



Ernst & Young Entrepreneur of the Year Case Series

JERRY KENNELLY

STOCKBYTE

It's nine in the morning and Jerry Kennelly, CEO and founder of Stockbyte, has just finished another international conference call. His technical team are working on location preparing the next edition of royalty-free images for sale to newspapers, magazines and advertising companies around the world. Stockbyte operates in a highly competitive global marketplace, where innovation and advanced search technologies offer the competitive edge. Established by Jerry in 1997, the company is driven by creativity, quality and a strong desire to be first. Stockbyte is a serious contender in the industry, competing against major players like Getty Images, Photodisc and Bill Gates' Corbis.

A red light on Jerry's desk indicates another incoming call. Jerry takes it, but there's a crisis! There's been a mudslide at one of the Asian photo-shooting locations and it is feared that the models, photographers, stylists and make-up artists are all trapped. Action needs to be taken. Someone needs to be creative and think fast. Jerry springs into action!

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This case was prepared by Breda O'Dwyer and Ann Sears* as the basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.

The *Ernst & Young Entrepreneur of the Year Case Series* highlights the entrepreneurial pathways and strategies of successful Irish entrepreneurs. By platforming positive role models, the cases aim to foster entrepreneurial endeavour among students. The cases are based on the Ernst & Young Entrepreneur of the Year Award finalists and are edited by Dr. Colette Henry at the Centre for Entrepreneurship Research. This project is a joint initiative of Ernst & Young, the Centre for Entrepreneurship Research (DKIT) and InterTradelreland. InterTradelreland is responsible for the promotion of trade and business on an all-island and cross-border basis.

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Industry Structure

Stockbyte is operating within the royalty-free stock photography sector, a highly competitive and aggressive global industry. According to Patrick Donehue, Vice President of Photographer Relations at Corbis, the global market is estimated to be worth \$2 billion; 75 per cent (approximately \$1.5 billion) is in the corporate sector. Stockbyte is a serious contender within the industry and, in 2003, was ranked third in the world by Font Shop, Germany's largest distributor of royalty-free imagery. There are a number of competitors operating within this industry, the larger of which include Getty Images, Photodisc and Corbis (which is owned by Bill Gates). However, there are also many smaller competitors operating in the marketplace (see <<http://www.fotosearch.com>> for a listing of royalty-free photo publishers). One such smaller competitor is called iStockphoto, which has decided to grow via a partnership with Getty Images. Other smaller companies have already been purchased by Getty Images and Corbis. It would appear that the two largest competitors are on the acquisition trail.

Although Corbis has been in the marketplace for sometime, 2004 was the first time that the company was cash flow positive. It also grew through acquisition in 2004 by purchasing the German competitor Zefa for \$211 million. In comparison to Corbis, Stockbyte has been profitable since the founding of the business. Stockbyte is currently in a partnership deal with Getty Images, who have approximately 30 per cent of the market. In 2005 Getty Images purchased Amana and Digital Vision for over \$200 million. Jonathan Klein, Co-founder and CEO of Getty Images, expanded on their growth strategies by stating: "It will be driven by the areas where we wish to expand – international; editorial; related services like assignment and asset management; it could also be international agents and image partners".

Stockbyte – The Company

Stockbyte was established in 1997 after Jerry Kennelly noticed a gap in the marketplace. He understood that he had something to offer, as there was a requirement for high quality imagery, and he knew that he could satisfy the market. Jerry's core competency within the marketplace was his knowledge of the product. His background was in photography and he grew up in a family business – the weekly, regional *Kerry's Eye* newspaper. In 1981 he started his first business, Newsfax – a transmission service for news pictures – and this grew to the publishing of corporate newsletters in all thirty-two counties of the island of Ireland. He became exposed to CD Publishing – burning material onto a CD – in the early 1990s and he knew that this was the future that he wanted to explore as a business venture.

When Stockbyte started they needed additional funding and the company opted to source funding from Venture Capitalists (VCs). They successfully received VC funding and Stockbyte soon became the first company in Kerry to buy out their VC investment. As Jerry said, "VCs usually get rid of you", which was not something that Jerry wanted for his company. He wanted to remain in control. Stockbyte needed the financial injection in the initial start-up stages. ACT Venture Capital bought a 25 per cent stake in the company and then purchased an additional 5 per cent in 2000. However, by late 2003, Stockbyte was in a position to completely buy out the VC company for an undisclosed sum, as Jerry explains:

We had a frank discussion in 2003, where I told them that if they wanted to stay in, they had to put in more money without getting any more equity. They accepted the logic of the argument, and we bought them out.

