

PHOTO-ME INTERNATIONAL PLC

# Photo-Me

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KRISTINA RYUMINA

INSTRUCTOR: SIMON GORDON-SMITH  
SCHOOL OF BUSINESS ADMINISTRATION

# DECLARATION

I hereby declare that no portion of the work referred to in this thesis has been submitted in support of an application for another degree, or qualification thereof, or for any other university or institute of learning.

I declare that this thesis is my independent work. All sources and literature are cited and included.

I also hereby acknowledge that my thesis will be made publicly available pursuant to Section 47b of Act No. 552/2005 Coll. and AAU's internal regulations.

*Kristina Ryumina*

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*Unless otherwise indicated, all graphs and maps included in this paper were created by Kristina Ryumina, Anglo-American University, Prague, 2015.*



# 1 EXECUTIVE SUMMARY

The present thesis analyzes the business model and the external environment of Photo-Me International plc., a global unattended non-food vending equipment operator and seller headquartered in the UK.

The company operates and sells a large portfolio of vending machines; however, Photo-Me's photo booth division is the largest, most lucrative, and finances the development of the company's new businesses. Therefore, in order for Photo-Me to stay profitable and promote self-financed R&D within the rapidly evolving technological environment that creates numerous competitors and substitutes for the company, it is essential to answer the thesis question, namely ***“How can Photo-Me restructure its photo booth business so that it can survive and be profitable in the face of major changes in the photo booth market?”***

The company, whose Net Income is growing, increases its profitability through expansion, innovation, and rising operational effectiveness. However, Photo-Me's Revenue is falling and photo booths do not offer a unique value proposition to the mass market which hinders the company from fulfilling its potential as an international booth market player. The analysis of the company's Business Model Canvas, key activities, and SWOT and Porter's 5 Forces that affect it indicates that the strategies that would boost the lucrativeness of the booth division the most while preserving Photo-Me's unique business model of a low-cost global booth operator and capitalizing on the company's core competencies are (1) **related diversification** through the creation of portable biometric photo stations for the B2G market, (2) **disruption** – the introduction of an integrated Web community for the B2B and B2C markets through the development of online services and applications, and (3) development of the customer-focused services of booth co-creation, targeted advertising, and booth portability for the B2B market (i.e., the strategy of **product development**).

## 2 INTRODUCTION

Photo-Me International plc is an established publicly owned company operating in the industry of photographic and leisure operational equipment. Photo-Me manufactures,<sup>1</sup> operates, and sells a number of coin- and card-operated non-food unattended vending machines, such as photo booths, photo book makers, printing kiosks, minilabs, children's rides, sweet dispensers, and self-service laundrettes;<sup>2,3,4</sup> the company also offers photo booth rental services to the B2B

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<sup>1</sup> Photo-Me manufactures only an insignificant amount of its machines; the company mainly outsources the production of the machines to third parties.

<sup>2</sup> “About Us,” *Photo-Me International plc*, accessed April 24, 2015, <http://photo-me.com/>.

and B2C markets.<sup>5</sup> Photo-Me is a profitable company “with over 50 years’ experience”<sup>6</sup> that operates 44,599 vending units in 17 countries in Europe and Asia, such as the UK, France, Japan, and South Korea, and also in the USA.<sup>7</sup> The company “is headquartered in Surrey, the UK”<sup>8</sup> and employs 1,066 people.<sup>9</sup>

Since its establishment in 1954, Photo-Me has been striving to develop its photo booth business regardless of tough challenges that constant changes in the photographic technology and consumer trends might have posed for the company. To this day, the photo booth business remains the core estate of the company: not only does it deliver the highest profit to the company as compared to other Photo-Me’s businesses, such as launderette or printing kiosk businesses, it also provides investments for the company’s R&D and innovation.<sup>10</sup> Such strategic “continuity over time”<sup>11</sup> allows Photo-Me to accumulate wide-ranging professional expertise in developing and operating photo booths and other vending machines; however, this ‘strategic fixity’ also constitutes a threat - in 2008, the company suffered a pre-tax loss of £21,650,000<sup>12</sup> (or, excluding exceptional items, namely restructuring and impairment charges,<sup>13</sup> a pre-tax loss of £6,880,000; Net Loss from continuing and discontinued operations with exceptional items was £19,813,000<sup>14</sup>) due to the decline in the photo booth and minilab markets<sup>15,16</sup> and realized how unreliable and volatile the photo booth industry was (at that point, Photo-Me even considered “sell[ing] off [its] vending department, which include[ed] photo-booths and children’s rides”<sup>17</sup>).

Since the photo booth estate is key to the company’s profitability, the thesis question of the research is “*How can Photo-Me restructure its photo booth business so that it can survive and be profitable in the face of major changes in the photo booth market?*” Photo-Me, operating in an incredible volatile industry, is confronted with numerous opportunities and

<sup>3</sup> Introduction to “Annual Report & Accounts 2015,” *Photo-Me International plc* (2015), accessed September 10, 2015, [http://investor.photo-me.com/downloads/pdf/ar/Photo-Me\\_2015\\_AR.pdf](http://investor.photo-me.com/downloads/pdf/ar/Photo-Me_2015_AR.pdf).

<sup>4</sup> “Photo-Me International plc,” *Morningstar*, accessed April 25, 2015, <http://www.morningstar.com/stocks/XLON/PHTM/quote.html>.

<sup>5</sup> “Consumers,” *Photo-Me International plc*, accessed September 10, 2015, <http://www.photo-me.co.uk/consumers/id-information/#rent-a-booth>.

<sup>6</sup> “Photo-Me International plc,” *Proactive Investors*, accessed April 24, 2015, <http://www.proactiveinvestors.com/sponsors/5805/photo-me-international-plc-5805.html>.

<sup>7</sup> “Annual Report & Accounts 2015,” *Photo-Me International plc*: 5, 11.

<sup>8</sup> “Photo-Me International Plc Company Profile,” *Photo-Me International Plc MarketLine Company Profile* (2014): 3, accessed April 28, 2015, <http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=101475949&lang=cs&site=ehost-live>.

<sup>9</sup> “Annual Report & Accounts 2015,” *Photo-Me International plc*: 17.

<sup>10</sup> “Annual Report 2014,” *Photo-Me International plc* (2014): 11, accessed April 24, 2015, <http://investor.photo-me.com/downloads/pdf/ar/Photo-Me-International-plc-Annual-Report-2014.pdf>.

<sup>11</sup> Joan Margaretta, *Understanding Michael Porter. The Essential Guide to Competition and Strategy*, (Boston: Harvard Business Review Press, 2012), 142, PDF e-book, accessed April 24, 2015, <https://docs.google.com/a/aauni.edu/viewer?a=v&pid=sites&srcid=YWF1bmkuZWR1fG1ndDQzMC0yLWdvcnRvbi1zbWl0aC0yNS0wNS0yMDE1fGd4OjE1MmM1MzQzY2NlY2U5MzI>.

<sup>12</sup> “Annual Report 2008,” *Photo-Me International plc* (2008): 34, accessed April 24, 2015, [http://miranda.hemscott.com/ir/phtm/pdf/Photo-me\\_AR2008.pdf](http://miranda.hemscott.com/ir/phtm/pdf/Photo-me_AR2008.pdf).

<sup>13</sup> *Ibid.*, 14.

<sup>14</sup> *Ibid.*, 34.

<sup>15</sup> *Ibid.*, 12.

<sup>16</sup> “Annual Report 2007,” *Photo-Me International plc* (2007): 6, 10, accessed September 10, 2015, [http://miranda.hemscott.com/ir/phtm/pdf/Photo-me\\_AR2007.pdf](http://miranda.hemscott.com/ir/phtm/pdf/Photo-me_AR2007.pdf).

<sup>17</sup> Richard Beddard, “Not-For-Me,” *Interactive Investor*, last modified September 1, 2009, <http://www.iii.co.uk/news-opinion/richard-beddard/not-me?page=13&replytocom=1411>.

threats that constantly reshape the company and force it to be innovative and original. Due to the decline in the photo booth industry caused by rapid technological advances,<sup>18</sup> transforming consumer tastes,<sup>19</sup> “the adoption of biometric passports,”<sup>20</sup> and other changes in the company’s external environment, Photo-Me is now facing numerous strategic challenges which need be solved if the company wants to stay lucrative. The present research offers strategic solutions to Photo-Me that could enable the company to preserve and develop its main source of income – the photo booth business. The methodology used for the research includes a quantitative analysis of the company’s financial statements and a qualitative analysis of the company’s annual reports and official statements and related academic sources.

### 3 COMPANY OVERVIEW

#### 3.1 Photo-Me’s History<sup>21</sup>

Photo-Me’s history started with two entrepreneurs Gupp Allen and Ignatius Dunlap Baker who in 1946 began developing photo booths in the USA. In 1952, Baker formed a UK partnership with Charles Clark, who had served as a “deputy director of armaments procurement during the Second World War”<sup>22</sup> and whose inventive soul turned an unknown company into a number one British photo booth service provider.<sup>23</sup> Two years later, Photo-Me Ltd was formed; at that point, the company’s core activities were manufacturing and operation of photo booths.

The initial public offering took place in 1962 on the London Stock Exchange, and Photo-Me Ltd changed its name to Photo-Me International. With the acceptance of the usage of photographs produced in Photo-Me’s booths in passports (black and white in 1966, and color in 1976), the demand for Photo-Me’s services began to grow dramatically. To meet the demand, Photo-Me decided to expand through acquisitions: in 1982, Photo-Me bought out UK companies Photomaton and Photoquick operating in the market of photographic printing and, in 1994, Photo-Me also acquired KIS (Key Independent System), the French company that had invented the first minilab in 1981. Over time, KIS became Photo-Me’s R&D center, and KIS’s founder Serge Crasnianski became a key figure in Photo-Me, who also occupied the position of Photo-Me’s CEO in 1998-2007 and from 2009 onward.<sup>24</sup>

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<sup>18</sup> Martin Flanagan, "Scrutineer: Negative View of Future." *The Scotsman*, last modified December 19, 2008, <http://search.proquest.com/docview/327326078?accountid=159230>.

<sup>19</sup> Ibid.

<sup>20</sup> Richard Beddard, "Not-For-Me."

<sup>21</sup> Dates and main events discussed in this section are retrieved from "Our History," *Photo-Me International plc*, accessed September 10, 2015, <http://www.photo-me.co.uk/about-us/who-we-are/>.

<sup>22</sup> "Charles Clark," *The Times*, last modified February 7, 2004, <http://www.thetimes.co.uk/tto/opinion/obituaries/article2077330.ece>.

<sup>23</sup> Ibid.

<sup>24</sup> "Photo-Me International Plc," *Bloomberg Business*, accessed September 12, 2015, <http://www.bloomberg.com/research/stocks/people/person.asp?personId=8667730&ticker=PHTM:LN>.

In 1993, Photo-Me launched PhotoVision booth, “the first photobooth offering digital photography to win approval for passports.”<sup>25</sup> In 1998, Photo-Me strengthened its position of the leading player on the global photo booth market through acquisitions of “Europe-wide group of companies including [Swiss] Prontophot and [French] Photomaton.”<sup>26</sup>

In 2000’s, the company decided to expand its minilab business by acquiring two major lab wholesalers Gretag (2003) and AgfaPhoto (2005). Photo-Me, however, suffered great losses as the minilab market began to shrink in 2005 as the storage, transfer, and sharing of images through social networks and other Internet-based media became popular and fewer people needed printed photos.

2000’s, however, also delivered significant yields to the company. Thanks to its partnership with KIS, Photo-Me revolutionized the booth and minilab markets with its cutting-edge technology several times. In 2000, KIS introduced the first digital minilab to the world market and signed a contract to supply the minilabs to Kodak. In the same year, Photo-Me launched its brand new mini booth that was a compact version of the company’s regular size booth that, despite the dimensions, possessed the same features as the classic booth. In subsequent years, Photo-Me put on the market such products as the digital printing kiosk (2001), the “consumer-operated automatic”<sup>27</sup> photo book maker (2009), 24/7 “outdoor self-service launderette”<sup>28</sup> Revolution (2013), and “the instant poster and the Speedlab case kiosks”<sup>29</sup> (2014).

For more than 50 years Photo-Me has been able to hold and reinforce its position of the leading global vending solutions company. Photo-Me has been striving to offer innovation to its markets and high returns to its investors ever since it went public in 1962. As of April 30, 2015, Photo-Me has a pre-tax profit of £38.496.000 and employs 1.066 people.

### 3.2 Organizational Structure

Photo-Me has a centralized organizational structure - a structure that is based on “high levels of management control, standardized procedures, uniform policies, specific titles, ranked positions, a high level of bureaucracy, and highly structured organizational communication.”<sup>30</sup> Decisions are generally made at the top level of the company, while middle and line managers have to accept the decisions and fulfil the targets set by senior managers.

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<sup>25</sup> “Our History,” *Photo-Me International plc*.

<sup>26</sup> Ibid.

<sup>27</sup> Ibid.

<sup>28</sup> Ibid.

<sup>29</sup> Ibid.

<sup>30</sup> Granville King III, “The Implications of an Organization’s Structure on Whistleblowing,” *Journal of Business Ethics* 20, no. 4 (July, 1999): 317, accessed September 15, 2015, <http://www.jstor.org/stable/25074142>.

Geographically, the company is divided into three regional sectors: the UK and Ireland, Continental Europe, and Asia. “The major operating territories”<sup>31</sup> and the centers for decision-making within the regions are the UK, France, and Japan respectively. The company’s SOPs, policies, and goals are devised in these three ‘centers’ by senior managers and then transmitted to the rest of the employees.

Up until 2014, Photo-Me divided its activities into two business divisions – **Operations** (the operation of vending equipment) and **Sales and Servicing**. In 2015, the company restructured its Sales and Servicing division<sup>32</sup> as the minilab business that was previously part of the division kept declining (for more information, see Appendix 1 on p.76). In Annual Report 2014, Photo-Me reported Revenue and Operating Profit for two divisions separately for the last time; that year, total Operating Profit excluding associates was £34.200.000, of which 89,8% was contributed by Operations and 10,2% - by Sales and Servicing.<sup>33</sup>

### 3.3 Management

Photo-Me’s corporate hierarchy consists of three major levels: the Board of Directors (6 members; all members are named and described in Appendix 2 on p.76), Senior Managers (14 senior managers), and Employees (1.046 individuals). The company’s CEO and major shareholder who possesses 21,38% of the total voting rights is Serge Crasnianski (to read about the latest major shake-up in the company’s board of directors and the discharge and reappointment of Mr. Crasnianski as the company’s CEO, see Appendix 3 on p.77).

A rigid management style prevails in the company. According to the testimonies of former Photo-Me’s employees, the company’s approach to management is bureaucratic and pro-French (that is, the preference is given to French values and management styles).<sup>34</sup> Employees are rarely rewarded in accordance with their merits and get benefits infrequently;<sup>35</sup> the only benefits available for employees at Photo-Me are social security, share options granted to directors and employees, and post-employment benefits.<sup>36</sup>

### 3.4 Culture

Photo-Me is a company oriented at cost-minimization, on the one hand, and constant innovation, on the other hand. Therefore, Photo-Me’s employees are expected to make cost-effective decisions while increasing the range and quality of services provided.

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<sup>31</sup> “Annual Report & Accounts 2015,” *Photo-Me International plc*: 44.

<sup>32</sup> *Ibid.*, 16.

<sup>33</sup> “Annual Report 2014,” *Photo-Me International plc*: 67.

<sup>34</sup> “Photo-Me International Reviews,” *Glassdoor*, accessed September 12, 2015, <http://www.glassdoor.com/Reviews/Photo-Me-International-Reviews-E10212.htm>.

<sup>35</sup> *Ibid.*

<sup>36</sup> “Annual Report & Accounts 2015,” *Photo-Me International plc*: 69.

The culture of the company is quite conservative, hierarchical, and oriented at cost effectiveness; the gender diversity in Photo-Me is extremely low<sup>37</sup> (see Table 1).

**Table 1. Gender Diversity in Photo-Me as at 30 April, 2015**

	<b>Total</b>	<b>M</b>	<b>F</b>
The Board of Photo-Me	<b>6</b>	<b>5 (83%)</b>	<b>1(17%)</b>
Senior Managers in the Group (excluding directors of Photo-Me)	<b>14</b>	<b>13 (93%)</b>	<b>1 (7%)</b>
Employees (excluding above)	<b>1,046</b>	<b>888 (85%)</b>	<b>158 (15%)</b>
<b>Total</b>	<b>1,066</b>	<b>906 (85%)</b>	<b>160 (15%)</b>

Source: Photo-Me International plc, [http://investor.photo-me.com/downloads/pdf/ar/Photo-Me\\_2015\\_AR.pdf](http://investor.photo-me.com/downloads/pdf/ar/Photo-Me_2015_AR.pdf).

Photo-Me is not sufficiently oriented at developing strong long-term consumer relationships: the company does not conduct any customer satisfaction surveys, does not provide discounts to regular customers, and does not include customer satisfaction in its KPIs.<sup>38</sup> Employees, therefore, do not always regard customers as of paramount importance to the proper functioning of the company.

50% of Photo-Me's Board of Directors are Frenchmen. Consequently, the company's culture is quite pro-French. In Appendix 4 "Hofstede's Country Scores for France" on p.78, France's cultural scores and their detailed analysis are represented; these scores imply that Photo-Me nourishes employees that respect power distance, are individualistic, risk-averse, and pragmatic, like it when work is structured and regulated, and are not impulsive.<sup>39</sup> Some Photo-Me's employees find that the company propagates French culture at the expense of the values of other nationalities.

Photo-Me's employee involvement and motivation are quite low: senior managers decide what work is to be done, allocate tasks, set goals, and evaluate the performance of subordinates, while regular employees, middle managers, and line managers just execute orders. There are no merit-based benefits that employees could gain (for more details on employee involvement in Photo-Me, see Appendix 5 on p.79).

The company also pursues CSR policies; however, the main motivation for CSR is cost savings, legal requirements, and the possibility of attracting investors.<sup>40</sup> The company will not be able to create a self-supporting CSR culture, unless it inspires employees to be green by improving the lives of their communities, not by just making them abide by the law (for more details on Photo-Me's CSR, see Appendix 5 on p.79).

<sup>37</sup> Ibid., 17.

<sup>38</sup> Ibid., 12.

<sup>39</sup> "France, Country Comparison," *The Hofstede Centre*, accessed September 15, 2015, <http://geert-hofstede.com/france.html>.

<sup>40</sup> "Annual Report 2014," *Photo-Me International plc*: 33.

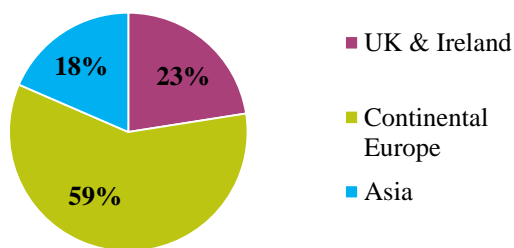
### 3.5 Markets

Photo-Me serves three main markets: **the UK and Ireland, Continental Europe, and Asia**<sup>41</sup> (see Photo-Me’s Business Map in Appendix 6 on p.81).

#### 3.5.1 UK & Ireland<sup>42</sup>

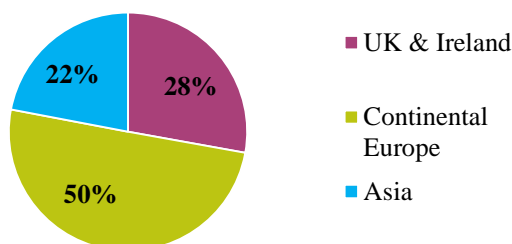
In 2015, the market of the UK and Ireland contributed 23% of Photo-Me’s Underlying Operating Profit (see Figure 1) – an increase of 1% as compared to 2014. Profit, however, increased thanks to the reduction in Operating Costs. 28% of Photo-Me’s machines were located in this region (see Figure 2) in 2015 – 2% less than in 2014 (“growth in photobooth numbers was 1% year-on-year”<sup>43</sup>).

**Figure 1. Photo-Me’s Underlying Operating Profit by Region, 2015**



Data retrieved from: Photo-Me International plc, [http://investor.photo-me.com/downloads/pdf/ar/Photo-Me\\_2015\\_AR.pdf](http://investor.photo-me.com/downloads/pdf/ar/Photo-Me_2015_AR.pdf).

**Figure 2. Photo-Me’s Total Vending Units by Region, 2015**



Data retrieved from: Photo-Me International plc, [http://investor.photo-me.com/downloads/pdf/ar/Photo-Me\\_2015\\_AR.pdf](http://investor.photo-me.com/downloads/pdf/ar/Photo-Me_2015_AR.pdf).

#### 3.5.2 Continental Europe<sup>44</sup>

Photo-Me operates in nine countries within Continental Europe (see Appendix 6 on p.81).

In 2015, Continental Europe contributed 59% of company’s Underlying Operating Profit (see Figure 1), which is 3% more than in 2014. The percentage of the total number of vending

<sup>41</sup> “Annual Report & Accounts 2015,” *Photo-Me International plc*: 5.

<sup>42</sup> Data for this section is retrieved from “Annual Report & Accounts 2015,” *Photo-Me International plc*: 11.

<sup>43</sup> Ibid.

<sup>44</sup> Data for this section is retrieved from “Annual Report & Accounts 2015,” *Photo-Me International plc*: 10.

units placed in the region increased from 48% in 2014 to 50% in 2015 (see Figure 2 on p.7). The decline in the minilab market still negatively affects the company's performance in the region.

“The European photobooth estate increased by 4,5% year-on-year with the main areas for growth being France and Switzerland. The Group continues its roll-out of the higher-margin Starck booths [(see section 3.6 *Key Lines of Business, Products, & Services* on p.8)] and there are now 3.213 deployed across Europe, an increase of 883 over the year.”

### 3.5.3 Asia<sup>45</sup>

Photo-Me operates in five countries within Asia (see Appendix 6 on p.81). In the region, “the largest territory by far by reference to size of the machines estate and revenue is Japan ...”<sup>46</sup>

In 2015, Asia contributed 18% of Photo-Me's Underlying Operating Profit, which is 1% more than in 2014 (see Figure 1 on p.7). Both in 2014 and 2015, Asia housed 22% of the total vending units of the company (see Figure 2 on p.7).

Photo-Me keeps penetrating the Chinese market: as the company has decreased Operating Costs, conducting business in China has become profitable for the company.

## 3.6 Key Lines of Business, Products, & Services

Photo-Me has four major lines of business: **photo booth services**, **laundry services**, **digital printing**, and **amusements**.<sup>47</sup> Photo booth services incorporate providing customers with high quality ICAO-compliant ID photos and customized fun photos fast and at convenient locations. Laundry services give customers access to Photo-Me's 24/7 self-service heavy-duty washers and dryers. Digital printing presents customers with an opportunity to print customized pictures and photos on multiple objects (printing on paper, smartphone cases, mugs, 3D printing) at high foot traffic locations in just a few seconds. Amusements (predominantly a UK business) include kiddie rides of different kinds: simulators, interactive rides, carousels, etc.

Photo-Me offers its mass and business clients a wide range of economic unattended vending machines, including eco-friendly booths and high-margin booths devised by French designer Philippe Stark. The full range of Photo-Me's products is named in Appendix 7 on p.82. Photo booths and digital kiosks comprise the largest part of the company's vending machines estate<sup>48</sup> (see Figure 3 on p.9). The company also has a small range of business service equipment (mainly express business card machines and photocopiers) that is sold primarily in France.<sup>49</sup>

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<sup>45</sup> Data for this section is retrieved from “Annual Report & Accounts 2015,” *Photo-Me International plc*: 11.

<sup>46</sup> Ibid.

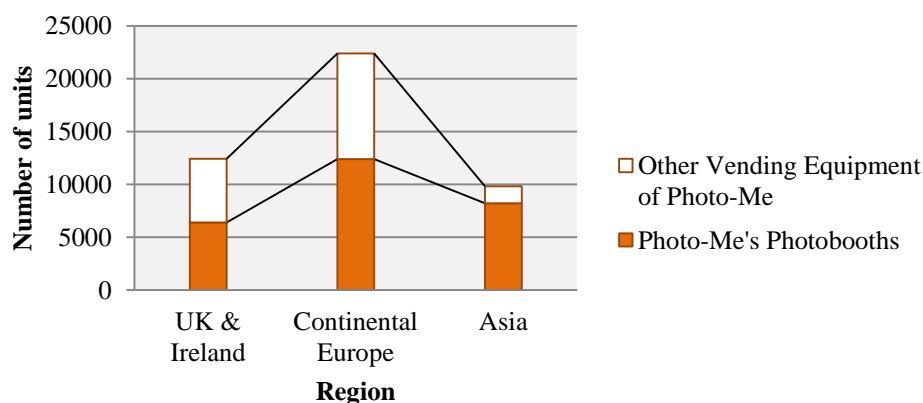
<sup>47</sup> “Annual Report & Accounts 2015,” *Photo-Me International plc*: 6,7.

<sup>48</sup> Ibid., 12.

<sup>49</sup> “Annual Report 2014,” *Photo-Me International plc*: 12.



**Figure 3. Photo booths vs. Other Vending Equipment of Photo-Me by Region, 2015**



Data retrieved from Photo-Me International plc, [http://investor.photo-me.com/downloads/pdf/ar/Photo-Me\\_2015\\_AR.pdf](http://investor.photo-me.com/downloads/pdf/ar/Photo-Me_2015_AR.pdf).

Photo-Me can either own or sell its machines. If the company owns a machine, it “pays the site-owner a commission based on turnover. This commission varies by country and location. Photo-Me is responsible for collecting the takings from, and the service and maintenance of, the units, and employs a network of engineers to perform these tasks.”<sup>50</sup>

The company also provides booth rental services and after-sales servicing of Photo-Me’s machines. Biometric solutions are now being developed to serve governments.<sup>51</sup>

### 3.7 Mission & Vision Statements

Despite being in business for more than 50 years,<sup>52</sup> Photo-Me does not provide its stakeholders with meaningful, articulate, and clear-cut mission and vision statements that would help the stakeholders understand the company’s “aims and objectives ..., and the methods [Photo-Me uses] to reach these aims and objectives.”<sup>53</sup> Mission and vision statements, however, are indispensable for strategic planning since they provide a sense of direction for companies and help build supportive corporate culture and customer loyalty. It is, therefore, essential that Photo-Me creates inspiring and clear mission and vision statements like the ones suggested below.

#### 3.7.1 Recommended Mission Statement

On its Web site, Photo-Me provides answers to three major questions that need be solved in a mission statement: *what the company is, what it does, and why it exists.*<sup>54</sup> Photo-Me states that it “is the world’s leading operator of photo-booths and a major supplier of ... instant

<sup>50</sup> “Annual Report & Accounts 2015,” *Photo-Me International plc*: 12.

<sup>51</sup> “Biometric Solutions,” *Photo-Me International plc*, accessed September 24, 2015, <http://www.environmental-expert.com/products/biometric-solutions-259696>.

<sup>52</sup> “What We Do,” *Photo-Me International plc*.

<sup>53</sup> Guven Ozdem, “An Analysis of the Mission and Vision Statements on the Strategic Plans of Higher Education Institutions,” *Educational Sciences: Theory and Practice* 11, no.4 (2011): 1888, accessed April 25, 2015, <http://web.b.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=ad15980d-09bf-47c5-846a-83277e8548e9%40sessionmgr113&vid=1&hid=105>.

<sup>54</sup> Arthur A. Thompson et al., *Crafting and Executing Strategy: Concepts and Cases*, (New York: McGraw-Hill/Irwin, 2012), 74.

vending equipment”<sup>55</sup> (*what the company is*). For over 50 years, Photo-Me has been profitably operating “photo-booths, photographic fun products, digital printing kiosks [and] children’s rides”<sup>56</sup> worldwide (*what the company does*). Photo-Me brings its partners a risk- and cost-free opportunity to “share in the multi-million dollar photo market”<sup>57</sup> (*why the company exists*).

Reworking these affirmations helps to create a meaningful mission statement: “*Photo-Me is a listed UK-based international operator and seller of non-food vending equipment with more than 50 years of experience and innovation. Photo-Me brings its partners a risk-free opportunity to “share in the multi-million dollar photo market”<sup>58</sup> without bearing capital or maintenance costs while providing its customers with accessible time-saving high-quality digital solutions.*” This mission statement helps stakeholders understand what Photo-Me is and what benefits it could offer them. It also stresses that the company has been around for a significant amount of time and has acquired enough experience to build economies of scope. The statement highlights that Photo-Me has brought many innovative solutions to the vending equipment market.

### 3.7.2 Recommended Vision Statement

The company’s vision statement should pinpoint where Photo-Me is going and “what product-customer-market-technology mix”<sup>59</sup> will allow the company to reach its goals. Therefore, the recommended vision statement is “*Photo-Me’s vision is to serve our loyal business and individual customers and governments in every major market worldwide with convenient leading-edge affordable unattended digital solutions.*”

This vision statement accentuates that Photo-Me should become more customer-oriented and find ways to make its mass, business, and government clients loyal: currently, Photo-Me is cost-oriented, but in order to stay profitable, the company has to assign primary importance to its customers and their needs, make the customers loyal to Photo-Me’s brand.<sup>60</sup> Moreover, the statement highlights that the company will concentrate on developing the major sources of its competitive advantage – *convenient* high footfall locations and its low-cost business model resulting in *affordable* solution (see section 7.3 *Competitive Advantage* on p.34). Another ambitious goal set by the statement is expansion into every major market in the world.

The vision statement describes what “product-customer-market-technology mix”<sup>61</sup> Photo-Me will use to reach the goal of serving customers worldwide: the product – convenient affordable unattended digital solutions, the customer – global and loyal, the market - all major

<sup>55</sup> “What We Do,” *Photo-Me International plc*.

<sup>56</sup> *Ibid.*

<sup>57</sup> “Photo-Me International plc,” *Proactive Investors*.

<sup>58</sup> *Ibid.*

<sup>59</sup> Thompson, *Crafting and Executing Strategy*, 70.

<sup>60</sup> Graham Gould, “Why it is customer loyalty that counts (and how to measure it),” *Managing Service Quality: An International Journal* 5, no. 1 (1995): 15-19, accessed September 22, 2015, <http://dx.doi.org/10.1108/09604529510796304>.

<sup>61</sup> Thompson, *Crafting and Executing Strategy*, 70.

markets worldwide, the technology – leading-edge. The vision statement is concise, forward-looking and sets feasible goals. The vision also incorporates the new B2G market that Photo-Me is planning to serve with biometric solutions.

### 3.7.3 Conclusion

In order to know where the company is heading and to inspire the company's stakeholders and make them loyal to Photo-Me's brand, the company should introduce unequivocal mission and vision statements like the ones suggested above. Right mission and vision statements will ensure that right values and culture spread within the company; the statements will also improve stakeholders' understanding of the company.

## 4 BUSINESS MODEL CANVAS

As mentioned above, Photo-Me serves two customer segments – business and mass consumer segments. Therefore, two business model canvases – B2B and B2C canvases – have been created to analyze the key business components of the company (see Appendix 8 for the B2B and Appendix 9 for the B2C Business Model Canvases on pp.83-84).

### 4.1 Customer Segments

Photo-Me serves two customer segments – **businesses** and **mass middle-income consumers**.<sup>62</sup> To its B2B clients, the company offers sale, rental, and after-sales servicing of top-quality non-food unattended vending equipment and consumables; thus, any entrepreneur or company can earn profit on Photo-Me's developed vending technology. Within the B2B market, Photo-Me also creates partnerships with small and large businesses that provide space and a power source for Photo-Me's machines in return for a share in the revenue generated by the machines. Generally, Photo-Me cooperates with established chains of shops and supermarkets, such as Morrisons, Tesco, or Toys"R"Us,<sup>63</sup> that provide the company with spaces in numerous shops within their chains. Photo-Me, however, can forge partnerships with smaller businesses; the major prerequisite in this case is that the establishment is located in high traffic area, such as a mall or a train station. Photo-Me's **target business customer** is an entrepreneur seeking for new opportunities to make money, large chains of shops, businesses operating in high traffic locations.

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<sup>62</sup> Introduction to Annual Report & Accounts 2015," *Photo-Me International plc*.

<sup>63</sup> "Our Clients," *Photo-Me International plc*, accessed September 22, 2015, <http://www.photo-me.co.uk/about-us/our-clients/>.

Mass consumers receive such services as instant capturing and printing of ICAO-compliant ID photographs and fun photographs, booth rental, digital and 3D printing, kiddie rides, 24/7 self-service heavy duty laundering, “digital imaging from pictures uploaded from mobiles and tablets, instant photo products such as photo-posters, photo-books, calendars, and greetings cards, mobile phone photo cases, and more.”<sup>64</sup> Photo-Me’s **target mass customer** is a middle-income teenager or young adult who likes creative photography and printing, and low- to middle-income customers in need of accessible identity photos, printing, and scanning services.

The company is also developing biometric solutions for the B2G market.

#### **4.1.1 Marketing**

Photo-Me does not have a properly developed marketing strategy. The company markets its products through the social media, such as Facebook, Twitter, Google+, and YouTube, and through its official Web site. Photo-Me also participates in digital solutions fairs, organizes various events, such as establishing of a Guinness World Record “by getting seven people into a photobooth,”<sup>65</sup> and runs competitions among Photo-Me’s mass clients.<sup>66</sup>

The company, however, should understand that it has several types of target customers that respond to different marketing techniques. The company should accommodate its marketing strategy to reach each customer segment in a most efficient way. Photo-Me should also manage its social networks better (for example, on its Facebook page the company has the rating of 2,2 and only a few likes under each post<sup>67</sup>): the company should make its services more customer-oriented and actively advertise them by increasing the number of subscribers, the quality of posts, etc. in the social media.

## **4.2 Value Proposition**

Photo-Me makes its two customer segments a distinct value proposition (see Appendix 10 for the B2B and Appendix 11 for the B2C Value Proposition Canvases and Photo-Me’s value propositions written in accordance with Moore’s model on pp.85-86). To booth buyers, Photo-Me offers the sale of durable latest-technology unattended vending machines, excellent after-sales services through the company’s developed telemetry system<sup>68</sup> and a network of engineers, high return on space, and new ways of attracting customers. Photo-Me proffers the business clients a large portfolio of products, among which are high-margin designer booths and green solar-powered booths. Photo-Me presents site-owners with an opportunity to yield risk-free

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<sup>64</sup> “What We Do,” *Photo-Me International plc*, accessed April 25, 2015, <http://www.photo-me.co.uk/about-us/what-we-do/>.

<sup>65</sup> “News,” *Photo-Me International plc*, accessed May 1, 2015, <http://www.photo-me.co.uk/about-us/news/>.

<sup>66</sup> “Competitions,” *Photo-Me International plc*, accessed May 1, 2015, <http://www.photo-me.co.uk/consumers/competitions/>.

<sup>67</sup> “Photo-Me,” *Facebook*, accessed September 22, 2015, <https://www.facebook.com/Photo.Me.UK>.

<sup>68</sup> Photo-Me’s telemetry system monitors and maintains machines at a distance.

profits on unused space and get a share in the growing non-food vending equipment market (see section 5.1.1 *The Photo Booth Industry Trends* on p.18).

To mass consumers, Photo-Me offers easy, affordable, and accessible ICAO-complaint ID photography, fun and creative photo-making and multi-material printing, 24/7 self-service heavy duty laundering, convenient locations and payment methods, the interactive creation of highly customized digital items (photo books, calendars, 3D figurines), and printing of photos from and uploading of photos from/to the social media and various digital devices, such as USBs and smartphones. However, the company's value proposition to mass customers is not differentiated enough as many Photo-Me's rivals offer booths with similar technologies and features to mass consumers. It is hard to outcompete rivals through improvements in technology since technological advances trickle down to competitors quickly; it is essential to offer unique value to clients, such as 24/7 access to the machines or the ICAO software.

### **4.3 Channels**

Photo-Me delivers its services to end-consumers through site-owners, on whose premises the company places its machines, while the purchase of the company's products by business clients is made via emails, calls, and personal contact. The booth rental service is provided through the Web site, emails, and calls. Photo-Me utilizes the social media, mail, the official Web site, advertisements (including the ones running on the displays of Photo-Me's machines), competitions among customers, and digital solutions fairs to raise awareness about the company. Emails, calls, and personal interaction with business partners allow Photo-Me to assess how well the service is performed; however, the company does not provide its mass customers with a definite possibility to evaluate the company's services (if a machine does not work, clients can contact the call centers and then the machine is checked via the telemetry system; this, however, does not allow Photo-Me to get a coherent picture of how customers perceive the company). The company might need to introduce customer satisfaction surveys that clients could fill out directly in a booth or via an email and establish closer customer relationships with its clients via personal user accounts, etc. Logistics and transportation of machines are conducted by third parties. Lastly, the after-sales support is provided through call centers, telemetry, and engineers.

### **4.4 Customer Relationships**

Within the B2B segment, Photo-Me strives to establish long-standing personal relationships with each site-owner, which allows Photo-Me to place more machines on the locations where the company already operates some booths and kiosks, and sometimes even place more machines for smaller commissions. Also, preserving strong relationships with large

partners, such as Tesco or ASDA, is essential for Photo-Me since the company's machines are located in several high footfall shops within the chain, and losing such partners would mean losing several good locations at once. Site-owner acquisition is important for the company, because Photo-Me's current strategy stipulates the company's expansion and an increase in profits (and it is harder to boost profits through increasing takings per existing units as it would mean adding more value to the services). Site-owner retention is also crucial, because losing established site-owners would mean that the company should displace machines (quite often several machines are located on the same spot) and look for new partners losing profits meanwhile.

Photo-Me is less dedicated to B2B clients that seek to buy Photo-Me's machines as they generally buy few machines to create a private business and are not return clients. In this case, customer retention is of less concern and the primary goal of Photo-Me is customer acquisition.

Photo-Me's customer relationship with the mass consumer market are less close since the company operates only unattended self-service machines. Photo-Me concentrates on boosting sales by introducing new templates and designs for the post-production of photos, creating designer booths, running contests, etc. The company, however, should also improve its customer retention rate by creating personal user accounts (to track users' interaction with the company's services and send loyal users rewards, such as an exclusive collage template) or interactive applications in order to lock existing customers in: in Europe, where most of Photo-Me's booths are located and where most of the company's Profit comes from, the population is aging (see Appendix 12 for the Median Age of Population in Europe on p.87) and fewer children are born (see Appendix 13 for the Fertility Rate in Europe on p.87), and it is, therefore, essential to retain all young target clients within Europe along with expanding into new regions.

## **4.5 Revenue Streams**

The major Revenue stream in the B2B segment comes from the sale and servicing of Photo-Me's products. The source of revenue in the B2C segment is customers' payments for Photo-Me's services. The main revenue generator is Europe followed by the UK and Ireland and then Asia (see Table 2 on p.15 where "inter-segment revenue mainly relates to sales of equipment,"<sup>69</sup> and Figure 4 on p.15).

## **4.6 Key Resources**

Both B2B and B2C segments have the same key resources – HR and intangible resources, such as the telemetry system, specialized software, designs, patents, and know-how.

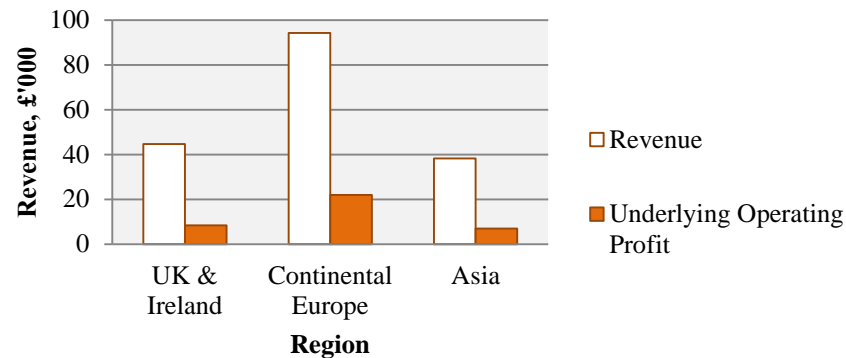
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<sup>69</sup> "Annual Report & Accounts 2015," *Photo-Me International plc*: 67.

