

Lifetouch adjusting its lens to the digital age

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Executives at Lifetouch Inc. like to describe their \$1.5 billion company as the best-kept secret in the Twin Cities. To millions of parents and students, however, the brand is a household name.

The company is far and away the nation's largest producer of school photos and IDs. It also publishes yearbooks, operates more than 600 portrait studios at J.C. Penney and Target and is the biggest player in the church directories market. In one form or another, Lifetouch's photos find their way to the wallets, refrigerators, bookshelves and picture frames of more than 48 million homes across North America each year.

But the digital age has upended the once-structured photography industry, and even market leaders like Lifetouch are feeling pressure. Inexpensive cameras, easy-to-use editing software and quality off-the-shelf printers have leveled the playing field in a fragmented industry dominated by mom-and-pop shops and solo operators.

Led by a new chief executive for the first time in nearly 20 years, the employee-owned Lifetouch is striving to modernize and stay on trend in a world where people prefer the instant gratification of selfies over staid family portraits that once hung proudly over fireplaces.

"Most of our business historically has been done on paper fliers," said CEO Michael Meek, who stepped into the top job in July after serving as president and [chief operating officer](#) for 2 { years. "Today, the opportunities are around digital sharing, digital storage and digital enjoyment."

Meek aims to move the company from one built around capturing images into one he describes as a "memory solution." The future, he believes, lies in taking the company's four distinct business lines out of their silos so consumers can buy, store, curate and archive Lifetouch images, whether they were taken at school, church, a retail studio or anywhere else.

Lifetouch took the first bold step toward that end in May when it acquired iMemories, an Arizona startup that transforms old photos, slides, home movies and audio into a modern digital format and stores it in the cloud. It has kiosks in 8,000 Walgreens stores.

"We're like this massive Swiss Army knife that takes all these crazy decades of content that keeps changing because technology keeps changing," said iMemories co-founder Mark Rukavina.

Rukavina said iMemories has a broader offering than services such as YouTube, which is about videos, or Flickr, which stores digital photos. iMemories pulls together photos and videos so that they can be shared on social media or viewed on any computer or mobile device.

While the acquisition gives Lifetouch a new avenue to reach consumers, it was the untapped potential of iMemories' proprietary software, e-commerce platform and established R&D team that convinced Meek the deal could become the most transformative in company history.

Since its founding in 1936 by a couple of traveling salesmen, Lifetouch has used acquisitions and technological advances to further its business ends. It expanded beyond school photos in 1983 by purchasing a company that operated portrait studios in J.C. Penney stores. Lifetouch moved into the preschool market in 1990 and launched a church directory division in 1995, both through acquisitions. Lifetouch snapped up the remaining assets of once-formidable portrait studio rival Olan

Mills in 2011, having bought its school business in 1999.

The company has pushed in-house innovations in photography as well. At its sprawling headquarters campus in suburban Minneapolis, a hallway is devoted to portraits of patent holders. Its most famous invention, the Micro-Z camera, revolutionized school portraiture in the 1980s and is part of the Smithsonian's permanent history collection.

With as many as 30,000 employees during its peak school portrait season, Lifetouch is one of the nation's five largest employee-owned companies, according to the Washington, D.C.-based ESOP Association. Its heft makes it an influential lobbyist for tax and business policies that benefit its ownership model, and executives nurture strong ties with Minnesota's congressional delegation.

Profit figures aren't public, but the company doesn't shy away from rewarding workers. At its 80th celebration in July, Lifetouch turned its parking lot into a fairground, with a Ferris wheel, fireworks and performances by Sheryl Crow, Aaron Neville, Charlie Puth and Minnesota's Chris Hawkey. Four employees scored \$25,000 each in an annual photography contest.

Educators, nonprofits and other business partners credit its employee-ownership model for building an unusually loyal and community-minded workforce. Anyone who works 700 hours a year qualifies for the plan. At retirement, the company buys back shares at current market rates.

"When you talk about, 'We're in this together,' it's true," said Meek, who previously spent more than 20 years in retail, including stints with Macy's, Dayton Hudson and Nordstrom. "If you have to cut expenses or make adjustments, we're making them in the interest of us all - not some guy on Wall Street or some wealthy family."

Lifetouch donates \$100 million each year in cash and in-kind services mostly to charities related to children's development, education and safety, said spokesman Kelvin Miller.

Since 2004 it has worked with the National Center for Missing and Exploited Children to provide photo IDs for children at more than 35,000 schools. The SmileSafe program provides law enforcement a clear, current photo of the children, considered the most essential tool if a child goes missing.

"Coming up with one, when parents are frantic, isn't as easy as you think," said Marita Rodriguez of the Alexandria, Va.-based nonprofit, who added that the cards have aided the safe return of children in 24 states.

Sara Sternberger, who runs Free Arts Minnesota, said Lifetouch donates \$85,000 to her organization each year, a vital 14 percent of her annual budget. Lifetouch officials have assured her that should donation plans change, she would get a few years' advance notice - a gesture she said illustrates the company's quiet but sincere commitment to community service.

"It's in the DNA of Lifetouch that they believe it's important to give back," Sternberger said. "Every employee will tell you that."

As Lifetouch sets out on its ninth decade as the undisputed industry leader - its closest competitor, CPI Corp. declared bankruptcy in 2013 - Meek said there is plenty of room to grab market share in every business unit.

The outlook for the \$10.5 billion photography industry is challenging but far from bleak, according to a report by IBISWorld, which forecasts a 6.6 percent rise in sales this year as consume confidence rises.

Lifetouch controls about 40 percent of the market for school photos, a relatively stable industry that accounts for well over half of Lifetouch's revenue. Although Jostens, also headquartered in suburban Minneapolis, has the corner on high school yearbooks, Lifetouch leads in publishing the books for grades K-8.

Pressure is strongest on Lifetouch's portrait studio division, which is more tied to discretionary income and changing consumer tastes. Lifetouch operates studios in 475 J.C. Penneys and 140 Targets, but in the past five years has closed more than 40 underperforming studios in Target and about two dozen at J.C. Penney.

As Lifetouch strives to stay relevant, observers and some of the company's partners notice a surprising lack of racial and gender diversity in the C-suite, particularly at a time when the nation - particularly schools - are becoming more diverse. The CEO and leaders of all five business units are male, and the board of directors includes just one woman.

Lifetouch officials said the company is working to increase diversity and pointed out that women lead its human resources and accounting departments.

Paul Harmel, the newly retired CEO who spent 40 years with the company, said he's losing no sleep over the company's future under Meek, whom he described as a practical decisionmaker and strategic thinker.

"Whether the output is digital or the output is film, the mission hasn't changed," said Harmel, who will remain as board chairman. "How you deliver it has changed. People still want their memories protected and presented in a way that makes them feel good about themselves and their loved ones."

Lifetouch

Headquarters: Eden Prairie, Minn.

Employees: Up to 30,000 during peak school portrait season; about 1,900 in Minnesota

2015 revenue: \$1.5 billion (IBISWorld)

Ownership: More than 17,000 employees, one of the nation's largest ESOPs.

Business units: School photos, portrait studios, church directories, preschool portraits, iMemories

Source: Lifetouch

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