Jerry knows that his business depends on Stockbyte's ability to easily manage, license and distribute high quality digital images to their customers. Thus, Stockbyte prides itself on being the best website for filtering images, making it easy for customers to find what they need amongst the company's themed collection of images. Stockbyte's website can filter for price, people, gender, age, ethnicity, copy space, cut out, colour, orientation and indoor/outdoor; it can also subfilter within those categories. Indeed, according to Jerry:

No-one filters like Stockbyte. Get as tough as you want with our search engine. Avoid the stuff you don't need. Click the things you do. Refine or broaden. You'll end up with a good, solid image selection – ranked by relevance and delivered so fast you might even get home on time (<http://www.stockbyte.com/advanced_search_info.php>).

As Jerry further explains: “A sub on a newsdesk or an advertising executive can source an image on our website in a matter of seconds” (see Exhibit 1).

But what exactly has made Stockbyte successful? Is it Jerry's entrepreneurial personality, or is it the business idea that he created to fill a gap in the marketplace? Some may argue that the company would have been successful regardless of who had spotted the opportunity and filled the gap. While others would accept that it is Jerry's drive and vision that has made Stockbyte the success it is today.

Currently, Stockbyte employs over forty people in its Tralee headquarters, with additional facilities in London, England and Wilmington, Ohio, USA. Jerry and his wife Johanna are the sole shareholders of Stockbyte.

In 2005, Jerry won the Ernst & Young Entrepreneur of the Year Award in the Emerging Technologies category. This is only one of the awards that the organisation has won over the years. However, this particular award has given the organisation more publicity than the other awards combined to date.

Company Products

Stockbyte offers a royalty-free stock photography library of over 85,000 high quality royalty-free images. They create generic images for newspapers, magazines, advertising companies and large commercial organisations. During 2006, Stockbyte plans to produce 4,000 images per month to add to their collection.

A Stockbyte image is essentially “a combination of talents – stylists and photographers advised by art directors who are aware of contemporary trends and the requirements of modern stock photography users”. This image is a combination of both a product and a service. Stockbyte needs to understand that the added value for the customer is contributed by both the product and the service.

According to Jerry:

When you are into photography, it is like having a sense of art or music. You're looking at a shot, figuring out how you are going to take it, crafting it in your mind. It's a visual literacy.

This is one of Jerry's core competencies. But the "Stockbyte product" is about much more than this. It is about the creative ability and competency to "research and know" the customer's mind, even before they do. It is about providing any visitor to the website with the ability to "creatively search images, provide creative light boxes for potential use and download images of up to 100mb in minutes". The Stockbyte product is about saving their customers, like Saatchi & Saatchi, valuable and expensive business time. The value of this time-saving may be due to Stockbyte's ability to use advanced search technology. Stockbyte pioneered the use of search filtration, which "allows creatives to quickly filter out images they don't need from search results – using criteria like age, race, location, and gender to save creatives valuable time". This would seem to imply that the company's core competency is the ability of the company to integrate all of these factors into a "timely global relevant new image".

Stockbyte's "product portfolio" includes the following categories:

<ul style="list-style-type: none">➤ Abstracts and backgrounds images➤ Animal images➤ Arts and entertainment images➤ Business images➤ Celebrations and holiday images➤ Drink images➤ Education images➤ Food images➤ Lifestyle images	<ul style="list-style-type: none">➤ Nature images➤ Object images➤ People images➤ Science and medicine images➤ Society and culture images➤ Sports and recreation images➤ Health and beauty images➤ Industry and transportation images➤ Technology and communication images
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The above portfolio reinforces Jerry Kennelly's belief that, at Stockbyte, "We are the ready-to-wear suits of the image business, offering convenience, style and something different".

The success of this portfolio requires effective and efficient management, continuous awareness and reviews of the needs of the marketplace. Companies in this industry need to continually conduct market research to anticipate trends. Stockbyte prides itself in using information effectively. It is critical for stock photography companies to keep abreast of fashion trends, international magazines, a variety of TV shows and media in general. This is the source of new product ideas and anticipation of future needs of the marketplace. It is equally important to "purge" any old products from the portfolio.