**Table 2. Photo-Me's Revenue by Region, 2015**

	Asia £'000	Europe £'000	United Kingdom & Ireland £'000	Total £'000
<b>2015</b>				
Total revenue	38,925	100,127	44,867	183,919
Inter-segment sales	(720)	(5,782)	(215)	(6,717)
<b>Revenue from external customers</b>	<b>38,205</b>	<b>94,345</b>	<b>44,652</b>	<b>177,202</b>

Source: Photo-Me International plc, [http://investor.photo-me.com/downloads/pdf/ar/Photo-Me\\_2015\\_AR.pdf](http://investor.photo-me.com/downloads/pdf/ar/Photo-Me_2015_AR.pdf).

**Figure 4. Photo-Me's Revenue & Underlying Operating Profit by Region, 2015**

Data retrieved from Photo-Me International plc, [http://investor.photo-me.com/downloads/pdf/ar/Photo-Me\\_2015\\_AR.pdf](http://investor.photo-me.com/downloads/pdf/ar/Photo-Me_2015_AR.pdf).

Photo-Me currently employs 1.066 people, of which 85% work for the company full-time and 15% - part-time.<sup>70</sup> Finding and retaining skilled HR is key to the company's success since R&D and Partner Relationship Management – two of Photo-Me's key activities (see section 9.1 *Activity System Map* on p.39) – should be fully realized by competent workforce, otherwise Photo-Me would lose its competitive advantage. The company strives to find a balance between cost minimization and employee retention.

Intangibles are the other most important Photo-Me's resource. Know-how allows the company to capitalize on economies of scope and preserve the competitive edge. Photo-Me's unique technology, such as eco-friendly booths, ICAO software, and the intricate telemetry system, enable the company to differentiate from its competitors and offer new solutions that the market needs (e.g., the first digital minilab or heavy-duty launderettes Revolution).

#### 4.7 Key Activities

Key activities that Photo-Me performs as a B2B service provider are the low cost operation of vending equipment, sale and after-sales servicing, partner relationship management, and customer-focused R&D. The key activities within the B2C segment are the low cost operation of vending equipment, partner relationship management, and customer-focused R&D.

<sup>70</sup> Ibid., 70.

The full description of key and support activities is given in section *9.1 Activity System Map* on p.39.

## 4.8 Key Partnerships

Within both B2B and B2C segments, Photo-Me's key partners are site-owners that rent space to the company where Photo-Me puts its machines (e.g., Wilko, Westfield, Heathrow, Sainsbury's, NetworkRail, Tesco, ASDA, Morrison, The Co-operative, POST OFFICE, intu, WHSmith, ToysRus, Boots, Hammerson, the mall, Jones Land LaSalle), suppliers, manufacturers, and transportation companies.

Photo-Me forms strategic alliances with the site-owners in order to operate the machines on mutually beneficial terms. Moreover, embarking on strategic partnerships enables Photo-Me to reduce risks and uncertainty associated with the volatile external environment of the industry<sup>71</sup> (e.g., Photo-Me can mitigate competition risks by ensuring that its photo booths are located on the most attractive locations) and acquire resources necessary for the company,<sup>72</sup> such as an access to customers and space for the machines. With suppliers (who provide the company with consumables and also materials for its small manufacturing division, that is, KIS and Jolly Roger subsidiaries (see Appendix 14 on p.88 for Photo-Me's Undertakings)), manufacturers, and transportation companies, Photo-Me creates strong "buyer-supplier relationships to assure reliable supplies"<sup>73</sup> of needed resources and the smooth delivery of products to the company's clients.

## 4.9 Cost Structure

Main costs for both B2B and B2C segments are HR, depreciation and amortization, commissions to site-owners, maintenance, R&D, and inventory (see Figure 5 on p.17).

Since Photo-Me has a large machine estate, depreciation, amortization, the maintenance of machines, and inventory comprise a significant part of Photo-Me's costs. R&D costs are high, because the company invests heavily in the development of new products and modernization of existing ones in order to stay ahead of the competition. HR costs include wages, salaries, and benefits. Commissions to site-owners are paid for each machine that the company operates worldwide.

Minimization of costs is an integral part of the company's strategy (see section *10 Current Strategy* on p.43). Photo-Me has a **cost-driven business model**: "low price Value

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<sup>71</sup> Alexander Osterwalder and Yves Pigneur, *Business Model Generation*, (Self-published, 2009), 39, accessed September 24, 2015, <https://docs.google.com/a/aauni.edu/viewer?a=v&pid=sites&srcid=YWF1bmkuZWR1fG1ndDQzMC0yLWdvcnRvbi1zbWl0aC0yNS0wNS0yMDE1fGd4OjRkYmQxNmFmNmQ0ZDdmOQ>.

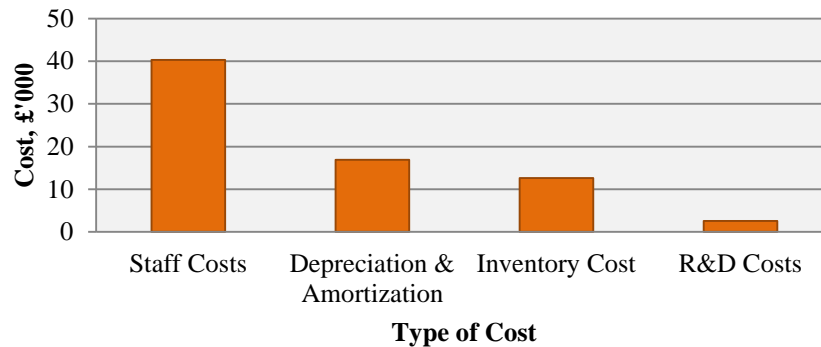
<sup>72</sup> Ibid.

<sup>73</sup> Ibid., 38.



Propositions, maximum automation, and extensive outsourcing<sup>74</sup> are key components of Photo-Me's business. Economies of scope (e.g., using the same network of engineers and the same site for new machines, or producing new products utilizing the existing know-how) allow Photo-Me to reduce costs significantly.

*Figure 5. Selected Costs of Photo-Me as at 30 April, 2015*



Data retrieved from Photo-Me International plc, [http://investor.photo-me.com/downloads/pdf/ar/Photo-Me\\_2015\\_AR.pdf](http://investor.photo-me.com/downloads/pdf/ar/Photo-Me_2015_AR.pdf).

#### 4.10 Conclusion

Photo-Me is a cost-centered vending equipment operator that serves both B2B and B2C markets. The company lays a great emphasis on R&D in order to produce cutting-edge technology machines that possess all the features that the market may need. The main concept of the company is self-service: this concept identifies how the machines should be made (interactive software, the telemetry system) and helps the company cut costs. Partners are key to Photo-Me's business since most of Photo-Me's services are provided through the partners' channels. Improving fit among all of the aforementioned components of Photo-Me's business while analyzing and lowering the running costs helps the company win the competitive edge.

## 5 EXTERNAL ANALYSIS

In order to answer the strategic question of how Photo-Me can renovate its photo booth division to stay profitable, it is necessary to analyze the company's external environment.

### 5.1 Industry Overview & Trends

Photo-Me operates in the industry of **Recreational Products** within the **Leisure Goods** sector.<sup>75</sup> On average in the years 2014-2015, the stock prices of the companies operating within the Recreational Products industry gained more in value than the stock prices of the companies

<sup>74</sup> Ibid., 41.

<sup>75</sup> "PHTM Photo-Me International plc," *London Stock Exchange*, accessed September 13, 2015, <http://www.londonstockexchange.com/exchange/prices-and-markets/stocks/summary/company-summary/GB0008481250GBGBXSSMM.html>.

operating in the whole Leisure Goods sector (see Figure 6). Lately, the stock prices within the Recreational Products industry and the Leisure Goods sector has been going down; Photo-Me, however, remains one of the market gainers.<sup>76</sup> As of September 2015, the industry's **P/E ratio is 54,40** (the sector's is 14,15), **ROE is 9,30%** (the sector's is 13,02%), and **Net Profit Margin is 4,90%** (the sector's is 5,16%).<sup>77</sup> In the 2<sup>nd</sup> quarter of 2015, the industry ranked 73<sup>d</sup> with its **Receivables Turnover Ratio of 4,06** and ranked 44<sup>th</sup> with its **Inventory Turnover Ratio of 8,68**.<sup>78</sup>

**Figure 6. Comparison of Market Movements in Recreational Goods Industry and Leisure Goods Sector for the Years 2014-2015**



Source: FT.com, <http://markets.ft.com/research/Markets/Sectors-And-Industries/Consumer-Goods/Recreational-Products>.

### 5.1.1 The Photo Booth Industry Trends<sup>79</sup>

Google Trends, Google's Web page that shows how often a certain search term has been looked up in relation to the total number of searches in a particular region or worldwide, indicates that people's interest in photo booth rentals has been increasing over the last 10 years (see Figure 7 on p.19).<sup>80</sup> Three countries that search for photo booth rentals through Google's search engine the most are Philippines, the USA, and Canada<sup>81</sup> – the countries where Photo-Me does not provide its services or where the company's presence is limited, but to where it could expand. Also, the terms that people use for the booth rental search the most are 'wedding photo booth' and 'party photo booth,'<sup>82</sup> which clearly indicates that two main events for which people rent booths are weddings and parties.

<sup>76</sup> Ibid.

<sup>77</sup> "Industry Browser," *Yahoo!*, accessed September 13, 2015, <http://biz.yahoo.com/p/317conameu.html>.

<sup>78</sup> "Recreational Products Industry," *CSIMarket*, accessed September 13, 2015, [http://csimarket.com/Industry/industry\\_Efficiency.php?ind=410](http://csimarket.com/Industry/industry_Efficiency.php?ind=410).

<sup>79</sup> For the trends in the laundering industry where Photo-Me operates its launderettes, see Appendix 15 on p.89.

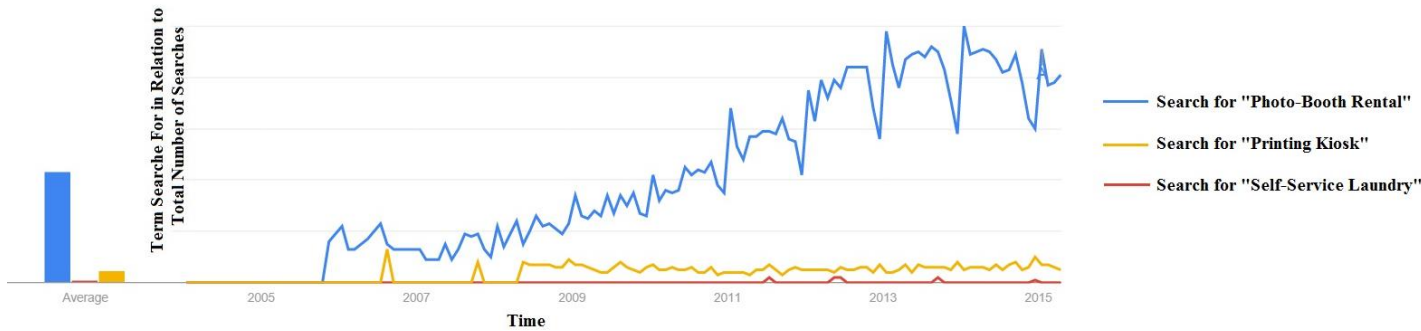
<sup>80</sup> "Photo Booth Rental," *Google Trends*, accessed April 28, 2015.

<http://www.google.com/trends/explore#q=photo%20booth%20rental%2C%20self-service%20laundry%2C%20printing%20kiosk&cmpt=q&tz=>

<sup>81</sup> Ibid.

<sup>82</sup> Ibid.

**Figure 7. Google's Worldwide Search Trends for the years 2005-20015**



Source: Google Trends, <http://www.google.com/trends/explore#q=photo%20booth%20rental%2C%20self-service%20laundry%2C%20printing%20kiosk&cmpt=q&tz=>.

The photo booth industry, as shown above, has been gaining popularity over the last decade. However, the purpose of the use of photo booths has changed: photo booths are now increasingly used for fun purposes (“the photo-booth [has become] a must-have for wedding receptions, graduations, Sweet 16 parties,”<sup>83</sup> etc.) rather than for ID photography. People show considerable interest in booth rental for their special occasions and booth purchase for going into their own business, especially in the USA and Canada.<sup>84</sup> This trend can be explained by the growing reliability, portability, and versatility of photo booths<sup>85</sup> and people’s growing obsession with ‘self-photography’.<sup>86</sup>

Advances in technology which make distant monitoring of booth performance easier further promote the photo booth business expansion. On the other hand, technological transformation and innovation along with low entry barriers make the photo booth industry highly competitive: the number of rivals and substitutes (e.g., GoPro, smartphones, and selfie sticks) constantly increases. Moreover, ID photo booth photography is in decline as governments introduce “centralised image capture for biometric passports,”<sup>87</sup> although this could constitute an opportunity for Photo-Me to develop a biometric image capture solutions for governments (according to predictions, the biometrics market will be worth \$14.7 billion already by 2019<sup>88</sup>).

All in all, Photo-Me remains a gainer within the declining Leisure Goods sector. Photo-Me’s market cap, the largest in the UK’s Leisure Goods sector, “increased ... [by 7.2%] in the trailing 12 months to August 26, 2015 ... Compared with the FTSE 100 Index which has fallen 12.4% over the same period, this is a relative price increase of 19.5%.”<sup>89</sup>

<sup>83</sup> Ken Keberle, “Photo Booths Gaining in Popularity,” *InTents*, last modified June 1, 2009, <http://intentsmag.com/2009/06/01/photo-booths-gaining-in-popularity/>.

<sup>84</sup> “Photo Booth Rental,” *Google Trends*.

<sup>85</sup> Ken Keberle, “Photo Booths Gaining in Popularity.”

<sup>86</sup> Ajit Jha, “The Science of Selfies: Why Are We Obsessed With Our Self Image?” *International Science Times*, last modified January 17, 2014, <http://www.isciencetimes.com/articles/6694/20140117/science-selfies-obsessed-self-image.htm>.

<sup>87</sup> “Annual Report 2014,” *Photo-Me International plc*: 21.

<sup>88</sup> “Frost & Sullivan Predicts \$14.7bn Biometrics Market by 2019,” *Biometric Technology Today*, no.4 (2012): 2, accessed April 29, 2015, <http://search.ebscohost.com/login.aspx?direct=true&db=a9h&AN=76466526&lang=cs&site=ehost-live>.

<sup>89</sup> “Photo-Me International: Directorate Change,” *News Bites - Consumer Durables & Apparel*, last modified August 27, 2015, <http://search.proquest.com/docview/1707549122?accountid=159230>.

## 5.2 Environmental Scanning: PESTLE Analysis

The PESTLE analysis has been used to examine Photo-Me's global environment. For the analysis of the company's stakeholders, see Appendix 16 on p.89.

### 5.2.1 Political Environment

Photo-Me operates in countries where political environment is sufficiently stable. The World Bank's *Political Stability and Absence of Violence/Terrorism Index* that measures the level of a country's political stability based on numerous sources is quite high for the countries where Photo-Me conducts business: on the scale where -2,5 indicates the weakest governance performance and 2,5 – the strongest performance, the lowest score of -0,46 belongs to China and the highest score of 1,39 belongs to Luxembourg (see Appendix 17 on p.92). In most of the countries where Photo-Me is present political instability and politically-caused violence are unlikely; Vietnam and China are two countries where domestic and international politics are the most volatile.

In 2015, Photo-Me has paid taxes totaling £10.452.000, “with most of the tax charge arising in France, Japan and the United Kingdom.”<sup>90</sup> This number “corresponds to an effective tax rate of 27.2%”<sup>91</sup> as compared to an effective tax rate of 28.3% in 2014.<sup>92</sup>

As for trade regulations, most of Photo-Me's trade is controlled by the European Union since 10 out of 17 countries where Photo-Me conducts business belong to the EU. The EU, being a single market, has standardized trade and technical regulations<sup>93</sup> which mitigates political and economic risks and simplifies bureaucratic tasks for Photo-Me when the company trades with the EU member countries. Switzerland - the only country among Photo-Me's European markets that is not currently a EU member – is tied closely to the union, its largest trade partner, by numerous economic agreements and treaties;<sup>94</sup> therefore, Photo-Me's trade with Switzerland is also simplified by a set of comprehensive trade regulations that exist between the EU and Switzerland. Political and trade relationships between the EU and Asia (where Photo-Me operates in 5 countries: China, Japan, Singapore, South Korea, and Vietnam) are less dynamic and well-defined:

The EU's trade diplomacy stands out for its formal, rather legalistic approach to linking economics and politics. ... A predefined set of political clauses must be included in political agreements with third countries, while also essentially reducing free-trade agreements to a subset of such political agreements. This political straitjacket limits the

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<sup>90</sup> “Annual Report & Accounts 2015,” *Photo-Me International plc*: 16.

<sup>91</sup> Ibid.

<sup>92</sup> Ibid.

<sup>93</sup> “Trading in the EU,” *Gov.uk*, accessed September 27, 2015. <https://www.gov.uk/guidance/trading-in-the-eu>.

<sup>94</sup> “EU Relations with Switzerland,” *Europa*, accessed October 1, 2015, [http://eeas.europa.eu/switzerland/index\\_en.htm](http://eeas.europa.eu/switzerland/index_en.htm).

EU's ability to engage in a more flexible, strategic approach that is needed in the context of Asian competitive multilateralism.<sup>95</sup>

The creation of closer economic and political ties between the EU and Asia would help Photo-Me develop its photo booth business in the Asian market.

### 5.2.2 *Economic Environment*

Europe is now slowly recovering from the Great Recession: the real GDP (see Appendix 18 on p.92) and the real consumption (see Appendix 19 on p.93) of most European countries have been growing steadily in 2015.<sup>96</sup> The employment rate has begun to increase (see Appendix 20 on p.93); there is, however, a large number of young workers who, having not entered the labor market timely due to the crisis of 2008, are now unable to find jobs.<sup>97</sup>

The Great Recession has hindered the quick expansion of the Asian economies. The weakened demand from the developed countries caused by the crisis has negatively affected the economies of the Asian countries. The GDP of the Asian countries, however, is growing steadily: the strong internal consumption, "the recent decline in world oil prices [that boosts the export of oil and benefits Asian oil producers and suppliers,] and the ongoing recovery in advanced economies"<sup>98</sup> help Asia gain more economic power. Further expansion into the Asian markets might be a reasonable investment for Photo-Me as the Asian economies become increasingly stronger and might soon overshadow the EU economic might.

As to the exchange rates, the strengthening of the pound sterling against the euro and the yen has significantly reduced Photo-Me's profit in 2015 (since the company reports its financials in GBP). Even though the underling profit before tax has grown by 16% as compared to 2014, the growth would have amounted to 25%, had the sterling not risen so significantly.<sup>99</sup>

### 5.2.3 *Socio-Cultural Environment*

Changes in the socio-cultural environment could affect Photo-Me's fun photography business. Social preferences and trends shape the special events industry. Some trends, such as obsession with self-photography that has led to the rapid development of the photographic technology and created numerous substitutes and competitors for Photo-Me, might reduce the

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<sup>95</sup> Maaik Okano-Heijmans, "Trade Diplomacy in EU-Asia Relations: Time for a Rethink," *Netherlands Institute of International Relations Clingendael* (2014): 4, [http://www.clingendael.nl/sites/default/files/Trade%20Diplomacy%20in%20EU-Asia%20Relations%20-%20Clingendael%20Report%20\(Sept%202014\).pdf](http://www.clingendael.nl/sites/default/files/Trade%20Diplomacy%20in%20EU-Asia%20Relations%20-%20Clingendael%20Report%20(Sept%202014).pdf).

<sup>96</sup> Thomas Cooley, Ben Griffy, and Peter Rupert, "Europe Grows Apart," *European Economic Snapshot*, last modified September 8, 2015, <http://europeansnapshot.com/>.

<sup>97</sup> *Ibid.*

<sup>98</sup> "Regional Economic Outlook: Asia and Pacific," *International Monetary Fund* (2015): ix, <http://www.imf.org/external/pubs/ft/reo/2015/apd/eng/pdf/areo0415.pdf>.

<sup>99</sup> Harriet Russel, "Photo-Me Returns Shareholders' Coin," *Investors Chronicle*, last modified June 26, 2015, <http://www.investorschronicle.co.uk/2015/06/26/shares/news-and-analysis/photo-me-returns-shareholders-coin-K3pux7hAtFvKisUj98EDII/article.html>.

company's profit if not timely spotted and capitalized on. Other trends, such as the demand for personalized products and services, may create a new opportunity for Photo-Me's expansion. For example, the latest trends dictate that each major social event should be personalized: "events that are very personal in nature are looking to provide personal experiences and personal 'assets' to attendees in the midst of very social settings. The use of social tech tools such as digital displays, graffiti walls, photo booths ... allow[s] individuals to stand out and have personal experiences in a very social, public-type event."<sup>100</sup>

Another social event trends that Photo-Me could capitalize on are:

- ☪ An increased interest in mobile solutions (mobile applications, mobile Web sites) that consumers use to manage information;<sup>101</sup>

- ☪ Users' tendency to engage in multi-screen information management using numerous devices, such as laptops, smartphones, and tablets, at once to solve different problems;

- ☪ "The demand for integrated technology solutions:"<sup>102</sup> modern consumers desire technology and platforms that integrate different services into one and "the fragmentation of individual technologies [becomes] less and less appealing,"<sup>103</sup>

- ☪ The use of cheap disposable technologies, decorations, and props to make an event memorable (e.g., artificial moustaches for photo booth pictures or wristbands);<sup>104</sup>

- ☪ "The emphasis on the event as part of the conversation:"<sup>105</sup> companies arrange "special, sometimes invite-only, intimate and less formal events as a way to engage with customers on a local level [and even] tak[e] the events to the attendee's specific regions."<sup>106</sup>

Capitalizing on such trends and reshaping them in the company's favor could help Photo-Me to expand its fun photography business; watching new trends could prompt Photo-Me what services consumers might need in the future and what direction the company could take for developing its business.

#### **5.2.4 Technological Environment**

Technological environment affects Photo-Me's business to a great extent: since the key characteristics of Photo-Me's services and the main source of the company's competitive advantage are technological features of Photo-Me's machines (software, cameras, the quality of prints), it is imperative that the company should watch its technological environment closely and invest into R&D. The photo booth industry, being on the rise, constantly brings new booth

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<sup>100</sup> Adam Clark, "Six Trends that Will Drive Big Events in 2014-2015," *Special Events Magazine*, last modified September 30, 2014, <http://search.proquest.com/docview/1619352604?accountid=159230>.

<sup>101</sup> Ibid.

<sup>102</sup> Ibid.

<sup>103</sup> Ibid.

<sup>104</sup> Ibid.

<sup>105</sup> Ibid.

<sup>106</sup> Ibid.

technology and delivers cutting-edge digital solutions to the market whose demand keeps growing. Photo booth companies are adding more features to their machines to outrun their competitors: the latest booth technology incorporates wireless “slideshow[s], video [capture and processing], Dropbox, social media features”,<sup>107</sup> QR codes, ability to send photos to a smartphone, external displays that attract customers and “allow Booth moments, experiences, and other event photos and information to be shared to those outside the booth,”<sup>108</sup> quizzes and surveys whose results are shown in a booth,<sup>109</sup> user-friendly software, adaptability for corporate events and product promotion,<sup>110</sup> mobile booths (booths the size of a suitcase<sup>111</sup>), easy software upgrade, kids booths, vast booth and prints customization, lightweight eco-friendly hardware, efficient booths that reduce running costs, ‘set-and-forget’<sup>112</sup> booths for one-time events, instagram hashtag printing,<sup>113</sup> greenscreen backgrounds, photographic filters, large format printing, top quality cameras and lightning, easy assembly (less than 5 minutes<sup>114</sup>), archival quality prints that last 100 years,<sup>115</sup> 3D printing of several subjects,<sup>116</sup> and others.

### 5.2.5 Environmental Factors

In today’s world, CSR and organizational sustainability are not only a necessity, but the source of competitive advantage: engaging in CSR programs allows companies to use available resources efficiently, improve the life of a community where they operate, promotes the companies’ brand, and increases their profitability.<sup>117</sup> Photo-Me’s CSR program (see also Appendix 5 on p.79) incorporates:

☪ Compliance with the different regulations and laws of countries where Photo-Me operates;<sup>118</sup>

☪ “The re-use and recycling of ... retired products”<sup>119</sup> (up to 90% of a Photo-Me booth can be recycled);

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<sup>107</sup> “Photo Software Company Announces Major Upgrade to Photo Booth Software,” *prweb*, last modified October 1, 2015, <http://www.prweb.com/releases/Darkroom/Booth/prweb12988625.htm>.

<sup>108</sup> *Ibid.*

<sup>109</sup> *Ibid.*

<sup>110</sup> Friedel Marquadt, “Red Robot Captures the Telstra 2015 Act Business Award,” *The Sydney Morning Herald*, last modified July 17, 2015, <http://www.smh.com.au/business/red-robot-captures-the-telstra-2015-act-business-award-20150717-gieqbg.html>.

<sup>111</sup> “The Atom Portable Photo Booth,” *Red Robot Industries*, accessed October 3, 2015, <http://www.redrobotindustries.com/products/atom-portable-photo-booth/>.

<sup>112</sup> *Ibid.*

<sup>113</sup> “The Original Retro Photo Booth,” *Red Robot Industries*, accessed October 3, 2015, <http://www.redrobotindustries.com/products/atom-portable-photo-booth/>.

<sup>114</sup> “The Classic Photo Booth,” *Red Robot Industries*, accessed October 3, 2015, <http://www.redrobotindustries.com/products/atom-portable-photo-booth/>.

<sup>115</sup> *Ibid.*

<sup>116</sup> Mark Tyson, “Panasonic Opens a 3D ‘Replicate-Me’ Booth Fitted With 120 Cameras,” *Hexus*, last modified August 4, 2015, <http://hexus.net/ce/news/cameras/85229-panasonic-opens-3d-replicate-me-booth-fitted-120-cameras/>.

<sup>117</sup> Muhammad Mohtsham Saeed and Faria Arshad, “Corporate social responsibility as a source of competitive advantage: The mediating role of social capital and reputational capital,” *Journal of Database Marketing & Customer Strategy Management* 19, no. 4 (2012): 219-220, <http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=84622519&lang=cs&site=ehost-live>.

<sup>118</sup> “Annual Report & Accounts 2015,” *Photo-Me International plc*: 30.

<sup>119</sup> *Ibid.*

☉ The development of energy-saving solutions and products (e.g., solar-powered *Photovoltaic ID Booth*);<sup>120</sup>

☉ The creation of products suitable for the disabled (e.g., a wheelchair access to laundromats, voice instructions, fonts, and colors used in the machines are suitable for the visually impaired, there are “on-screen instructions for the hard of hearing”<sup>121</sup>);

☉ “The recovery, refurbishment and resale of electrical equipment;”<sup>122</sup>

☉ The minimization of waste produced;<sup>123</sup>

☉ The ability to switch machines off during closing hours which decreases the quantity of energy consumed by the machines by 30%;<sup>124</sup>

☉ The telemetry system that decreases the number of booth service visits so that engineers do not have to travel to booth sites (which reduces CO<sub>2</sub> emissions) and do not eat into the company’s resources;<sup>125</sup>

☉ The use of LED lightning in the machines (no fluorescent tubes waste, longer life).<sup>126</sup>

Photo-Me’s CSR programs are implemented by “national business managers, who are best placed to ensure compliance with national legislation and market expectations.”<sup>127</sup> However, as discussed in section 3.4 *Culture* on p.5, Photo-Me pursues CSR policies to comply with laws and attract investors. Photo-Me’s CSR should become part of the company’s strategy, and not just be an attempt to adhere to regulations. It is important that Photo-Me implements the CSR programs “using the same framework that guides [its] core business choices in order to make CSR a source of competitive advantage for the firm.”<sup>128</sup>

### 5.2.6 *Legal Environment*

Within the legal environment, Photo-Me must watch labor laws, health and safety regulations, product safety regulations, advertising and promotion regulations, and patent laws in each country where it operates. Photo-Me, being involved into international trade, should pay rapt attention to its trade contracts and laws that regulate the company’s trade relationships with partners.

Legal environment of various countries where Photo-Me conducts business can bring numerous opportunities and threats to the company. The latest tendency of governments to strengthen the internal security systems in order to mitigate external threats and control

<sup>120</sup> Ibid.

<sup>121</sup> Ibid.

<sup>122</sup> Ibid., 32.

<sup>123</sup> Ibid.

<sup>124</sup> Ibid.

<sup>125</sup> Ibid.

<sup>126</sup> Ibid.

<sup>127</sup> Ibid., 30.

<sup>128</sup> Ziva Sharp and Nurit Zaidman, “Strategization of CSR,” *Journal of Business Ethics* 93, no. 1 (2010): 51, <http://www.jstor.org/stable/pdf/40605328.pdf?acceptTC=true>.



migration on the one hand and attempts to facilitate unhindered movement of individuals across countries on the other hand has led to the creation of biometric passports. The introduction of centralized image capture poses a threat to Photo-Me's ID photography business, but also creates an opportunity to cooperate with governments and supply them with photo booths that would capture, print, and store all necessary photographic data. Photo-Me is currently developing "3D technology in ID security standards, as well as trialing booths connected to the central government systems (ANTS in France)"<sup>129</sup> and lobbies to promote its services. As more countries adopt biometric passport systems, Photo-Me's new biometric solutions could boost the company's profit.

Another legal factor that affects Photo-Me's business is the internal ID policies of governments: each time a government updates regulations regarding various ID cards and licenses (e.g., driving licenses), Photo-Me faces an increased demand for its services and a necessity to modernize its technology to satisfy the new standards. A recent example is the introduction of a new ID card regulation in Japan: "under this legislation all Japanese citizens will need a new photo ID card and with a population aged 18+ of some 87 million this is expected to lead to a substantial increase in demand over the next two to three years."<sup>130</sup> The legislation has instigated the company to install 1.000 new booths in Japan.

Also, following the company's restructuring of Sales and Servicing division and the discharge of many companies' employees, Photo-Me could face legal claims from former employees,<sup>131</sup> which is why the company should be familiar with the employment laws of the countries where it conducts business.

## 6 PORTER'S 5 FORCES

### 6.1 Rivals

Photo-Me operates in a highly competitive industry. Not only does the company face numerous local competitors in every geographical region or country where it conducts business, it is also up against tough global competitors, such as **Eastman Kodak Company**, **FUJIFILM Holdings Corporation**, **Keshot**, **Digital Centre** (see section 7 *Competition* on p.29). The majority of Photo-Me's competitors do not possess such a diversified vending equipment portfolio as the company. Local competitors are generally focused on providing a single service to their customers, such as digital printing, photo booth services, or laundering, and accumulate considerable expertise in providing these services. Moreover, since most of Photo-Me's

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<sup>129</sup> "Annual Report & Accounts 2015," *Photo-Me International plc*: 18.

<sup>130</sup> *Ibid.*, 11.

<sup>131</sup> *Ibid.*, 48.

competitors, such as photo booth rental or sale companies, operate locally, they establish closer customer relationships with local consumers and have a better understanding of the local market. Local companies also become more skilled in out-maneuvering and fighting international brands, such as Photo-Me, through utilizing their “intrinsic advantage ... [-] their local identity and culture.”<sup>132</sup> Some of Photo-Me’s global competitors (e.g., Keshot and Digital Centre) focus on booth rental or sales services, others (e.g., Eastman Kodak Company and FUJIFILM Holdings Corporation) – compete with Photo-Me in the minilabs, consumables, and printing solutions markets.

All in all, **the relative strength of rivals is high**: there are many powerful global competitors and local firms within the vending and digital solutions industries. Photo-Me is forced to innovate its services and reduce its costs in order to compete successfully with multinational companies and, at the same time, find ways to reach and appeal to many different local markets, identify and capitalize on various location-specific advantages<sup>133</sup> in order to compete with local firms. In both cases, offering customers a unique value proposition is crucial.

## 6.2 New Entrants

In order to start a photo booth business, one does not have to make heavy investments: start-up expenses for creating a booth are approximately £3.300, additional expenses are advertising costs (e.g., building a Web site) and variable costs.<sup>134,135</sup> Advertising via Facebook, YouTube, Flickr, Wedding Wire, Yelp, Google Places for Business is free. Also, there are numerous online articles and video tutorials that describe how to create the photo booth business, which help beginning entrepreneurs to develop their start-ups. The government regulation of the industry is generally minimal.

There are, however, forces that counterbalance such ease of entry associated with modest capital investments needed to start a photo booth business. First of all, economies of scale and scope allow bigger players to produce, rent, or sell booths, other vending equipment, and associated services at a lower price and, thus, attract customers: the fixed costs of running a business are spread over a larger number of units;<sup>136</sup> big companies’ bargaining power over suppliers is greater since they place large orders;<sup>137</sup> the development of new products and solutions is financed easier since investors and banks are willing to put money into established

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<sup>132</sup> T. Kippenberg. “Emerging Strategies for Local Companies,” *The Antidote* 5, no. 2 (2000): 21, accessed May 1, 2015, <http://dx.doi.org/10.1108/EUM0000000006750>.

<sup>133</sup> Sjoerd Beugelsdijk. “Liability of Foreignness and Location Specific Advantages: Time, Space and Relative Advantage,” *Dynamics of Globalization: Location-Specific Advantages or Liabilities of Foreignness?* (2015): 202, accessed May 1, 2015, <http://dx.doi.org/10.1108/EUM0000000006750>.

<sup>134</sup> “How to Start a Photo Booth Business,” *Digital Photography Hobbyist*, last modified January 19, 2014, accessed May 1, 2015, <http://digitalphotographyhobbyist.com/start-photo-booth-business/>.

<sup>135</sup> To find out more about costs associated with another Photo-Me’s business – laundering – see Appendix 15 on p.89.

<sup>136</sup> Margaretta, *Understanding Michael Porter*: 46.

<sup>137</sup> *Ibid.*

companies with a good track record or the companies can finance their R&D themselves (e.g., Photo-Me self-finances its R&D and does not make extra interest payments); know-how, platforms, and systems that a company already possesses help it introduce new products at a lower cost (e.g., Photo-Me's telemetry system, sites, and network of engineers are the same for different machines). Secondly, sometimes, in order to start a business, it is easier for new entrants to buy booths and other vending equipment from existing booth companies instead of creating and assembling machines of their own. If a newcomer buys machines from Photo-Me, he/she does not turn into Photo-Me's rival, and if he/she buys from other established companies, Photo-Me essentially competes against those companies and their brands, and not the newcomer. Also, in order to mitigate risks associated with running a business, the newcomer can just earn money by providing space for Photo-Me's machines and sharing in the machines' takings (thus, he does not turn into a rival). Thirdly, competing against large players, such as Photo-Me, can be quite difficult: large companies tend to have better global customer support, well-established brands, prime locations for machines, large product portfolios, etc. Therefore, it can be hard for newcomers to outcompete existing brands, which may frighten them off.

All things considered, **the threat of new entrants** can be qualified as **medium** since the barriers to entry of the industry where Photo-Me operates are medium. In order to mitigate the threat of new entrants and stay competitive, Photo-Me must offer its clients unique benefits.

### 6.3 Buyers

When it comes to its B2B division, Photo-Me is up against many powerful buyers. Such business partners as Wilko, Westfield, Heathrow, Sainsbury's, NetworkRail, Tesco, ASDA, Morrison, The Co-operative, POST OFFICE, intu, WHSmith, ToysRus, Boots, Hammerson, the mall, Jones Land LaSalle, and others have significant bargaining power over Photo-Me. Since these are well-known and widespread companies, Photo-Me is interested in cooperating with them and placing its booths on their highly frequented premises. Therefore, Photo-Me is sometimes forced to increase its commissions to site-owners and offer special deals to such companies in order to maintain its business partnerships. Also, Photo-Me's site-owners have a large number of alternatives to Photo-Me's machines: they can use free space for parking, rent it to small tent-type shops, place additional products or the machines of Photo-Me's competitors there. B2B partners that buy Photo-Me's machines also have a large number of alternatives – they can buy vending machines and consumables similar to the ones produced by Photo-Me from numerous global and local competitors of the company.

In the B2C sector, the power of buyers is also quite high. The intense competition that Photo-Me faces prevents the company from charging high prices for its services (the company's

value proposition is not extremely strong and different from its competitors, which would allow Photo-Me to charge more for its services and capitalize on the B2C sector). Moreover, there is a large number of alternatives to Photo-Me's services that mass customers could turn to, such as personal cameras, photo ateliers, and photo booths of the company's competitors. The mass customers have almost no switching costs (except for the convenient locations of Photo-Me's machines) since Photo-Me does not have a strongly differentiated value proposition, has limited tools for locking customers in, and there is little brand loyalty in the technology market (the decisions to use certain digital services is based on "the absolute value of things"<sup>138</sup> that is easily discovered via "aggregation tools, advanced search engines, reviews from other users, social media, unprecedented access to experts, and other emerging technologies,"<sup>139</sup> and not on "a brand name, a list price, or their own past experience with a company"<sup>140</sup>). Also, Photo-Me provides services to the low- to middle-income markets where customers tend to be price sensitive and are likely to switch to other services if the prices of services they are currently using are higher than that of competitors,<sup>141</sup> and Photo-Me is forced to charge average prices in the B2C market. All things considered, **the power of Photo-Me's buyers** is qualified as **high**.

## 6.4 Suppliers

**The power of suppliers** is **medium** in Photo-Me's case. On the one hand, Photo-Me has several large suppliers, such as a single paper supplier,<sup>142</sup> that exercise considerable bargaining power over the company since they are a sole or major supplier of certain materials. Should these suppliers fail, Photo-Me would bear severe losses: even though all existing suppliers are not unique players on the market and can be replaced, finding new suppliers will take time and failing to deliver products on time will negatively affect Photo-Me's bottom line. Employees – another major input in Photo-Me's services – also have significant bargaining power over Photo-Me: since the company mainly operates in Europe, where the power of trade unions is high (see also Appendix 21 on p.94 for the trade union density of the countries where Photo-Me operates) and labor laws are developed, Photo-Me should manage its HR relations carefully in order not to break laws and incur costs associated with law suits and sustain stable relations with the trade unions.

On the other hand, the company outsources its booth manufacturing to China where labor is low-cost and does not possess significant bargaining power over employers. The

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<sup>138</sup> Itamar Simonson and Emanuel Rosen, "Is Tech Eroding Consumer Loyalty?" *Strategy+Business*, last modified May 12, 2014, <http://www.strategy-business.com/article/00247?gko=e8f3e>.

<sup>139</sup> Ibid.

<sup>140</sup> Ibid.

<sup>141</sup> Margareta, *Understanding Michael Porter*: 41.

<sup>142</sup> "Annual Report 2014," *Photo-Me International plc*: 21.

emerging economies that tend to engage in the race to the bottom trying to produce products cheaper (as it is their main source of operational advantage) provide companies like Photo-Me with inexpensive labor that is not as legally protected as the labor of developed countries.

## 6.5 Substitutes

**The threat of substitutes is high** for Photo-Me as there are numerous substitutes for the company's services on the market, such as personal DSLR cameras, photo ateliers, and smartphones. As technology advances, new substitutes for Photo-Me's services appear (e.g., GoPro) and existing substitutes become cheaper (e.g., smartphones). Therefore, Photo-Me tries to differentiate its products (e.g., the ICAO software) and make its services more accessible (e.g., cash and card payments) to preserve and increase its market share. The company also tries to keep the competitive edge through innovation and, consequently, invests considerably into R&D.

## 6.6 Conclusion

Photo-Me operates in an industry with a large number of competitors, substitutes, and powerful buyers. Photo-Me's mass customers have a large number of services similar to the company's that they can choose from and minimal switching costs; Photo-Me's site-owners have slightly higher switching costs since the company is a single global photo booth company with developed customer support, but all business clients have a large number of Photo-Me's competitors and substitutes to satisfy their needs. The brand loyalty within technological industries is low, which makes it harder for Photo-Me to create a loyal customer base. The threat of new entrants is medium since it is quite hard to compete against large established companies and newcomers can create a business by buying the machines of existing brands instead. The power of suppliers is medium since the resources that Photo-Me needs for operating its business are ample and provided by many market players. Porter's 5 Forces for Photo-Me are summarized in Appendix 22 on p.95.

