

Focused on Profits

Andy Wood is transforming Shutterfly and dominating the online photography business. As a result, the CEO is giving investors a reason to say "Cheese!"

In the old days, pictures of Aunt Ruth initiating the Conga at the family reunion went through a lengthy process before ending up on your fridge. You know the drill. After dropping the film off at a local camera shop or drugstore, you'd wait days in anticipation of picking up your developed prints. Then, after sifting through the photos, you'd toss out the random accidental floor shots. Then you had to decide how many reprints to order before heading back down to the store and finally the post office.

By Becky Bergman

--> Now, aspiring shutterbugs have easier and faster methods for sharing their snapshots thanks to Shutterfly Inc., which is leveraging the Internet to deliver instantaneous results and cashing in on the \$47 million online photo industry.

The online photo-processing concept is as simple as pointing and clicking a camera. Shutterfly users snap an image with a digital camera, plug it into the computer, and a few mouse clicks later, view the photo and place an order. From there, the request goes to a 35,000-square-foot in-house plant equipped with heavy-duty processing and commercial printing machines. Your snapshots are then touched up, printed on quality-photo paper, and sent back to you within a week.



The industry still is developing, but is expected to soar over the next five years at an annual rate of 39%, flourishing to an estimated \$3 billion by 2007, according to InfoTrends Research Group in Boston. Compare that to 2000, when total revenue from online photo sites amounted to a mere \$8 million.

The reason for the optimism is that digital cameras captured a fair market share last year, according to InfoTrends. In 2001, more than 17 million low-end digital cameras were shipped and sold, amounting to 21% of worldwide camera sales. By 2006, analysts predict digital camera sales will snag 63% of the total worldwide camera market - or \$9.9 billion. That's a lot of baby pics and family vacations waiting to be snapped, uploaded, and shared.

But customers want more than traditional-looking photos on their PC. CEO Andy Wood says Shutterfly users also want to be able to personalize their picture orders. For example, say Uncle Joe wants a framed picture of Fido while your sister wants the same shot on a mug. Shutterfly can help fill both desires. And Wood is confident his business model will work.

"For centuries, businesses have focused on giving the customer what they want and making money from that," he says. "The mistake a lot of Internet companies have made is to forget that concept."

Wood, a former exec with EXEL Logistics, has spent the past 16 months getting familiar with the online photo processing industry and what makes it click. First and foremost, he says that customers want to use the Internet to easily stay connected with family and friends. Shutterfly is making sure that's possible.

In focus

Shutterfly has fetched more than \$67 million in four rounds of funding since Netscape co-

founder Jim Clark launched the company in June 1999. With the latest \$3 million round, the Redwood City-based company made significant investments in new equipment to improve product quality and labor costs.

"We also shifted our internal focus," says Wood "resulting in a stronger consumer-centric attitude that freed up the engineers to improve the site functionality and image quality."

He says strategic retail partnerships with the likes of Yahoo, Best Buy, Good Guys, and Dell Computers - which encourage digital camera and computer buyers to use Shutterfly's services - also have played a role in the company's success,

With the necessary qualities of a well-shot photo - the right speed, the right focus and the right market exposure, Wood's work has paid off.

Although Wood would not disclose financials for the company, he says Shutterfly posted \$1 million in revenue for November 2001. Shutterfly appears to be on a roll: during the entire fourth quarter 2001, it sold more than 4 million cards and photo-related products, reflecting a 220% growth in revenue over the prior year.

The company also saw another increase during the first quarter 2002, in which revenue doubled compared to first quarter 2001. And company execs say the online photo developer, which doesn't accept advertising, will achieve profitability by the time you swap summer vacation snapshots.

The news comes a year ahead of schedule, not an easy task considering what Wood has been up against. At one time, the online photo market was as cluttered as an old shoebox full of photos.

Three years ago, 135-plus companies offered some form of photo developing services online. Only a handful of those businesses - three of which are in the Bay Area - remain today, with Shutterfly being the only independent online photo company.

San Francisco-based Snapfish.com and Ofoto.com in Berkeley offer similar services but have been gobbled up by industry giants. Several companies have gone public, while an industry shakeout has led to acquisitions, mergers, and bankruptcies.

Going head-to-head with the competition is nothing new for Wood, who holds a law degree from the University of Hull. Before EXEL, the CEO worked for Coca-Cola in Great Britain, where he accomplished a complete market restructure in 70 days, improving the company's market share and cost advantages in the UK.

Wood has parlayed his past experiences into a successful gig with Shutterfly. And while many CEO's probably would think twice about taking the helm of a dot-com these days, Wood relishes in the challenges. In addition to proving his company can make money and survive the online competition, he also has had to show that having dot-com in a company name is not a liability.

Just as online shopping sparked a mini-revolution, so have online photo services. Although Webvan.com wilted away like day old lettuce and Pets.com went out with its tail between its legs, Shutterfly execs are betting consumers will tap into the Net to upload, store, share, and print digital photos.

Kristy Holch, founder and principal at InfoTrends, agrees.

"Shutterfly is serving a need that is not fulfilled by other means," says Holch. "It is a unique service and it will succeed."

Shutterfly should thrive where Webvan and others like it failed because it's offering a product customers can't get elsewhere - unlike produce and dog food.

"Companies like Webvan.com and Pets.com were offering products that were already available and easy to get," says Holch. "Many retail stores are not well equipped to deal with developing digital photos yet. Shutterfly is offering the ability to develop and instantly share pictures."

Becky Bergman is an East Bay-based writer.

Marketing West

Title: CEO

Company: Shutterfly Inc.

Age: 47

Family: Wife, Beverly, and sons, James & Matthew

Automobile: Mercedes S320

Favorite restaurant: IL Fornaio in Burlingame

Typical breakfast: Fresh air

Hobbies: Walking the dogs; wine

Pet peeves: People who are late!

First job: Warehouseman



What are the keys to CEO longevity?

Delivering on your promises

What qualities do you look for when hiring?

Relevant experience, leadership, and insomnia

Biggest challenge facing CEOs?

Determining & maintaining focus

Best advice for other CEOs?

Say what you do and do what you say

What's the hardest decision for any CEO to make?

Determining true business viability

What have you been most proud of as CEO?

Building companies with new market changing capabilities

Who's been the most influential person in your professional life?

Harry Teasley, M.D. of Coca Cola in UK

Ideal vacation spot for a CEO?

Anywhere with an Internet connection

How has the economy affected you?

It has made us stay very focused on achieving profitability

Goal yet to achieve as CEO?

An IPO

What a picture is worth to you?

A picture enables me to stay connected to my family & friends who are spread over Europe and Australia

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Snapshot

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What it is

Shutterfly calls itself a Web-based photo service. Basically, you can upload your digital photos, and the company will fix the red-eye, adjust the colors, and crop the picture to make sure your intended subject is the center of attention. The site is ideal for people that want to build family photo albums online. If you don't have a digital camera, no problem. You can mail them your film and they'll process and scan to get them Internet ready, as well.

Who's behind the camera

The company was launched in 1999 and is backed by Jim Clark. Clark serves as chairman of Shutterfly and is known as one of Silicon Valley's most well known visionaries. He helped create and grow Silicon Graphics, Netscape Communications, and Healtheon Corp. He is the primary investor in Shutterfly.