The need to be constantly up to date with required images has obvious consequences for the development of new products. This in turn has implications for the New Product Development process in a company like Stockbyte. Essentially the stock photography is led by the advertising industry, which in turn is required to stay at the cutting edge of

contemporary styles. Ultimately this requires a contemporary approach to product development using cross-function, creative new-product venture teams. The cutting edge of this industry also dictates the need for short product life cycles. Jerry Kennelly is used to working to deadlines and thrives in this type of industry. He is quoted as saying, “I can’t afford to waste time, it’s a dogfight out there and we are one of the most significant players in the business. We need to keep our edge and we do so by providing the type of images which the media and other companies want to buy.”

Production Process

The planning stage of Stockbyte’s operation takes place in Tralee, Co. Kerry. This typically takes about two months. The shooting stage takes place on location around the world, and this takes another two months. The post-production stage takes the material around the world for a final two months. During the post-production stage the material is sent to England for editing, then on to Hong Kong for scanning and retouching, and then back to Tralee, for final quality control. Thus, the whole process from conception to commercialisation takes about six months.

Stockbyte operates under the principle of high standards of quality, which they believe to be fundamental to their success in the business, as Jerry explains:

Our success is down to our standards and the fact that our pictures are better than our rivals’. We refuse to compromise on our pictures. If that means renting a 747 aircraft for one picture, we will rent it, simple as that.

Jerry’s refusal to compromise, however, did not stop him from growing his business by going after a lower end of the market. He knew that would require a separate brand and so launched Stockdisc, which focuses on creating aggressively priced, carefully researched stock photography on CD and online (see <<http://www.stockdisc.com>>). As Stockdisc grows, it may require its own Strategic Business Unit and relevant strategic support (see Exhibit 2).

Customers

Currently, Stockbyte has over two million customers worldwide. The customers are made up of Business-to-Business (B2B) customers and Business-to-Consumer (B2C) customers. They range from large multinational companies such as AOL, Weight Watchers, Gillette, Avon, Walt Disney, Macmillan Publishing, Coca Cola, Time Magazine, Saatchi & Saatchi and the BBC, to individual private consumers. The images are used for newspapers, advertising campaigns, company brochures and magazine illustrations.

Customers are reached by using a combination of direct and indirect channels of distribution, spanning 120 distributors in over seventy different countries. Customers buy from a catalogue of images – either individual images or a group of images for a specific price. The catalogue of images is available online for the customer to view. The transaction can be done totally by e-commerce, with the customer able to pay and download the images instantaneously. Alternatively, the customer can receive the images on CD. Upon purchase, the customer is free to use the images in any way they wish (up to ten licences with each image). However, they are prohibited from using the images for

pornography and defamatory, libellous or otherwise unlawful use. Stockbyte operates a three-tier pricing policy. These are described as Platinum, Gold and Silver image pricing (see <<http://www.stockbyte.com>>).

Developing customer relationships is important to Stockbyte. The company has a call centre located in Tralee, which supports customer queries and helps build customer relations. They advertise their toll-free numbers on their brochures and websites so customers know how they can get in direct contact with staff of the organisation. Maintaining and building customer relations is fundamental to the future success of Stockbyte and Stockdisc. Technological developments in the area of Customer Relationship Management (CRM) provide Stockbyte with the tools for effective account management for both brands. Stockbyte use direct mail campaigns in Europe and North America, and they also attend various trade shows to target their customers. It goes without saying that a company such as Stockbyte relies heavily on their e-commerce website as an effective promotional tool (see <<http://www.stockbyte.com>>).

Dealing with Change

Stockbyte's culture is to be flexible, innovative and adaptable. The company has been learning since it began. The first major problem that the company had to deal with was the brand name in France. Stockbyte was sued in the French High Court over their original brand name; they gave up the name in France and developed the name "Stockbyte". From then on, the company had to be flexible, adaptable and willing to change when necessary.

During the embryonic stages of the company Jerry took many of the photographs himself. However, over time, Jerry's skills were required in other areas of the business. Stockbyte was required to outsource photographers, make-up artists and stylists when on location. This can amount to as many as fifty people being employed at a single location. The company has very good procedures and systems operating abroad which allows it to work efficiently and to tight deadlines.

Customer buying behaviour is constantly monitored by the company, with sales data analysed by data mining. Trends are noticed and worked on by the creative team to develop concepts. Information is the key for Stockbyte, with each transaction representing information for the company, as Jerry comments:

I have modelled my business on Bill Gates' sterling work – *Business at the Speed of Thought*. Gates' understanding of leveraging the information that exists in your business to its maximum drives many of the initiatives that have secured our position in our industry today. We are constantly learning from our customers, it is our customers who tell us what works and, most importantly, what doesn't work. For example, there's a greater demand for images with mixed race families in the USA and in Europe. We are conscientious about new product development and about listening to our customers. In the post-September 11 and post-dot.com era there's been a greater move towards simplicity and towards more real images.