In such a competitive industry, Photo-Me should differentiate its services significantly to attract customers with extra value and also develop customer loyalty and curb buyer's power by creating switching costs for them and locking them in.

# 7 COMPETITION

## 7.1 Competitors

Photo-Me operates on a highly competitive market. The company competes with numerous photo booth rental and sales companies in all 17 countries where it renders its services

(see Appendix 6 on p.81 for Photo-Me's main markets). However, Photo-Me is one of a few photo booth companies with a global reach: most of Photo-Me's competitors are local firms, or firms present in a single country (e.g., the UK-based **Photobooth.co.uk** and **Easy Photo Products Ltd**). However, some of Photo-Me's major competitors – **Eastman Kodak Company**, **FUJIFILM Holdings Corporation**, **Keshot**, **Digital Centre**, and others – are also global. Unlike Photo-Me, these companies focus primarily on booth rental or sales services (Keshot and Digital Centre) or compete with Photo-Me in the consumables and minilab markets (Eastman Kodak Company and FUJIFILM Holdings Corporation). For a detailed description of some of Photo-Me's competitors, see Appendix 23 on p.95.

## 7.2 Analysis of Selected Competitors

Taking into account the fact that Photo-Me has numerous local and global rivals, three different companies that represent certain types of Photo-Me's competitors have been chosen to facilitate the analysis (see Table 3). Moreover, all chosen competitors operate within fields that Photo-Me might decide to expand to as part of its booth business restructure strategy:

🌀 **Keshot** – a competitor specializing in photo booth rentals to business clients – has been chosen to represent a global booth rental competitor on the B2B booth market. Photo-Me's rental services to businesses are not as developed as Keshot's which might be an overlooked opportunity for Photo-Me;

🌀 **Digital Centre** – a competitor specializing in booth sale to mass consumers – will represent a global booth selling competitor on the B2C market. Unlike Photo-Me, DC has been striving to put various features into its machines that would allow to lock booth users in: the Cloud storage system, personal QR codes, individual passwords for data transmission, and other booth features;

🌀 **Photobooth.co.uk** has been exploring the mobility of booths and creating photo booth vans, lightweight booths, and portable booths for making selfies in an attempt to produce products that the market will need tomorrow as people's mobility increases and the desire to take photos anytime anywhere grows. Photobooth.co.uk will represent a local competitor on the booth market.

Analyzing competitors' products, SWOT, costs, and other crucial characteristics can help Photo-Me identify what strategies and business models are successful, what services competitors still do not provide to the markets, what promotional techniques Photo-Me might want to use, and so on.

*Table 3. Analysis of Photo-Me against Selected Competitors, 2015*

	Photo-Me	Keshot	Digital Centre	Photobooth.co.uk
<b>Overview</b>	Photo-Me is a public company established in <b>1954</b> . Photo-Me <b>sells and rents</b> unattended vending equipment to <b>mass and business clients</b> as well as <b>operates</b> the machines in Europe, Asia, and, to a lesser extent, the USA.	Keshot is a <b>B2B</b> social media booth <b>rental</b> company operating in the USA, Europe, and South America. The company was established in <b>2001</b> .	DC is a booth <b>manufacturing and sales</b> company present in Europe, Asia, Middle East, Africa, Australia. The company was established in <b>1997</b> . The company serves the <b>B2B and B2C</b> markets.	“Photobooth.co.uk is the UK’s leading Photobooth <b>hire</b> company and was established in <b>2010</b> by company MD Tim Warrington.” <sup>143</sup> Photobooth.co.uk also <b>manufactures and sells</b> booths. The company operates within the <b>B2B and B2C</b> markets.
<b>Products &amp; Services</b>	The operation, sale, and rental of photo booths; the operation and sale of launderettes, printing kiosks, amusement machines; the sale of business service equipment and consumables; biometric solutions; after-sales servicing; a self-service carwash concept under development. <sup>144</sup>	The promotion of companies’ brands; the rental of customized social media booths; collecting data on customers through booths; expanding clients’ presence in the social media; administering “onsite interactive surveys, sweepstakes and contests, and ...[gathering] video testimonials,” <sup>145</sup> an application for tablets; the hire of a photographer and brand ambassadors.	The sale of booths; secure data sharing; QR ID; photos with QR codes that allow customers to retrieve the photos on smartphones; an application for remote monitoring of a booth; the first social network application for sharing booth photos and videos; the CLOUD storage; impact advertising on booth screens and on a sign on top of booths; an access to Ebay and online stores through booths; interactive games; portable booths; low-price film.	The sale and rental of booths and amusement machines; kids booths; a photo booth in a van; hiring of a booth attendant; password protected Web pages for storing information; portable Social Selfie Pod for making selfies; robot hire; blow up booths; booth karaoke; an application for scanning photos that allows to reproduce a personalized video message shot in a booth while taking photos; corporate photo booth hire.
<b>Current Strategy</b> <sup>146,147</sup>	<b>Cost Leadership</b> (e.g., outsourcing), <b>Market Development and Penetration</b> , and <b>Product Development</b> (e.g., new product - laundromats). Photo-Me states that its strategy “is to use the significant cash flow generated from [the company’s] long-established photo booth business to develop new and complementary	<b>Focused Differentiation</b> (B2B solutions), <b>Product Development, Market Penetration and Development</b> . Keshot strives to provide tailor-made solutions to its business clients and innovate. Keshot attempts to help companies improve their brand awareness with	<b>Differentiation</b> (e.g., DC’s users club), <b>Product and Market Development</b> . DC tries to differentiate its booth by packing them with exclusive features. DC also tries to lock booth users in by creating a DC users club (DC’s social network and unique	<b>Market Penetration and Product Development</b> . Photobooth.co.uk tries to increase its market share within the UK. The company also develops new products and services that would satisfy customers’ needs.

<sup>143</sup> “About,” *Photobooth.co.uk*, accessed October 11, 2015, <https://www.photobooth.co.uk/about-2/>.

<sup>144</sup> “Annual Report & Accounts 2015,” *Photo-Me International plc*: 10.

<sup>145</sup> “About Company,” *Keshot*, accessed April 27, 2015, <http://www.keshot.com/>.

<sup>146</sup> Generic strategies for this section are retrieved from Fred R. David, *Strategic Management: Concepts and Cases*, South Carolina: Prentice Hall, 2011: 137, PDF e-book, accessed October 11, 2015, <http://202.28.25.105/e-learning/courses/703309/document/StrategicManagementDavid.pdf?cidReq=703309>.

<sup>147</sup> Generic strategies for this section are retrieved from “Porter’s Generic Competitive Strategies (Ways of Competing),” *University of Cambridge*, accessed October 11, 2015, <http://www.ifm.eng.cam.ac.uk/research/dstools/porters-generic-competitive-strategies/>.

	products which will drive [Photo-Me's] future growth;” <sup>148</sup> expand into new geographic regions; focus on financial independence; increase returns to stockholders; reduce costs; develop new services, such as biometric solutions.	Keshot's booths. Keshot creates new services that allow its clients to improve customer relationships and brand recognition (e.g., brand ambassadors, the projection of photo booth collages on walls and screens). Keshot also concentrates on expansion into new regions and increasing market share in the regions where it currently operates.	users' IDs). The company constantly adds new features to its products and services. The company also tries to expand geographically.	
<b>Promotion</b>	Advertising, the social media, contests, photographic solutions fairs, the official Web site, events (e.g., a Guinness World Record), the Photo-Me application.	Advertising, the social media, corporate events, photographic solutions fairs, the official Web site, an application for tablets.	Advertising, the social media, DC's social network, photographic solutions fairs, the official Web site, an application for smartphones, advertising signs on booths, events.	Advertising, the social media, events, photographic solutions fairs, the official Web site.
<b>Target Market</b>	<b>Small and large businesses</b> (reoccurring usage of services by buyers, e.g. if a buyer acquires a booth and then needs after-sales servicing or consumables, and constant usage of services by site-owners, e.g. maintenance and the collection of machine takings by Photo-Me; a medium degree of loyalty) and <b>mass customers</b> (15-65 years of age for ID photos, 13-35 – for fun photos; males and females; with middle income; occasional usage of services, e.g. ID photo is needed or a client wants to rent a booth for the celebration of a birthday or a wedding; a small degree of loyalty) in Europe, Asia, and, to a lesser extent so far, the USA.	<b>Small and large businesses</b> in the USA, Europe, and South America. Typically, businesses with modern management styles. Occasional usage of services, e.g., corporate celebrations, the launch of a new product; a high degree of loyalty (Keshot's services are developed specially for businesses and their needs).	<b>Small and large businesses</b> (reoccurring usage of services, e.g. if a buyer acquires a booth and then needs after-sales servicing or consumables; a medium degree of business clients' loyalty and a substantial degree of end users' loyalty thanks to personal accounts, the DC social network, online storage space) in Europe, Asia, Middle East, Africa, Australia.	<b>Small and large businesses</b> (reoccurring usage of services, e.g. if a buyer acquires a booth and then needs after-sales servicing or consumables; a medium degree of loyalty) and <b>mass customers</b> (13-35 years of age; males and females; with middle income; occasional usage of services, e.g. a client wants to rent a booth for the celebration of a birthday or take photos with friends; a small degree of loyalty since there are numerous rivals with similar services to choose from) in the UK.
<b>Customer Focus</b>	<b>Medium.</b> The active support of big site-owners (e.g., Tesco), customer-focused R&D, but lack of interaction with end users of the company's services.	<b>Strong.</b> Close interaction with business clients to identify their needs and develop custom-designed solutions.	<b>Strong.</b> Attempts to create bonds with end users through applications, the CLOUD, QR IDs, DC's social network, which allows DC's booth buyers to be sure that they will have a loyal customer base.	<b>Medium.</b> Attention to the market's needs and the latest trends (e.g., portable booths and Selfie Pods), but lack of interaction with both users.

<sup>148</sup> “Annual Report & Accounts 2015,” Photo-Me International plc: 8.



<b>Major Costs</b>	HR, commissions to site-owners, depreciation and amortization, R&D, maintenance, inventory.	HR, depreciation and amortization, R&D, maintenance, inventory.	Production, HR, depreciation and amortization, R&D, maintenance, inventory.	HR, depreciation and amortization, R&D, maintenance, inventory.
<b>Differential Competitive Advantage</b> (since the prices of the rivals' services are comparable, neither has a strong cost, or comparative, advantage)	Strong after-sales support and easy remote maintenance through telemetry, a network of engineers, and call centers; numerous high footfall locations worldwide; designer booths; an environmentally friendly booth; a large product portfolio; cash and card payments; the unique proposition of risk-free profits to site-owners who do not own the machines, only provide space for them; ICAO software; economies of scope (see also section 7.3 <i>Competitive Advantage</i> on p.34).	Services customized for business clients; the unique proposition of assisting a client with marketing, social media management, data collection, and raising brand awareness; tailor-made solutions; an extensive interaction with customers; loyal business clients.	Vertically integrated; loyal end users; DC's social network application; online shopping and storage space; secured data transmission; assistance with finding a booth rental company (since DC does not rent booths).	Specializes on the UK market; portable and lightweight booths; vertically integrated.
<b>Strengths</b>	An extensive global network of sites, powerful after-sales support and maintenance systems, developed R&D and economies of scope and expertise (see also section 11.1 <i>Strengths</i> on p.45).	A strong customer base; developed promotion skills; a core competence in serving businesses.	Products oriented on locking end users in; vertically integrated; wide geographic presence.	Lightweight products; vertically integrated; strong brand-name on the UK market.
<b>Weaknesses</b>	Declining Revenue, undeveloped marketing, the value proposition to mass customers in not differentiated enough (see also section 11.2 <i>Weaknesses</i> on p.46).	Narrow product line.	Poor marketing.	No distinctive competencies; high costs of production; a conservative and bureaucratic management style; no clear strategy.
<b>Opportunities</b>	Explore new rapidly-developing technologies and diversify, create new mutually beneficial partnerships, expand into new markets (see also section 11.3 <i>Opportunities</i> on p.47).	Partnerships with the social media; capitalizing on the rising demand for corporate promotion; developing new business-oriented services.	Expansion into new markets; related diversification; development of rental services.	Increase the market share; expansion into new geographic regions; entering ID photography market.
<b>Threats</b>	Centralized image capture for biometric passports, high reliance on technology, losing any partner (see also section 11.4 <i>Threats</i> on p.49).	Growing bargaining power of big clients that have many options for promotion; substitute technologies; international trade risks.	Intense competition; disruptive and substitute technologies; international trade risks.	Aging population of Europe; intense competition; disruptive and substitute technologies.

From the present competitors' analysis it is clear that Photo-Me might need to improve its customer relationships and add some features to its booths that would lock the customers in; the company might also develop its B2B rental practices; Photo-Me should strengthen the sources of its competitive advantage since the competitors still cannot copy them; Photo-Me should capitalize on its low costs of operation and economies of scope; the company might develop an

environmentally friendly booth concept as rivals do not offer such products; the company should use economies of scope to provide new self-service products to the market.

Analyzing competitors also helps identify Photo-Me's competitive advantage.

### 7.3 Competitive Advantage

Photo-Me gets a competitive edge (see Appendix 24 on p.98) over rivals thanks to:

🌀 **Developed maintenance and after-sales servicing system.** The company has call-centers in each country (Photo-Me's products have IDs and customers' queries are easily handled). The company also has the telemetry system for cash recording and remote maintenance. Photo-Me has the extensive network of engineers that conduct thorough, timely, regular maintenance visits to the company's machines;

🌀 **Large product portfolio.** The company offers a wide selection of self-service machines, which are supported by the same telemetry system and network of engineers. Different types of machines are often placed on the same locations to generate more revenue while not adding much extra costs;

🌀 **High footfall locations worldwide.** Thanks to the company's close relationships with site-owners, Photo-Me gets access to high foot-traffic locations for a considerable period of time and can place several machines there. The company's partnerships with big chain shops and malls also help Photo-Me place several machines within the chain and in several countries;

🌀 **Flexible payment methods.** Some of the company's machines are equipped with card readers and provide an opportunity to pay with cash or by card, which is important in the world where an ever increasing number of consumers prefers noncash payments;

🌀 **ICAO software.** This software allows Photo-Me to control ICAO regulations in real time and update its photo prints in accordance with them so that people have pictures that are valid;

🌀 **Economies of scope** allows the company to develop and operate new products at lower costs;

🌀 **Worldwide booth operation.** Photo-Me does not just sell or rent booths, it offers a unique possibility of sharing in the profits of the company by providing space for its machines. Site-owners that place Photo-Me's machines on their premises share in the takings of the machines and bear no maintenance costs or the risk of losing money.

### 7.4 Conclusion

Even though Photo-Me has manifold global and local competitors and operates within the industry where customer loyalty is hard to achieve, the company manages to stay profitable and increase its market shares thanks to its sustainable competitive advantage. If the company also

finds a way to boost consumer loyalty, it can significantly increase its profits. The company should analyze the rivals' competitive assets to understand how it should compete with them and how it could utilize its own resources and capabilities to improve its business model.

## 8 FINANCIAL ANALYSIS

### 8.1 Analysis of Financial Statements<sup>149</sup>

Photo-Me's **Revenue** has been declining for the last five years (see Appendices 31 on p.107); Revenue dropped 6% from 2012 to 2013, 5% from 2013 to 2014, and then 5% from 2014 to 2015. From 2014 to 2015, Revenue from the UK and Ireland grew 1% while the number of vending units decreased 4,6%, Revenue from Continental Europe dropped 2% while the number of vending units increased 5,4%, and Revenue from Asia grew 1% as the number of vending units increased 2,1% (for Photo-Me's Revenue and the number of units in operation by region, see Appendix 32 on p.107, Figure 1 on p.7, and Figure 2 on p.7). The market of the UK and Ireland seems to be a better performer since Revenue coming from this market increased in 2015 even though the number of vending units decreased; however, if "2015 trading results of overseas subsidiaries [are] converted at 2014 exchange rates,"<sup>150</sup> then the Asian market turns to be the only market whose contribution to the company's Revenue grew from 2014 to 2015. The Asian market, therefore, might be a good region for an expansion.

**Cost of Sales** has been shrinking as part of Revenue (see Table 4 on p.36). The company, faced with the declining Revenue, has been striving to minimize Cost of Sales through outsourcing, reductions in labor costs, and the augmentation of the company's efficiency. Three major costs of Photo-Me – **Staff Costs**, **Inventory Cost**, and **Depreciation and Amortization** – have been all declining throughout the last four years along with the company's Revenue (see Table 4 on p.36 and Appendix 33 on p.108). Even though Staff Costs were declining in the period from 2012 to 2015, they constituted 23% of Revenue throughout the period while Inventory Cost were decreasing both as a cost and as a percentage of Revenue (from 12% in 2013 to 9% in 2014 to 7% in 2015, that is, Photo-Me generated the same amount of Revenue while cutting Inventory Cost and became more efficient) and Depreciation and Amortization also decreased as a cost, but were volatile as a percentage of Revenue (from 11% in 2013 to 9% in 2014 to 10% in 2015).

Photo-Me's **Net Income (NI)** has been growing as part of company's Revenue from 2012 to 2015 (see Table 4 on p.36). NI increased primarily thanks to growing **Operating Profit**;

<sup>149</sup> Photo-Me's Financial Statements for 2015 are given in Appendices 25-29 on pp.99-103. Appendix 30 on p.104 is the Trend Analysis of Photo-Me's Financial Statements.

<sup>150</sup> "Annual Report & Accounts 2015," Photo-Me International plc: 9.

Operating Profit, in its turn, was positively affected by decreasing Cost of Sales, which was declining faster than Revenue, an increase in Other Operating Income in 2014 caused by growing “rental income from investment property,”<sup>151</sup> a dramatic decrease in Administrative Expenses in 2015 caused by the restructuring of Sales and Servicing Division, and an increase in Share of Post-Tax Profits from Associates in 2014 (see Table 4). Thus, Photo-Me has stayed profitable for the last several years thanks to improvements in the company’s efficiency (declining Cost of Sales), which give only a short-term competitive advantage; the company needs to boost its Revenue by adding extra value to its products and marketing them well to create a long-term competitive advantage, not just by cutting costs.

*Table 4. Changes in Photo-Me’s Income Statement, 2012-2015*

	2015	% of Revenue	2014	% of Revenue	2013	% of Revenue	2012	% of Revenue
Revenue	177 202 000 GBP	100,0%	186 598 000 GBP	100%	195 590 000 GBP	100%	207 841 000 GBP	100%
Cost of Sales	-129 638 000 GBP	73,2%	-139 400 000 GBP	74,7%	-153 363 000 GBP	78,4%	-169 340 000 GBP	81,5%
Gross Profit	47 564 000 GBP	26,8%	47 198 000 GBP	25,3%	42 427 000 GBP	21,7%	38 501 000 GBP	18,5%
Other Operating Income	1 166 000 GBP	0,7%	1 420 000 GBP	0,8%	1 138 000 GBP	0,6%	1 194 000 GBP	0,6%
Administrative Expenses	-10 524 000 GBP	5,9%	-18 513 000 GBP	9,9%	-19 221 000 GBP	9,8%	-19 765 000 GBP	9,5%
Share of Post-Tax Profits from Associates	164 000 GBP	0,1%	161 000 GBP	0,1%	55 000 GBP	0,0%	89 000 GBP	0,0%
Operating Profit	38 370 000 GBP	21,7%	30 266 000 GBP	16,2%	24 119 000 GBP	12,3%	20 019 000 GBP	9,6%
Finance Revenue	191 000 GBP	0,1%	227 000 GBP	0,1%	533 000 GBP	0,3%	844 000 GBP	0,4%
Finance Cost	-65 000 GBP	0,0%	-400 000 GBP	0,2%	-426 000 GBP	0,2%	-723 000 GBP	0,3%
Profit Before Tax	38 496 000 GBP	21,7%	30 093 000 GBP	16,1%	24 306 000 GBP	12,4%	20 140 000 GBP	9,7%
Total Tax Charge	-10 452 000 GBP	5,9%	-8 514 000 GBP	4,6%	-6 746 000 GBP	3,4%	-5 594 000 GBP	2,7%
Net Income	28 044 000 GBP	15,8%	21 579 000 GBP	11,6%	17 560 000 GBP	9,0%	14 546 000 GBP	7,0%
Finance Revenue	191 000 GBP	0,1%	227 000 GBP	0,1%	533 000 GBP	0,3%	844 000 GBP	0,4%
Finance Cost	-65 000 GBP	0,0%	-400 000 GBP	0,2%	-426 000 GBP	0,2%	-723 000 GBP	0,3%
Profit Before Tax	38 496 000 GBP	21,7%	30 093 000 GBP	16,1%	24 306 000 GBP	12,4%	20 140 000 GBP	9,7%

Data for calculations retrieved from Photo-Me International plc, [http://investor.photo-me.com/downloads/pdf/ar/Photo-Me\\_2015\\_AR.pdf](http://investor.photo-me.com/downloads/pdf/ar/Photo-Me_2015_AR.pdf), <http://investor.photo-me.com/downloads/pdf/ar/Photo-Me-International-plc-Annual-Report-2013.pdf>

For the analysis of Photo-Me’s stock, see Appendix 34 on p.108.

## 8.2 Analysis of Financial Ratios

The last time Photo-Me suffered loss was in 2009, when the decline in the minilab and booth markets as well as the upheaval in the company’s board led to Net Loss of £17.737.000. Since 2009, NI generated by the company has been growing to reach £28.044.000 in 2015, an increase of £45.781.000 as compared to 2009.

Photo-Me’s **Liquidity, Profitability, Leverage, and Activity Ratios** for the period from 2013 to 2015 are shown in Table 5 on p.37.

<sup>151</sup> “Annual Report 2014,” Photo-Me International plc: 69.

**Current Ratio** of 1,86 in 2015 and **Quick Ratio** of 1,59 in 2015 show that the company is liquid and has enough current assets that can be easily converted into cash to pay off its current liabilities. The ratios, however, decreased slightly as compared to 2014, which means that the company is less liquid now. The company's Current Assets decreased by 6%, Current Liabilities – by 3%, and Inventories increased by 8% from 2014 to 2015; thus, since Current Assets decreased more significantly while Inventories grew, Photo-Me's Quick Ratio and Current Ratio deteriorated since 2014. **Working Capital** has declined from £41.120.000 in 2014 to £38.218.000 in 2015, but the company still has enough cash to cover its quotidian operations without borrowing additional money.

**Table 5. Photo-Me's Liquidity, Profitability, Leverage, and Activity Ratios, 2013-2015**

		2015	2014	2013
Liquidity Ratios	Current Ratio	1,86	1,89	1,80
	Quick Ratio	1,59	1,65	1,53
	Working Capital	38 218 000 GBP	41 120 000 GBP	38 267 000 GBP
Profitability Ratios	Gross Profit Margin	26,84%	25,29%	21,59%
	Operating Profit Margin	21,65%	16,22%	12,33%
	Net Profit Margin	15,83%	11,56%	8,98%
	Return on Assets	17,95%	13,55%	11,27%
	Return on Equity	26,86%	20,70%	17,85%
Leverage Ratios	Debt-to-Assets Ratio	0,33	0,35	0,37
	Debt/Equity Ratio	0,50	0,53	0,59
Activity Ratios	Asset Turnover Ratio	1,134339632	1,172017009	1,255310956
	Days Inventory Ratio	34,06512751	29,31520803	31,51323983
	Inventory Turnover Ratio	10,71476982	12,45087531	11,58243335
	Average Collection Period	22,3982235	28,05992026	23,97627691

Data for calculations retrieved from Photo-Me International plc, [http://investor.photo-me.com/downloads/pdf/ar/Photo-Me\\_2015\\_AR.pdf](http://investor.photo-me.com/downloads/pdf/ar/Photo-Me_2015_AR.pdf), <http://investor.photo-me.com/downloads/pdf/ar/Photo-Me-International-plc-Annual-Report-2013.pdf>.

**Gross Profit Margin** of 26,84% in 2015 shows that Photo-Me can use 26,84% of its Revenue to generate profit and cover operating expenses. The margins of Photo-Me's global public peers – Kodak (21,69% in 2014)<sup>152</sup> and Fujifilm (38,57% in 2015)<sup>153</sup> – show that the company still has a significant way to grow as Fujifilm's Gross Profit Margin is more than 10% higher. **Operating Profit Margin** of 21,65% in 2015 is higher than that of the peers (Kodak's Operating Margin is -0,76% in 2014<sup>154</sup> and Fujifilm's is 6,92% in 2015<sup>155</sup>) - Photo-Me has much more Revenue left after paying off variable costs than its peers. Photo-Me's **Net Profit Margin**

<sup>152</sup> "Eastman Kodak Co.," *Morningstar*, accessed October 20, 2015, [http://financials.morningstar.com/ratios/r.html?t=KODK&region=USA&culture=en\\_US](http://financials.morningstar.com/ratios/r.html?t=KODK&region=USA&culture=en_US).

<sup>153</sup> "FUJIFILM Holdings Corp.," *Morningstar*, accessed October 20, 2015, [http://financials.morningstar.com/ratios/r.html?t=FUJIF&region=USA&culture=en\\_US](http://financials.morningstar.com/ratios/r.html?t=FUJIF&region=USA&culture=en_US).

<sup>154</sup> "Eastman Kodak Co.," *Morningstar*.

<sup>155</sup> "FUJIFILM Holdings Corp.," *Morningstar*.

of 15,83% in 2015, as compared to Kodak's Net Margin of -5,85% in 2014<sup>156</sup> and Fujifilm's Net Margin of 4,76% in 2015,<sup>157</sup> shows that the company is more effective in generating profit than its peers. Photo-Me's Net Margin has been growing over the last three years which testifies to Photo-Me's effectiveness in decreasing costs, since Photo-Me's NI increases thanks to cost reductions. Photo-Me's **Return on Assets** has grown 6,68% over the last two years to reach 17,95% in 2015. As compared to Kodak's ROA of -4,27% in 2014<sup>158</sup> and Fujifilm's ROA of 3,50% in 2015,<sup>159</sup> Photo-Me turns out to be quite effective at using assets for profit generation. Photo-Me's **Return on Equity** has reached 26,86% in 2015. As compared to Kodak's ROE of -27,18% in 2014<sup>160</sup> and Fujifilm's ROE of 5,57% in 2015, Photo-Me turns out to be more effective at using stockholders' equity for profit generation. This means that Photo-Me is more attractive for potential investors.

Photo-Me's **Debt-to-Assets Ratio** of 0,33 in 2015 signifies that 33% of the company's assets were financed by debt, while 89% of Kodak's assets in 2014 and 37% of Fujifilm's assets in 2015 were financed by debt. Photo-Me's low **Debt/Equity Ratio** of 0,5 in 2015 means that the company does not prefer financing its activities by debt (as compared to Kodak's Debt/Equity Ratio of 8,23 in 2014 and Fujifilm's ratio of 0,59 in 2015). Photo-Me uses a moderate amount of debt for financing its operations, pays less interests, and is under less financial risk. The fact that the ratios are decreasing means that Photo-Me uses less debt for financing its activities each year.

Photo-Me's **Asset Turnover Ratio** of 1,13 in 2015 is average compared to the company's peers within the industry. Photo-Me utilizes its assets effectively enough and generates average profits using its assets. However, the ratio is decreasing which means that the company generates less profit with the same amount of assets over the years. Photo-Me's **Days Inventory Period** of 34 in 2015 is quite low compared to the company's peers within the industry, which means that Photo-Me manages to sell its stock faster and the company's money are not tied up in Inventory. From 2014 to 2015, Days Inventory Period increased by 5 days, which means that the company became less effective in managing its inventories. Photo-Me's **Inventory Turnover Ratio** of 10,71 in 2015 is quite high compared to the company's peers within the industry. Photo-Me manages to sell its whole Inventory almost 11 times during one year. From 2014 to 2015, however, Inventory Turnover Ratio decreased almost by 1, which means that the company became less effective in selling its stock. Photo-Me's **Average Collection Period** of 22,4 in 2015 is quite high compared to the company's peers within the

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<sup>156</sup> "Eastman Kodak Co," *Morningstar*.

<sup>157</sup> "FUJIFILM Holdings Corp," *Morningstar*.

<sup>158</sup> "Eastman Kodak Co," *Morningstar*.

<sup>159</sup> "FUJIFILM Holdings Corp," *Morningstar*.

<sup>160</sup> "Eastman Kodak Co," *Morningstar*.

industry. The company manages its Accounts Receivable well and turns them into cash in a short period of time. Average Collection Period decreased by 6 days from 2014 to 2015, which means that Photo-Me collects money owed by its clients even faster now.

### 8.3 Conclusion

Overall, Photo-Me delivers an above average performance. The company's Revenue is declining due to the restructuring of the minilab division and the decreasing demand for photo booth services. Photo-Me tries to overcome these obstacles by improving its efficiency (decreasing Cost of Sales and Administrative Expenses, increasing ROA and ROE, decreasing Asset Turnover Ratio and Average Collection Period) and diversifying its portfolio, which allows the company to get higher NI; the former method, however, leads to short-term gains. Photo-Me's attempts to make its vending machines cheaper through outsourcing to Hungary and China also enabled the company to increase NI even though the photo booth and minilab markets are shrinking. However, Photo-Me needs to rethink its strategy to boost Revenue in the long-run since operational excellence does not lead to long-term profitability as best practices are easily copied by rivals.

Photo-Me prefers to finance its operations by Equity, which reduces financial risks associated with borrowing money at an interest. However, Photo-Me could increase return to its shareholders if the company used more debt in such a way that the cost of debt was less than the return it brought to Photo-Me. The company is liquid and efficient and uses its resources effectively for profit generation.

## 9 ACTIVITY SYSTEM MAP

### 9.1 Activity System Map

Photo-Me performs four key activities: **Low Cost Operation of Machines, Sales & After-Sales Servicing, Partnership Relationship Management, Customer-Focused R&D** (see Figure 8 on p.41; for Photo-Me's Value Chain, see Appendix 35 on p.109).

#### 9.1.1 *Low Cost Operation of Machines*

Photo-Me puts emphasis on cost reductions as it tries to stay profitable while its Revenue goes down. The company **outsources** the production of its photo booths to China<sup>161</sup> and the

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<sup>161</sup> "Annual Report & Accounts 2015," *Photo-Me International plc*: 14.

production of laundrettes to Hungary<sup>162</sup> in order to reduce the cost of the machines; in both countries, the machines are produced by a large listed company<sup>163</sup> with economies of scale and low labor costs. The low cost operation of the machines allows Photo-Me to charge its customers lower prices and makes the company's services more competitive.

Another support activity that allows Photo-Me to minimize costs is **economies of scope**: the company can develop new products and introduce them to the market at lower costs as it possesses necessary know-how, expertise, software, etc. Photo-Me's large scale (large orders for machines, extensive global network of sites and partners) facilitates the introduction of new products and services.

The **telemetry system**, which checks machines automatically and at a distance, and the **developed network of engineers** allow Photo-Me to maintain the machines efficiently and cheaply. Thanks to the telemetry system, the company "suffers virtually no fraud;"<sup>164</sup> telemetry allows the company to minimize the number of engineers' maintenance visits and, consequently, reduce Staff Costs. Also, clustering machines together allows Photo-Me to maintain and repair them using the same network of engineers, which further lowers costs. Photo-Me's **centralized logistics platform** leads to "savings from reducing both the level of stocks and staff numbers."<sup>165</sup>

Establishing **strong partnerships with suppliers and site-owners** enables Photo-Me to reduce the cost of machines and their operation. Placing large orders with suppliers allows Photo-Me to get the machines, consumables, and raw materials cheaper, while established site-owners provide the company with possibilities to place several machines on sites at lower commissions.

The **self-service concept** that Photo-Me uses to manage customer relationships enables the company to minimize Staff Costs and Administrative Expenses. **YouTube tutorials** allow Photo-Me to teach customers how to use the machines without hiring attendants. Telemetry also helps Photo-Me to deal with technical problems that customers might face remotely.

### ***9.1.2 Partner Relationship Management***

Partner Relationship Management is a crucial activity for Photo-Me as it affects the quality and cost of the company's services. First of all, Photo-Me delivers its services to end consumers through site-owners who provide the company with space for its machines. PRM enables Photo-Me to get good locations for the machines, expand, and search for new

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<sup>162</sup> Ibid.

<sup>163</sup> Ibid.

<sup>164</sup> Ibid.

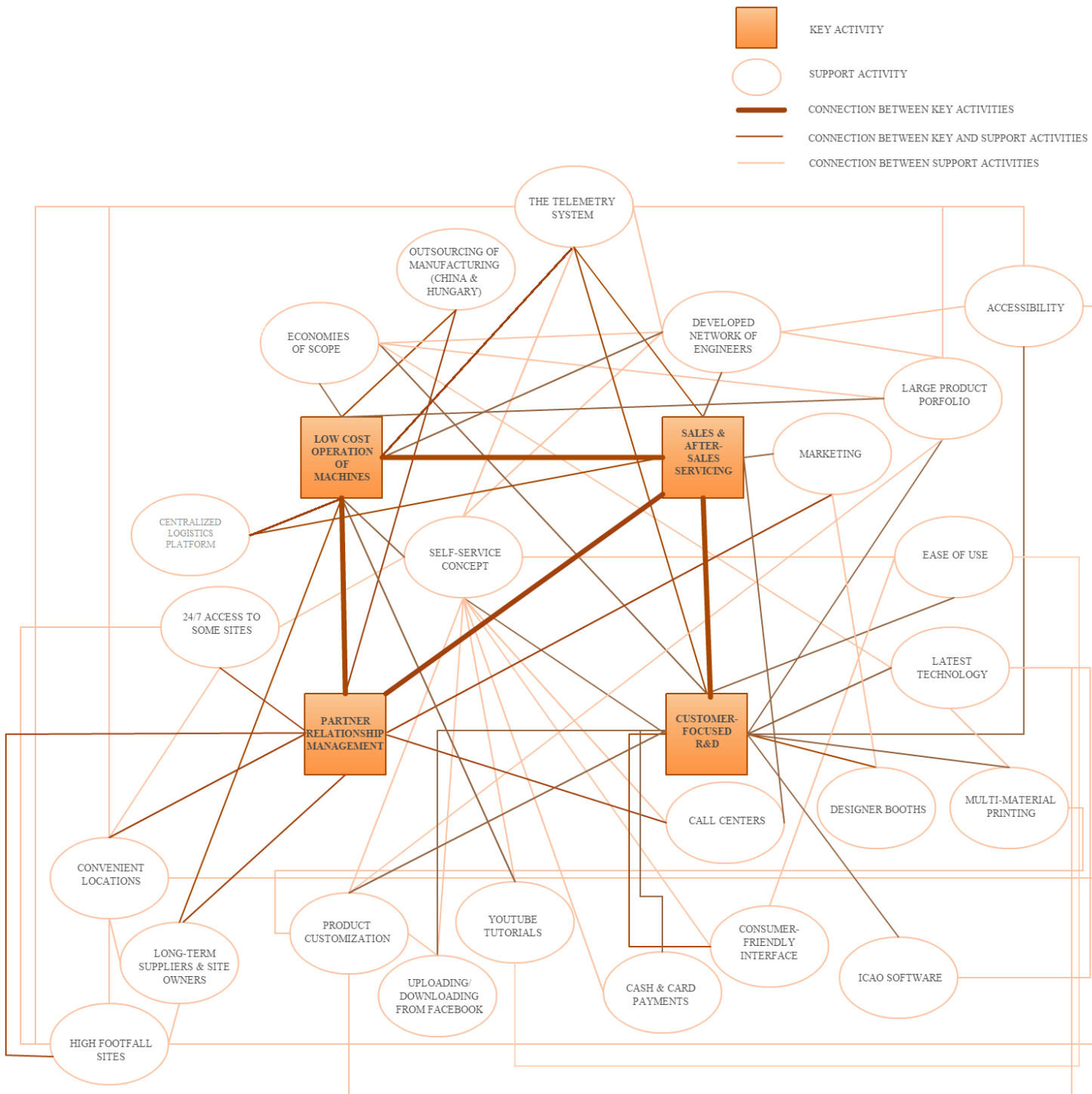
<sup>165</sup> "Annual Report 2014," *Photo-Me International plc*: 8.



partnerships. Secondly, if Photo-Me manages its partnerships well, the company is able to minimize one of its principal operating costs<sup>166</sup> - the commissions paid to site-owners. Photo-Me also uses PRM to manage the **outsourcing** of production and reduce the cost of machines.

Within PRM, **marketing** is used to attract partners and **call centers** are used to provide consultations and support.

*Figure 8. Photo-Me's Activity System Map, 2015*



<sup>166</sup> "Annual Report & Accounts 2015," Photo-Me International plc: 14.

PRM allows Photo-Me to establish **long-term partnerships with suppliers and site-owners**, which minimizes costs and financial risks. PRM enables Photo-Me to provide extra value to its clients, such as a **24/7 access to some machines** and machines located in many **convenient high footfall sites**.

PRM is also important for Photo-Me since most of the company's partners, such as transportation companies, site-owners, and manufacturers, are long-term, and losing them would create a gap in Photo-Me's Revenue. Moreover, partners help market Photo-Me's services: cooperation with established firms promotes the company's brand.

Monitoring business partners helps the company deliver competitive services to the market.<sup>167</sup>

### ***9.1.3 Sales and After-Sales Servicing***

Sales and After-Sales Servicing is another key activity of Photo-Me. The company uses **telemetry** and **the network of engineers** to maintain its machines and solve technical issues efficiently. **Call centers** are used to provide customer support. Several **marketing** tools, such as advertising (e.g., through the social media), sales promotion (e.g., contests), and PR (e.g., the Guinness World Record), are used to boost sales. **Centralized logistics platform** reduces Cost of Sales and makes the company's supply chain management more efficient.

### ***9.1.4 Customer-Focused R&D***

Photo-Me strives to innovate its products and services based on the needs of consumers: the company monitors the target markets and its demands in order to develop new products and services that will meet customers' needs. All Photo-Me's machines possess features sought for by customers, such as the high level of product customization, uploading of photographs to Facebook, convenient locations and payment methods, and easy access to the machines.

The combination of two key activities – Customer-Focused R&D and Partner Relationship Management – allows Photo-Me to offer the following service features to the market:

- At least a **10-hour access** to photo booths located in malls, motorway services stations, metros, etc. and **24/7 access** to some machines placed outdoors;
- **High footfall sites worldwide** that make it convenient for customers to buy Photo-Me's services and save consumers' time;
- Attractive **designer booths** that are ergonomic and appeal to consumers' eye;

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<sup>167</sup> Uwe Zybelle, "Partner management – managing service partnerships in the supply chain – a systemic perspective," *International Journal of Physical Distribution & Logistics Management* 43, no. 3 (2013): 232, accessed September 23, 2015, <http://dx.doi.org/10.1108/IJPDLM-10-2011-0173>.

- ☪ **Multi-material printing** that allows consumers to be creative and get highly-customized items, such as 3D figurines, greeting cards, calendars, and photo-books;

- ☪ A **large product portfolio** and a wide range of services from an ID printing to heavy-duty laundering;

- ☪ **ICAO software** that tracks in real time the requirements for ID photographs and allows customers to get photographs compliant with current regulations;

- ☪ Machines which incorporate **latest technology**;

- ☪ **Ease of use and consumer-friendly interface**;

- ☪ High level of **product customization** through interactive software and numerous available features;

- ☪ **Cash and card payments**;

- ☪ Remote maintenance of the machines through **the telemetry system**;

- ☪ **Uploading/downloading** of photographs **to/from Facebook**.

**Economies of scope** support the company's R&D since they allow Photo-Me to use expertise to develop new products faster and cheaper. The **self-service concept** directs the company's R&D as all innovations should support and promote the concept.

