised they would not be going anywhere and that America was virtually closing for business.

Both men were desperately worried. The biggest regional office of Getty Images was eight blocks away from the World Trade Centre and it was clear it had been put out of action. Their minds were split – they were concerned for the safety of their 400 staff, and also knew that Getty photographers would soon be on the scene shooting photographs for the world's press.

But first they had to locate their 400 staff working there. They set up a command post in Seattle: only one was missing, as Jonathan Klein remembers: "We spent two days looking for our

employees and we were running a news business at the time so we had a lot of photographers on site. We lost one for a while and found him. It was very traumatic and difficult." They also found the staff that occupied the Canal Street offices traumatised by their vicinity to the events.

Klein says: "Thank God we found absolutely everybody, but unfortunately there were certainly some of our employees who lost people very close to them, but we found all of our people."

The two men faced some moral issues. They were a photo agency, the closest to events, and had a duty to get photographs out. But they also had a duty to their staff. Klein says: "Our photographers were at the forefront and it was a very difficult issue, because you have to handle all the human issues but at the same time this was the biggest news story of the last 60 years. We have to be professional in getting pictures to our customers fast, and I think we got the balance right. In the heat of the moment some people felt that we erred too much on the commercial side, and then there were people on the other side who said, well, what are you doing, now is not the time to worry about what

this means for the world, now is the time to take the pictures and get them out. You know, you can't please all of the people all of the time."

Whilst all of this was going on, they were also watching their business founder. News pictures apart, orders dried up. Both Klein and Getty instinctively knew the attacks would devastate the company's short-term marketing budgets, and slash spending on images. Getty says: "Our customer base was in deep, dire distress."

On 12th September they found a Getty picture of the disaster on the front page of every British, European and Australian newspaper, the first time that had happened. It was a success they wished they hadn't had.

They quickly moved the office near the WTC to another location, and days later were able to go in and retrieve the physical equipment and library. Everything in Lower Manhattan was shut for about a week, but many Getty staffers had press passes and were able to get access that way. After a week the crisis passed, and the Getty bosses flew back to their businesses. It had been a trying week for two entrepreneurs who had met as bankers 10 years before.