It is clear that Stockbyte listens closely to changes in the marketplace and adapts accordingly.

Jerry – the Entrepreneur – Being First

There is no doubt that Jerry likes being first. As noted above, Stockbyte was the first company in Kerry to seek and receive Venture Capital funding in 1997. Stockbyte was also the first significant European publisher of royalty-free stock photography. In 1999, Stockbyte was the first company on the island of Ireland to offer down-loadable e-commerce by way of virtual CDs. It was instant gratification for both the customers and the company. In 2002, Stockbyte was included in the Deloitte Technology Irish Fast 50. In 2003, they won the DHL Exporter of the Year Award. Stockbyte is also the first company in Kerry to win the Ernst & Young Entrepreneur of the Year Award in the category of Emerging Technologies. “Stockbyte pioneered industry standards for verification of model releases, and are the only stock photo company in the world to offer 24/7 downloads of model releases or such third party verification of its legal safety standards.”

Jerry’s definition of an entrepreneur is “Value creation”. But it may also be about the gut instinct and self-belief. While working the Apple Mac computers in the early 1990s, Jerry Kennelly identified a niche in the market and set up a pre-press company in Tralee to provide colour scanning, film and proof services for publishers and design teams. He knew it had a limited life span, despite it being profitable. Jerry realised that technology was beginning to move at a fast pace and that digital imaging would quickly replace his business. He knew there was a market for high quality generic pictures. He knew that most of the publishers could not afford the copyright-protected images. Jerry created ten different CD titles to showcase his pictures. Above all else, Jerry Kennelly had lived and slept photography. He had taken pictures professionally since his teens as part of his family business. “It was a no brainer to me that this was going to be a great business”, he said. Once he showcased his ten CDs he flew to San Francisco to launch his business and came home with his first sales and distribution network. “I was working from the gut; the whole thing was about belief”, says Jerry.

But success was not just about the “gut”. It was also about hard work, attention to deadlines and spotting and responding to evolving opportunities. The teamwork within the organisation deserves recognition, as Jerry explains: “Our team have been disciplined and clear in our focus for excellence”.

Entrepreneurial Spirit within the Organisation

Stockbyte’s mission in life includes a few simple rules:

1. Exceed expectations.
2. Be ourselves – passionately creative.
3. Craft the most relevant images to the highest standard.
4. Leverage the best technology online and off.
5. Enjoy the ride.

(Source: Stockbyte)

Jerry says that the family business created by his parents helped him establish Stockbyte: “A person can get the bug, some people are hungry, some people are not”. Jerry himself is hungry and he wants to nurture the intrapreneurial spirit within his organisation. He grew up in a family business where his father, Pdraig Kennelly, was:

The quality-obsessed creative genius and my mother Joan was the financial wizard who always kept the ship afloat, despite how desperate the financial situation was in his early years. That experience from early childhood has always given me a clear understanding of the art of the possible (see Exhibit 3).

Jerry instils a high work ethic within the organisation. “We are quality-focused and we strive to be the best we can be. If that means working 24 hours straight, so be it,” says Jerry. His response to ranking third in the world for royalty-free stock photography is simply: “It is proof that clever, creative people can take on the giants and win, from Kerry.”

Future Growth Challenges

Stockbyte/Stockdisc is now the largest, privately held, royalty-free stock photography company by sales, experiencing 50 per cent year-on-year profit growth. The company has chosen not to license images from other companies. All creative production costs have been financed upfront by Stockbyte. Both brands (Stockbyte and Stockdisc) are now in the unique position of wholly owning all of their imagery, providing profitability and flexibility as new business models evolve.

So Where Next?

The company may stick to what works and continue to grow privately or it may plan a route of strategic alliances. If the company chooses to go it alone it will need to decide which growth strategy to follow. The growth of any organisation is possible through two major routes – market and/or product development. Footage for the movie industry would appear to present a new market opportunity. However, expanding the product portfolio to include Asian models and images creates product development opportunities for the company. With Getty Images buying up more market share and becoming partners with a number of smaller competitors, including Stockbyte themselves – what is the future for the company? Should Stockbyte respond to the rumours and sell out to Getty? Would this be a good move? As Jerry puts it:

I suppose it would come as no big surprise if we sold out, but I want to keep the business while I am still adding sustainable value to it. We are looking at other opportunities to leverage our intellectual property portfolio. The company is unique in that we own the rights to all of our images. However, the subscription model cannot be ignored. The imagery that’s available in this sector today falls far behind the standards expected by creative users, but the model is an attractive one. We’ve got some great ideas on how we can create a wonderful value proposition and increase the group’s market share in the global imagery marketplace.