## 9.2 Conclusion

Photo-Me performs four key activities –Low Cost Operation of Machines, Sales and After-Sales Servicing, PRM, and Customer-Focused R&D. These activities are central to the company's business since they facilitate the delivery of Photo-Me's products, services, and value propositions to end-consumers and help the company gain competitive edge. Various support activities, such as marketing, the centralized logistics platform, and the accessibility of machines, are also a part of the company's unique business model and value propositions.

## 10 CURRENT STRATEGY

As defined in Annual Report 2015, the strategy of Photo-Me "has been to use the significant cash flow generated from [the company's] long-established photo-booth business to develop new and complementary products which will drive [Photo-Me's] future growth."<sup>168</sup> Photo-Me's strategy incorporates several goals:

- ☪ Increase profits generated by booth business for investing into market opportunities, promote self-financing;

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<sup>168</sup> "Annual Report & Accounts 2015," *Photo-Me*: 8.

- 🌀 Upgrade existing booths and other machines;<sup>169</sup>
- 🌀 Develop new booths and services (e.g., 3D figurine printing or printing of personalized smartphone cases).<sup>170</sup> Currently, Photo-Me “is trialing 25 new booths, which it plans to launch in the second half of 2015;”<sup>171</sup>
- 🌀 Penetrate into existing geographical markets and develop new ones;<sup>172</sup>
- 🌀 Deploy more designer photo booths by Stark;<sup>173</sup>
- 🌀 Diversify through the rapid deployment of Revolution laundromats and the introduction of car washes at supermarkets<sup>174</sup> (see Appendix 38 for more details);
- 🌀 Decrease material costs “by the use of smarter technology and design and by using low cost manufacturing bases.”<sup>175</sup>

The company tries to develop its photo booth business by using the strategy of **expansion into new markets, market penetration, and product development** and then, using money generated by booths, also applies the strategy of **diversification** within “consistent theme of ‘instant services’”<sup>176</sup> while pursuing the position of **the best-cost provider** by minimizing the costs of production and differentiating its services.

Photo-Me’s current photo booth strategy meets Porter’s five requirements for a good strategy with one exception – the company does not provide a **unique value proposition** to the B2C market. While Photo-Me offers a unique value proposition to the B2B market (the ability to earn profit on unused space with no maintenance costs and financial risks), within the B2C market, the company offers the same booth features and benefits to its clients as competitors. Instead of trying to incorporate every possible feature into the booths (race to the bottom), Photo-Me should concentrate on differentiating them (the company has been trying to do so by introducing designer and eco-friendly booths). The company should stop wasting its expertise and trying to put on the market every vending machine it can create (e.g., the company has had many short-term products in its portfolio that have failed, such as personal coach stations or automated enrollment stations); instead, it is crucial to examine what the market really wants and then create products that are different and possess value. Photo-Me tries to compete with rivals

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<sup>169</sup> Edmond Jackson, “Stockwatch: A 6% Yield Plus Earnings Growth,” *Interactive Investor*, last modified November 3, 2015, <http://www.iii.co.uk/articles/275307/stockwatch%3A-6-yield-plus-earnings-growth>.

<sup>170</sup> “News,” *Photo-Me*, last modified March 10, 2015, accessed May 1, 2015, <http://www.photo-me.co.uk/about-us/news/>.

<sup>171</sup> Andrew Neil, “Photo-Me Paints a Pretty Picture with Third-Quarter Snapshot,” *Proactive Investors*, last modified February 26, 2015, accessed May 1, 2015, <http://www.proactiveinvestors.co.uk/companies/news/77713/photo-me-paints-a-pretty-picture-with-third-quarter-snapshot-77713.html>.

<sup>172</sup> *Ibid.*

<sup>173</sup> *Ibid.*

<sup>174</sup> John Harrington, “Photo-Me International a Picture of Health,” *Proactive Investors*, last modified October 21, 2015, <http://www.proactiveinvestors.co.uk/companies/news/116476/photo-me-international-a-picture-of-health-116476.html>.

<sup>175</sup> Photo-Me International Plc Company Profile,” *Photo-Me International Plc MarketLine Company Profile* (2014): 11.

<sup>176</sup> Jackson, “Stockwatch: A 6% Yield Plus Earnings Growth.”

by boosting operational effectiveness (cutting down costs), but “overly-severe cuts to operating expenses reduces productivity, ... lowers profit,”<sup>177</sup> and lead to zero-sum competition.<sup>178</sup> Instead, Photo-Me should acquire and retain new mass customers by improving its value proposition.

Further, Photo-Me’s **value chain** is **tailored** to support its low-cost strategy: the company outsources manufacturing to China and Hungary, establishes long-term relationship with site-owners for lower commissions, and strengthens the self-service concept through utilizing remote customer support (YouTube tutorials, telemetry, and call-centers), remote maintenance (telemetry, the network of engineers), user-friendly interface (latest technology, touch-screens), and numerous convenient locations. The company also makes a **trade-off** by choosing to pursue the low-cost strategy and the self-service concept: it sacrifices customer assistance and establishing strong long-term relationships with customers by concentrating on cost reduction through self-service, outsourcing, minimal marketing, and economies of scope. Photo-Me tries to create **fit** among activities: new products use the same information systems and network of engineers as other products of the company, every activity supports the self-service concept and reduces costs. Moreover, Photo-Me’s activities reinforce each other: for example, when the company creates long-term relationships with site-owners, they allow Photo-Me to provide several services on their premises, and Photo-Me can increase customer convenience and awareness. Lastly, Photo-Me’s strategy has been **continuous over time**: since its establishment, Photo-Me has been concentrating on creating and developing instant self-service equipment.

## 11 SWOT

Photo-Me’s detailed SWOT is depicted in Appendix 36 on p.111. Key strengths, weaknesses, opportunities, and threats are discussed below.

### 11.1 Strengths

One of the key strengths of Photo-Me is an **extensive global network of sites** (see sections 3.5 *Markets* on p.7) with high footfall where the company can place several machines at once, thus promoting customer convenience and minimizing costs. To support such a widespread network of machines, Photo-Me has developed **powerful after-sales support and maintenance systems** (see sections 9.1.3 *Sale & After-sales Servicing* on p.42 and 7.3 *Competitive Advantage* on p.34), such as telemetry that monitors the state of the machines at a distance and can significantly improve the customer experience, the vast network of engineers that maintains the

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<sup>177</sup> “Operating Expenses,” *Investopedia*, accessed November 8, 2015, <http://www.investopedia.com/video/play/operating-expenses/#ixzz3pHh5S5n>.

<sup>178</sup> Magretta, “Understanding Michael Porter,” p.32.

machines, and the centralized logistics platform which allows the company to save money by reducing Staff Costs and reducing the stock.<sup>179</sup>

Photo-Me's another strength is its **developed R&D and economies of scope and expertise** (see sections *9.1.3 Sale & After-sales Servicing* on p.42 and *4.9 Cost Structure* on p.16): the company has extensive knowledge about the operation and maintenance of vending machines and the vending equipment market, which allows Photo-Me to develop new products efficiently based on the company's experience (e.g., Revolution laundrettes, 3D printing). The R&D focus allows the company to use the latest booth technology, produce competitive machines, and keep pace with the market trends.

Photo-Me has also developed **strong long-term partnerships with site-owners** (see section *4.1 Customer Segments* on p.11). Photo-Me is allowed to put more machines on convenient locations where photo booths originally stood. Thus, the company can provide more services to the existing customer base.

Photo-Me can also **finance its activities from the generated revenue** (see section *6.2 New Entrants* on p.26) without creating additional debt: the company yields revenue with its photo booth business and then uses this revenue to develop and market new products, such as the Revolution laundrettes. The company possesses financial independence.

The fact that **some of the company's Core Competencies are the industry's Key Success Factors** (to find out how Photo-Me's Core Competencies overlap with the industry's Key Success Factors, see Appendix 37 on p.112) also makes Photo-Me competitive: the company specializes in performing activities that are key to competing within the industry, such as after-sales support, procuring good locations for machines, and equipping the machines with the latest technology.

## 11.2 Weaknesses

One of Photo-Me's weaknesses is **declining Revenue** (see section *8.1 Analysis of Financial Statements* on p.35). Photo-Me increases NI by boosting operational effectiveness that leads to short-term gains, not by revising the strategy. Photo-Me concentrates on cost reduction, forgetting to actually measure customer satisfaction with its services or customer awareness. The company does not even have KPIs that reflect the level of customer satisfaction.

Another Photo-Me's weakness is **undeveloped marketing** (see section *4.1.1 Marketing* on p.12). Photo-Me should work on proper marketing for its different businesses (different geographic regions and target customers that Photo-Me serves necessitate different approaches to marketing). For example, the booth rental for special occasions is a growing trend among mass

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<sup>179</sup> "Annual Report 2014," Photo-Me (2014): 8.

and business customers (see sections *5.1.1 The Photo Booth Industry Trends* on p.18) and an opportunity for the company to generate profit. To promote its booth rental business, Photo-Me should develop “strategic relationship with party planners, hotels sales and catering managers, banquet facility managers, and local schools.”<sup>180</sup> Photo-Me should also improve its marketing through the social media: currently, the company has no reviews of its products on the official Web page, has only 2.798 likes on Facebook and an undeveloped YouTube channel. Since more customers compare and check the quality and features of products they are interested in online, it is crucial that Photo-Me develop its online presence.

Photo-Me’s **centralized bureaucratic organizational structure and poor HRM** (see section *3.4. Culture* on p.5) lead to low employee retention and low employee empowerment; undeveloped HRM (no employee empowerment, no merit-based bonuses) prevents Photo-Me from realizing its full potential as a global market player. Dissatisfied employees render poor services and, consequently, customer satisfaction and Revenue drop; the bureaucratic structure prevents new ideas generated by employees from reaching the top of the company’s hierarchy.

Photo-Me’s **value proposition to mass customers in not differentiated enough** (see section *4.2 Value Proposition* on p.12): the company has only a limited amount of unique products and product features, such as attractive designer booths and ICAO. In general, the company offers its mass market the same products and features as its competitors, e.g., 3D printing or photo book making. Limited end-consumer support also undermines the company’s value proposition (see section *4.3 Channels* on p.13): while Photo-Me supports business clients with telemetry and personal assistance, its mass customers only have call centers and, to a limited extent, the social media for communication with the company. The company should find a balance between the low cost self-service concept and customer retention and satisfaction which are only possible when the company shows the clients that they are important. **Poor capabilities at creating customer loyalty** (see section *7.2 Analysis of Selected Competitors* on p.30) are another Photo-Me’s weakness: the company has little skills in locking mass consumers in.

### 11.3 Opportunities

Photo-Me has numerous business opportunities. First of all, the company can **explore new rapidly-developing technologies and diversify** (see section *13 Strategic Alternatives* on p.50). Applying its expertise to developing new products that customers need can generate extra Revenue for the company. Photo-Me can also invest in R&D without borrowing from banks

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<sup>180</sup> Steven Primm and Tim Roncevich, “Photo-Booth Rental Company,” *Upstart Business Consulting Group*, 2007, PDF e-book, accessed May 1, 2015, [https://books.google.ru/books?id=CXvr-5dyZmsC&pg=PA14&lpg=PA14&dq=photo+booth+industry+swot&source=bl&ots=it7cscwLKY&sig=qWhKy2xRY3cPbIr6YC0Q\\_-EOJxY&hl=ru&sa=X&ei=fWEEVYvmHcr\\_ULfDgtAJ&ved=0CCwQ6AEwAg#v=onepage&q=photo%20booth%20industry%20swot&f=false](https://books.google.ru/books?id=CXvr-5dyZmsC&pg=PA14&lpg=PA14&dq=photo+booth+industry+swot&source=bl&ots=it7cscwLKY&sig=qWhKy2xRY3cPbIr6YC0Q_-EOJxY&hl=ru&sa=X&ei=fWEEVYvmHcr_ULfDgtAJ&ved=0CCwQ6AEwAg#v=onepage&q=photo%20booth%20industry%20swot&f=false).

since it already has a lucrative photo booth businesses that finances the company's other business ideas. The company can make the creation of photos more customizable through new technologies.

Secondly, Photo-Me can decrease costs by **creating mutually beneficial partnerships** (see section *13 Strategic Alternatives* on p.50). One of the major costs for Photo-Me is the fee paid to site-owners. Photo-Me could sell its services in bundles (e.g., booths plus laundrettes at a smaller fee), create more value for the customers, and advertise more effectively so that the company's customers would want Photo-Me's service and press site-owners to get booths and laundrettes from Photo-Me. Thus, Photo-Me would be able to charge higher prices. The company can also use outdoor space more efficiently (since the fee for outdoor space is smaller as site-owners rarely use it, except for parking). Partnerships with the social media (e.g., creating a flash mob for supporting a good cause that would require taking a photo in Photo-Me's booth and uploading it to the social media) would allow Photo-Me to increase Revenue and get low-cost promotion. Partnerships with malls, supermarkets, the producers of photography software (e.g., Adobe), the producers of cell-phone software (e.g., Apple, Google) could add extra value for customers who would be able to get Photo-Me's services on more locations, connect their cell-phones to the booths, or develop photos right in the booths with special software.

Thirdly, Photo-Me can **expand into new markets** (see sections *5.1.1 The Photo Booth Industry Trends* on p.18, *8.1 Analysis of Financial Statements* on p.35, and *13 Strategic Alternatives* on p. 50), e.g., increase its presence in the Asian market or the USA. At 2014 exchange rates, the Asian market is the only market whose contribution to the company's Revenue increased from 2014 to 2015 (the consumers' buying power in emerging markets is getting stronger) and, in the USA, booth rental is a growing trend. Expansion into emerging markets can help Photo-Me generate extra profit. "Emerging markets offer the best expansion route going forward because of the large market potential combined with very limited competition. ... Because of the lower price points available in these territories, key to this expansion is lowering the cost of production..."<sup>181</sup> Photo-Me with its economies of scope, outsourcing, operational effectiveness, and developed support systems can offer services to the emerging markets that the customers there would be able to afford. Photo-Me could also **penetrate into existing markets** (see sections *4.8 Key Partnerships* on p.16 and *13 Strategic Alternatives* on p.50), e.g., place booths at students' dormitories, where there are many potential customers for ID and fun photography. Photo-Me could expand by forming new partnerships and placing machines on partners' premises, for example, in 2014 Photo-Me "was pleased to add

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<sup>181</sup> "Annual Report 2014," *Photo-Me International plc*: 14.



Wm. Morrison's 300 photo booths to its estate"<sup>182</sup> and was also able to put its booths back into the London Underground.<sup>183</sup> Also, the trend of obsession with self-photography<sup>184</sup> (e.g., selfies, usies) brings new opportunities for Photo-Me's expansion and new ideas for product creation.

Another opportunity for Photo-Me is **the creation of apps** (see sections 5.2.3 *Socio-Cultural Environment* on p.21 and 13 *Strategic Alternatives* on p.50). Apps could make it easier for people to look for booths, remember to make a birthday present (e.g., a 3D print), find out what the prices of Photo-Me's services are, and so on. Photo-Me could also develop **new services** (see section 13 *Strategic Alternatives* on p.50), e.g., booth rental for business promotion, or an e-shop with booths and guidance as to how to create a booth business.

## 11.4 Threats

Photo-Me faces several major threats. First of all, in several countries where Photo-Me currently operates, the governments are introducing "**centralised image capture for biometric passports**"<sup>185</sup> (see sections 5.1.1 *The Photo Booth Industry Trends* on p.18 and 5.2.6 *Legal Environment* on p.24). Since one of the main sources of Photo-Me's Revenue comes from the ID photography business, profits might fall.

For Photo-Me, **high reliance on technology** (see section 5.2.4 *Technological Environment* on p.22) also creates a threat: if technology used by Photo-Me becomes obsolete, Revenue is at risk. Also, **failure of technology** creates a threat for Photo-Me's profits (e.g., high costs that faulty software can incur) and reputation (e.g., dissatisfied customers unable to use a certain service). Advancements in technology are conducive to the appearance of substitute products, such as smartphones, software for online development of photos, GoPro, and others, they easily trickle down to competitors, and make previous technology obsolete, which negatively affects Photo-Me's business.

Since the company's partnerships are key to its business activities, **losing any partner** (see sections 4.4 *Customer Relationships* on p.13, 9.1.2 *Partner Relationship Management* on p.40, and 4.8 *Key Partnerships* on p.16) will negatively affect the business. Also, Photo-Me buys paper for photo booths from a single supplier,<sup>186</sup> so if this supplier fails, Photo-Me will bear losses.

Another threat for Photo-Me are **rivals** (see section 6.1 *Rivals* on p.25) and **substitute products** (see section 6.5 *Substitutes* on p.29). Photo-Me operates in the industry with low

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<sup>182</sup> Ibid.

<sup>183</sup> Ibid.

<sup>184</sup> Mark Gambino, "The Cult of the Selfie: A Snapshot of Self-Obsession," *The New Daily*, last modified August 4, 2014, accessed May 3, 2015, <http://thenewdaily.com.au/life/2014/08/04/cult-selfie-obsession-self/>.

<sup>185</sup> "Annual Report 2014," *Photo-Me International plc*: 21.

<sup>186</sup> "Annual Report and Accounts 2015," *Photo-Me International plc*: 19.

customer loyalty, intense rivalry, and numerous substitutes. Therefore, the creation of a unique value proposition is crucial for profit generation. Also, the **significant bargaining power of buyers** (see section 6.3 *Buyers* on p.27) who have many substitutes and competitors' products to choose from prevents Photo-Me from maximizing its profits.

Photo-Me's fun photography division might be negatively affected by the trend of **aging population of Europe** (see section 4.4 *Customer Relationships* on p.13) since the target market (the young and young adults) of the division is shrinking. Europe generates the most profit for the company and has significant buying power, so losing clients in this region would be a huge gap in the company's Revenue.

Rapidly **changing photography tastes** (see sections 5.1.1 *The Photo Booth Industry Trends* on p.18 and 5.2.3 *Socio-Cultural Environment* on p.21) force Photo-Me to rethink its fun photography services quite often; developing new services and updating technology incurs significant costs.

## 12 TOWS MATRIX

The TOWS Matrix for Photo-Me is shown in Table 6 on p.51.

### 12.1 Conclusion

The TOWS Matrix shows that there are numerous improvements Photo-Me could implement to make its booth business profitable in the future. Suggestions introduced in the TOWS Matrix can be grouped into five main strategic alternatives for Photo-Me: (1) **related diversification** into B2G markets with biometric desktop stations, (2) **market disruption** through the introduction of an integrated Web community (3) the adoption of a **differentiated green** strategy, that is being green not to abide by regulations, but "mak[ing] pro-environment policies the cornerstone of [Photo-Me's] business and a defining corporate strength,"<sup>187</sup> (4) **product development** – the creation of new customer-focused services, (5) expansion into the Asian markets with solar-powered booths (**market development**) and penetration into existing markets with new locations for fun photography (**market penetration**).

## 13 STRATEGIC ALTERNATIVES

Based on the analysis of Photo-Me's business and the TOWS Matrix, the following strategic alternatives are suggested:

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<sup>187</sup> Rich Kauffeld, Abhishek Malhotra, and Susan Higgins, "Green Is a Strategy," *Strategy+Business*, last modified December 21, 2009, <http://www.strategy-business.com/article/00013?gko=e5d36>.

*Table 6. TOWS Matrix for Photo-Me, 2015*

	External Opportunities (O)	External Threats (T)
	<p><i>O1</i> Expansion into new markets &amp; market penetration</p> <p><i>O2</i> New partnerships</p> <p><i>O3</i> Creation of applications</p> <p><i>O4</i> Diversification through economies of scope</p> <p><i>O5</i> Creation of new services (based on new demands, new technologies)</p>	<p><i>T1</i> Pressure from competitors and substitute services and significant bargaining power of buyers</p> <p><i>T2</i> Obsolescence &amp; failure of technology</p> <p><i>T3</i> Centralized biometric image capture</p> <p><i>T4</i> Loosing partners</p> <p><i>T5</i> Aging population of Europe</p> <p><i>T6</i> Changing photography tastes</p>
Internal Strengths (S)	SO	ST
<p><i>S1</i> Vast network of convenient locations</p> <p><i>S2</i> Developed maintenance and after-sales support</p> <p><i>S3</i> R&amp;D, economies of scope &amp; expertise</p> <p><i>S4</i> Strong partnerships with site-owners</p> <p><i>S5</i> Self-financed new product development</p>	<p><i>S1, S3-O3</i> Market disruption through the introduction of an integrated Web community (see <i>W1, W4, W5-O2, O5</i>): create an app which finds the nearest booths, shows latest ICAO and other ID photo requirements, prices, services provided at a particular booth;</p> <p><i>S1, S4-O1</i> Market penetration: place machines on locations where there is demand for fun photography (e.g., music festivals, dormitories);</p> <p><i>S3, S5-O5</i> Product development: introduce 3D printing kiosks.</p>	<p><i>S1, S3-T1</i> Adoption of a green strategy: develop the company's CSR and create green booths to improve the lives of communities and encourage customer loyalty;</p> <p><i>S3-T3</i> Related diversification: introduce biometric desktop stations for governments;</p> <p><i>S3-T5</i> Market development: expand into Asian markets with solar-powered booths;</p> <p><i>S4-T1</i> Market development: create exclusive agreements with global partners and expand to where they operate.</p>
Internal Weaknesses (W)	WO	WT
<p><i>W1</i> Value proposition to mass customers is not differentiated enough</p> <p><i>W2</i> Poor marketing</p> <p><i>W3</i> Bureaucratic organizational structure and poor HRM</p> <p><i>W4</i> Poor capabilities at creating customer loyalty</p> <p><i>W5</i> Declining Revenue</p>	<p><i>W1, W2, W4, W5-O5</i> Market disruption through the introduction of an integrated Web community (see <i>W1, W4, W5-O2, O5</i>): create user IDs and software that will collect data on users' buying patterns, habits, preferences, etc. to improve marketing &amp; offer partners targeted advertising of their products in booths. Through IDs users will get discounts, print extra copies of the shots later, etc., which will lock them in;</p> <p><i>W1, W4, W5-O2, O5</i> Product development: develop booth rental for businesses and mass clients and forge partnerships with photography-related brands (Facebook, Adobe, Pinterest, etc.) to develop new services and software;</p> <p><i>W1, W4, W5-O2, O5</i> Market disruption: lock customers in by creating transparent worldwide Web community that provides exhaustive information on booths and shows prices, helps create start-ups, supports clients in real time, provides mass consumers with unique space for sharing photos and looking for party planners, and unites all Photo-Me's clients.</p>	<p><i>W1, W4, W5-T1</i> Market disruption through the introduction of an integrated Web community (see <i>W1, W4, W5-O2, O5</i>): create consumer-oriented online services (a chat on the Web site, questionnaires in booths, video tutorials, Cloud storage) and show prices &amp; booth features on the official Web page;</p> <p><i>W2, W4-T1</i> Market penetration: create different marketing and promotion for different target clients (by region, age);</p> <p><i>W4, W5-T1, T4</i> Product development: introduce co-creation, that is customers themselves will choose what features they want in a booth.</p>

1. **Related diversification** into B2G markets with biometric desktop stations. Photo-Me will develop and operate desktop machines for capturing biometric data, create partnerships with governments in order to place the machines in Ministries of Interior where such data is collected, and transmit the data securely to storages where employees of the ministries can access it. Currently, Photo-Me has a biometric booth that provides easy access, is adaptable and customizable depending on buyers' needs, requires a control officer for checking data integrity,

is vandalism resistant and secure, can be used by “both ... the public sector (e-Passport, electronic identity card, e-visa, etc.) and the private sector (secure access cards, badges, bank cards, etc.).”<sup>188</sup> This booth, however, takes space (and there are many people in the Ministries of Interior and no spare space) and needs an attendant anyway (the deviation from the company’s self-service concept). Instead of creating full-fledged booths, Photo-Me should consider the creation of portable biometric desktop stations that would be placed near the officers who collect data and administer interviews. Photo-Me with its expertise on image capture and extensive support systems could offer cutting-edge biometric solutions at lower costs and with all necessary maintenance that would improve governments’ effectiveness at managing biometric data capture and storage (**value proposition**). Photo-Me could also create software that would be updated in real time in accordance with new regulations of different governments based on its ICAO software model and video tutorials for new workers on how to operate the machines (**value proposition**). The company will introduce the concept of co-creation (see Strategic Alternative 4): it will equip the biometric machines with software and hardware governments choose from options provided by Photo-Me, e.g., cameras with certain resolution or software that recognizes face and adds glasses since regular glasses reflect flash (**value proposition**). Photo-Me would sell its expertise to B2G markets in countries where it already conducts business and has all necessary support systems; thus, this strategy would support Photo-Me’s low-cost orientation, as the company would use the same telemetry and engineers for maintenance (**fit**).

Such diversification will always be hard to imitate, since most of Photo-Me’s competitors have no resources for developing such solutions, have limited remote support, and concentrate either on booth sale or rental, while Photo-Me’s competence is operation of the self-service machines (**trade-offs**). Photo-Me would use the same know-how, expertise, support systems, and logistics and marketing that would target governments (**tailored value chain**).

2. **Market disruption** through the introduction of an integrated Web community. In the era of hypercompetition, “stakeholder satisfaction is the key to winning each dynamic interaction with competitors.”<sup>189</sup> Therefore, it is crucial that Photo-Me should build the loyalty of its major stakeholder – customers – by increasing its online presence and presence in smartphones and disrupting the vending machines market by creating a unique customer support concept – the Web community (that is, new Photo-Me’s apps and Web clubs) for all its clients worldwide. The adoption of improvements suggested in Table 7 on p.53 would allow Photo-Me to lock its customers in and boost their loyalty, as the company would offer them versatile online support, transparency (full technical specifications and prices available online), and intensive widespread

<sup>188</sup> “Biometric Solutions,” *Photo-Me International plc*, accessed September 24, 2015, <http://www.environmental-expert.com/products/biometric-solutions-259696>.

<sup>189</sup> Glenn Rifkin, “The Art of Hypercompetition,” *Strategy+Business*, last modified April 1, 1996, <http://www.strategy-business.com/article/14886?gko=c7ef4>.

support for start-ups (**B2B value proposition**), comfortable booth search, Cloud storage, the possibility of accessing data anytime anywhere, interactivity, a club for booth photo lovers, and user points for getting discounts, rewards, and best photo offers (**B2C value proposition**).

**Table 7. Creation of Integrated Web Community: Suggested Improvements for Photo-Me, 2015**

Suggested Improvements for the B2B Market	Suggested Improvements for the B2C Market
<p>🌀 <b>Creating applications</b> for ordering booths, looking up booth technical characteristics, searching for prices;</p> <p>🌀 <b>Using apps to advertise partners</b> for money (e.g., customers look for a booth in a certain district and the ad of partners in that district is shown);</p> <p>🌀 <b>Partnerships with the social media</b>, e.g., creating a flash mob for supporting a good cause that would require taking a photo in Photo-Me's booth and uploading it to the social media;</p> <p>🌀 <b>E-commerce</b> – creating an e-shop for ordering booths where all prices and technical characteristics are specified (extra value, since most of the competitors require clients to send emails if they want to know the details about booths and prices). In the world where the value is absolute and brand names are less important than before, it is important to provide clients with all necessary information so that they could decide based on facts what to buy;<sup>190</sup></p> <p>🌀 <b>Providing potential booth buyers with advice</b> on how to start a booth business in a particular region since Photo-Me has vast expertise (PDF documents, support via emails);</p> <p>🌀 <b>Video tutorials</b> as to how to start a booth business, how to assemble and use Photo-Me's products (also in an app);</p> <p>🌀 <b>Creating a page with the reviews</b> of Photo-Me's products on the official Web site to increase transparency of services. Provide comparison with other booths and show why customers should buy Photo-Me's booths;</p> <p>🌀 <b>Increasing cooperation with search engines</b> (e.g., when searching for photo booths in London or Paris on Yelp, Photo-Me is not in the search results);</p> <p>🌀 <b>Creating an online chat</b> on the official Web site, especially for the people interested in buying a booth for starting a business – assistance is crucial on all stages of the purchase;</p> <p>🌀 <b>Translate the official Web site</b> into more languages.</p>	<p>🌀 <b>Creating applications</b> for finding the nearest booth, looking up booth technical characteristics, searching for prices, developing photos taken in booths, creating collages, sending birthday presents (e.g., a photo or video of friends taken in a booth and sent to their friend abroad via an app), showing ICAO regulations and what services are available at what booths (and nearby Photo-Me machines, e.g., Photo-Me laundering);</p> <p>🌀 <b>Improving Photo-Me's current mobile application</b> as it does not work properly and gets negative reviews on Google Play. Put the app on other mobile stores (e.g., Samsung Galax Apps catalog);</p> <p>🌀 <b>Creating free online Cloud storage</b> for photos and videos taken in a booth with a possibility of accessing data later, printing more pictures if needed, sharing with friends. The storage will keep data for free for 14 days, if customers need to prolong the period, they will pay extra money. Sending data to booth users' e-mails or Dropbox;</p> <p>🌀 <b>Creating IDs for users</b> that will allow customers to securely transfer data to their personal online storage with the same username and password. <b>Creating user points</b> given for utilizing Photo-Me's services: clients that use services most often will get discounts or access to exclusive content, etc. Tracking the interaction of customers with Photo-Me's services will enable the company to improve marketing and help it understand the target market better (e.g., what age groups use what services and how often). Creating IDs will gather all necessary data on users for service improvements as users enter personal data and access accounts later. IDs will increase customer loyalty and lock them in. They will track what templates, features are used the most so that Photo-Me could develop them. Photo-Me could communicate with users through personal accounts (e.g., customer support, special offers based on the previous account activities);</p> <p>🌀 <b>Increasing presence in the social media</b>, such as Twitter and Facebook, (more subscribers, more posts, etc.) and create accounts on Pinterest and Instagram, especially since one of Photo-Me's services is the creation of fun photos that can be uploaded and shared on photographic social networks. Improve the company's YouTube channel (more videos and comments). <b>Create a Web site and an app for sharing booth photos</b> from Photo-Me or competitors (a new community for booth photo lovers), where users will be able to look for party planners, read interesting articles, etc. Use the social media to find out what customers like about Photo-Me's services, what they want to add or change, etc. Use the social media to promote the company's brand (more Likes, flash mobs to support the environment by taking and uploading pictures from booths to Facebook so that part of profit goes to support a good cause);</p> <p>🌀 <b>Creating a page with the reviews</b> of Photo-Me's products on the official Web site to increase transparency of services. Provide comparison with other booths and show why customers should choose Photo-Me's products;</p> <p>🌀 <b>Using geo-location technology</b> in Photo-Me's photo sharing Web community to allow booth users to connect with people through photos by detecting other booth users' devices nearby;</p> <p>🌀 <b>Using the social media to find out what customers like</b> about Photo-Me's services, what they want to add or change, etc. Use the social media for marketing: make people aware of the services and value Photo-Me provides through the social media and other promotional tools to boost interest in Photo-Me's products and services;</p> <p>🌀 <b>Translate the official Web site</b> into more languages.</p>

<sup>190</sup> Simonson and Rosen, "Is Tech Eroding Consumer Loyalty?"

Essentially, Photo-Me creates a new method for building customer loyalty – a Web community, where people obtain remote support from the company and help each other with advice on how to set up a booth business and share experience through chats and reviews, all of which supports Photo-Me’s self-service concept. The company with its global reach obsoletes the business models of most of its local and global rival,<sup>191</sup> which is based on individual approach and fragmented markets. The Web community is a one-stop shop for booth renters and buyers – they will order booths there, get support, find out how to set up a business, etc. (**B2B value proposition**). It also unites mass clients by providing them space for sharing photos, participating in contests, getting inspired for their own celebrations from other people’s booth photography, and looking for party planners (**B2C value proposition**). The strategy offers new ways of developing Photo-Me’s business through partnerships with NGOs and famous brands for inexpensive mutual promotion through booth photography and related competitions.

The company will extend its tailored value chain to cover Internet and app users, but will do it differently: Photo-Me will make its booth qualities and prices visible (unlike rivals) to appeal to potential booth renters and buyers and save them time on requesting additional information via emails. The company will establish an online community for sharing booth photos and interesting articles, a place where people can get creative. Economies of scope and sufficient self-financing that rivals do not possess will prevent competition from copying the strategy: heavy investments, global reach, sufficient HR resources, and competitive prices (to be able to show them online and attract customers) are necessary for adopting the strategy. Photo-Me will also get a first-mover advantage. The company will provide assistance to business and mass consumers indirectly (**tailored value chain**) through the online support and tutorials and by making its products and terms of business transparent (a **trade-off** with personal assistance). The strategy is low-cost since advertising through the social media, temporary online storages, and remote support are inexpensive. The company will also support its self-service concept, use the data collected on users to improve its other activities (the app will show who searched for laundrettes, etc.), help partners get targeted advertising (since Photo-Me will possess demographic data on its users), boost sales by helping people organize a start-up (**fit**).

3. **Adopting a differentiated green<sup>192</sup> strategy (B2B, B2C)**, that is make ‘being green’ central to the company’s business model and revise all the company’s operations in order to find what activities can be greener. “In a global commercial landscape increasingly contoured by environmental policies, regulations, and attitudes, [where] ... consumers’ concern for the environment has morphed into buying behaviors that are at least somewhat recession-

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<sup>191</sup> Rifkin, “The Art of Hypercompetition.”

<sup>192</sup> Rich Kauffeld, Abhishek Malhotra, and Susan Higgins, “Green Is a Strategy,” *Strategy+Business*, last modified December 21, 2009, <http://www.strategy-business.com/article/00013?gko=e5d36>.

resistant,”<sup>193</sup> it could be a viable strategy for Photo-Me to invest into developing green solutions. Photo-Me already has eco-friendly booths and street lightning solutions in its portfolio; moreover, “at the end of their useful lives more than 90% by weight of the materials used in [Photo-Me’s] photoboosts is recycled, most of this being steel and other metals.”<sup>194</sup> The company could further develop its eco-friendly vending machine concept to appeal to customers (e.g., in 2014, 55% of global *online* consumers stated they would prefer buying products from socially responsible companies,<sup>195</sup> and, in 2009, “87 percent [of global consumers] believed it was their ‘duty’ to contribute to a better environment”<sup>196</sup>), investors who look for opportunities to finance rapidly-growing green enterprises,<sup>197</sup> governments which themselves adopt greener policies,<sup>198</sup> and potential employees<sup>199</sup> (since green companies improve HR’s productivity<sup>200</sup> and raise job quality<sup>201</sup>) and contribute to the lives of communities where the company operates.

The company’s expertise allows Photo-Me to develop green products, while its global reach means that the company could monitor its business partners, such as producers of the machines in China and Hungary, for compliance with green and fair trade standards and offer them new eco-friendly ways of conducting business effectively (**tailored value chain**). The company could promote its products as green which would add extra consumer value, cooperate with eco-friendly partners and support new green enterprises by placing the machines on their premises at higher commissions and advertising them on booth screens, develop portable booths that “require less packaging and space for transport and storage,”<sup>202</sup> improve the company’s PR and provide statistics and data on how Photo-Me’s green strategy is evolving through the social media and public statements, use recyclable materials in booth creation, develop machines that work on renewable energy sources, list the eco-friendly partners of the company on the official Web site, etc.

This strategy could become indispensable in the world with an increasing number of middle-income buyers who are willing to pay more for eco-friendly solutions<sup>203</sup> and pressing companies to be greener. Photo-Me’s eco-friendly machines will support the environment consumers live in and care about future generations (**value proposition**). Even though this

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<sup>193</sup> Ibid.

<sup>194</sup> “Annual Report & Accounts 2015,” *Photo-Me International plc*: 30.

<sup>195</sup> “Global Consumers are Willing to Put Their Money Where Their Heart is When It Comes to Goods and Services from Companies Committed to Social Responsibility,” *Nielsen*, last modified June 17, 2014, <http://www.nielsen.com/us/en/press-room/2014/global-consumers-are-willing-to-put-their-money-where-their-heart-is.html>.

<sup>196</sup> Kauffeld, Malhotra, and Higgins, “Green Is a Strategy.”

<sup>197</sup> Ibid.

<sup>198</sup> Ibid.

<sup>199</sup> Ibid.

<sup>200</sup> Alison Hewitt, “Employees at ‘Green’ Companies are Significantly More Productive, Study Finds,” *UCLA Newsroom*, last modified September 10, 2012, <http://newsroom.ucla.edu/releases/study-certified-green-companies-238203>.

<sup>201</sup> OECD, *OECD Green Growth Studies Greener Skills and Jobs* (Paris: OECD Publishing, 2014), 136-148.

<sup>202</sup> Kauffeld, Malhotra, and Higgins, “Green Is a Strategy.”

<sup>203</sup> “Sustainable Consumption: Facts and Trends,” *World Business Council for Sustainable Development* (2008): pp.9-16, accessed November 8, 2015, <http://www.wbcsd.org/pages/edocument/edocumentdetails.aspx?id=142>.

strategy seem to be easily copied by rivals (no major **trade-offs** are necessary), in combination with other Photo-Me's activities (**fit**) it can lead to uniqueness and differentiation, e.g. using the company's global reach and the economies of scope, Photo-Me will develop solar-powered booths cheaper and place them in the emerging market of India where, by 2030 according to predictions, the middle class will comprise 40% of the population and become the fifth most significant consumer market,<sup>204</sup> and consumers will be able to afford Photo-Me's services, and where solar powered booths will provide value and be competitive as the electricity black-outs happen often and there is an overall electricity shortage.<sup>205</sup>

4. **Development of new customer-focused services** (the strategy of product development) would allow Photo-Me to increase customer loyalty and profits. In the **B2B** market, Photo-Me could introduce the concepts of co-creation, booth portability, and targeted advertising in booths and, in the **B2C** market, - photo pods, user accounts, and improved booth rental (see Table 8 for all suggested improvements).

**Table 8. Development of Customer-Focused Services: Suggested Improvements for Photo-Me, 2015**

Suggested Improvements for the B2B Market	Suggested Improvements for the B2C Market
<ul style="list-style-type: none"> <li>🔍 <b>Developing booth rental for business promotion</b> (Keshot is a good example, Photo-Me could develop similar services for the Asian and European markets where Keshot has limited presence). Creating customizable booths for corporate events;</li> <li>🔍 <b>Using mutually beneficial advertising</b> (Photo-Me advertises its partners in its booths, and partners advertise Photo-Me on their Web sites, etc.);</li> <li>🔍 <b>Developing “strategic relationship</b> with party planners, hotels sales and catering managers, banquet facility managers, and local schools”<sup>206</sup> to promote booth rental services;</li> <li>🔍 Photo-Me could use personal users account information to show <b>targeted advertisement of partners</b> (e.g., different advertisements for male and female users – partners identify who the ad will be shown to and get higher value from targeted promotion). Photo-Me will also provide stats collected through user IDs to booth buyers so that they know who is likely to use what services;</li> </ul>	<ul style="list-style-type: none"> <li>🔍 <b>Designing and operating photo pods</b> (a box with a touch screen and a camera on one side); placing them in front of famous attractions which would allow tourists to take pictures with famous monuments (taking photos in Photo-Me's booths all over the world in front of tourist attractions with date and place shown on them, uploading them to the social media, and collecting such photos could become a concept similar to collecting Hard Rock Café's T-shirts). This would help to lock customers in;</li> <li>🔍 <b>Administering focus groups</b> with young people to find out about latest photo making and development trends;</li> <li>🔍 <b>Improving marketing and increasing brand awareness.</b> Use guerilla marketing since it is inexpensive, effective, and appeals to Photo-Me's target customer for fun photography services. Use targeted marketing – different message and channels for advertising different products and reaching different target customers (e.g., business clients vs. mass customers);</li> <li>🔍 <b>Regularly add new trendy templates, photo filters, collage options,</b> etc. for fun photography through a remote update system;</li> <li>🔍 <b>Making customer satisfaction a KPI,</b> conduct customer satisfaction surveys and questionnaires in booths and on the official Web site in return for exclusive templates, user points, etc. This would allow to improve Photo-Me's services;</li> <li>🔍 <b>Organizing point of purchase displays;</b></li> <li>🔍 <b>Reviving the trend of taking pictures with friends</b> by promoting it online and through the social media;</li> </ul>

<sup>204</sup> Eric D. Beinhocker, Diana Farrell, and Adil S. Zainulbhai, “Tracking the Growth of India's Middle Class,” *The McKinsey Quarterly* (2007): 1, accessed November 8, 2015, <http://ecell.in/eureka13/resources/tracking%20the%20growth%20of%20indian%20middle%20class.pdf>.

