



Teaching Case Study:

Pixology PLC



PIXOLOGY PLC

Nigel Biggs. Guildford. Imaging software and digital cameras.

PHASE ONE

Origins

The business (then called NBA) was originally started in 1987 by Nigel Biggs (60% ownership) and his wife (40%) when they were contracted by British Rail (BR) to provide software database services. The concept of the imaging software was born six years later by the team working on BR who wanted to add pictures to databases. As a result of privatisation in 1994 BR operations moved to focus almost exclusively on rail financial systems and Nigel moved his company to develop an imaging product under the then new operating system, Windows.

Early development of the business

NBA launched the software product in early 1995 and the first digital cameras were launched in the UK later that year. So the company applied their technical expertise to link digital cameras into the first “image management” boxed product (PhotoWallet). The offering and products were known as Software Image Management, and NBA used “bundled” deals with cameras aimed at a target market of corporates and others including several utilities companies. At this early stage there was no clear communicated vision, business plan or strategy.

Financial problems

After a few months of product trading the Company began to run out of money. They realised that there was, at that time, a very small market for “image management software” as few people had digital images to manage. By now Nigel had added to the company a software technical director who by chance had been a serious amateur photographer for over twenty years.

Phase 1 - Questions to consider:

NBA’s initial products had in hindsight come to market too early and at a time when the market itself was not ready or adequately positioned to accommodate them.

- 1. What technical, financial or commercial options would you recommend that the shareholders consider to address this?**
- 2. What do you think would be the pros and cons of launching a new business venture?**
- 3. What do you think the business plan would have looked like?**

PHASE 2

Launch of the Digital Camera Company - 1996

The team made a simple decision. They launched The Digital Camera Company (as a trading name of NBA) as the first online camera retailer in the UK. The plan was to be the expert reseller of digital cameras and to sell the company's image management software at the same time.

The Company positioned itself as "a camera company that understands IT". The Directors realised that in order to succeed broader commercial business support and additional funding was essential especially during the early phases of trading. The former was realised with the arrival of a personal contact known to Nigel from the local university's "Managing Directors' Club". A Business Plan was formulated and Nigel had a series of conversations with Banks to look for a Small Firms Loan. Eventually HSBC agreed to put up £100,000 if the Company found another £50,000.

During the second half of 1996 the MDs Club contact agreed to invest £50,000 and become Chairman. He also introduced a former Finance Director as a non-exec. After three months more trading the money was secured. Shortly after this the Company won the Surrey Innovation Award.

Products, marketing and resourcing

Marketing activity was split into three areas: Via the internet (3 orders overnight for 3 cameras in the first 24 hours), via software reseller channels and through press articles, digital magazines and advertisements. The driver behind business development continued to be Nigel Biggs however the Company was still very much regarded, externally, as a "technology company". Digital camera clients came primarily from R & D groups in major corporates and engineering companies looking at possible uses for this new digital technology. However the team had no previous retail experience in product pricing and setting of margins. It was a case of learning as they went along and incorporating ideas and advice much of which came from the trade itself. Also, as a software engineer, Nigel had little previous commercial experience and, with hindsight, the team lacked commercial balance. This was to prove a significant learning lesson for them.

The Company employed about 12 people (across both businesses – cameras and software) in Operations, IT, Sales, Technical Support and Software Development functions plus the management team. Suppliers were all the leading camera manufacturers like Kodak and Fuji. The Company used SAGE for accounts. They had no Client Relationship Management (CRM) system.

Downturn in business

The camera business had been performing well however margins dropped significantly due to other sellers entering the market and consequently the business struggled to break even.

Such external factors were now starting to play a significant part in shaping the level of business activity and growth. Larger established traditional camera retail players were arriving in the digital market and took an increasing market share.

Another significant factor was that the Company did not have any client relationship management (CRM) capability beyond limited marketing activity geared to its existing client base. This was reflected in the continuing strategy on launching new technical software products with limited market research.

Thirdly customer management and communications was good but only reactive. Proactive customer retention was needed to stave off competition. Compounding this was a lack of a communications strategy with the Company only in regular contact with 30 of its 300 clients where previously they had relied on the technical excellence of the product. As a result they were unable to market the NBA software products enough to make them an essential “must have” factor in support of further camera purchases even from other camera retailers. Overall there was still a focus on technical rather than a commercial outlook.

Financials and cash management.

During this period all bills were paid but financial control was lacking and a major cash flow crisis resulted in the business nearly going bankrupt. More effective cash flow management was provided by the non-exec.

Turnover reached £1,000,000 however 80% of this came from the cameras business.

Culture – high quality products but lack of commercial infrastructure and resource

Despite a long-standing commitment to a Quality Management System the Company lacked commercial infrastructure - and was not able to grow its sales resource beyond replacing the first salesperson with another one. Organisational change was limited mainly to existing business operations.

The broader strategy was to bring out one new software product a year. One of the products, a PC-based digital camera adviser, was sold to all outlets of a major UK electronics chain and then across the USA. Staff training at this time was purely “on the job” and all about new technologies and new cameras. There was little time available to be proactive in customer communications. In summary the business was all about technical “product quality”.

Phase 2 - Questions to consider:

NBA and The Digital Camera Company experienced a decline in its market, as a niche business selling cameras and imaging software, due mainly to other companies entering the market and also because buyers were increasingly looking for imaging software to be available free as a part of the total camera package.