Stockbyte needs to consider how to grow and develop within this aggressive, global competitive marketplace. The creative powers that Jerry learned as part of his family business and from his role model – his father – may well help Jerry in his future decisions and application of the optimum strategy for his company.

But, before Jerry can ponder over the strategic direction of this award-winning company, he needs to deal with the crisis in Asia. He heads to the airport planning to travel to the destination of the mudslide to assess the crisis. As he is boarding the plane, he receives a

text message from the press concerning the possible closure of the much-rumoured Getty buyout. As Jerry reads the text a broad smile appears on his face. What's next for Jerry?

Exhibit 1: Stockbyte's Homepage

Stock Photography - Stockbyte

http://www.stockbyte.com/

Getting Started Latest Headlines News eBay Stores admin travel comp sites muzik photography misc shopping

stockbyte. QUICK SEARCH enter keywords GO

HOME | IMAGES | MY ACCOUNT | ABOUT US | HELP REGISTER | LOGIN

LOG-IN email password LOG-IN QUICK SEARCH enter keywords GO

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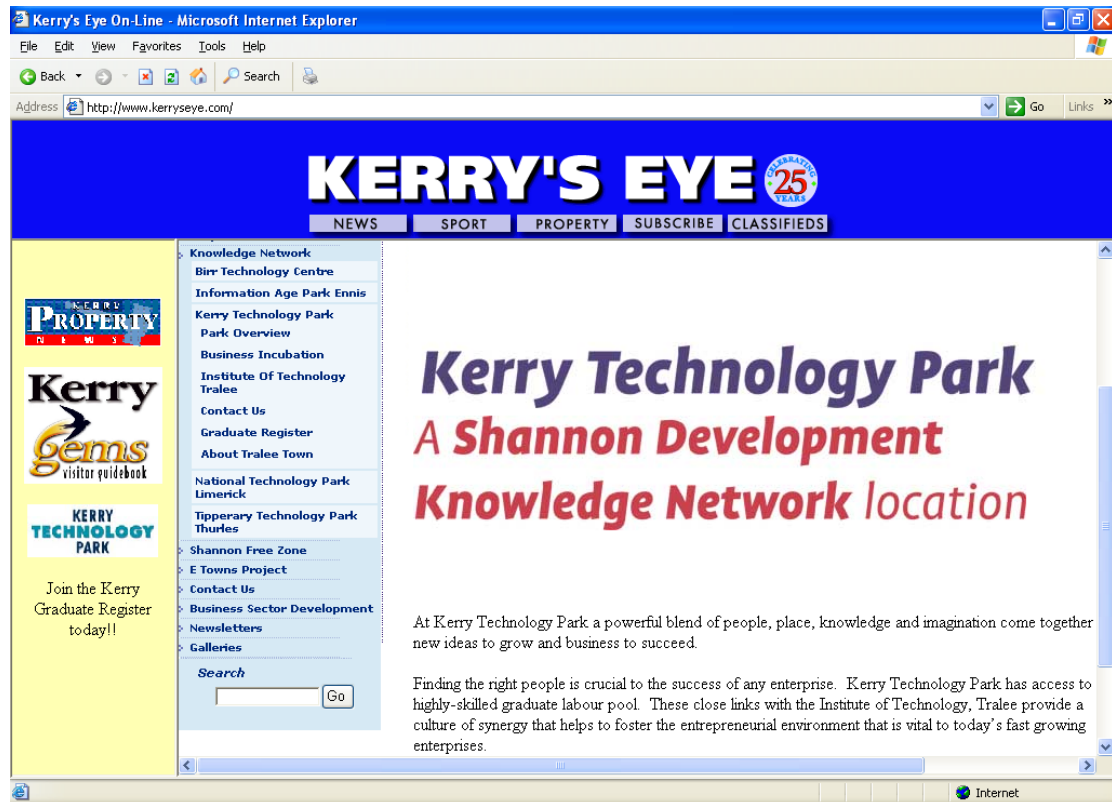
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Exhibit 2: Stockdisc's Homepage



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Exhibit 3: *Kerry's Eye* Homepage



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