<sup>205</sup> “Millions of People in India Have no Electricity,” *India Times*, accessed November 8, 2015, <http://economictimes.indiatimes.com/new-sections/energy/millions-of-people-in-india-have-no-electricity/lifenologyshow/41089385.cms>.

<sup>206</sup> Steven Primm and Tim Roncevich, “Photo-Booth Rental Company,” Upstart Business Consulting Group, 2007, PDF e-book, accessed May 1, 2015, [https://books.google.ru/books?id=CXvr-5dyZmsC&pg=PA14&lpg=PA14&dq=photo+booth+industry+swot&source=bl&ots=it7cscwLKY&sig=qWhKy2xRY3cPbIr6YC0Q\\_-EOJxY&hl=ru&sa=X&ei=fWEEVYvmHcr\\_ULfDgtAJ&ved=0CCwQ6AEwAg#v=onepage&q=photo%20booth%20industry%20swot&f=false](https://books.google.ru/books?id=CXvr-5dyZmsC&pg=PA14&lpg=PA14&dq=photo+booth+industry+swot&source=bl&ots=it7cscwLKY&sig=qWhKy2xRY3cPbIr6YC0Q_-EOJxY&hl=ru&sa=X&ei=fWEEVYvmHcr_ULfDgtAJ&ved=0CCwQ6AEwAg#v=onepage&q=photo%20booth%20industry%20swot&f=false).



<ul style="list-style-type: none"> <li>🌀 <b>Developing a co-creation concept</b> – putting only needed features in booths based on clients' orders (e.g., different camera quality, software, etc.);</li> <li>🌀 <b>Improving booth portability</b> and making it dismountable to a large extent;</li> <li>🌀 <b>Creating 3D printing kiosks.</b></li> </ul>	<ul style="list-style-type: none"> <li>🌀 <b>Creating customizable photo development software</b> that would allow users to express themselves through photography;</li> <li>🌀 <b>Improving booth rental services for mass clients</b> and their marketing as booth rental becomes a growing trend;</li> <li>🌀 <b>Using customized disposable technologies, decorations, and props</b> when renting booths to make an event memorable (e.g., artificial moustaches for photo booth pictures or wristbands);<sup>207</sup></li> <li>🌀 <b>Use booth questionnaires</b> to find out what booth services, templates, etc. users utilize the most and develop these features;</li> <li>🌀 <b>Creating 3D printing kiosks.</b></li> </ul>
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These improvements would differentiate Photo-Me's **value proposition**: developed booth rental services, combined with excellent customer support and wide product portfolio, will increase businesses' profitability and PR (**B2B**), make personal events unforgettable (**B2C**); the co-creation and targeted marketing will allow partners to minimize costs and get customized products (**B2B**); photo pods will make it possible to collect enjoyable memories in the classic style of photo booth photography and instantly share them with the world (**B2C**). **Trade-offs** (low-cost self-service) and **value chain** (the same channels and resources used) are preserved. **Fit** is reinforced: data collected from users' accounts are utilized to improve marketing and create targeted marketing for partners, good experience with rental services make buyers consider purchasing a booth and starting a business, large portfolio and expertise enable co-creation which promotes customer satisfaction and PRM, etc.

5. **Expansion into the Asian markets** with solar-powered booths (the strategy of market development) and **penetration into existing markets** with new locations for fun photography (**B2B, B2C**). India, being the 8<sup>th</sup> fastest growing economy in the world,<sup>208</sup> is the first Asian market to where Photo-Me could expand. The population of 812.335.761 aged 15-64 growing at a rate of 1,25% each year<sup>209</sup> is a large potential market for ID photography. Unlike the market of China, where entrepreneurs pick up easily on innovation and sustaining competitive advantage would not be easy, the rapidly growing Indian market<sup>210</sup> does not imitate foreign companies so extensively. It is also the region with power shortage and Photo-Me's solar-powered booths would provide unique value as they do not need a power source. The expansion into India is possible due to the low-cost orientation of the company: Photo-Me can provide competitive prices to the Indian market and enlarge Revenue streams with the huge potential ID photography market of the country. The company will optimize solar-powered Photovoltaic ID Booth for the

<sup>207</sup> Ibid.

<sup>208</sup> Elena Holodny, "The 13 Fastest-Growing Economies in the World," *Business Insider*, last modified June 12, 2015, <http://www.businessinsider.com/world-bank-fast-growing-global-economies-2015-6>.

<sup>209</sup> "India Demographics Profile 2014," *index mundi*, last modified June 30, 2015, [http://www.indexmundi.com/india/demographics\\_profile.html](http://www.indexmundi.com/india/demographics_profile.html).

<sup>210</sup> Kenneth Rapoza, "Five Reasons to Invest in India," *Forbes*, last modified March 5, 2015, <http://www.forbes.com/sites/kenrapoza/2015/03/05/five-reasons-to-invest-in-india/>.

market and place the booths in high footfall locations in the major cities of India - Mumbai and Delhi. Booth rental for special occasions can also be provided on the market as the per capita income<sup>211</sup> and disposable income<sup>212</sup> of Indians are growing. Later, the company could expand into other Asian markets with its affordable photography and solar-powered solutions.

Another potential market for penetration could be the USA, where Photo-Me expanded earlier, but sold off its vending division in 2008 as it was remote and loss-making<sup>213</sup> and concentrated on selling equipment there. As the booth rental trend is on the rise in the USA (see section 5.1.1 *The Photo Booth Industry Trends* on p.18), Photo-Me could develop its rental services (e.g., introduce booth rental for businesses, improve marketing, make software and hardware more customizable; see also Strategic Alternative 4 on p.55) and launch them on the US market. Photo-Me could also penetrate into existing markets by placing booths on locations with high demand for fun photography (e.g., colleges, dormitories). In Table 9, suggested improvements for market penetration and development are summarized.

**Table 9. Market Penetration & Development: Suggested Improvements for Photo-Me, 2015**

Suggested Improvements for the B2B Market	Suggested Improvements for the B2C Market
<ul style="list-style-type: none"> <li>☛ Photo-Me can create new partnerships with multinational companies and expand to where they already operate (e.g., chain shops). Photo-Me can create exclusive agreements with global partners to mitigate competition;</li> <li>☛ Placing booth in smaller towns (in the existing markets) would provide additional Revenue. Placing enough booths to cover the market demand would mean that there are sufficient ID and fun photography booth capacities in the town and there is no need for competitors to expand into these markets;</li> <li>☛ Introducing booth rental for businesses in the USA, Europe, and Asia.</li> </ul>	<ul style="list-style-type: none"> <li>☛ Putting booths on locations with high demand for fun photography, e.g. dormitories and music festivals. Use outdoor space (place vandalism-proof booths there);</li> <li>☛ Expanding into the emerging markets of Asia with its large customer base since Photo-Me has capabilities to serve their lower-income clients;</li> <li>☛ Penetration into the US market with rental services, where they are becoming increasingly popular;</li> <li>☛ Creating targeted marketing based on the geographical region, create partnerships with local booth companies to exchange some expertise for local insight.</li> </ul>

The strategy of expansion promotes Photo-Me's **value proposition** by creating more convenient locations and, if united with other strategic alternatives and suggested improvements (such as feature and price transparency and green technologies), the strategy makes Photo-Me's services greatly differentiated. It also pursues the company's vision of serving clients in every major market worldwide. The same **value chain** and technologies can be used for expansion (costs are minimized and **fit** is preserved). **Trade-off** (low-cost self-service) remains the same: Photo-Me uses tutorials, telemetry, e-shops, etc. to reduce costs.

<sup>211</sup> "India's Per Capita Income Up 10%," Business Standard, last modified July 4, 2015, [http://www.business-standard.com/article/economy-policy/indias-per-capita-income-up-10-in-2014-115070301205\\_1.html](http://www.business-standard.com/article/economy-policy/indias-per-capita-income-up-10-in-2014-115070301205_1.html).

<sup>212</sup> "India Total Disposable Personal Income," Trading Economics, accessed November 15, 2015, <http://www.tradingeconomics.com/india/disposable-personal-income>.

<sup>213</sup> "Photo-Me Shares Surge on Sale of US Vending Unit," Reuters, last modified July 21, 2008, <http://photo-booth.biz/photo-me-usa-is-sold-due-to-poor-performance/>.

## 14 RECOMMENDED STRATEGY

The final strategy has been chosen based on three criteria:

- ☉ The strategy should support Photo-Me’s differentiated activities, such as the low-cost business model or the self-service concept;
- ☉ The strategy must support the suggested Mission and Vision Statements (see section 3.7 *Mission & Vision Statements* on p.9);
- ☉ The strategy should pass Porter’s test for a good strategy and be difficult to imitate for rivals.

The question posed by the paper is *“How can Photo-Me restructure its photo booth business so that it can survive and be profitable in the face of major changes in the photo booth market?”* In order for the photo booth business to grow and generate profits in the long-run and provide financing for developing other Photo-Me’s businesses, the company should implement the following strategic recommendations (as an addition to the current strategy):

1. For the **B2G** market – **Strategic Alternative 1: related diversification** through the operation and sale of biometric desktop stations (see Table 10 on p.61 for Porter’s test for a good strategy and Figure 9 on p.64 for the new Activity System Map). Photo-Me is currently developing biometric solutions for governments: the company has a biometric booth, but is still not present on the global B2G market. The creation of portable biometric desktop stations that do not occupy much space and can be placed near the officials collecting data, thus allowing governments to economize on hiring special attendants for full-fledged booths and minimizing the used space, will enable Photo-Me to offer governments the value of photographic expertise, efficient remote maintenance, portability, ease of use, citizens’ safety (which is incredible important in the light of escalating political instability), and low price for biometric data capture. The company will also develop software that will be updated in real time as the government biometric regulations change. This strategy is highly profitable taking into account that by 2020 the biometric ID market will be worth \$25 billion.<sup>214</sup> Photo-Me will introduce its service in all countries where it currently operates (Vietnam was the last country to adopt e-passports and launched their issuance in 2011<sup>215</sup>). Potential growth is promised by the constant update of the technology and the need of updating biometric passports: currently, Spain and Ireland are introducing new biometric cards that will be used as a travel document within the EU,<sup>216</sup> and in

<sup>214</sup> “Global Biometric Authentication & Identification Market 2015: Focus On Modality, Motility & Application - Estimation & Forecasts to 2020 for the \$25 Billion Industry,” PR Newswire, last modified August 17, 2015, <http://www.prnewswire.com/news-releases/global-biometric-authentication--identification-market-2015-focus-on-modality-motility--application---estimation--forecasts-to-2020-for-the-25-billion-industry-300129843.html>.

<sup>215</sup> “Electronic Passport Project Approved,” *Vietnam News Today*, accessed November 15, 2015, <http://www.vietnamnewstoday.com/nd5/detail/politics-laws/electronic-passport-project-approved/644.001.html>.

<sup>216</sup> “Balancing Security and Facilitation,” *ICAO*: 20, 22, accessed November 15, 2015, [http://www.icao.int/publications/journalsreports/2015/MRTD\\_Report\\_Vol10\\_No2.pdf](http://www.icao.int/publications/journalsreports/2015/MRTD_Report_Vol10_No2.pdf).

India, to where Photo-Me might expand in the future with its solar-powered machines, a Unique Identification Number Project (Aadhaar) was launched in 2009 to give a biometric identity to all citizens.<sup>217</sup> The strategy supports the vision of serving governments with cutting-edge biometric solutions worldwide. The strategy possesses significant potential profitability and is not easily copied by rivals as Photo-Me with its unique booth operations model (as opposed to booth rental and sale) has necessary scope, scale, and expertise to incorporate the strategy unlike rivals.

2. For the **B2B** market – **a combination of Strategic Alternatives 2 and 4: market disruption** through the introduction of an integrated Web community to boost rental and sales profits and the development of the customer-focused services of **co-creation, targeted marketing, and booth portability** (see Table 10 on p.61 and Figure 9 on p.64). Online services and applications will offer the unique value of start-up support, transparency, and e-commerce, which, combined with Photo-Me's key activity of developed global after-sales servicing will boost Revenue from sales and rental while preserving low-cost self-service business model. Co-creation will further support the development of sales and rental divisions and biometric solutions division. The company will built photo booths on orders and distribute them through its centralized logistics system. Targeted marketing for partners will built additional Revenue stream: using the data collected through user IDs, the company will advertise partners through booths and apps based on demographics and location of users and also offer statistics on the booth usage by customers to booth buyers. Thus, Photo-Me will improve its after-sales support as all booth buyers will be able to track the interaction of customers with their booths, not just the amount of ink and paper in the machine; they will also be able to boost profits by offering targeted advertisement to their own partners. As the company expands worldwide and uses centralized logistics, booth portability is essential since it diminishes Inventory and Shipment costs: Photo-Me will make booths dismountable and use video tutorials to show buyers and renters how to assemble them (low-cost self-service). In accordance with the vision statement, such improvements will promote business clients' loyalty. The unique value added by the new services will increase the loyalty of the B2B clients and the company's Revenue.

3. For the **B2C** market – **Strategic Alternatives 2: market disruption** through the introduction of an integrated Web community to boost loyalty (see Table 10 on p.61 and Figure 9 on p.64). Online services and applications will allow the company to increase the customer loyalty by providing values of the Cloud storage, photo sharing, and contests. Differentiating the value proposition is an essential issue for Photo-Me's mass market division. This strategy focuses on the vision of serving *loyal* customers. Revenue will rise as mass clients will be offered unique benefits of the Web community and be locked in by the user IDs and the Cloud.

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<sup>217</sup> Ibid., 23.

**Table 10. Porter's Test for Good Strategy for Photo-Me's Recommended Strategy and Its New Activities, 2015**

	B2G Market	B2B Market	B2C Market
Strategy	<b>SA 1: Related diversification</b> with a biometric desktop station.	<b>SA 2: Market disruption</b> through online services and applications development and <b>SA: 4 Development of the customer-focused services</b> .	<b>SA 2: Market disruption</b> through online services and applications development.
New Key & Support Activities (see Figure 9 on p.64 for Photo-Me's new Activity System Map)	<p><b>Key: Biometric solutions for governments.</b></p> <p><b>Support: Co-creation</b> (booth will comprise customized features and hardware depending on governments' orders).</p>	<p><b>Key: Web community</b> (Photo-Me will create a Web community for start-ups with related articles, a chat for users, video tutorials, needed information on starting and developing a booth rental business).</p> <p><b>Support:</b></p> <ul style="list-style-type: none"> <li>☛ <b>Booth business start-up club</b> (on the official Web site, there will be a <i>Photo-Me Start-Up Club</i> page with video tutorials on how to start a booth rental business and how to assemble and use Photo-Me's machines, booth technical details, prices, value propositions, reviews, an online chat, and a forum for users. This will help booth buyers and renters to choose the right booth and understand Photo-Me's value proposition. Ultimately, the club will lock in clients and boost rental and sales businesses of Photo-Me);</li> <li>☛ <b>Transparency</b> (all booth characteristics and prices will be displayed in an app and the official Web site, which is a unique value proposition for modern buyers who lack time and take decisions based on absolute values<sup>218</sup>);</li> <li>☛ <b>Multilingual Web site and apps</b> (Photo-Me's Web page and apps will be translated into the languages of the most significant countries where Photo-Me operates. This is crucial for attracting booth renters and buyers as some of them do not speak English);</li> <li>☛ <b>Online support</b> (a chat on the official Web site for answering possible questions of booth buyers and renters);</li> <li>☛ <b>E-commerce</b> (an e-shop with all Photo-Me's booths and a co-creation interactive page for assembling a booth for those who prefer to add or remove certain booth features);</li> <li>☛ <b>Photo-Me Start-Up Club application</b> (ordering booths, looking up booth technical characteristics, searching for prices. The app will be used to advertise Photo-Me's site-owners, e.g., when the location of a user's device is identified, the app will show an ad of a Tesco store – one of Photo-Me's partners – nearby);</li> <li>☛ <b>Targeted advertising</b> (when Photo-Me introduces user IDs and collects information on its clients, it will use the information to offer targeted advertisement in booths for big partner site-owners and other firms. Booth buyers will be able to use the statistics collected through IDs to improve their own marketing);</li> <li>☛ <b>Co-creation</b> (booth will comprise customized features and hardware depending on buyers' orders);</li> <li>☛ <b>Booth portability</b> (Photo-Me will create lightweight and dismountable booths that are easily transported and take less space to reduce Inventory and Shipment Costs).</li> </ul>	<p><b>Key: Web community</b> (Photo-Me will create a social network for photo booth photo lovers – <i>Booth Photography Lover Club</i>. There, different photo booth photography and related articles will be uploaded, latest photo trends will be discussed in a forum, people will search for party planners, etc. Photo-Me will partner up with NGOs – booth users will upload to the Web Club thematic photos taken in Photo-Me's booths and a percentage of the income will go to NGOs or the company will collect donations through booths. Photo-Me will also partner with other firms to organize contests and reward winners, e.g., users will take photos in Zara glasses in Photo-Me's booth – Photo-Me gets income and partners get online promotion as photos with their products will be uploaded to participants' social networks and the Web Club directly from a booth. Photo-Me with its global reach can create the Club with numerous subscribers).</p> <p><b>Support:</b></p> <ul style="list-style-type: none"> <li>☛ <b>Booth Photography Lover Club</b> (a social network for sharing photos taken in booths where users can get inspired for their own weddings, parties, etc. booth photography and win prizes, such as free booth rental);</li> <li>☛ <b>User IDs and points</b> (lock customers in by providing them with IDs (see Table 7 on p.53));</li> <li>☛ <b>Cloud storage</b> (see Table 7 on p.53));</li> <li>☛ <b>Booth Photography Lover Club application</b> (an app for sharing booth photos and looking for inspiration and party planners, who will advertise their services for a fee on the Web page and share articles, etc. – by contributing to the Web site they get the attention of users and make the Web site more interesting);</li> <li>☛ <b>Photo-Me application</b> (improve Photo-Me's current application and add new features, such as the search for the nearest booth, booth technical characteristics, prices, developing photos taken in booths, creating collages, sending birthday presents, video tutorial on how to use machines (see Table 7 on</li> </ul>

<sup>218</sup> Simonson and Rosen, "Is Tech Eroding Consumer Loyalty?"

			p.53)).
<b>Unique Value Proposition</b>	Photo-Me with its expertise on image capture and extensive support systems offers cutting-edge biometric solutions at lower costs and with all necessary maintenance that improve governments' effectiveness at managing biometric data capture and storage. The software is updated in real time in accordance with the latest government regulations (based on the ICAO model).	Photo-Me provides comprehensive support for start-ups worldwide and a unique space for sharing booth business ideas – <i>Photo-Me Start-Up Club</i> , while offering its clients complete transparency and machine customization. Ordering a booth is simplified with an e-shop and <i>Start-Up Club</i> application, which saves clients time. Booth portability will allow clients to easily transport machines at reduced costs.  For site-owners and buyers, Photo-Me offers a unique possibility of targeted advertising through Photo-Me's booths and applications worldwide.	Photo-Me offers mass customers <i>Booth Photography Lover Club</i> – a unique space for sharing celebration ideas, searching for party-planners, and collecting enjoyable moments by uploading them to the social network. Photo-Me also provides the service of free online storage of data captured in a booth for 14 days and the possibility of extending the period for a fee – users can now access data anytime anywhere through using personal IDs for accessing the Cloud storage from home or a booth (if a person wants to print photos at home and does not have a USB, he can upload the data in full resolution to the Cloud and use it later). User IDs allow clients to collect points and get rewards in any Photo-Me booth and access the Cloud. The club will connect and inspire all booth users worldwide.  Photo-Me application makes it easier to search for Photo-Me's services (booths, printing kiosks, laundrettes) worldwide building on the company's unique value proposition of an extensive high footfall network of sites.
<b>Tailored Value Chain</b>	Photo-Me's value chain (see Appendix 35 on p.109) is tailored to provide low-cost self-service solutions (telemetry, outsourcing, the same marketing for different countries and demographic groups, centralized logistics, remote ID software update (ICAO), and remote after-sales servicing).	Biometric solutions will benefit from Photo-Me's value chain: since the company will introduce the service in the countries that use biometric image capture and where Photo-Me currently operates, the service will be delivered through the same channels (e.g., telemetry). The company will modernize ICAO to update the software of its biometric stations in real time. Photo-Me will market its services at fairs, on the Web site, and by communicating directly with government representatives.	Online services and mobile applications reinforce the company's value chain built on the self-service concept: online support and transparency will allow users to choose booths based on features and prices without Photo-Me's mediation (reduced Administrative Costs). Increased booth portability will decrease Inventory and Shipment Costs. Video tutorials on how to assemble and use the machine will boost customer satisfaction and support the self-service concept. E-commerce, based on the transparency, will mean that the company's order taking will be automated and involve less paperwork. The multilingual Web site will enable customers worldwide to shop for booths or rent them easily. Forums will help users assist <i>each other</i> with advice and experience reducing Photo-Me's involvement in the client support.
<b>Trade-offs</b>	Photo-Me specializes in the operations of booths (a trade-off with developed rental and sale services). The company, thus, capitalizes on its key strengths by introducing the service of biometric stations operation and maintenance. This	Photo-Me concentrates on self-service solutions provided on the global market (a trade-off with higher interaction with clients, personal assistance, and establishing close customer relationships within a local market). The improvements suggested above support self-service and are only possible on a global scale. Small rivals will not be able to imitate the strategy as they do not possess enough scale and scope to introduce global e-commerce, or organize a comprehensive start-up community with such a vast number of subscribers. Both international and local rivals will have difficulties in copying co-creation	Web community, the Cloud storage, and user IDs will deliver value to the clients through a new channel – the Internet. Photo-Me apps (looking for prices, locations) and video tutorials on how to use the machines support the self-service concept. Also, the apps, the Cloud, and the Club are comparatively inexpensive ways of locking customers in: Photo-Me adds new value to poorly differentiated mass market value proposition while supporting its low-cost strategy.
			All the suggested improvements support the company's self-service concept; thus, most of Photo-Me's rival using personal assistance to deliver services will not have the need to copy the strategy (a trade-off). Local competitor will not need Cloud storages and user IDs as they do not have such a wide customer base; they also do not have scope and scale to be able to stay profitable while implementing such changes. Being the

	trade-off will prevent rivals from copying the strategy and create long-term competitive advantage. Photo-Me possesses necessary scope and scale (unlike rivals) to implement such strategy.	concept, as they do not possess such an extensive global scale and a large product portfolio as Photo-Me. Also, most of Photo-Me's global rivals do not stress self-service concept (they do not focus on booth operation, but on booth sale or rental) and will not need to imitate the strategy that is focused on self-service.  Implementing the changes mentioned above will boost Photo-Me's rental and sales profits, without shifting the company's focus from low-cost self-service business model. Co-creation is expensive, but it will benefit the biometrics solution division as well.	only global photo-booth operator, Photo-Me can collect data on booth users to improve services and create a Web community large enough to survive, while its global booth rental and sales competitors cannot (they do not operate the booth and such innovations will be hard to coordinate with many different booth owners, they also do not possess such an intricate telemetry that will gather data).
<b>Fit</b>	Biometric solutions will use the same support systems and are only possible due to Photo-Me's developed operational expertise and extensive sales and after-sales servicing. They will share the co-creation activity with the booths for the B2B market.	The co-creation concept will serve governments and booth buyers and renters.  The improvements support the company's PRM and sales and after-sales servicing activity, as well as the self-service concept.	User IDs will improve the company's marketing and services (by collecting data on users and their interaction with the brand). They will enable the service of targeted marketing for the company's partners.  The improvements are possible due to the company's customer focused R&D and economies of scope. They support the self-service concept.
<b>Continuity Over Time</b>	As biometric ID market is growing, <sup>219</sup> the strategy offers an opportunity for long-term profitability. Since the establishment, the company has been focused on booth operations and the strategy supports this focus.	The improvements support the self-service concept of the company that was its focus since the establishment. Creating the club will offer long-term customer loyalty. As more commerce is administered via smartphones and the Internet, <sup>220,221</sup> e-shop is indispensable for long-term profitability. As the Internet makes buying choices easier and absolute value becomes increasingly important, transparency is needed to keep pace with the time and be profitable in the long run.	The improvements support the self-service concept of the company that has been its focus since the establishment. Creating the club will offer long-term customer loyalty. User IDs and the Cloud will lock customers in for long-term customer relationships and profitability.

Strategic Alternative (3) – developing greener services – was not chosen as it does not address critical issues of Photo-Me (currently, the company uses recyclable materials and it suffices to minimize the footprint) and does not promise a significant increase in Revenue in the short and middle terms, which is a key issue for the company. Also, the strategy would have to be combined with some other strategic moves, e.g., expansion into the Asian market with solar-powered machines, in order to become inimitable for rivals, because it does not require significant trade-offs.

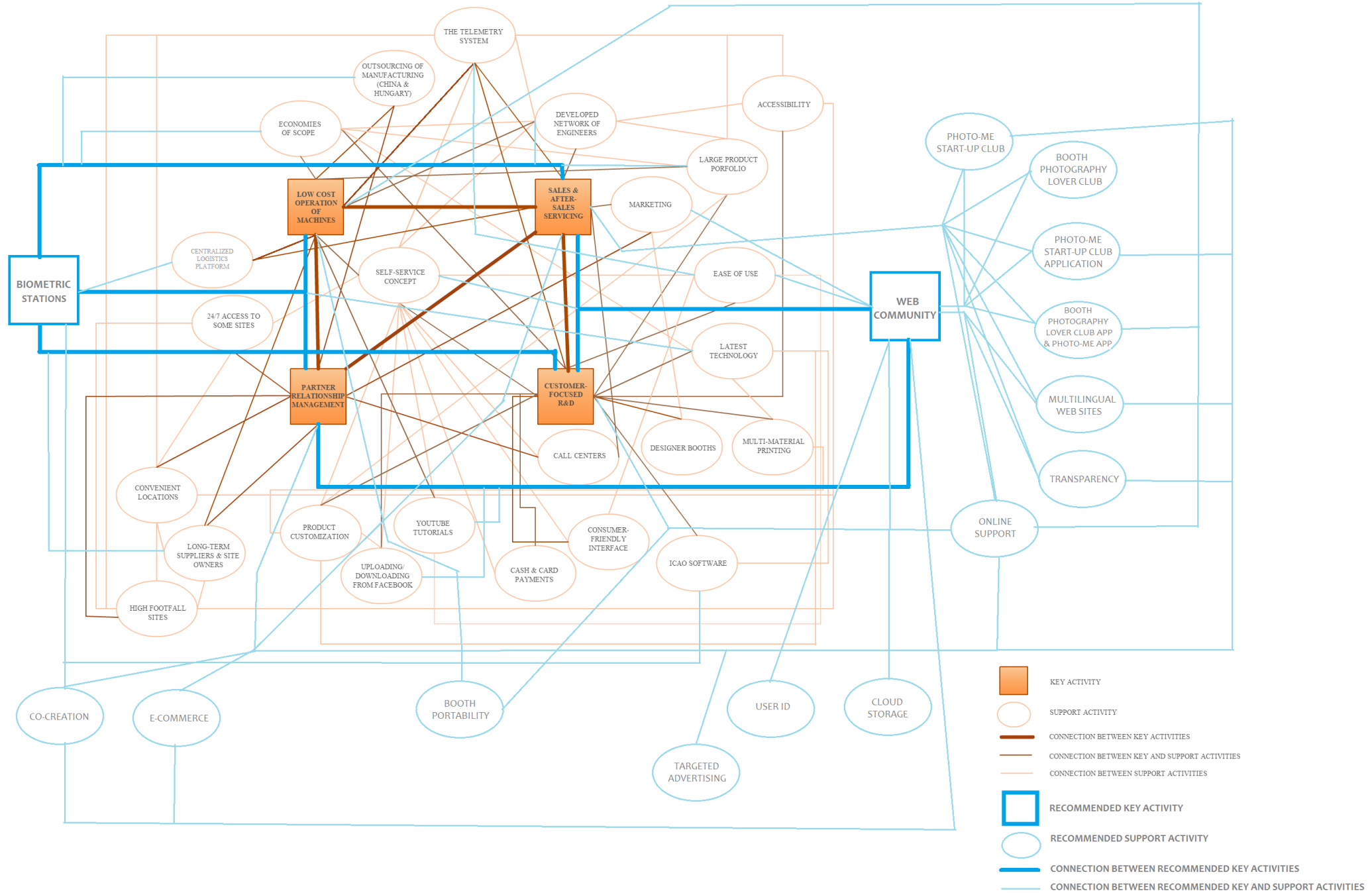
Strategic Alternative (5) – expansion into Asian markets and penetration into existing markets with new locations for fun photography – was not chosen as the company would not be able to adopt many strategies at once and the other strategies promise higher profitability along with addressing the key issue of boosting customer loyalty and, therefore, were given precedence. Also, Asian rivals provide low-cost solutions to their own markets (e.g., local photo

<sup>219</sup> “Global Biometric Authentication & Identification Market 2015,” *PR Newswire*.

<sup>220</sup> “B2C E-commerce Sales Worldwide from 2012 to 2018 (in Billion U.S. Dollars),” *statista*, accessed November 15, 2015, <http://www.statista.com/statistics/261245/b2c-e-commerce-sales-worldwide/>.

<sup>221</sup> “Statistics and Market Data about E-commerce,” *statista*, accessed November 15, 2015, <http://www.statista.com/markets/413/e-commerce/>.

Figure 9. Photo-Me's Recommended Activity System Map, 2015





ateliers) and have a better understanding of the local markets and competing with them on price would be difficult. Moreover, developing countries might not bring significant Revenue to the company as there are still few middle-income buyers, which is why Photo-Me prefers expanding in developed markets within Asia, such as Japan and Singapore. Penetration into existing markets with new locations for fun photography seem to promise less profit than other strategic alternatives and is not a strategy that significantly diversifies the company's value proposition as compared to other strategies.

## 1 CONCLUSION

The present thesis answers the question *“How can Photo-Me restructure its photo booth business so that it can survive and be profitable in the face of major changes in the photo booth market?”* The analysis of the company and its external environment allows to suggest that Photo-Me should adopt three strategic alternatives to increase the lucrativeness of the photo booth estate: (1) **related diversification** – the company will operate and sell portable biometric stations to governments and provide full after-sales support to capitalize on the growing biometric ID market, (2) the company will **disrupt** the vending machines market by creating a unique worldwide Web community to increase the profitability of the B2B rental and sales businesses and to boost loyalty of mass customers by locking them in and providing them with new added value (e.g., Cloud storage), (3) Photo-Me will introduce new customer-oriented services of co-creation, booth portability, and targeted advertising (the strategy of **product development**) – co-creation within the B2G and B2B markets will boost Revenue by increasing the number of orders (clients will opt for customized booths as they will pay only for needed features), portable booths will reduce Inventory and Shipment Costs, and targeted advertising will create a new Revenue stream as business clients will pay Photo-Me for advertising their services through the company's booth and applications to their target markets.

All the suggestions build upon Photo-Me's key activities of low-cost operation, PRM, sales and after-sales servicing, and customer-focused R&D. They enhance the B2B, B2G, and B2C value propositions and address the problem of creating a loyal customer base. The company's new vision statement is supported by the proposed strategies. Since Photo-Me's developed after-sales support, low-cost focus, economies of scale and scope are essential for implementing the strategic suggestions, rivals would find it difficult to imitate the strategy. Thus, the strategy promises long-term profitability as it requires trade-offs, necessitates Photo-Me's unique value chain, fits in among the company's key activities, boosts customer loyalty by improving the value propositions, and can be continuous over time.

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127. "Who We Are." Digital Centre. Accessed April 27, 2015. <http://www.digital-centre.com/who-we-are-digital-centre.html>.
128. "What We Do." Photo-Me International plc. Accessed April 25, 2015. <http://www.photo-me.co.uk/about-us/what-we-do/>.
129. "Worldwide Governance Indicators." *The World Bank*. Accessed September 27, 2015. <http://data.worldbank.org/data-catalog/worldwide-governance-indicators>.
130. Zybell, Uwe. "Partner management – managing service partnerships in the supply chain – a systemic perspective." *International Journal of Physical Distribution & Logistics Management* 43, no. 3 (2013): 231-261. Accessed September 23, 2015. <http://dx.doi.org/10.1108/IJPDLM-10-2011-0173>.

## APPENDICES

### Appendix 1. Restructuring of Photo-Me’s Sales & Servicing Division

Up until 2014, the company divided its activities into two business divisions – **Operations** (Operations “comprise[d] the operation of unattended vending equipment, in particular photo-booths, digital printing kiosks, laundry machines, amusement machines, and business service equipment”<sup>222</sup>) and **Sales and Servicing** (Sales and Servicing “comprise[d] the development, manufacture, sale, and [after-sales] servicing of this Operations equipment and a range of photo-processing equipment, including photo-book makers, kiosks, and minilabs, together with the servicing of other third-party equipment”<sup>223</sup>). In 2015, the company restructured its Sales and Servicing division<sup>224</sup> as the minilab business that was previously the part of the division kept declining (in 2015, the loss caused by the minilab business amounted to £2.700.000); Photo-Me does not single the division out as a separate line of business in its Annual Report of 2015.

### Appendix 2. Members of Photo-Me’s Board of Directors

The members of Photo-Me’s board of directors are:

☉ **John Lewis**, *the Chairman of the Board, the Chairman of the Nomination Committee, and a member of the Audit and Remuneration Committee* (joined the Board in 2008); Lewis manages the entire board of directors;<sup>225</sup>

☉ **Serge Crasnianski**, *the Chief Executive Officer and the Deputy Chairman of the Board* (appointed to the board in 2009); Crasnianski “has responsibilities for strategy, operations and results.”<sup>226</sup> Crasnianski also owns the largest share in the company – 21,38% of the total voting rights;<sup>227</sup>

☉ **Françoise Coutaz-Replan**, previously *the Group Finance Director* (appointed to the Board in 2009).<sup>228</sup> As of August 27, 2015, Coutaz-Replan has retired from the Finance Director

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<sup>222</sup> Introduction to “Annual Report 2014,” *Photo-Me International plc*.

<sup>223</sup> *Ibid.*

<sup>224</sup> “Annual Report & Accounts 2015,” *Photo-Me International plc*: 16.

<sup>225</sup> *Ibid.*, 22, 26.

<sup>226</sup> *Ibid.*, 22.

<sup>227</sup> *Ibid.*, 24.

<sup>228</sup> *Ibid.*, 22, 26.

position and become a non-executive director of the company. **Gabriel Pirona** has been appointed the Interim Finance Director,<sup>229</sup> but he “will not join the board.”<sup>230</sup>

☉ **Emmanuel Olympitis**, *the Senior Independent Non-executive Director, the Chairman of the Remuneration Committee, and a member of the Nomination and Audit Committees* (appointed to the Board in 2009);<sup>231</sup>

☉ **Jean-Marcel Denis**, *the Non-executive director, the Chairman of the Audit Committee, and a member of the Nomination and Remuneration Committees* (appointed to the Board in 2012);<sup>232</sup>

☉ **Yitzhak Apeloig**, *the Non-executive director* (appointed to the Board in 2012).<sup>233</sup>

### Appendix 3. Latest Major Shake-Up in Photo-Me’s Board of Directors

The latest major shake-up of the Board happened in 2007, when Photo-Me was bleeding cash due to the changes in the booth and minilab market (namely the introduction of new ICAO machine readable passports<sup>234,235</sup> and the decline in the demand for film and, consequently, the demand for minilab services<sup>236,237</sup>) and “as a result of one-off charges of GBP14.8m ... and the accelerated depreciation of some booths, which cost ... [the company] a further GBP 5m.”<sup>238</sup> At that point Crasnianski, the company’s CEO, resolved to sell off Photo-Me’s entire vending division that included 21,000 photo booths and brought in ¾ of the company’s revenue.<sup>239</sup> In response, one of the major investors of the company Principle Capital, “the investment fund headed by activist Brian Myerson”<sup>240</sup> which owned 10% of the company’s shares, demanded that 4 members of the Board were immediately fired on the pretext of the Board being

<sup>229</sup> “Photo-Me International Finance Director Coutaz-Replan Retires,” *London Stock Exchange*, last modified August 27, 2015, <http://www.londonstockexchange.com/exchange/news/alliance-news/detail/1440677241662183700.html>.

<sup>230</sup> Jonathan Jones, “Photo-Me Announces Management Reshuffle,” *Proactive Investors*, last modified August 27, 2015, <http://www.proactiveinvestors.co.uk/companies/news/110350/photo-me-announces-management-reshuffle-110350.html>.

<sup>231</sup> *Ibid.*

<sup>232</sup> *Ibid.*

<sup>233</sup> *Ibid.*

<sup>234</sup> Angela Kim, “ICAO Issues Passport Standards; Plans Meeting about MRPs,” *Aviation Daily* 361, no. 8 (Jul 13, 2005): 3, <http://search.proquest.com/docview/218000457?accountid=159230>.

<sup>235</sup> “Machine Readable Passports to be Released Worldwide by 2010: ICAO,” *Xinhua News Agency – CEIS*, last modified July 12, 2005, <http://search.proquest.com/docview/452752536?accountid=159230>.

<sup>236</sup> Jerry Lansky, “Photo-Me Restructures U.S. Distribution Amid Top Management Changes at Home,” *Photo Trade News* 71, no. 12 (12, 2007): 30, <http://search.proquest.com/docview/195443162?accountid=159230>.

<sup>237</sup> Machiko Ouchi, “Digital Sales Slow as Film Sales Decline,” *Photo Trade News* 70, no. 5 (05, 2006): 26, <http://search.proquest.com/docview/195440245?accountid=159230>.

<sup>238</sup> Malar Velaigam, “Photo-Me Develops Losses,” *Investors Chronicle* (July 14, 2008), accessed September 12, 2015, <http://search.proquest.com/docview/236253979?accountid=159230>.

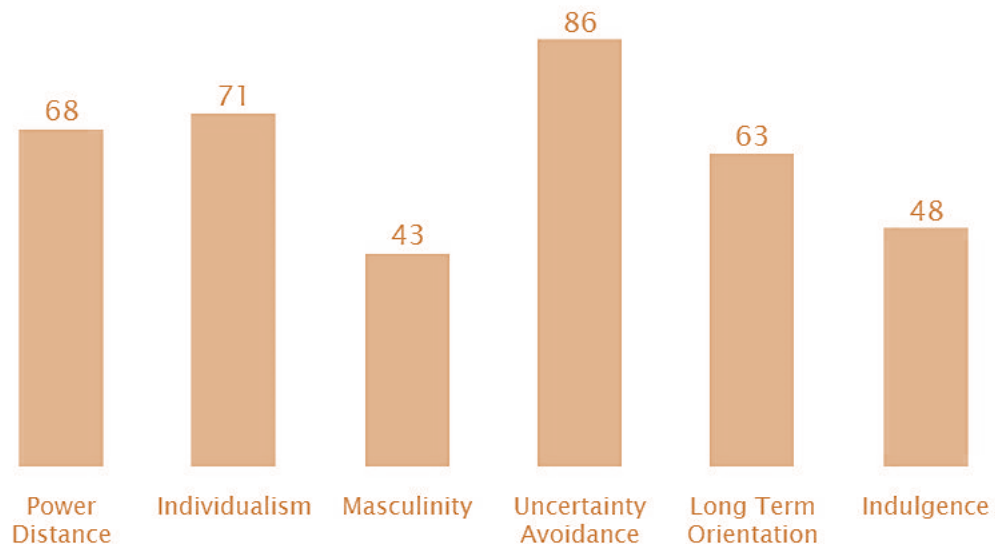
<sup>239</sup> “Out of Focus Photo-Me Faces Up to Weakness in Revenues,” *Birmingham Post* (November 30, 2007), accessed September 12, 2015, <http://search.proquest.com/docview/324233786?accountid=159230>.

<sup>240</sup> “Photo-Me Truce with Rebel Investor,” *Daily Mail* (July 06, 2007): 14, accessed September 12, 2015, <http://search.ebscohost.com/login.aspx?direct=true&db=bwh&AN=25681781&lang=cs&site=ehost-live>.

‘incompetent.’<sup>241</sup> Later, Principal Capital and Cycladic Capital, the fund that owned 8,2% of Photo-Me’s shares, also demanded that the CEO and the chairman of Photo-Me should go as they deliver “‘unsatisfactory’ operational performance”.<sup>242</sup> The demands of two investors were fully satisfied, and four non-executive members of the board together with Crasnianski and chairman Vernon Sankey were ousted.<sup>243,244</sup> Crasnianski was reappointed as Photo-Me’s CEO in 2009 as his successor was unable to satisfy the shareholders.

As Crasnianski reestablished himself in the CEO’s position, he gradually brought Photo-Me back to its former glory. The rigid management style prevailing in the company, however, remained unaltered.

#### Appendix 4. Hofstede’s Country Scores for France



Source: *The Hofstede Centre*, <http://geert-hofstede.com/france.html>.

Hofstede’s Country Scores for France provide an insight into what Photo-Me’s French-oriented organizational culture is like.

The **Power Distance** score of 68 signals that subordinates respect the commands of superiors and the power distance between senior, middle, and line managers is quite high. Senior managers receive considerable benefits and privileges, while line managers and other employees have almost none.<sup>245</sup> The **Individualism** score of 71 indicates that individual employees think

<sup>241</sup> “Photo-Me Directors Axed,” *British Journal of Photography*, Vol. 154 (August 1, 2007): 5, accessed September 12, 2015, <http://search.ebscohost.com/login.aspx?direct=true&db=asu&AN=505224980&lang=cs&site=ehost-live>.

<sup>242</sup> “Shareholder Groups Focus on Removing Photo-Me’s Chairman,” *Western Mail* (August 24, 2007), <http://search.proquest.com/docview/341651087?accountid=159230>.

<sup>243</sup> Ibid.

<sup>244</sup> “Photo-Me Shares Fall After Profit Warning,” *The Independent* (November 30, 2007): 56, accessed September 12, 2015, accessed September 12, 2015, <http://search.proquest.com/docview/311406137?accountid=159230>.

<sup>245</sup> “France, Country Comparison,” *The Hofstede Centre*, accessed September 15, 2015, <http://geert-hofstede.com/france.html>.

more about their own prosperity than about the company's well-being. Employees are not eager to work in groups. The **Masculinity** score of 43 means that employees are not driven by "competition, achievement and success,"<sup>246</sup> but rather they concentrate on their own well-being. They give preference to family and not to career. The **Uncertainty Avoidance** score of 86 means that employees like it when work is structured and thoroughly regulated. The **Long-Term Orientation** score of 63 indicates that employees are risk-adverse, pragmatic, and thrifty.<sup>247</sup> Lastly, the **Indulgence** score of 48 shows that, in general, the French are not easily tempted and are not impulsive.

## Appendix 5. Employee Involvement & CSR in Photo-Me

Photo-Me claims to promote employee involvement through various networking media<sup>248</sup>:

The Company's employees are a valued integral part of the business and the Company's achieving success in key business objectives. As such it is the Company's policy to provide colleagues with appropriate financial and other various information about the business, encouraging employee engagement, and to enthuse and inspire its work force through a network of media, such as [1.] **business networking tools** whereby we encourage synergies among colleagues and the businesses, sharing ideas and best practices,[2.] **quarterly internal newsletters** providing news relating to the business performance and key Group updates, as well as vacancies and policy updates, [3.] **monthly operational meetings** for business leaders across the Group to engage with colleagues, providing business and local updates, encouraging interactive feedback to ensure they are kept informed of the Group's performance and of the financial and economic factors affecting the Company's and the Group's performance. Despite the Group's de-centralized approach, the Company ensures that it has a common culture among the workforce throughout the entire Group achieved through openness, honesty and a common goal, focused on core values.

However, the excerpt indicates once again that Photo-Me's employee motivation is weak: tools such as newsletters are not extremely effective in uniting employees for achieving common goals, the performance of the company and reaching objectives seem to be the center of the discussion, employees are called 'workforce', benefits that employees could earn are not mentioned, 'a common culture' is built by imposing French culture on employees and not through unity of various cultures and unity for reaching 'a common goal'.

Photo-Me also strives to promote a CSR-oriented culture recognizing that the company's CSR "can influence [its] ability to create long-term financial and non-financial value, ... impacts

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<sup>246</sup> Ibid.

<sup>247</sup> Ibid.

<sup>248</sup> "Annual Report 2014," *Photo-Me International plc*: 33.

on [Photo-Me's] relationship with shareholders and other stakeholders"<sup>249</sup>, and helps to identify new business opportunities. Three main drivers of Photo-Me's CSR are "[1] legal requirements and future policy trends, [2] customer, employee, and investor preferences for corporate responsibility, and [3] cost savings and business efficiency."<sup>250</sup> However, 'investor preferences' are not sufficient to motivate employees to be socially responsible. Photo-Me does not mention 'improving the life of communities in the countries where it operates' as the driving force of its CSR; instead, Photo-Me names cost savings and legal requirement as the driving force making its CSR policy sound like a forced and solely materialistic activity.

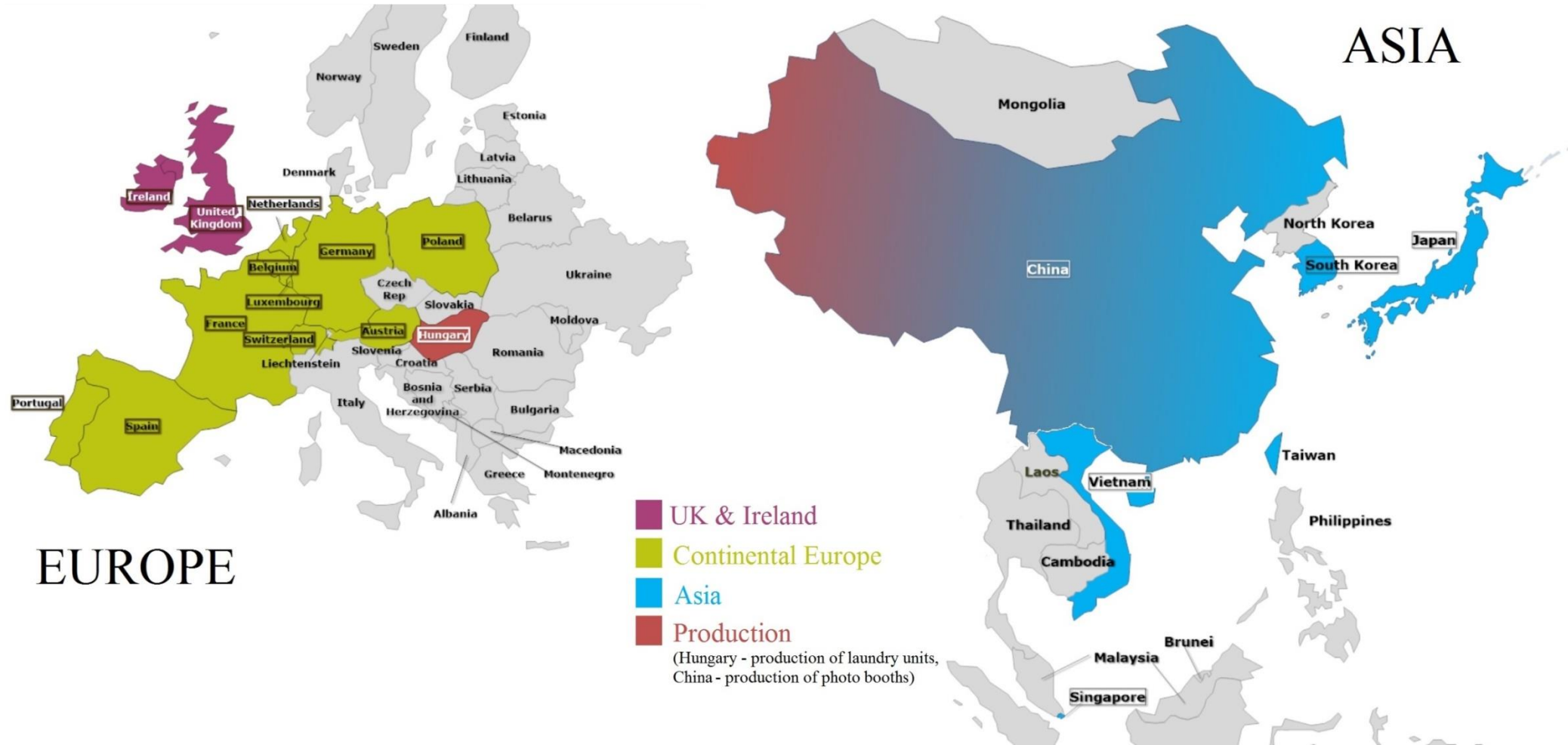
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<sup>249</sup> Ibid., 32.

<sup>250</sup> Ibid.



### Appendix 6. Photo-Me's Main Markets, 2015



Data retrieved from: Photo-Me International plc, [http://investor.photo-me.com/downloads/pdf/ar/Photo-Me\\_2015\\_AR.pdf](http://investor.photo-me.com/downloads/pdf/ar/Photo-Me_2015_AR.pdf).

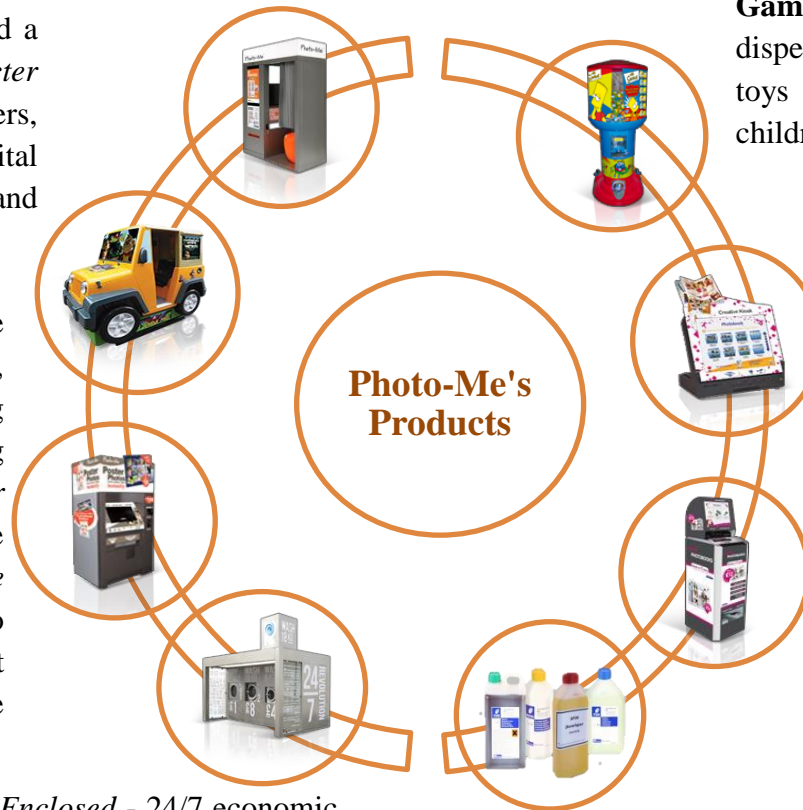
## Appendix 7. Photo-Me's Products, 2015

**Photo booths:** *KIS Booth* with a state-of-the-art camera and real-time ICAO standards checking system, easily transportable and assembled *Event Booth* whose external poster photographs can be branded as clients wish, *Photo-Me by Starck* – booth designed by Philippe Stark that produces passport and fun photos, and allows to upload results to Facebook, *Easybooth* that creates fun and ICAO-compliant passport photos, *Universal Booth* that can be used by the disabled, *Mini Booths* that offer same products, but occupy less space, *Vintage* – a replica of the 1970's photo booth, solar-powered *Photovoltaic ID Booth*.

**Children's rides:** *Carousels*, *Vending Rides* (ride and a toy dispenser), 15 different *Generic Rides*, *Character Licensed Rides* that look like popular cartoon characters, *Simulators*, *Interactive Rides* for older kids with digital screens, a choice of videos, and stereo sound, *Sweet* and *Toy Dispensers*.

**Digital kiosks:** *Speedlab Case Kiosk* – a self-service kiosk that produces customized smartphone cases, *Speedlabs* – high added-value printing and scanning kiosks with low maintenance costs, many editing options, and user-friendly interfaces, *Instant Poster Kiosk* – kiosks that create single-image and collage posters in 5 minutes, *Speedlab Bio* and *Speedlab Cube* – a speedlab designed by Philippe Stark, allows to print from Facebook and order gifts, *Wall'N Go* that allows customers to get customized wallpaper (single strip, image wall, banner).

**Laundromats:** *Revolution*, *KIS Wash*, and *KIS Wash Enclosed - 24/7* economic heavy-duty outdoor self-service launderettes with a built-in hypoallergenic washing liquid pump and easy access for the disabled, heavy-duty *High Spin Washer Extractors* with low water and electricity consumption, eco-friendly *Tumble Dryer* which automatically identifies the optimal length of a cycle and the optimal drum spinning speed.



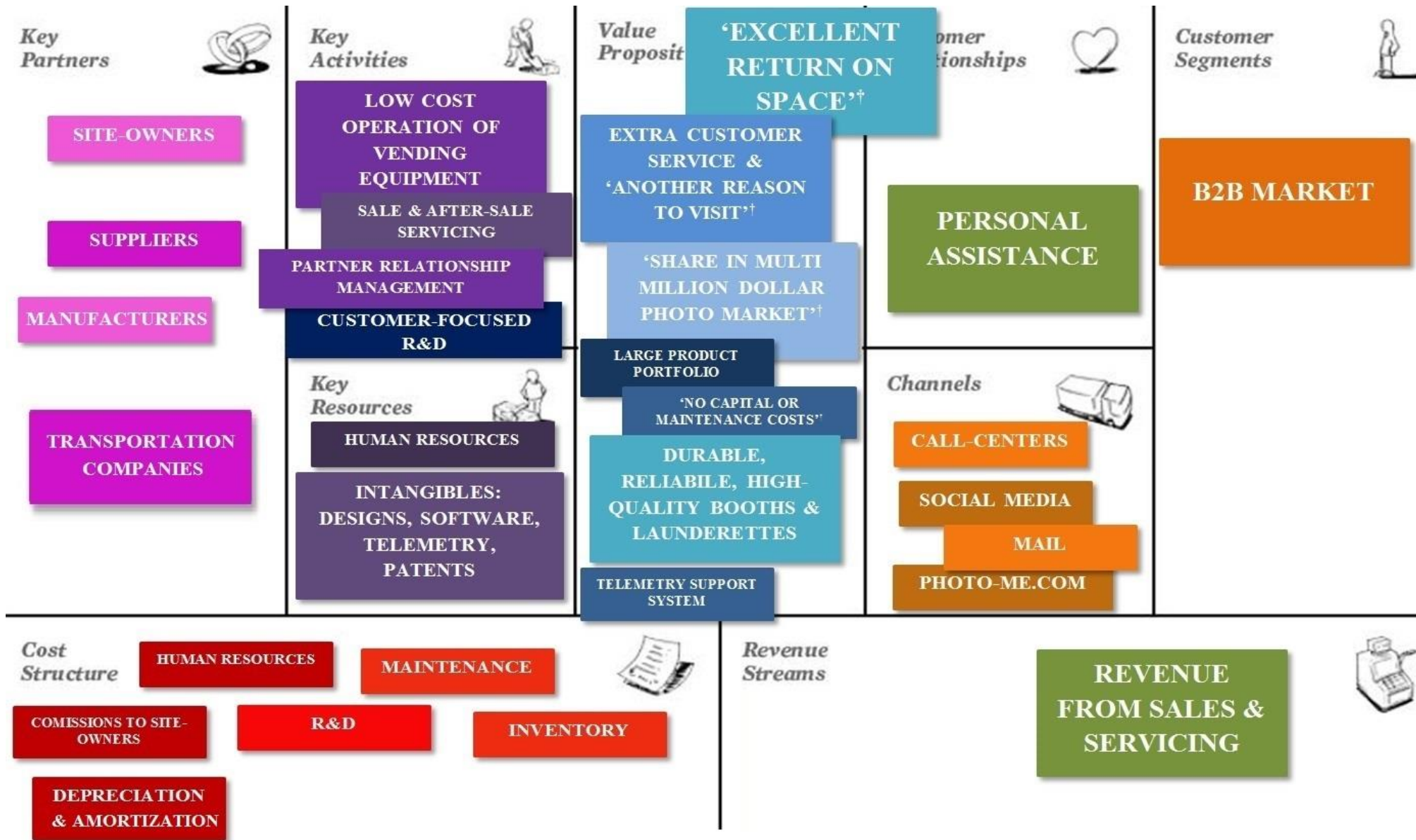
**Game machines:** *the Bouly machine* that dispenses toys, *Crane* where children pull out toys with a crane, *Pileup* and *Stacker* where children stack moving locks.

**Minilabs:** *Creative Print Station* – desktop kiosk that allows customers to send prints to a printer or lab, *Creative kiosk* – desktop kiosk with a printer and many photo-processing options, *DKS Series 18, 17, and 16* –minilabs that allows customers create frames, photo albums, mosaics, calendars, collages, greeting cards, bookmarks, etc.

**Photo book makers:** *My Pocketbook* that prints pocket-size photo albums in a few seconds, *Photobook Maker* – fully-automated, one-stop album maker which prints personalized high-quality photo books, low-cost *Photobook Builder* that pairs up with minilabs to print albums and greeting cards, small *Photobook Pro* that prints albums on photographic paper in a few seconds.

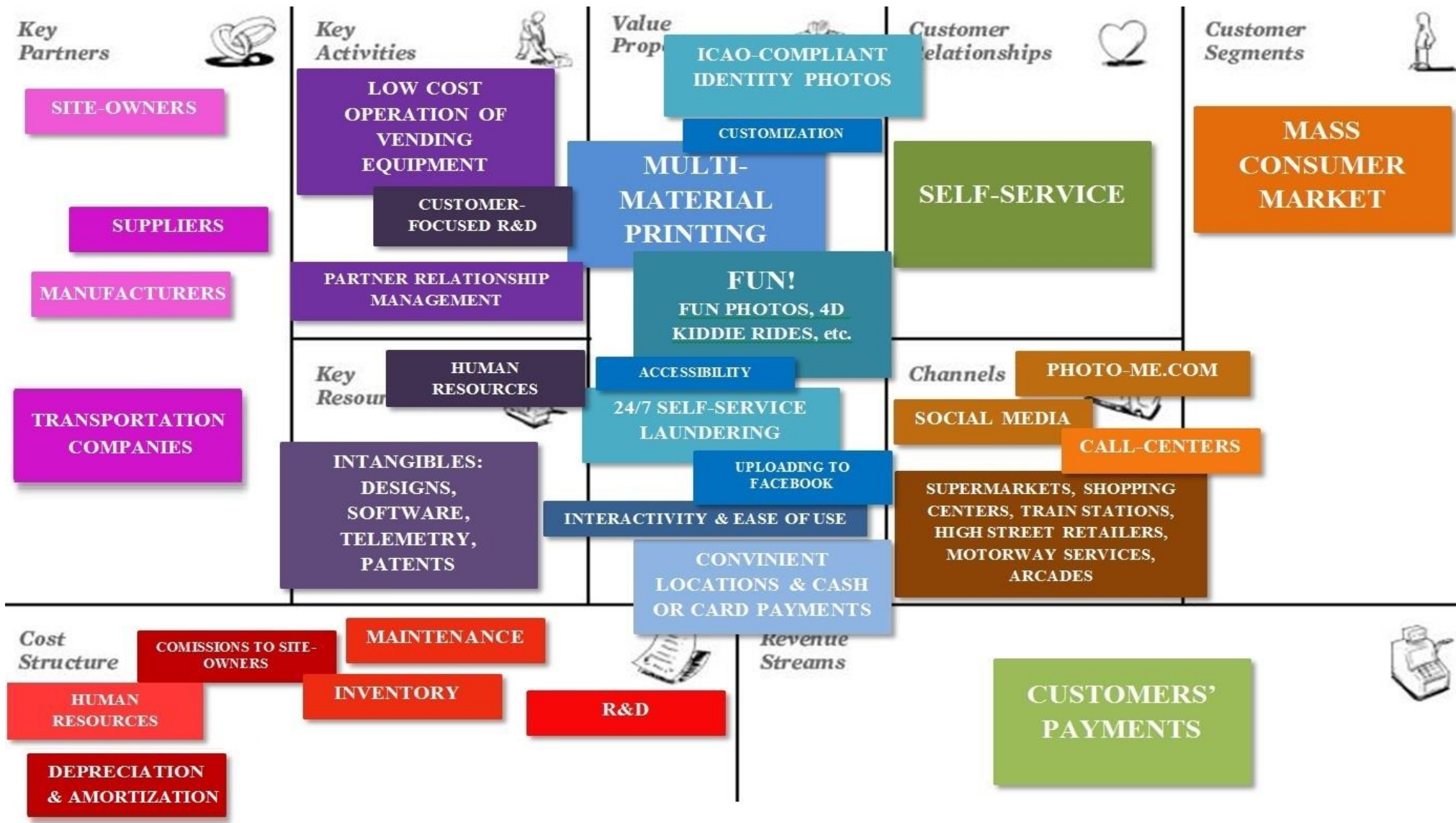
**Consumables:** photographic paper, developers, and photographic products.

**Appendix 8. Photo-Me’s Business Model Canvas for B2B Market, 2015**

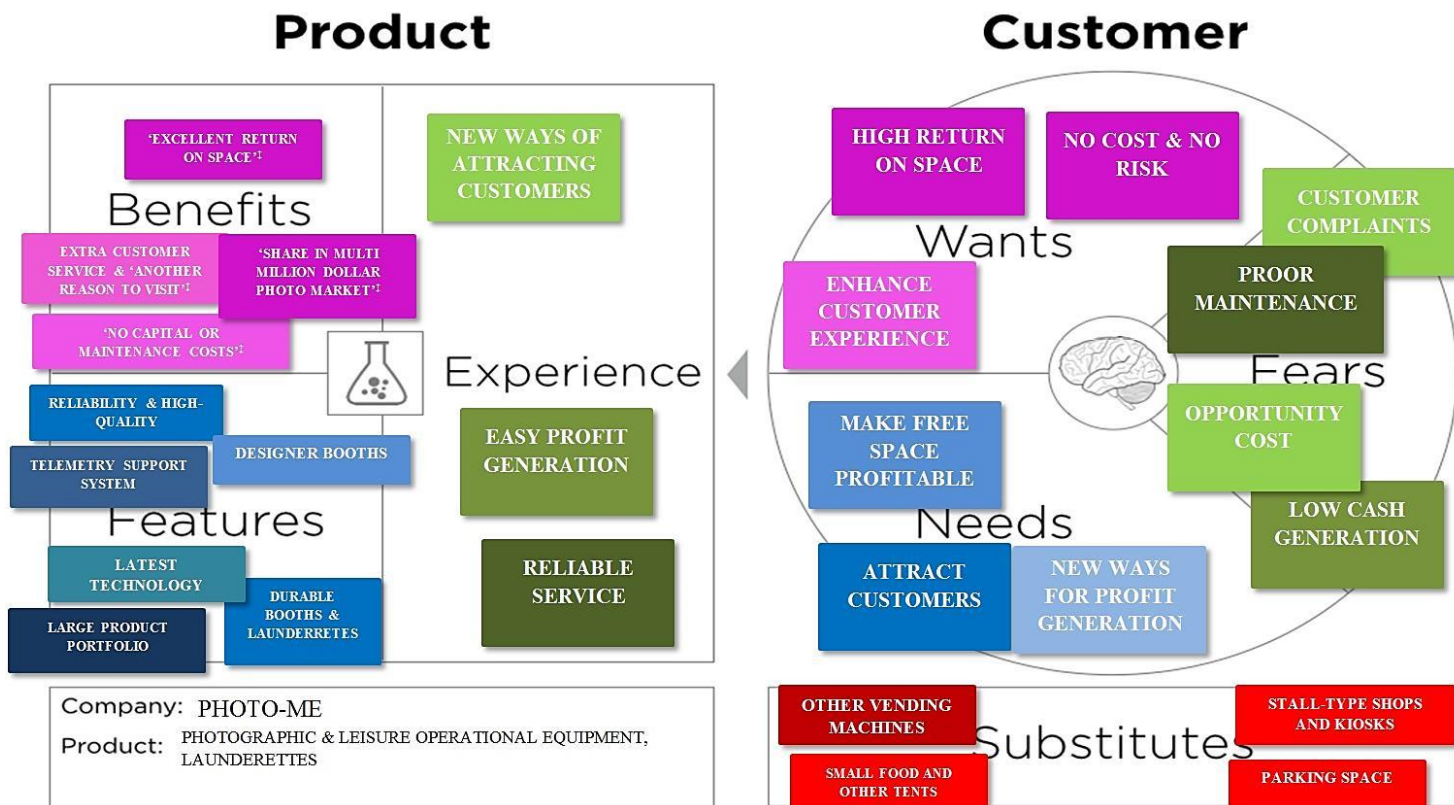


† Photo-Me International plc, <http://www.photo-me.co.uk/retailers/>.

**Appendix 9. Photo-Me’s Business Model Canvas for B2C Market, 2015**



## Appendix 10. Photo-Me's B2B Value Proposition Canvas, 2015

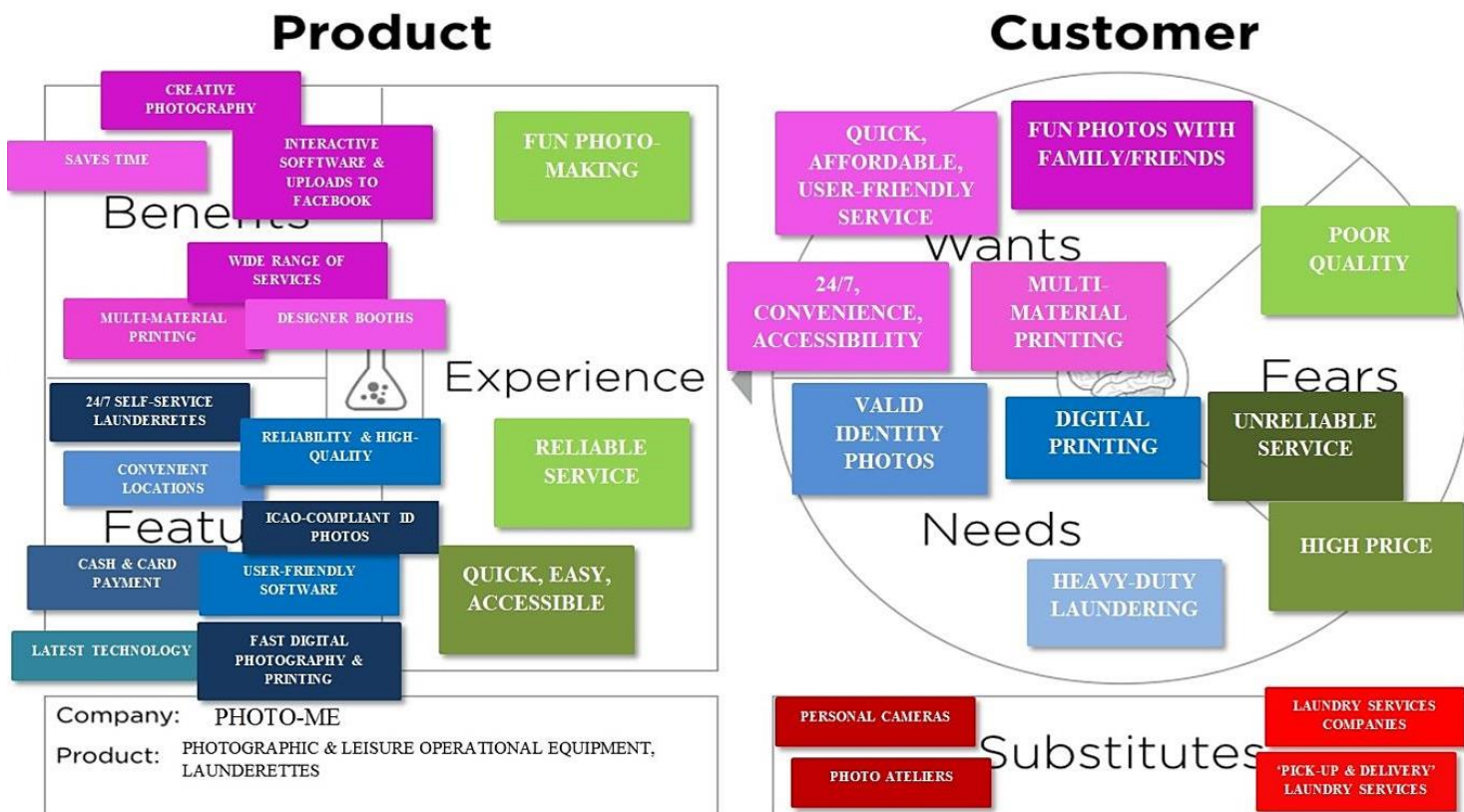


<sup>†</sup> Photo-Me International plc, <http://www.photo-me.co.uk/retailers/>.

Using Moore's model,<sup>251</sup> Photo-Me's value proposition for business clients can be formulated as follows: for B2B clients who are dissatisfied with a missed opportunity to capitalize on free space and want to attract/retain customers, Photo-Me offers a large portfolio of unattended vending equipment (including designer and eco-friendly machines) that delivers high return on space. Unlike other operators of vending equipment and substitute services, such as tents and kiosks, Photo-Me offers its clients services that are cost- and risk-free and are provided by a recognized brand, services that satisfy the everyday needs of the growing low- and middle-income markets, and an excellent after-sales support through the unique telemetry system.

<sup>251</sup> Geoffrey A. Moore, *Crossing the Chasm*, (New York: PerfectBound, 1991), 114, accessed September 22, 2015, [http://www.rotoplast.com.br/upfile\\_admin/arquivos/arquivos/file/Crossing%20the%20Chasm.pdf](http://www.rotoplast.com.br/upfile_admin/arquivos/arquivos/file/Crossing%20the%20Chasm.pdf).

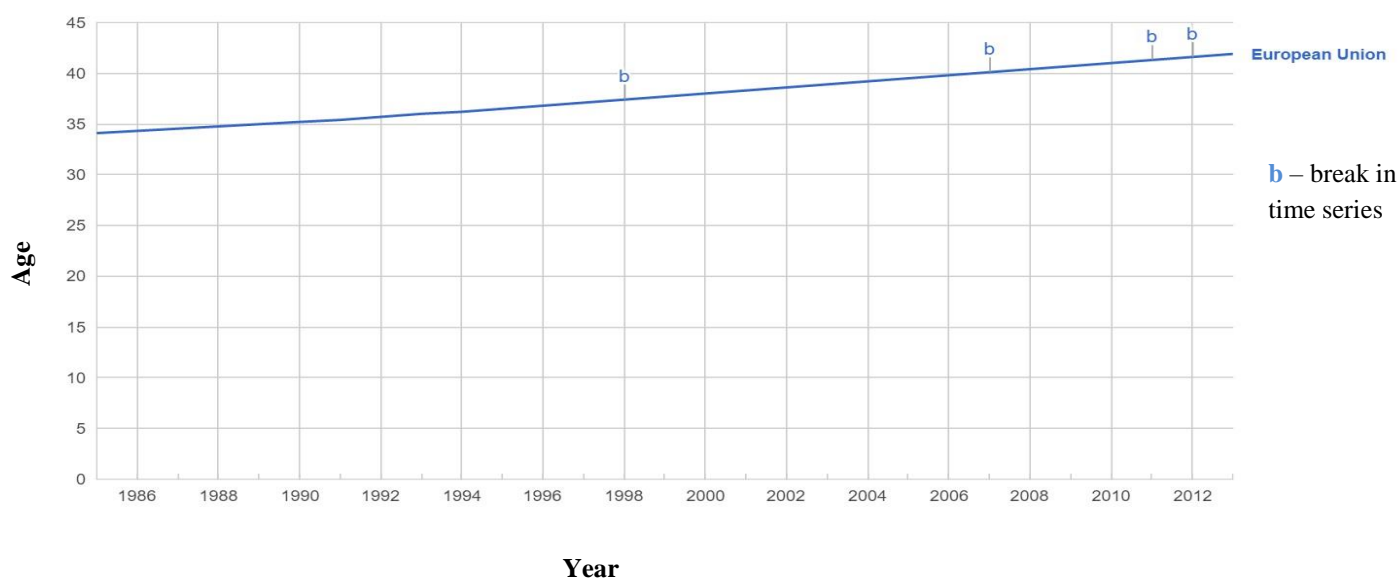
## Appendix 11. Photo-Me's B2C Value Proposition Canvas, 2015



Using Moore's model,<sup>252</sup> Photo-Me's value proposition for mass customers can be formulated as follows: for B2C clients that are dissatisfied with high-priced unreliable poorly accessible digital and laundry services, Photo-Me offers self-service photo booths, printing kiosks, and laundromats that are readily accessible in many high traffic locations and provide a full range of photographic, printing, and laundering solutions. Unlike other photo booths, photo ateliers, and laundry services companies, Photo-Me's services are low-priced (no attendants, no high rental payments), highly customizable, quick, allow customers to interact with the social media, reliable (the ICAO software that tracks latest passport standards real-time), and convenient (a 24/7 access to some machines, cash and card payments, a disabled access).

<sup>252</sup> Ibid.

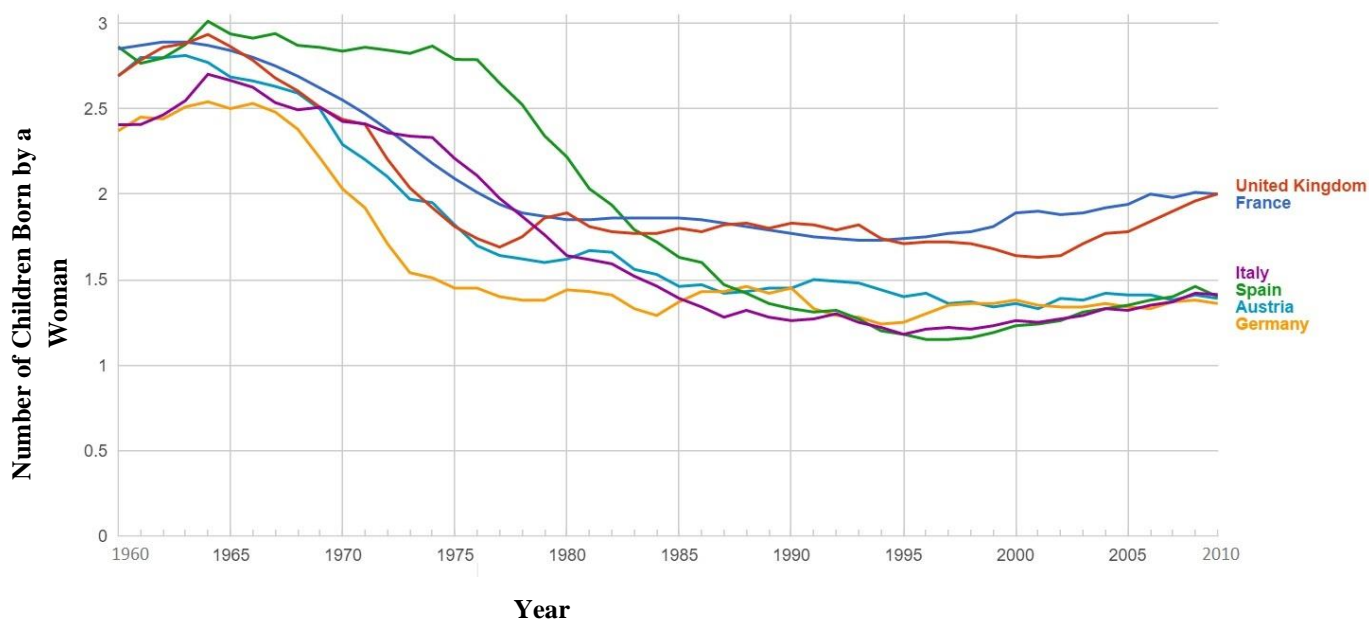
## Appendix 12. Median Age of Population in the European Union in the Years 1986 – 2012



Source: Google (graph) and Eurostat (data),

[http://www.google.com/publicdata/explore?ds=mo4pjipima872\\_&ctype=l&met\\_y=median\\_age&hl=en&dl=en#!ctype=l&strail=false&bcs=d&nslm=h&met\\_y=median\\_age&scale\\_y=lin&ind\\_y=false&rdim=country\\_group&idim=country\\_group:aggregate:eu&ifdim=country\\_group&hl=en\\_US&dl=en&ind=false](http://www.google.com/publicdata/explore?ds=mo4pjipima872_&ctype=l&met_y=median_age&hl=en&dl=en#!ctype=l&strail=false&bcs=d&nslm=h&met_y=median_age&scale_y=lin&ind_y=false&rdim=country_group&idim=country_group:aggregate:eu&ifdim=country_group&hl=en_US&dl=en&ind=false)

## Appendix 13. Fertility Rate in Selected European Countries in the Years 1960 -2010



Source: Google (graph) and World Bank (data), [http://www.google.com/publicdata/explore?ds=wb-wdi&met=sp\\_dyn\\_tfrt\\_in&idim=country:GBR&dl=en&hl=en&q=fertility+rates#!ctype=l&strail=false&bcs=d&nslm=h](http://www.google.com/publicdata/explore?ds=wb-wdi&met=sp_dyn_tfrt_in&idim=country:GBR&dl=en&hl=en&q=fertility+rates#!ctype=l&strail=false&bcs=d&nslm=h)

[http://www.google.com/publicdata/explore?ds=wb-wdi&met=sp\\_dyn\\_tfrt\\_in&idim=country:GBR&dl=en&hl=en&q=fertility+rates#!ctype=l&strail=false&bcs=d&nslm=h&met\\_y=sp\\_dyn\\_tfrt\\_in&scale\\_y=lin&ind\\_y=false&rdim=country&idim=country:GBR:FRA:DEU:ESP:ITA:AUT&ifdim=country&tstart=-292644000000&tend=1253656800000&hl=en\\_US&dl=en&ind=false](http://www.google.com/publicdata/explore?ds=wb-wdi&met=sp_dyn_tfrt_in&idim=country:GBR&dl=en&hl=en&q=fertility+rates#!ctype=l&strail=false&bcs=d&nslm=h&met_y=sp_dyn_tfrt_in&scale_y=lin&ind_y=false&rdim=country&idim=country:GBR:FRA:DEU:ESP:ITA:AUT&ifdim=country&tstart=-292644000000&tend=1253656800000&hl=en_US&dl=en&ind=false)

## Appendix 14. Photo-Me's Undertakings, 2015

	Principal activity	Group's interest*	Country of incorporation
<b>Subsidiary undertakings</b>			
Copyphot S.A	Operations	100%*	Switzerland
Fotofix-Schnellphotoautomaten G.m.b.H.	Operations	100%	Germany
Jolly Roger (Amusement Rides) Limited	Production	100%	England
KIS S.A.S.	Production	100%*	France
Nippon Auto-Photo Kabushiki Kaisha	Operations	100%	Japan
Photomatico (Singapore) Pte. Limited	Operations	100%	Singapore
Photomaton S.A.S.	Operations	100%*	France
Photo Me France S.A.S.	Investment	100%	France
Photo-Me Ireland Limited	Operations	100%	Ireland
Photo-Me (Shanghai) Co. Ltd.	Operations	100%*	China
Prontophot Austria G.m.b.H.	Operations	100%	Austria
Prontophot Belgium N.V.	Operations	100%	Belgium
Prontophot Holland B.V.	Operations	100%	Holland
Prontophot (Schweiz) A.G.	Operations	100%	Switzerland
SCI du Lotissement d'Echirolles	Property	61%*	France
SCI Immobilière du 21	Property	100%*	France
<b>Associated undertakings</b>			
Max Sight Limited	Operations	33%	Hong Kong
Photo Direct Pty Ltd	Sales	27%	Australia
Stilla Technologies SA	Biotechnology	8%	France

Source: Photo-Me International plc, [http://investor.photo-me.com/downloads/pdf/ar/Photo-Me\\_2015\\_AR.pdf](http://investor.photo-me.com/downloads/pdf/ar/Photo-Me_2015_AR.pdf).

In table **Photo-Me's Undertakings** above:

- ⊗ (\*) signifies that the shares of an undertaking are held by another company's undertaking. Otherwise, Photo-Me's interest in an undertaking is the same as the company's interest;<sup>253</sup>
- ⊗ **Operations** signify the operation of unattended vending equipment;<sup>254</sup>
- ⊗ **Production** signifies the purchasing and manufacture of the vending equipment;<sup>255</sup>
- ⊗ **Sales** signify "the sale of photographs and related services."<sup>256</sup>

<sup>253</sup> "Annual Report & Accounts 2015," Photo-Me International plc (2015): 103.

<sup>254</sup> Ibid.

<sup>255</sup> Ibid.

<sup>256</sup> Ibid.



## Appendix 15. The Laundering Industry Trends & Costs

Coin-op laundries are a stable industry since “clean clothes, like food and shelter, are considered a necessity of life and coin laundries provide a basic health service.”<sup>257</sup> Coin-op laundries, which “perform exceptionally well in predominately renter-occupied, densely populated areas,”<sup>258</sup> might become a growing market as the world population and the urbanization of countries increase<sup>259</sup> and rental housing expands.<sup>260</sup> “The [self-service laundering] market size grows proportionately to the increase in population”<sup>261</sup> during periods of both growth and recession.<sup>262</sup> Coin-op laundering industry “growth is based on the demographics of population density, population mix, and population income. The more concentrated the population, the greater the need for quality coin laundry facilities.”<sup>263</sup> Therefore, as the population increases and concentrates in urban regions, the demand for self-service laundrettes grows. “The end result has been a mature, stabilized industry with predictable rates of turnover and values of existing coin laundries, development of new turn-key facilities, and equipment expansion and replacement.”<sup>264</sup> Photo-Me’s heavy duty laundromats, therefore, have a vast market potential.

Starting a laundering business is costly. “Laundrettes are expensive to fit out[:] Electrolux estimates that the typical cost for five standard and two large washing machines, plus seven dryers, is £19,500.” Also, the laundrette business is difficult to develop as the price of a personal washing machine decreases and more households can afford it. Therefore, the barriers to entry of the laundering industry are slightly higher than those of the photo booth industry. However, as compared to other industries, they are still low. The government regulation of the laundering business is minimal.

## Appendix 16. Photo-Me’s Stakeholders

According to Photo-Me, the company’s key stakeholders are “site-owners, suppliers, communities, [and] regulators.”<sup>265</sup> Through site-owners Photo-Me delivers its services to customers; site-owners also provide space for Photo-Me’s machines and help the company

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<sup>257</sup> “Industry Overview,” *Coin Laundry Association*, accessed April 28, 2015 <http://www.coinlaundry.org/investor-resources/additionalinfo>.

<sup>258</sup> *Ibid.*

<sup>259</sup> Kennedy Bingham, Jr., “Climate Change Impacts and Emerging Population Trends: A Recipe for Disaster?” *Population Reference Bureau*, accessed April 28, 2015,

<http://www.prb.org/Publications/Articles/2001/ClimateChangeImpactsandEmergingPopulationTrendsARecipeforDisaster.aspx>

<sup>260</sup> “Industry Overview,” *Coin Laundry Association*.

<sup>261</sup> *Ibid.*

<sup>262</sup> “2015 Market Research Report on Coin-Operated Laundromats Industry,” *Anything Research*, accessed April 28, 2015, <http://www.anythingresearch.com/industry/Coin-Operated-Laundromats.htm>.

<sup>263</sup> “Industry Overview,” *Coin Laundry Association*.

<sup>264</sup> *Ibid.*

<sup>265</sup> “Annual Report 2014,” *Photo-Me International plc*: 2.

reduce its running costs (no rental payments) in return for a share in the machines' takings. Suppliers provide Photo-Me with consumables and materials for producing some of the company's machines; currently, Photo-Me has a single supplier of paper which creates great risks for the company should the supplier fail.<sup>266</sup> Suppliers are rewarded with payments. Communities provide the company with all necessary resources for its proper functioning, such as workforce and infrastructure; in return, Photo-Me engages in CSR activities to improve the lives of communities where it operates. Regulators assist the company in guarding its rights and inform it about various obligations in return for tax payments.

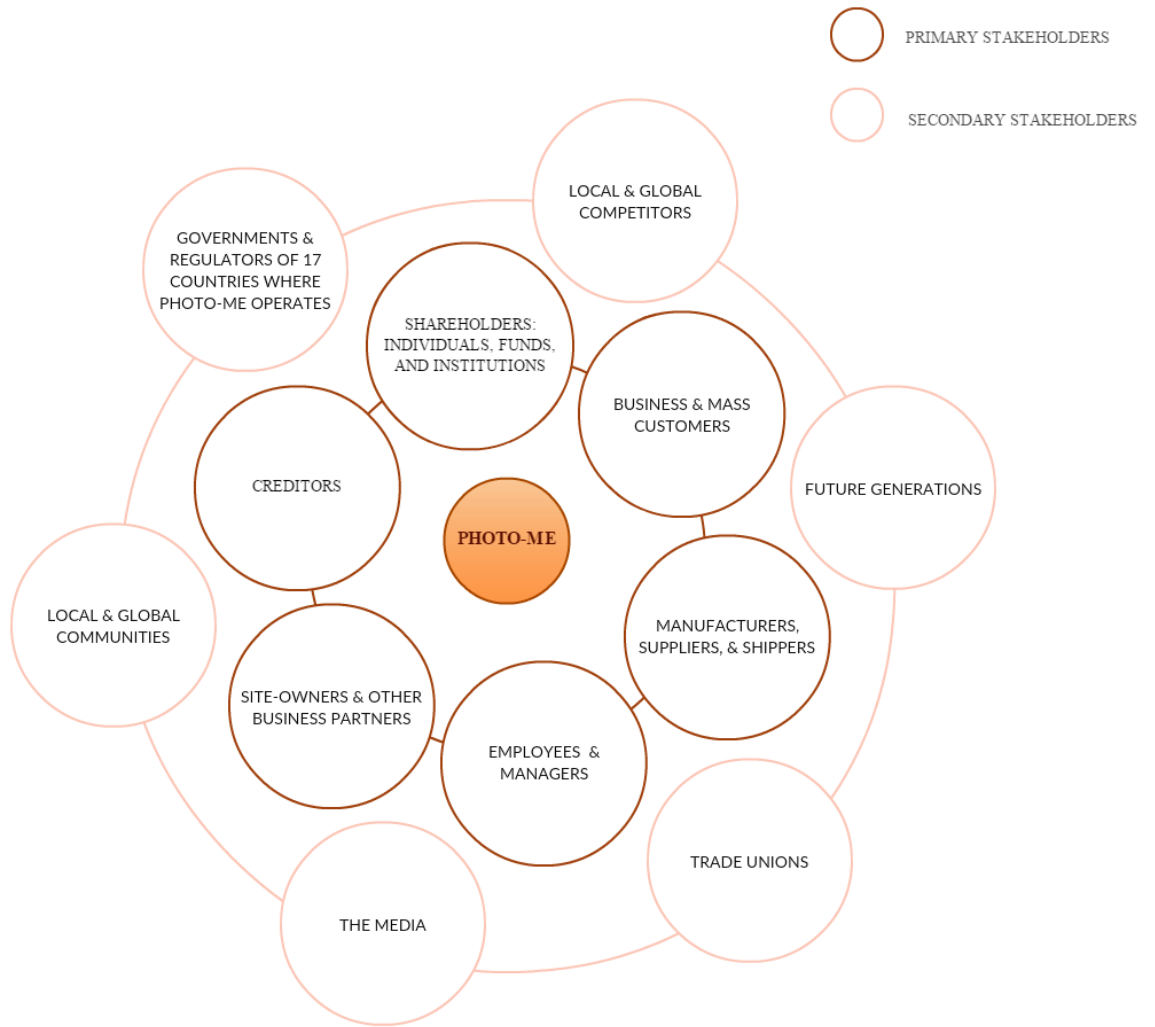
The company should consider adding employees and managers to the list of major stakeholders since they develop Photo-Me's products and services and help the company deliver its services to end consumers. Customers and shareholders should be also considered a major stakeholder since they provide the company with its main resource - revenues.

All major primary and secondary stakeholders of Photo-Me are named in Figure 10 on p.91.

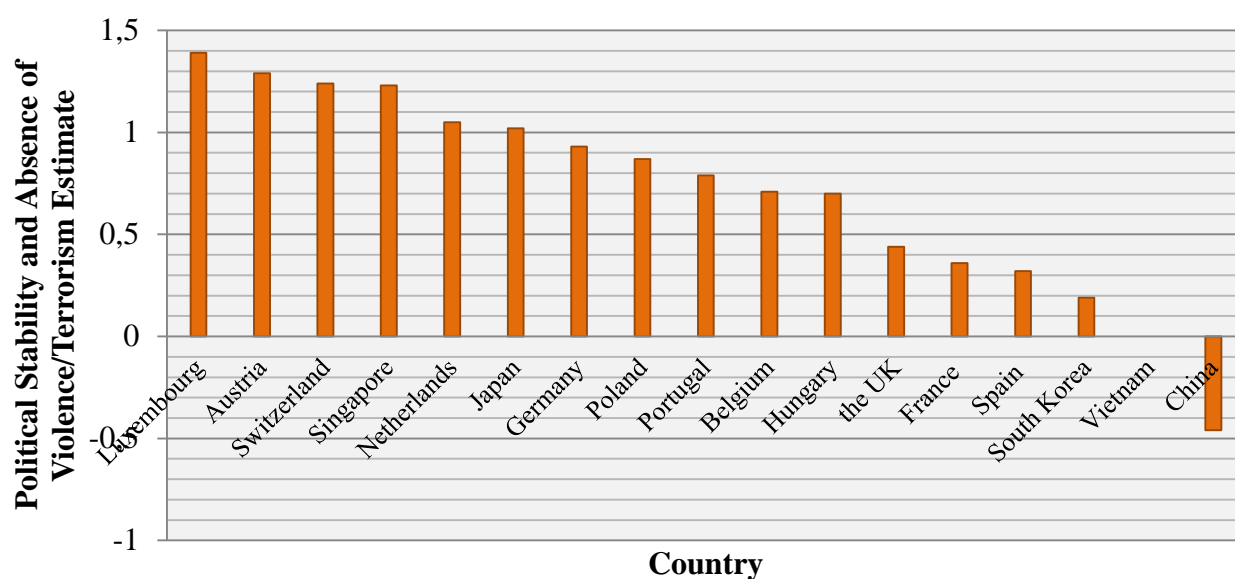
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<sup>266</sup> "Annual Report & Accounts 2015," *Photo-Me International plc*: 19.

Figure 10. Photo-Me's Stakeholders, 2015

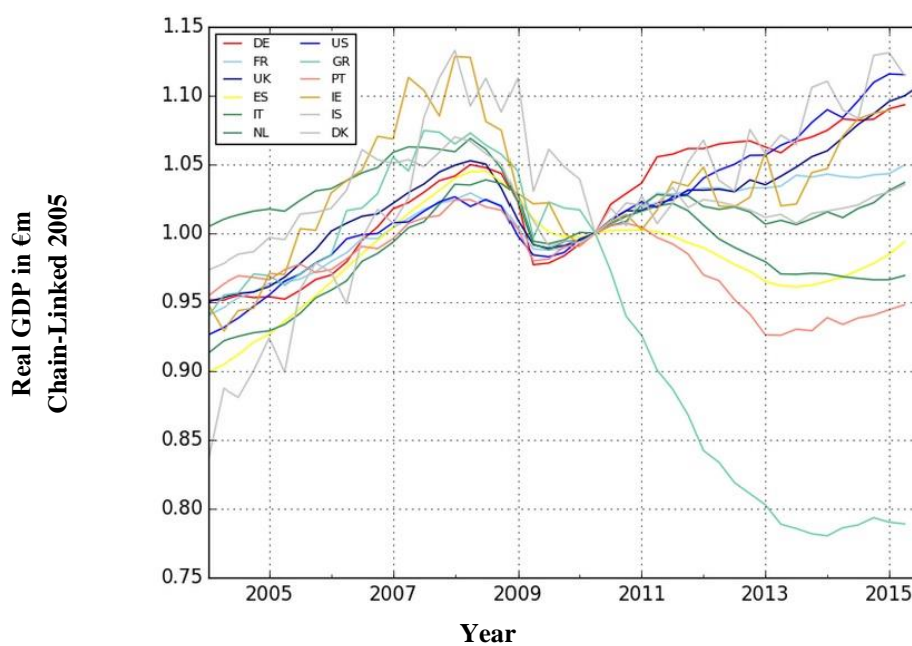


### Appendix 17. The World Bank's Political Stability and Absence of Violence/Terrorism Estimate for Selected Countries, 2014



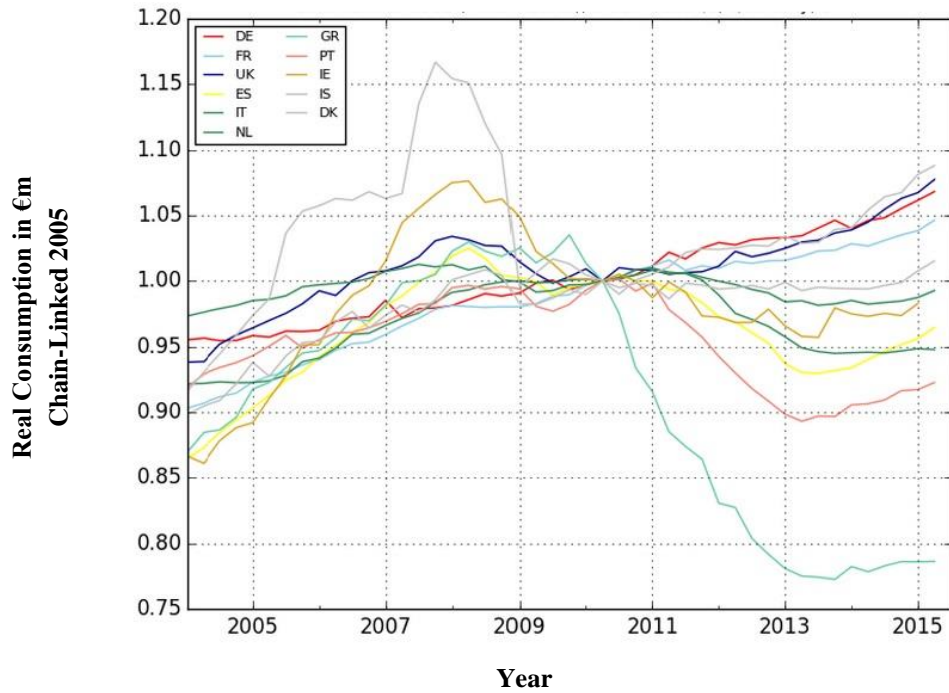
Data retrieved from The World Bank, <http://data.worldbank.org/data-catalog/worldwide-governance-indicators>.

### Appendix 18. Real GDP of Selected European Countries in the Years 2005 -2015



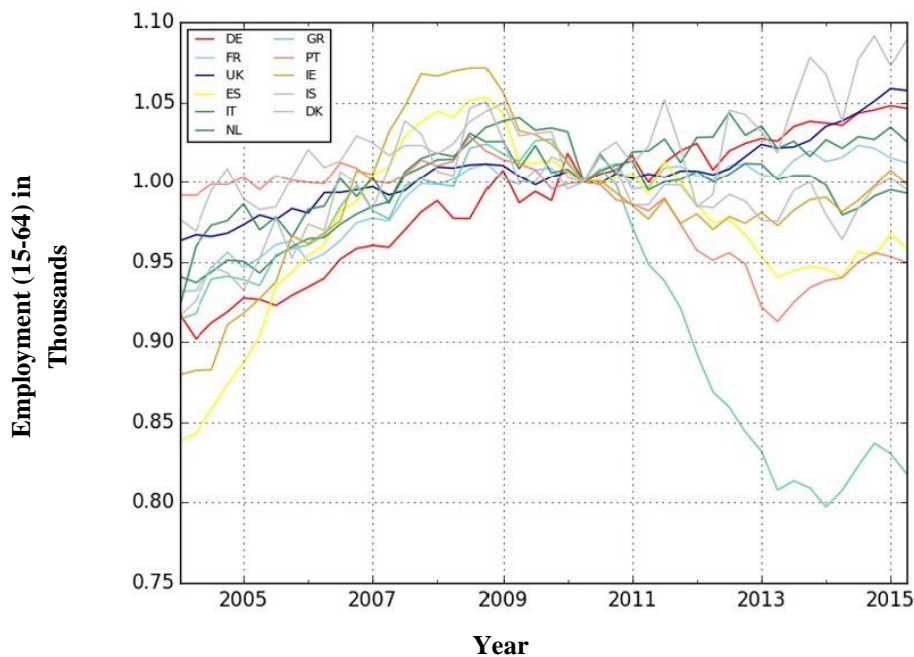
Source: European Economic Snapshot (graph) and Eurostat (data), <http://europeansnapshot.com/>

## Appendix 19. Real Consumption of Selected European Countries in the Years 2005 -2015



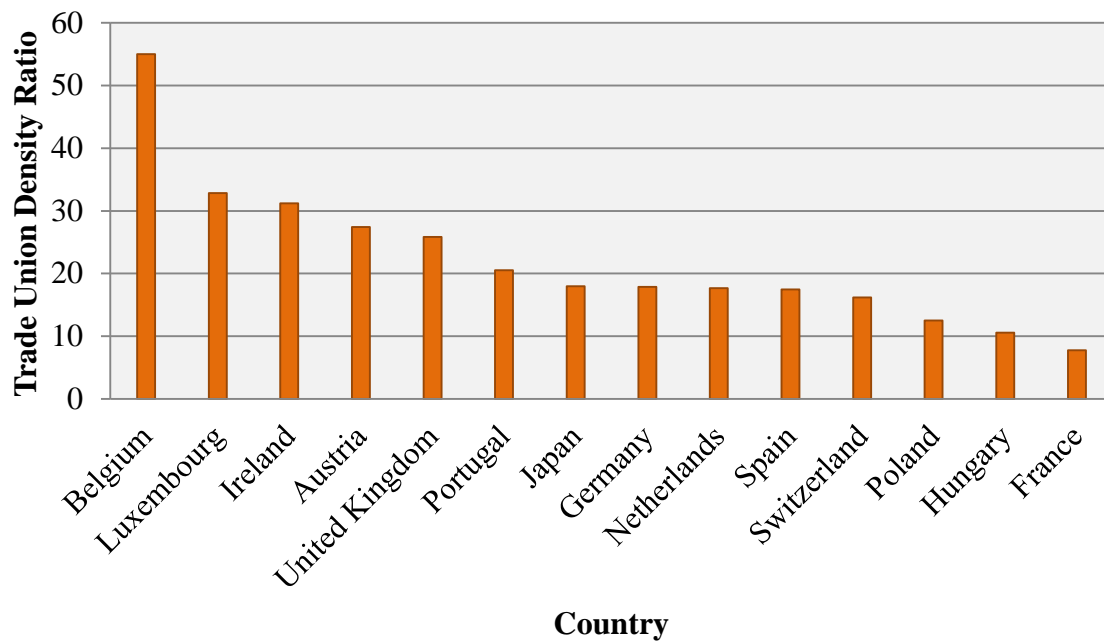
Source: European Economic Snapshot (graph) and Eurostat (data), <http://europeansnapshot.com/>

## Appendix 20. Employment of People Aged 15-64 in Selected European Countries in the Years 2005 -2015



Source: European Economic Snapshot (graph) and Eurostat (data), <http://europeansnapshot.com/>

## Appendix 21. Trade Union Density Ratio of Selected Countries, 2012

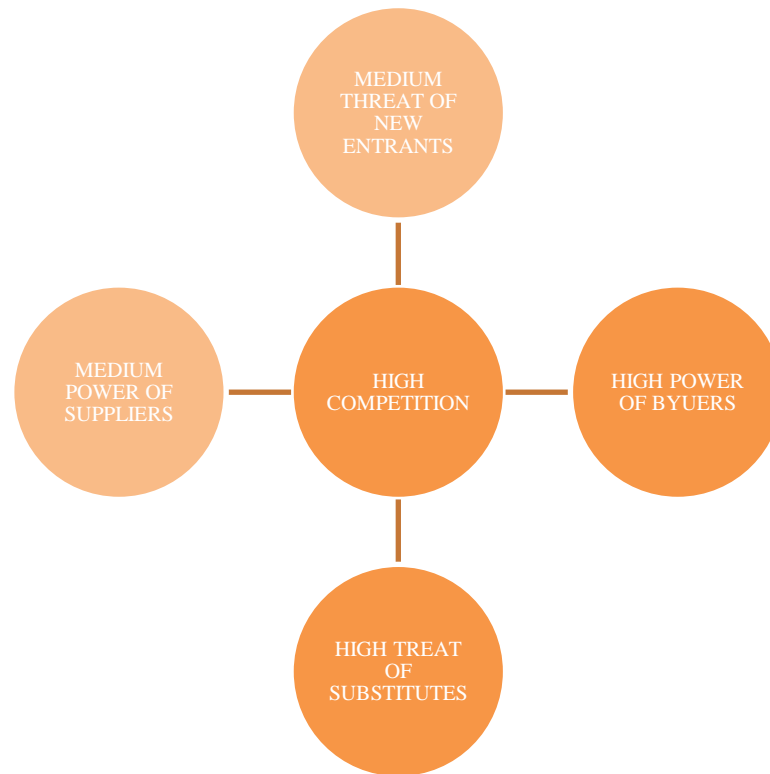


Data retrieved from OECD, [https://stats.oecd.org/Index.aspx?DataSetCode=UN\\_DEN](https://stats.oecd.org/Index.aspx?DataSetCode=UN_DEN).

“Trade union density corresponds to the ratio of wage and salary earners that are trade union members, divided by the total number of wage and salary earners.”<sup>267</sup>

<sup>267</sup> “Trade Union Density,” *OECD iLibrary*, accessed October 6, 2015, [http://www.oecd-ilibrary.org/employment/data/trade-unions/trade-union-density\\_data-00371-en](http://www.oecd-ilibrary.org/employment/data/trade-unions/trade-union-density_data-00371-en).

## Appendix 22. Porter's 5 Forces for Photo-Me, 2015



## Appendix 23. Analysis of Photo-Me's Selected Competitors

International competitors, who also concentrate on providing only photo booth services, pose a threat. **Keshot**, for example, is a photo booth rental company present in the US, Europe, and South America. This company rents personalized social media booths for various company events and actively uses the social media as part of its service: Keshot can send an online postcard, a tweet with a link to booth images, or upload pictures to a customer's Facebook or Twitter page. Keshot operates within the B2B market, which means that they are more likely to build long-term relationship with its limited, but big clients. Keshot helps companies build a strong image by increasing customers' awareness of the company's social media profile<sup>268</sup>. Keshot booths are oriented at turning each company event into fun experience; guests can take "photos and create custom videos all wrapped in [the company's] brand"<sup>269</sup> (Keshot booths feature the company "logo and messaging on everything from ... user-friendly touch screen GUI

<sup>268</sup> "About Company," *Keshot*.

<sup>269</sup> *Ibid.*

to the outside skin”<sup>270</sup>). Keshot booths also allow the company to “collect email addresses, phone numbers and more in a private and secure database directly from ... photo booth rental”<sup>271</sup>; the company can also “conduct onsite interactive surveys, sweepstakes and contests, and even gather video testimonials about [its] brand.”<sup>272</sup> Other services of Keshot include the hire of a professional photographer, a photo station application for tablets, instagram hashtag printing, animated GIF photo booths that can project GIFs to a wall or a screen, onsite printers with high quality ink and paper, custom-designed virtual props, video capture, green screen photos, bar code scanning of guests’ badges, real time photo collages that are displayed on a wall or a screen.<sup>273</sup> Even though Photo-Me primarily rents its booths to mass customers, not business clients, Keshot could pose a great danger to the company should it decide to expand its booth rental services within the B2B sector as part of the photo booth business restructure strategy.

**Digital Centre**, or DC, is another Photo-Me’s global competitor that operates in America and Europe. DC is “exporting to 45 different countries around the world and managing an important network of Authorized Dealers covering the biggest markets such as Europe, Asia, America, Middle East, Africa and Australia.”<sup>274</sup> DC’s booths are placed on diverse locations, such as “amusement parks, FEC’s, bars and restaurants, movie theaters, shopping centers, retail outlets, zoos and museums.”<sup>275</sup> DC is “the number one provider of photo booths to the party rental and event planning trade.”<sup>276</sup> The company only sells booths. DC offers its clients latest technology booths, applications that track the usage of film in a booth and allow customers to order new film from any device, “an advertising platform where users who visit the PhotoBooth will receive impact advertisements”<sup>277</sup>, the printing of smartphone photos, QR-photos (the reprinting of photos using a unique QR code), QR-IDs (a “personal QR code for each user”<sup>278</sup>), the Cloud video and photo storage, a “secure transmission [of photos and videos] without having to type an email, passwords or personal data”<sup>279</sup>, the remote control of booths, applications for sharing photos, LED signs for advertising, 3D photos and video capture, Slow eMotion game that captures expressions of all players, a Green Screen studio, the printing of photos on trendy accessories, portable booths made of light and strong materials.

An example of a local competitor is **Photobooth.co.uk**. This No.1 UK-based booth hire and sale company offers its mass customers and business clients customizable lightweight booths

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<sup>270</sup> Ibid.

<sup>271</sup> Ibid.

<sup>272</sup> Ibid.

<sup>273</sup> “Capabilities,” *Keshot*, accessed October 6, 2015, [http://www.keshot.com/photo\\_booth/capabilities](http://www.keshot.com/photo_booth/capabilities).

<sup>274</sup> “Who We Are,” *Digital Centre*, accessed April 27, 2015, <http://www.digital-centre.com/who-we-are-digital-centre.html>.

<sup>275</sup> Ibid.

<sup>276</sup> Ibid.

<sup>277</sup> “Innovation,” *Digital Centre*, accessed April 27, 2015, <http://www.digital-centre.com/innovation.html>.

<sup>278</sup> Ibid.

<sup>279</sup> Ibid.



that accommodate up to 12 people.<sup>280</sup> The company provides such products and services as the hire of A-Team Van Photobooth that serves as a mobile photo booth that can perform video recording, instant unlimited printing, a Facebook upload, and green screen photography,<sup>281</sup> a versatile Blow Up Photo Booth that can be set up in less than 2 minutes, Halloween and other props, the services of a booth attendant, a password protected Web page for pictures and videos, kids booths, a booth in the shape of a New York taxi or a rickshaw, a robot that moves around, takes pictures, and records videos independently and can display advertisements and print coupons, a high-resolution portable booth for making selfies – Social Selfie Pod, Marryoke – a booth with a built-in karaoke and a possibility of capturing videos, photos with a video message that can be played on smartphones by scanning the photos with Photobooth.co.uk’s special application, facial recognition props, sweet dispensers and bar hire, branded photography, and others. The company also sells booths.

**Easy Photo Products Ltd** – another Photo-Me’s local competitor – is an authorized dealer for Mitsubishi’s printers and consumables on the UK market.<sup>282</sup> The company offers a variety of high quality “self[-]service photo processing kiosks, digital micro labs and stand[-]alone digital photo printers ... for retail, social photography, professional studios, medical and retail security applications.”<sup>283</sup> The company also sells consumables and digital photo hardware, while its sister company Easy-ID Ltd sells photo booths and ID booths that produce photos “approved for passport (including the new Indian visa) and DVLA[, that is Driver and Vehicle Licensing Agency,] use.”<sup>284</sup>

**FUJIFILM Holdings Corporation** is one of Photo-Me’s global competitors. FUJIFILM is “a Japanese company mainly engaged in providing imaging, information and document solutions”<sup>285</sup> on the markets of Europe, Asia, and the Americas. Photo-Me competes with FUJIFILM’s *imaging solutions* segment that develops, produces, and sells consumables (paper and chemicals), digital and inkjet minilabs, and offers printing services.

Another Photo-Me’s global competitor is **Eastman Kodak Company**. Kodak is a B2B company that offers imaging and printing solutions to its clients “in Europe, Middle East and Africa, the US, Asia Pacific, Canada and Latin America.”<sup>286</sup> Photo-Me competes with Kodak’s

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<sup>280</sup> “Welcome to Photobooth.co.uk, the UK’s No.1 Photo Booth hire company,” *Photobooth.co.uk*, accessed October 6, 2015, <http://www.photobooth.co.uk/>.

<sup>281</sup> “A-Team Van Photo Booth,” *Photobooth.co.uk*, accessed October 6, 2015, <http://www.photobooth.co.uk/a-team-van-photo-booth-hire/>.

<sup>282</sup> “About Us,” *Easy Photo Products Ltd*, accessed October 6, 2015, <http://www.easyphtoproducts.co.uk/about-i-32.html>.

<sup>283</sup> *Ibid.*

<sup>284</sup> “ID Booth,” *Easy-ID Ltd*, accessed October 6, 2015, <http://www.easy-id.co.uk/photo-booths>.

<sup>285</sup> “FUJIFILM Holdings Corporation,” *FUJIFILM Holdings Corporation Marketline Company Profile* (2015): 3, <http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=108496011&lang=cs&site=ehost-live>.

<sup>286</sup> “Eastman Kodak Company,” *Eastman Kodak Company Marketline Company Profile* (2015): 3, <http://search.ebscohost.com/login.aspx?direct=true&db=bth&AN=101716575&lang=cs&site=ehost-live>.

*digital printing and enterprise* segment that is engaged in developing and selling consumables and printing solutions.

The list of competitors discussed above is not complete. These examples, however, demonstrate how difficult it can be for Photo-Me to compete on the global market where each global and local firm tries to attract customers with ever-increasing quality of services, new features, and innovative solutions.

## Appendix 24. Photo-Me's Competitive Advantage, 2015



## Appendix 25. Photo-Me's Group Statement of Comprehensive Income for the Year Ended April 30, 2015

	Notes	2015 £'000	2014 £'000
<b>Revenue</b>	3	<b>177,202</b>	186,598
Cost of sales		<b>(129,638)</b>	(139,400)
Gross profit		<b>47,564</b>	47,198
Other operating income	4	<b>1,166</b>	1,420
Administrative expenses		<b>(10,524)</b>	(18,513)
Share of post-tax profits from associates	14	<b>164</b>	161
<b>Operating profit</b>		<b>38,370</b>	30,266
<b>Analysed as:</b>			
Operating profit before special items		<b>34,886</b>	30,266
Profit on sale of land		<b>3,484</b>	-
<b>Operating profit after special items</b>		<b>38,370</b>	30,266
Finance revenue	6	<b>191</b>	227
Finance cost	6	<b>(65)</b>	(400)
<b>Profit before tax</b>		<b>38,496</b>	30,093
<b>Total tax charge</b>	7	<b>(10,452)</b>	(8,514)
<b>Profit for year</b>		<b>28,044</b>	21,579
<b>Other comprehensive income</b>			
Items that are or may subsequently be classified to profit and loss:			
Exchange differences arising on translation of foreign operations		<b>(6,779)</b>	(4,803)
Total items that are or may subsequently be classified to profit and loss		<b>(6,779)</b>	(4,803)
Items that will not be classified to profit and loss:			
Remeasurement losses in defined benefit obligations and other post-employment benefit obligations		<b>(860)</b>	(67)
Deferred tax on remeasurement gains/(losses)		<b>221</b>	(11)
Total items that will not be classified to profit and loss		<b>(639)</b>	(78)
<b>Other comprehensive expense (net of tax)</b>		<b>(7,416)</b>	(4,881)
<b>Total comprehensive income for the year</b>		<b>20,626</b>	16,698
<b>Profit for the year attributable to:</b>			
Owners of the Parent		<b>27,900</b>	21,422
Non-controlling interests		<b>144</b>	157
		<b>28,044</b>	21,579
<b>Total comprehensive income attributable to:</b>			
Owners of the Parent		<b>20,605</b>	16,579
Non-controlling interests		<b>21</b>	119
		<b>20,626</b>	16,698
<b>Earnings per share</b>			
Basic earnings per share	10	<b>7.49p</b>	5.77p
Diluted earnings per share	10	<b>7.43p</b>	5.70p

All results derive from continuing operations.

Source: Photo-Me International plc, [http://investor.photo-me.com/downloads/pdf/ar/Photo-Me\\_2015\\_AR.pdf](http://investor.photo-me.com/downloads/pdf/ar/Photo-Me_2015_AR.pdf).

## Appendix 26. Photo-Me's Balance Sheet as of April 30, 2015

	Notes	Group		Company	
		2015 £'000	2014 £'000	2015 £'000	2014 £'000
<b>Assets</b>					
<b>Non-current assets</b>					
Goodwill	11	10,180	9,911	–	–
Other intangible assets	11	6,507	5,776	5,179	5,502
Property, plant & equipment	12	48,263	46,529	8,480	8,481
Investment property	13	458	516	–	–
Investment in - associates	14	848	620	257	257
- subsidiaries	14	–	–	41,690	41,617
Other financial assets - held to maturity	15	2,220	2,334	967	963
- available for sale	15	70	78	–	–
Deferred tax assets	24	3,512	4,231	1,702	2,334
Trade and other receivables	16	1,684	1,831	–	–
		<b>73,742</b>	<b>71,826</b>	<b>58,275</b>	<b>59,154</b>
<b>Current assets</b>					
Inventories	17	12,099	11,196	814	850
Trade and other receivables	16	10,874	14,345	7,991	6,031
Other financial assets - available for sale	15	–	86	–	1
Current tax		869	57	–	–
Cash and cash equivalents	18	58,632	60,996	20,938	19,920
		<b>82,474</b>	<b>86,680</b>	<b>29,743</b>	<b>26,802</b>
Assets held for sale	30	–	705	–	705
<b>Total assets</b>		<b>156,216</b>	<b>159,211</b>	<b>88,018</b>	<b>86,661</b>
<b>Equity</b>					
Share capital	20	1,866	1,859	1,866	1,859
Share premium		7,131	6,521	7,131	6,521
Translation and other reserves		4,766	11,402	1,399	1,172
Retained earnings		89,744	83,332	55,163	56,470
<b>Equity attributable to owners of the Parent</b>		<b>103,507</b>	<b>103,114</b>	<b>65,559</b>	<b>66,022</b>
Non-controlling interests		904	1,119	–	–
<b>Total equity</b>		<b>104,411</b>	<b>104,233</b>	<b>65,559</b>	<b>66,022</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Financial liabilities	21	124	64	–	–
Post-employment benefit obligations	22	4,291	3,418	–	–
Provisions	23	17	10	17	10
Deferred tax liabilities	24	1,067	1,381	–	–
Trade and other payables	25	2,050	3,840	–	–
		<b>7,549</b>	<b>8,713</b>	<b>17</b>	<b>10</b>
<b>Current liabilities</b>					
Financial liabilities	21	59	240	–	–
Provisions	23	5,540	8,256	–	–
Current tax		5,981	5,457	1,128	570
Trade and other payables	25	32,676	32,312	21,314	20,059
		<b>44,256</b>	<b>46,265</b>	<b>22,442</b>	<b>20,629</b>
<b>Total equity and liabilities</b>		<b>156,216</b>	<b>159,211</b>	<b>88,018</b>	<b>86,661</b>

The accounts were approved by the Board on 24 June 2015.

Source: Photo-Me International plc, [http://investor.photo-me.com/downloads/pdf/ar/Photo-Me\\_2015\\_AR.pdf](http://investor.photo-me.com/downloads/pdf/ar/Photo-Me_2015_AR.pdf).

## Appendix 27. Photo-Me's Group Statement of Cash Flows for the Year Ended April 30, 2015

	Notes	2015 £'000	2014 £'000
<b>Cash flow from operating activities</b>			
Profit before tax		38,496	30,093
Finance cost		65	400
Finance revenue		(191)	(227)
Operating profit		38,370	30,266
Share of post tax profit from associates		(164)	(161)
Amortisation of intangible assets		2,092	3,034
Depreciation of property, plant and equipment		14,789	14,503
(Loss)/profit on sale of property, plant and equipment		(3,510)	198
Exchange differences		(1,996)	(1,546)
Other items		(876)	(46)
Changes in working capital:			
Inventories		(1,910)	1,485
Trade and other receivables		2,587	(2,310)
Trade and other payables		451	32
Provisions		(671)	143
Cash generated from operations		49,162	45,598
Interest paid		(64)	(95)
Taxation paid		(9,124)	(9,916)
<b>Net cash generated from operating activities</b>		<b>39,974</b>	<b>35,587</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries net of cash acquired		(422)	-
Investment in associates		(146)	(121)
Investment in intangible assets		(3,641)	(2,007)
Proceeds from sale of intangible assets		1	3
Purchase of property, plant and equipment		(19,833)	(19,153)
Proceeds from sale of property, plant and equipment		5,623	781
Proceeds of sale of subsidiaries net of cash sold		32	-
Interest received		189	227
Dividends received from associates		96	63
<b>Net cash generated from investing activities</b>		<b>(18,101)</b>	<b>(20,207)</b>
<b>Cash flows from financing activities</b>			
Issue of Ordinary shares to equity shareholders		617	237
Repayment of capital element of finance leases		(78)	(90)
Repayment of borrowings		(158)	(449)
Decrease in assets held to maturity		76	83
Dividends paid to owners of the Parent	9	(21,381)	(11,140)
Dividends paid to non-controlling interests		(158)	(197)
<b>Net cash utilised in financing activities</b>		<b>(21,082)</b>	<b>(11,556)</b>
<b>Net increase in cash and cash equivalents</b>		<b>791</b>	<b>3,824</b>
Cash and cash equivalents at beginning of year		60,996	59,651
Exchange loss on cash and cash equivalents		(3,155)	(2,479)
<b>Cash and cash equivalents at end of year</b>	18	<b>58,632</b>	<b>60,996</b>

Source: Photo-Me International plc, [http://investor.photo-me.com/downloads/pdf/ar/Photo-Me\\_2015\\_AR.pdf](http://investor.photo-me.com/downloads/pdf/ar/Photo-Me_2015_AR.pdf).

## Appendix 28. Photo-Me's Group Statement of Comprehensive Income for the Year Ended April 30, 2013

	Notes	2013 £'000	2012 £'000
<b>Revenue</b>	3	195,590	207,841
Cost of sales		(153,363)	(169,340)
Gross profit		42,227	38,501
Other operating income	4	1,138	1,194
Administrative expenses		(19,221)	(19,765)
Share of post-tax profits from associates	14	55	89
<b>Operating profit</b>	3	24,199	20,019
Finance revenue	6	533	844
Finance cost	6	(426)	(723)
<b>Profit before tax</b>		24,306	20,140
<b>Total tax charge</b>	7	(6,746)	(5,594)
<b>Profit for year</b>	4	17,560	14,546
<b>Other comprehensive income</b>			
Items that are or may subsequently be classified to profit and loss:			
Exchange differences arising on translation of foreign operations		(2,161)	(2,841)
Translation reserve taken to income statement on disposal		-	(12)
Total items that are or may subsequently be classified to profit and loss		(2,161)	(2,853)
Items that will not be classified to profit and loss:			
Actuarial movements in defined benefit obligations and other post-employment benefit obligations		15	(531)
Deferred tax on actuarial movements		(308)	118
Total items that will not be classified to profit and loss		(293)	(413)
<b>Other comprehensive expense (net of tax)</b>		(2,454)	(3,266)
<b>Total comprehensive income for the year</b>		15,106	11,280
<b>Profit for the year attributable to:</b>			
Owners of the Parent		17,405	14,349
Non-controlling interests		155	197
		17,560	14,546
<b>Total comprehensive income attributable to:</b>			
Owners of the Parent		14,910	11,175
Non-controlling interests		196	105
		15,106	11,280
<b>Earnings per share</b>			
Basic earnings per share	10	4.78p	3.97p
Diluted earnings per share	10	4.76p	3.95p

The notes on pages 42 to 91 are an integral part of these consolidated financial statements.

Source: Photo-Me International plc, [http://investor.photo-me.com/downloads/pdf/ar/Photo-Me\\_2015\\_AR.pdf](http://investor.photo-me.com/downloads/pdf/ar/Photo-Me_2015_AR.pdf).

## Appendix 29. Photo-Me's Balance Sheet as of April 30, 2013

	Notes	Group		Company	
		2013 £'000	2012 £'000	2013 £'000	2012 £'000
<b>Assets</b>					
<b>Non-current assets</b>					
Goodwill	11	9,980	9,895	-	-
Other intangible assets	11	6,735	8,958	21	29
Property, plant and equipment	12	45,334	46,128	7,931	6,687
Investment property	13	723	1,147	-	-
Investments – in associates	14	790	592	440	258
Investments – in subsidiaries	14	-	-	41,409	41,269
Other financial assets – held to maturity		2,447	2,176	958	604
Other financial assets – available-for-sale		81	80	-	-
Deferred tax assets	24	2,157	3,148	2,029	2,784
Trade and other receivables	16	1,691	1,473	71	-
		<b>69,938</b>	<b>73,597</b>	<b>52,859</b>	<b>51,631</b>
<b>Current assets</b>					
Inventories	17	13,241	16,931	892	1,157
Trade and other receivables	16	12,848	14,302	5,627	5,460
Other financial assets – held to maturity		14	213	-	-
Other financial assets – available-for-sale		88	5	2	5
Current tax		30	19	-	-
Cash and cash equivalents	18	59,651	54,605	15,501	10,862
		<b>85,872</b>	<b>86,075</b>	<b>22,022</b>	<b>17,484</b>
<b>Total assets</b>		<b>155,810</b>	<b>159,672</b>	<b>74,881</b>	<b>69,115</b>
<b>Equity</b>					
Share capital	20	1,856	1,850	1,856	1,850
Share premium		6,287	5,873	6,287	5,873
Treasury shares		-	(5,802)	-	(5,802)
Translation & other reserves		16,723	18,925	1,024	885
Retained earnings		72,295	74,994	48,265	46,758
<b>Equity attributable to owners of the Parent</b>		<b>97,161</b>	<b>95,840</b>	<b>57,432</b>	<b>49,564</b>
Non-controlling interests		1,197	1,001	-	-
<b>Total equity</b>		<b>98,358</b>	<b>96,841</b>	<b>57,432</b>	<b>49,564</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Financial liabilities	21	236	776	-	-
Post-employment benefit obligations	22	3,765	4,285	-	182
Provisions	23	7	77	3	3
Deferred tax liabilities	24	858	2,508	-	-
Trade and other payables	25	4,981	5,646	-	-
		<b>9,847</b>	<b>13,292</b>	<b>3</b>	<b>185</b>
<b>Current liabilities</b>					
Financial liabilities	21	543	4,386	-	-
Provisions	23	8,297	4,957	1	15
Current tax		6,549	5,368	1,077	356
Trade and other payables	25	32,216	34,828	16,368	18,995
		<b>47,605</b>	<b>49,539</b>	<b>17,446</b>	<b>19,366</b>
<b>Total equity and liabilities</b>		<b>155,810</b>	<b>159,672</b>	<b>74,881</b>	<b>69,115</b>

The notes on pages 42 to 91 are an integral part of these consolidated financial statements.

Source: Photo-Me International plc, [http://investor.photo-me.com/downloads/pdf/ar/Photo-Me\\_2015\\_AR.pdf](http://investor.photo-me.com/downloads/pdf/ar/Photo-Me_2015_AR.pdf).

## Appendix 30. Trend Analyses of Photo-Me's Income Statement and Balance Sheet

The horizontal analysis of Photo-Me's **Income Statements** (see Table 11) shows how the company's Revenue and costs have been changing as compared to the base year of 2012. Even though the company's Revenue in 2015 is only 85% of its income in 2012, its Operating Profit in 2015 is 192% of Operating Profit in 2012. The company's NI has almost doubled since 2012 thanks to decreasing Cost of Sales and Administrative Expenses. However, improving the operational skills of the company which leads to short-term gains is not a strategy for future growth. The company should boost its revenues to stay competitive and devise a strategy that would lead to long-term gains.

*Table 11. Horizontal Analysis of Photo-Me's Income Statements, 2013-2015*

	2015	2014	2013	2012	2015	2014	2013	2012
Revenue	177 202 000 GBP	186 598 000 GBP	195 590 000 GBP	207 841 000 GBP	85%	90%	94%	100%
Cost of Sales	-129 638 000 GBP	-139 400 000 GBP	-153 363 000 GBP	-169 340 000 GBP	77%	82%	91%	100%
Gross Profit	47 564 000 GBP	47 198 000 GBP	42 427 000 GBP	38 501 000 GBP	124%	123%	110%	100%
Other Operating Income	1 166 000 GBP	1 420 000 GBP	1 138 000 GBP	1 194 000 GBP	98%	119%	95%	100%
Administrative Expenses	-10 524 000 GBP	-18 513 000 GBP	-19 221 000 GBP	-19 765 000 GBP	53%	94%	97%	100%
Share of Post-Tax Profits from Associates	164 000 GBP	161 000 GBP	55 000 GBP	89 000 GBP	184%	181%	62%	100%
Operating Profit	38 370 000 GBP	30 266 000 GBP	24 119 000 GBP	20 019 000 GBP	192%	151%	120%	100%
Finance Revenue	191 000 GBP	227 000 GBP	533 000 GBP	844 000 GBP	23%	27%	63%	100%
Finance Cost	-65 000 GBP	-400 000 GBP	-426 000 GBP	-723 000 GBP	9%	55%	59%	100%
Profit Before Tax	38 496 000 GBP	30 093 000 GBP	24 306 000 GBP	20 140 000 GBP	191%	149%	121%	100%
Total Tax Charge	-10 452 000 GBP	-8 514 000 GBP	-6 746 000 GBP	-5 594 000 GBP	187%	152%	121%	100%
Net Income	28 044 000 GBP	21 579 000 GBP	17 560 000 GBP	14 546 000 GBP	193%	148%	121%	100%

Data for calculations retrieved from Photo-Me International plc, [http://investor.photo-me.com/downloads/pdf/ar/Photo-Me\\_2015\\_AR.pdf](http://investor.photo-me.com/downloads/pdf/ar/Photo-Me_2015_AR.pdf), <http://investor.photo-me.com/downloads/pdf/ar/Photo-Me-International-plc-Annual-Report-2013.pdf>

The vertical analysis of Photo-Me's Balance Sheets (see Table 12 on p.107) shows that the major parts of the company's assets are **Property, Plant, and Equipment**, which have been growing as a percentage of Photo-Me's Assets from 29% in 2013-2014 to 31% in 2015, and **Cash and Cash Equivalents** that comprise 38% of the company's assets. **Inventories** are only a small percentage of the company's assets (8% in 2015) which means that the company's cash is not tied up in Inventories. Inventories can be broken down to three major components: **Raw Materials and Consumables** which were 6,5% of Total Assets in 2015, **Work-in-Progress** which was 0,1% of Total Assets in 2015, and **Finished Goods** which were 1,2% of Total Assets in 2015. Photo-Me's **Current Assets** were 53% of Total Assets and **Non-Current Assets** were 47% of Total Assets, while **Current Liabilities** were 28% of Total Equity and Liabilities and **Non-Current Liabilities** were only 5% of Total Equity and Liabilities in 2015 which testifies to the company's short-term and long-term liquidity. Two major contributors to Total Equity and



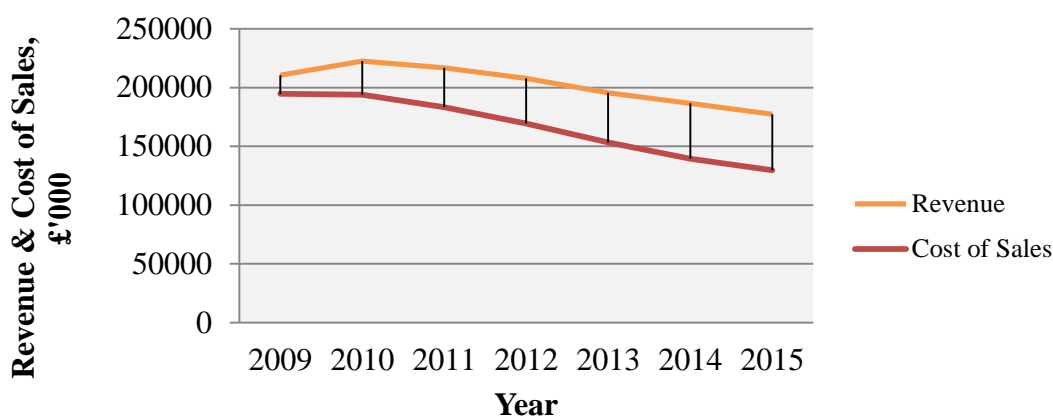
Liabilities were **Retained Earnings** and **Current Trade and Other Payables** (57% and 21% of Total Equity and Liabilities respectively) in 2015. Also, Retained Earnings have been growing as a percentage of Total Equity and Liabilities since 2013. Photo-Me's Equity has been growing as a percentage of Total Equity and Liabilities, while Liabilities have been decreasing since 2013 – the company strives to self-finance its activities.

*Table 12. Vertical Analysis of Photo-Me's Balance Sheets, 2013-2015*

	2015		2014		2013	
	Amount	Percent	Amount	Percent	Amount	Percent
<b>Assets</b>						
<b>Non-Current Asstes</b>						
Goodwill	10 180 000 GBP	7%	9 911 000 GBP	6%	9 980 000 GBP	6%
Other Intangible Assets	6 507 000 GBP	4%	5 776 000 GBP	4%	6 735 000 GBP	4%
<b>Property, Plant, and Equipment</b>	<b>48 263 000 GBP</b>	<b>31%</b>	<b>46 529 000 GBP</b>	<b>29%</b>	<b>45 334 000 GBP</b>	<b>29%</b>
Investment Property	458 000 GBP	0%	516 000 GBP	0%	723 000 GBP	0%
Investment in Associates	848 000 GBP	1%	620 000 GBP	0%	790 000 GBP	1%
Other Financial Assets Held to Maturity	2 220 000 GBP	1%	2 334 000 GBP	1%	2 447 000 GBP	2%
Other Financial Assets Available for Sale	70 000 GBP	0%	78 000 GBP	0%	81 000 GBP	0%
Deferred Tax Assets	3 512 000 GBP	2%	4 231 000 GBP	3%	2 157 000 GBP	1%
Trade and Other Receivables	1 684 000 GBP	1%	1 831 000 GBP	1%	1 691 000 GBP	1%
<b>Current Assets</b>						
Inventories	12 099 000 GBP	8%	11 196 000 GBP	7%	13 241 000 GBP	8%
Trade and Other Receivables	10 874 000 GBP	7%	14 345 000 GBP	9%	12 848 000 GBP	8%
Other Fianancial Assets Held to Maturity					14 000 GBP	0%
Other Financial Assets Available for Sale			86 000 GBP	0%	88 000 GBP	0%
Current Tax	869 000 GBP	1%	57 000 GBP	0%	30 000 GBP	0%
<b>Cash and Cash Equivalents</b>	<b>58 632 000 GBP</b>	<b>38%</b>	<b>60 996 000 GBP</b>	<b>38%</b>	<b>59 651 000 GBP</b>	<b>38%</b>
Assets Held for Sale			705 000 GBP	0%		
<b>Total Assets</b>	<b>156 216 000 GBP</b>	<b>100%</b>	<b>159 211 000 GBP</b>	<b>100%</b>	<b>155 810 000 GBP</b>	<b>100%</b>
<b>Equity</b>						
Share Capital	1 866 000 GBP	1%	1 859 000 GBP	1%	1 856 000 GBP	1%
Share Premium	7 131 000 GBP	5%	6 521 000 GBP	4%	6 287 000 GBP	4%
Translation and Other Reserves	4 766 000 GBP	3%	11 402 000 GBP	7%	16 723 000 GBP	11%
<b>Retained Earnings</b>	<b>89 744 000 GBP</b>	<b>57%</b>	<b>83 332 000 GBP</b>	<b>52%</b>	<b>72 295 000 GBP</b>	<b>46%</b>
Non-Controlling Interest	904 000 GBP	1%	1 119 000 GBP	1%	1 197 000 GBP	1%
<b>Total Equity</b>	<b>104 411 000 GBP</b>		<b>104 233 000 GBP</b>		<b>98 358 000 GBP</b>	
<b>Liabilities</b>						
<b>Non-Current Liabilities</b>						
Financila Liabilities	124 000 GBP	0%	64 000 GBP	0%	236 000 GBP	0%
Post-Employment Benefit Obligations	4 291 000 GBP	3%	3 418 000 GBP	2%	3 765 000 GBP	2%
Provisions	17 000 GBP	0%	10 000 GBP	0%	7 000 GBP	0%
Deferred Tax Liabilities	1 067 000 GBP	1%	1 381 000 GBP	1%	858 000 GBP	1%
Trade and Other Payables	2 050 000 GBP	1%	3 840 000 GBP	2%	4 981 000 GBP	3%
<b>Current Liabilities</b>						
Financial Liabilities	59 000 GBP	0%	240 000 GBP	0%	543 000 GBP	0%
Provisions	5 540 000 GBP	4%	8 256 000 GBP	5%	8 297 000 GBP	5%
Current Tax	5 981 000 GBP	4%	5 457 000 GBP	3%	6 549 000 GBP	4%
<b>Trade and Other Payables</b>	<b>32 676 000 GBP</b>	<b>21%</b>	<b>32 312 000 GBP</b>	<b>20%</b>	<b>32 216 000 GBP</b>	<b>21%</b>
<b>Total Liabilities</b>	<b>51 805 000 GBP</b>		<b>54 978 000 GBP</b>		<b>57 452 000 GBP</b>	
<b>Total Equity and Liabilities</b>	<b>156 216 000 GBP</b>	<b>100%</b>	<b>159 211 000 GBP</b>	<b>100%</b>	<b>155 810 000 GBP</b>	<b>100%</b>

Data for calculations retrieved from Photo-Me International plc, [http://investor.photo-me.com/downloads/pdf/ar/Photo-Me\\_2015\\_AR.pdf](http://investor.photo-me.com/downloads/pdf/ar/Photo-Me_2015_AR.pdf), <http://investor.photo-me.com/downloads/pdf/ar/Photo-Me-International-plc-Annual-Report-2013.pdf>.

### Appendix 31. Photo-Me's Revenue & Cost of Sales, 2009-2015



Data retrieved from Photo-Me International plc, [http://investor.photo-me.com/downloads/pdf/ar/Photo-Me\\_2015\\_AR.pdf](http://investor.photo-me.com/downloads/pdf/ar/Photo-Me_2015_AR.pdf), <http://investor.photo-me.com/downloads/pdf/ar/Photo-Me-International-plc-Annual-Report-2013.pdf>, [http://investor.photo-me.com/downloads/pdf/ar/Photo\\_Me\\_AR11.pdf](http://investor.photo-me.com/downloads/pdf/ar/Photo_Me_AR11.pdf), [http://investor.photo-me.com/downloads/pdf/ar/Photo-me\\_AR2010.pdf](http://investor.photo-me.com/downloads/pdf/ar/Photo-me_AR2010.pdf).

### Appendix 32. Photo-Me's Revenue and Number of Units in Operation by Region, 2014-2015

Year to 30 April	Revenue				Underlying Operating profit *			
	2015 £m	2015† £m	2014 £m	Change† %	2015 £m	2015† £m	2014 £m	Change† %
Continental Europe	94.3	101.7	102.9	-1.2	22.0	23.8	21.3	+11.7
UK & Republic of Ireland	44.7	44.8	44.9	-0.2	8.4	8.4	7.4	+13.5
Asia & ROW	38.2	41.7	38.8	+7.5	6.9	7.5	5.7	+31.6
	<b>177.2</b>	<b>188.2</b>	<b>186.6</b>	<b>+0.9</b>	<b>37.3</b>	<b>39.7</b>	<b>34.4</b>	<b>+15.4</b>
Corporate					(2.5)	(2.4)	(4.1)	
					<b>34.8</b>	<b>37.3</b>	<b>30.3</b>	<b>+23.1</b>

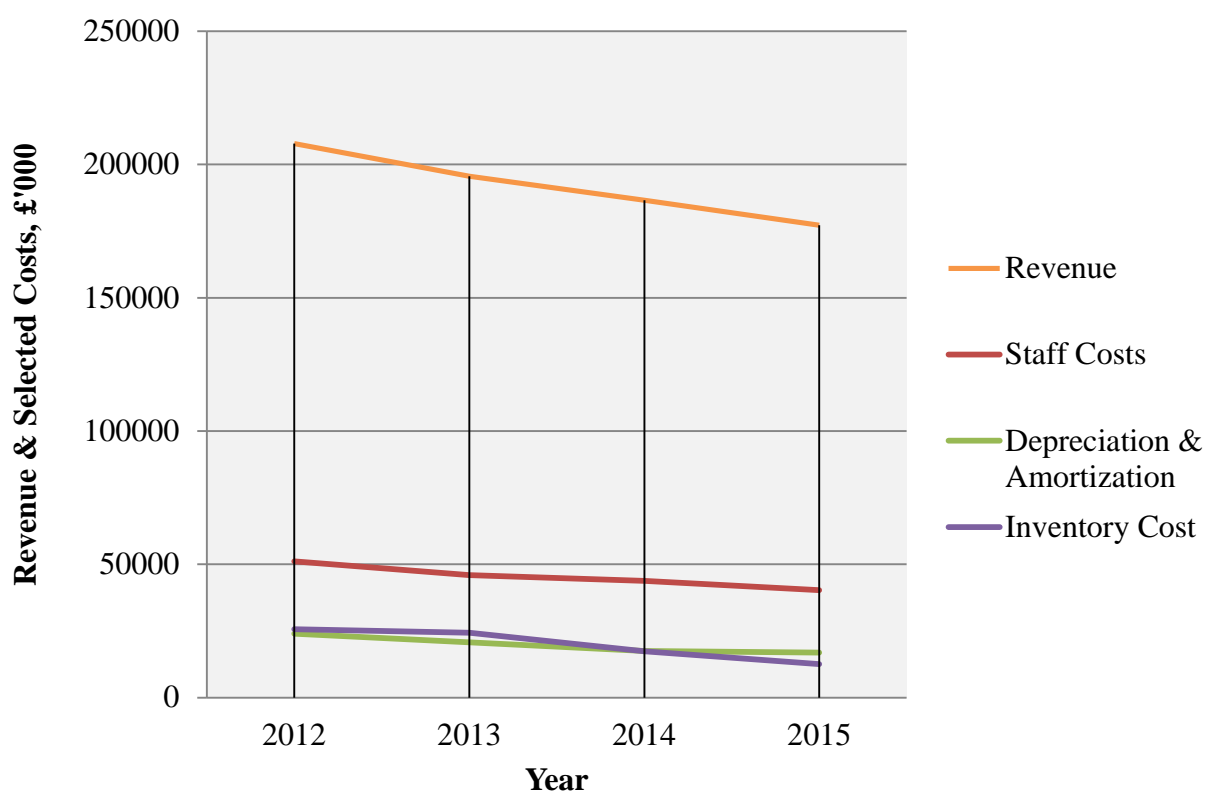
	Vending units		
	2015	2014	Change
Continental Europe	22,400	21,250	+5.4%
UK & Republic of Ireland	12,400	13,000	-4.6%
Asia & ROW	9,800	9,600	+2.1%
Total	<b>44,600</b>	<b>43,850</b>	<b>+1.7%</b>

† 2015 trading results of overseas subsidiaries converted at 2014 exchange rates.

\* excluding profit on sale of land (£3.5m in 2015)

Retrieved from Photo-Me International plc, [http://investor.photo-me.com/downloads/pdf/ar/Photo-Me\\_2015\\_AR.pdf](http://investor.photo-me.com/downloads/pdf/ar/Photo-Me_2015_AR.pdf).

### Appendix 33. Photo-Me's Revenue and Selected Costs, 2012-2015



Data retrieved from Photo-Me International plc, [http://investor.photo-me.com/downloads/pdf/ar/Photo-Me\\_2015\\_AR.pdf](http://investor.photo-me.com/downloads/pdf/ar/Photo-Me_2015_AR.pdf), <http://investor.photo-me.com/downloads/pdf/ar/Photo-Me-International-plc-Annual-Report-2013.pdf>.

### Appendix 34. Detailed Analysis of Photo-Me's Stock

The company's stock price (LON:PHTM) has more than doubled over the last 5 years (see Figure 11 on p.110) - from 66 pence in July 12, 2011 to 140,75 pence in July 16, 2015. The major leap that Photo-Me's stock price took from July 11, 2012 (36,5 pence per share) to November 18, 2013 (146 pence per share) was accounted for by the investors' growing interest in the company: in 2012-2013, the company began to diversify its portfolio with such products as laundrettes Revolution, high-margin designer booths by Stark, and Photolight – eco-friendly solar lights that do not require connection to the grid.<sup>287</sup> In the same period, the company expanded into China, Poland, Malaysia, and Korea, which allowed it to minimize the cost of machines (the company's machines were produced in China and Poland) and sell and operate products in new markets;<sup>288</sup> Photo-Me also introduced “a centralised logistics platform ... [that]

<sup>287</sup> “Annual Report 2013,” *Photo-Me International plc* (2013): 3, accessed October 18, 2015, <http://investor.photo-me.com/downloads/pdf/ar/Photo-Me-International-plc-Annual-Report-2013.pdf>.

<sup>288</sup> *Ibid.*, 4.

led to savings from reducing both the level of stocks and staff numbers.”<sup>289</sup> These changes proved to investors that Photo-Me remained a major photo-booth market player who stayed agile and innovative even in a volatile vending machines market.

Photo-Me’s stock has reached a record high of 162 pence per share on October 12, 2015.

*Figure 11. Photo-Me’s Stock Price, 2011-2015*



Source: London Stock Exchange, <http://www.londonstockexchange.com/exchange/prices-and-markets/stocks/summary/company-summary/GB0008481250GBGBXSSMM.html?lang=en>.

The fact that Photo-Me has high liquidity, high ROE, and that its Earnings per Share have been increasing since 2008<sup>290,291,292</sup> also boosts the investors’ desire to finance the company.

## Appendix 35. Photo-Me’s Value Chain

The company’s **primary activities** are related to selling, maintenance, and (to a lesser extent) manufacturing of vending equipment (see Figure 12 on p.111). Therefore, the primary activities of Photo-Me include **R&D**, **Partner Relationship Management**, the **operation** of the machines, **logistics**, and the **after-sales servicing**. All the activities are key for the company since they allow Photo-Me to develop products and deliver them to end-consumers, manage key partners, and support clients.

<sup>289</sup> Ibid.

<sup>290</sup> “Annual Report & Accounts 2015,” *Photo-Me International plc*: 105.

<sup>291</sup> “Annual Report 2010,” *Photo-Me International plc* (2010): 36, accessed October 18, 2015, [http://investor.photo-me.com/downloads/pdf/ar/Photo-me\\_AR2010.pdf](http://investor.photo-me.com/downloads/pdf/ar/Photo-me_AR2010.pdf).

<sup>292</sup> “Annual Report 2008,” *Photo-Me International plc*: 34.

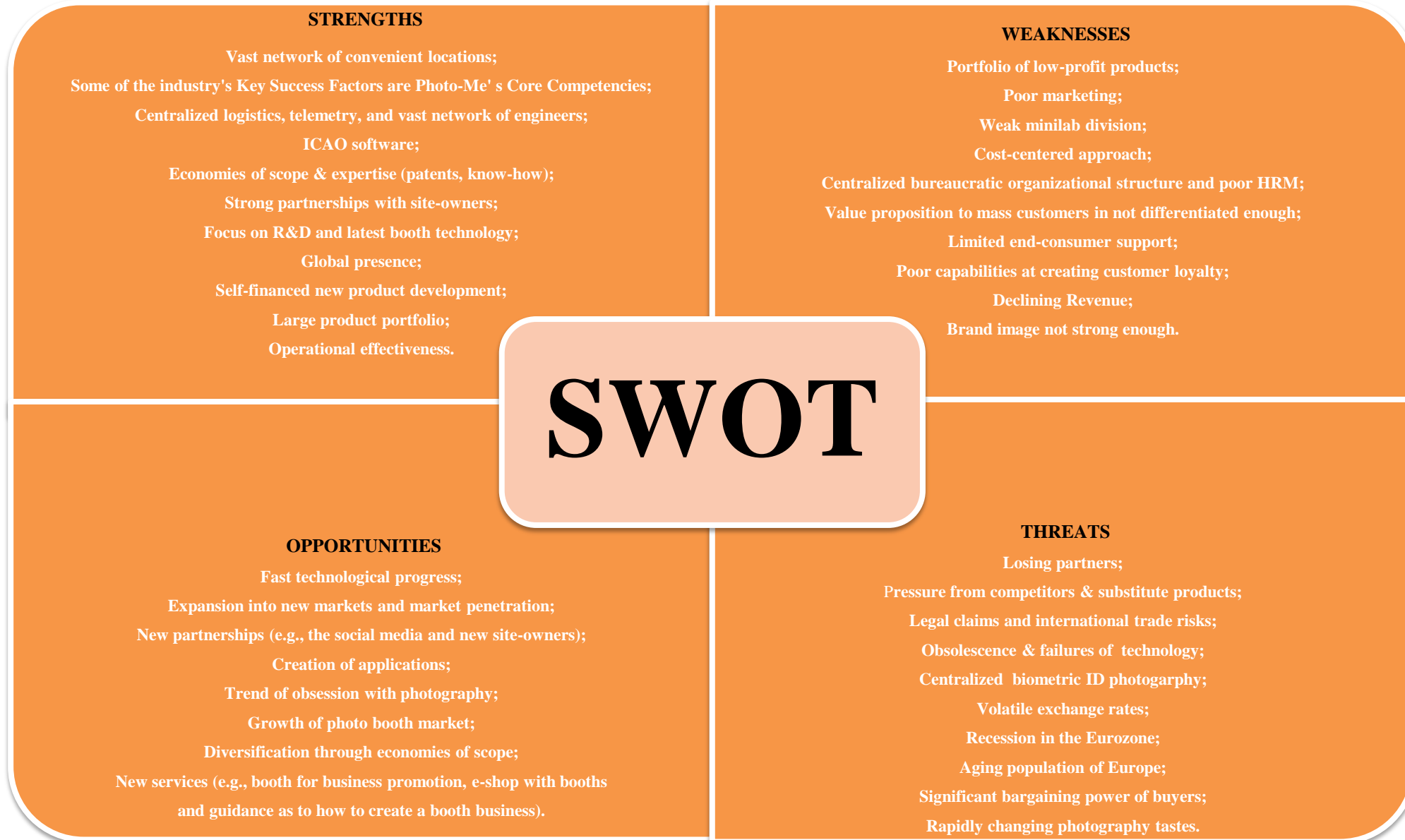
The **support activities** of Photo-Me are managing the company and its overall infrastructure, HR management, the procurement of products and services needed for the company's proper functioning from third parties, and marketing. The support activities enable Photo-Me to perform its key activities and generate profits.

The primary and support activities enable Photo-Me to deliver its competitive services to the business and mass consumer markets.

*Figure 12. Photo-Me's Value Chain, 2015*

<b>Support Activities</b>	<b>Firm Infrastructure:</b> managing the company, administration, accounting, etc.					<b>Profit Margin and Competitive Advantage</b>
	<b>Human Resource Management:</b> hiring, training, retaining employees.					
	<b>Marketing:</b> the promotion of products and services, attracting partners.					
	<b>Procurement of Resources:</b> consumables and services from third parties.					
<b>Primary Activities</b>	<b>R&amp;D</b>	<b>Partner Relationship Management</b>	<b>Centralized Logistics</b>	<b>Operations</b>	<b>After-Sales Servicing</b>	
	Development of new products and services.	Managing site-owners, suppliers, and other business partners.	The reception of machines/materials from multinational suppliers, order processing, the delivery of machines to buyers/locations, warehouses management.	The sale, operation, and partial manufacturing of machines, inventory management, the monitoring of machines, collecting takings.	The maintenance of machines through telemetry and a network of engineers, customer support.	

## Appendix 36. Photo-Me's SWOT, 2015



## Appendix 37. Industry's Key Success Factors & Photo-Me's Core Competencies

### *Industry's Key Success Factors*

Photo-Me operates in different markets worldwide and offers different products within the recreational goods industry, such as laundromats and printing kiosks; therefore, key success factors – “competitive factors that [allow the company] to survive and prosper in the marketplace”<sup>293</sup> – slightly vary for Photo-Me depending on the market and the product. However, there are certain success factors that the company and its rivals should comply with to compete successfully in any market and with any product within the vending equipment industry:

🌀 **Good locations.** Locations where machines are placed should be accessible, high footfall, situated where target customers crowd;

🌀 **Differentiated machines.** A company's machines should be differentiated from the machines of its rivals (through features, services provided, design, etc.). The company should customize the machines in accordance with the needs of target customers and add more value to them by equipping the machines with features that the market wants or will want. The company should satisfy the customers' needs and lead future trends;

🌀 **Excellent after-sales support and support for renters.** No matter whether the company sell or rents its machines, it should provide clients with excellent support. Applications for remote monitoring of the machines, telemetry, call centers, video tutorials, machine attendants, and other tools are used by companies to provide intensive support to their business clients;

🌀 **Excellent end-consumer support.** Companies should also provide support to end-consumers through call centers, Web sites, special applications, etc. In doing so, sales and rental companies can add extra value to their machines and give business clients an extra reason to buy or rent the machines from a particular company, while companies that operate machines will boost customer satisfaction and loyalty;

🌀 **Cost-effective operations and manufacturing.** The company should streamline its supply and value chains, while minimizing costs. If the company manufactures its machines, it is crucial it does it in the most cost-effective way to charge competitive prices and boost profits;

🌀 **Customer loyalty.** Even though it is quite difficult to establish strong customer relationships in the vending machines industry, where prices, features, and accessibility of the machines, and not brands, are decisive factors and where services to end-consumers are usually rendered impersonally (self-service), the companies should strive to find ways of making their

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<sup>293</sup> Thompson, *Crafting and Executing Strategy*, 130.



customers loyal (e.g., through exclusive features, spaces for sharing photos, and other value-added tools);

🌀 **Flexibility.** Any machine should be flexible in terms of payment methods, software updates, customization options, etc. The machine should also be easily transportable to minimize costs and increase customer convenience;

🌀 **Far-reaching delivery.** It is crucial the company has a far reaching delivery that covers several markets, short delivery time, and the minimal amount of goods damaged during shipment. Operating within a single market is less profitable;

🌀 **Targeted marketing.** The company should use the most effective marketing techniques that would be optimized for the target customer. Global companies should customize its marketing depending on the region of operations;

🌀 **Latest technology.** The companies should make sure their machines are interactive, easy to use, and contain the latest technology to stay competitive. The companies should invest into R&D;

🌀 **Constant innovation.** Since vending equipment companies rely heavily on technology, they should be able to keep pace with the evolution of technology in order not to become obsolete;

🌀 **Devoted HR.** Labor costs are one of the highest for the vending equipment companies. It is crucial to sustain high employee retention rates in order not to waste time and money on finding and training new engineers, researchers, etc. Devoted HR drives the companies' growth;

🌀 **Favorable customers' price-value perception.**<sup>294</sup> It is essential within the technology-based industries to provide customers with the most value, since the companies operating within such industries are challenged by numerous rival and substitute services and products;

🌀 **Increasing sales and profits.** Companies need to earn enough profits to cover costs, stay competitive, and develop services.

### *Photo-Me's Core Competencies*

Photo-Me's core competencies include:

🌀 **Cost-effective operation of vending equipment** (e.g., Photo-Me assembles its machines in China and Hungary and uses the same sites and maintenance systems for its machines to minimize costs);

🌀 **Quick and thorough after-sales maintenance** of equipment through a network of highly skilled service teams, call centers, and the telemetry system;

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<sup>294</sup> Chris Maples, "Key Success Factors for the Restaurant Industry," *Hospitality Industry Geek*, last modified December 22, 2012, <http://hospitalityindustrygeek.blogspot.cz/2012/12/key-success-factors-for-restaurants.html>.

🌀 **R&D** (e.g., the upgrading of technology used in Photo-Me's machines, the telemetry, payment methods);

🌀 **Partnership relationship management** – managing and developing partnerships with site-owners worldwide;

🌀 **Generating profit** (e.g., Photo-Me's return to shareholders grows, the company generates enough cash to self-finance its R&D, Photo-Me constantly reduces its costs);

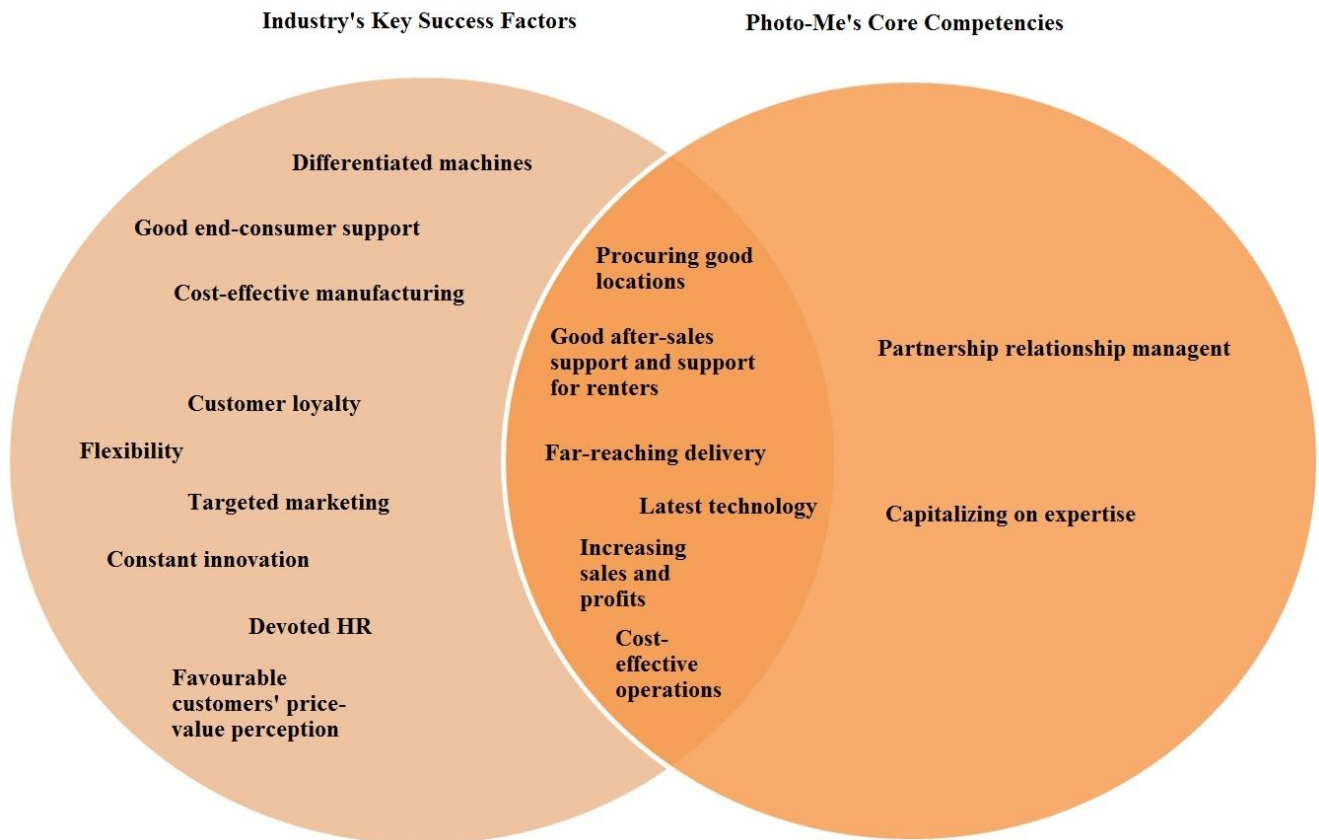
🌀 **Capitalizing on expertise** (e.g., new laundromats).

Some of the key success factors of the vending equipment industry are Photo-Me's core competencies, that is, the company does really well some of the activities that are crucial to operating within the vending equipment industry. Figure 13 on p.116 shows where the industry's success factors and Photo-Me's core competencies overlap. By developing some of the success factors into its core competence, Photo-Me has managed to stay competitive in the marketplace for a significant amount of time. There are, however, ways how Photo-Me could improve its services: not all of the industry's success factors are what Photo-Me does well. For example, Photo-M's booths are not extremely differentiated from the booths of its rivals: there are designer and eco-friendly booths that the competitors do not offer, but, in general, Photo-Me's booth possess the same qualities and features as other booths. The company also needs to improve end-consumer support and customer loyalty, make its machines more portable and flexible, improve its marketing and employee relationship management, etc.

### ***Conclusion***

Photo-Me has been a competitive company for over 50 years. By turning some of the industry's key success factors into its core competencies, the company has gained the competitive edge. However, the analysis of the success factors demonstrates that there are numerous areas where Photo-Me could improve its performance.

**Figure 13. Overlap between Photo-Me's Core Competencies and Industry's Key Success Factors, 2015**



### Appendix 38. Details on Photo-Me's Current Strategy

Photo-Me actively develops its laundry business. In March 2015, the company launched its 1000<sup>th</sup> launderette in Europe which is located at Tesco Extra, Ireland<sup>295</sup>. The company “hope[s] to have 100 throughout Ireland by the end of the year.”<sup>296</sup> Photo-Me is also looking for new customer segments that might need the service of heavy-duty laundering; by targeting new customer segments, Photo-Me expands its laundry business and finds new sites for its launderettes, such as sites outside “supermarkets, ... campsites, universities, military barracks and riding stables.”<sup>297</sup> Photo-Me also tries to market its launderettes among elderly people by implementing a CSR project in cooperation with Age Action Ireland: Photo-Me has decided “to provide free laundry services to elderly groups for a year.”<sup>298</sup> Photo-Me also stresses that its

<sup>295</sup> Fiona Magennis. “Tesco Carpark Launderette,” *Independent*, last modified March 28, 2015, accessed May 1, 2015, <http://www.independent.ie/regionals/drogheda/independent/news/tesco-carpark-launderette-31090976.html>.

<sup>296</sup> Ibid.

<sup>297</sup> “Annual Report 2014,” Photo-Me: 12.

<sup>298</sup> Karina Corbett. “Photo-Me in Partnership with Age Action to Help the Elderly,” *Business & Leadership*, last modified March 24, 2015, accessed May 1, 2015, <http://businessandleadership.com/sustainability/item/49990-photo-me-in-partnership/>.

laundrettes are highly cost-efficient which “could also mean reduced water charges for families whose children play a lot of sport.”<sup>299</sup>

Photo-Me is also “also trialing a carwash concept, targeted initially at the main supermarket chain in France, which would have some overlap in terms of location as the standalone Revolution units and utilize the same fleet of engineers.”<sup>300</sup> Photo-Me develops the concept in cooperation with “Kärcher, one of the market leaders in cleaning technology.”<sup>301</sup>

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<sup>299</sup> Fiona Magennis. “Tesco Carpark Laundrette.”

<sup>300</sup> “Photo-Me International Plc – Interim Results Announcement,” *Photo-Me*, last modified December 9, 2014, <http://www.photo-me.co.uk/photo-me-international-plc-interim-results-announcement/>.

<sup>301</sup> Harrington, “Photo-Me International a Picture of Health.”