- 1. What strategy would you recommend that the company takes to address these changes?**
- 2. How would this impact on marketing and resourcing?**

PHASE 3

Business turnaround

The period from 1997 to Autumn 1999 marked a major transformation in the life of NBA and the Digital Camera Company. In mid 1997 the Directors presented the Company to two potential trade investors. Both had shown a real interest in the Company and its business proposition but the Directors did not believe that the fit was right in either case. Shortly after this Nigel received an email from Lord Young, who was a customer who had come to the company for an upgrade to his own camera, who posed the question "If you are needing investment why not ask me?" Following discussions with the board Lord Young acquired 50% of the Company and became Chairman.

During the initial period after Lord Young's arrival the Company again suffered poor financial trading results but now started to enjoy better cash flow control. Although still losing money two new products were launched.

In late 1999 the Directors realised that the image management and other box products were becoming less viable and the company's market for them worldwide in UK, USA, Australia, New Zealand and Sweden was declining, as many imaging products were being given away free with cameras or basic functions were being added to Windows. What was now emerging in the USA was the uploading and ordering of photo prints via the internet.

Phase 3 - Questions to consider:

The market in which NBA, as a niche business selling image software, was operating experienced a change with a decline in the demand for box products as buyers were increasingly looking for imaging software to be available free as part of the total camera package.

Photo retailers had up to then a near monopoly on photo printing but now image management solutions were increasingly available direct to the consumer who could then print pictures at home.

What strategy would you as Directors of the company take in the light of these factors?

PHASE 4

The Company saw the possibility of harnessing the company's core technology to manage digital images through the internet sales and printing process.

To improve the team Lord Young found an experienced commercial director who joined as joint MD. From here the journey was forward and upwards. The Company developed an internet printing capability for a major UK camera retailer. By early 2000 the Company had implemented a new business plan for Venture Capital (VC) funding and attracted further investment.

With the changes, how was the organisation better off and what lessons were learnt?

Nigel was realistic about what had been learnt. Some of the main lessons were:

1. Better credibility in the Lord Young period as Lord Young was on the Board as Chairman.
2. The 3i investment was a springboard to growth.
3. In the early days there was little understanding of the life cycle of a product and time needed to grow the market. "We just did it".
4. The Company didn't take action early enough to spot what was happening.
5. Nigel recognised his own personal learning as a CEO – "take time out and think strategically". He had had no personal mentor / business support in the early days.
6. Nigel learnt the lesson of the need to build a balanced team from day one.

From 2001 to 2003 the business grew and focused on internet photo printing services both online and from in-store kiosks. The Company sold the Digital Camera Company and a wider senior management team was hired. The joint MD was made CEO and the Board expanded with a series of non exec appointments.

The Company invested in its increasing sales capability and obtained contracts with leading UK brands. It boosted investment in R&D and increased the production strength of its infrastructure systems. Major deals were won in the US and Japan. This resulted in a second round of funding in 2002 and the Company floated on AIM in December 2003.

A move to commodity emphasis

Lord Young had been instrumental in putting in place a sound business model and full management team which had previously been very limited. The Company developed an internet printing online web site to allow uploading, distribution, printing and delivery of digital pictures. It was marketed as a white-label service (i.e. what looked to a consumer like a named retailer's service was in fact driven by the company's technology. This was then extended to other major retail customers in the UK and the USA.

Nigel left the business (now called Pixology) in 2006. Pixology moved to have more of a commodity emphasis, becoming a printing infrastructure company and a mixed complex order handling business and in 2007 it was sold to a Canadian based photo systems organisation.

NOTES FOR TUTORS

Phase 1 - Questions to consider:

NBA's initial products had in hindsight come to market too early and at a time when the market itself was not ready or adequately positioned to accommodate them.

1. What technical, financial or commercial options would you recommend that the shareholders consider to address this?
 - Carry out a full SWOT analysis of image management market and produce business plan for external review prior to initial investment and commencement of trading.
 - Review gaps in technical expertise and agree measures to fill them.
 - Clear and concise three year cash flow projections which incorporate adequate commercial resource to support and balance technical expertise in the business.
 - Consider additional sources of capital.

2. What do you think would be the pros and cons of launching a new business venture?
 - Pros – will include vision, product ideas and creativity to take to market, underpinning technical expertise and capability.
 - Cons – will include uncertain state of the image management market, lack of market knowledge, insufficient commercial capability and under-developed business model.

Phase 2 - Questions to consider:

NBA and The Digital Camera Company experienced a decline in its market, as a niche business selling cameras and imaging software, due mainly to other companies entering the market and also because buyers were increasingly looking for imaging software to be available free as a part of the total camera package.

3. What strategy would you recommend that the company takes to address these changes?
 - Review initial SWOT of business and external digital market to determine both short and medium term strategy. Will include detailed competitor analysis.
 - Decide where the business is best placed and how to utilise existing skill base. Product or service or both?

 - Develop marketing and sales strategy to achieve scale within agreed time span considering all options - partnering, JV etc.
 - Explore scope for patenting.

4. How would this impact on marketing and resourcing?

- Segmentation of markets with appropriate marketing strategies for each segment.
- Skills and expertise review to support required marketing mix.
- Balance core and complimentary marketing skills.
- Buy in external expertise where required.
- Establish optimum balance between PAYE and external contracted resource with appropriate development and training.

Phase 3 - Questions to consider:

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Photo retailers had up to then a near monopoly on photo printing but now image management solutions were increasingly available direct to the consumer who could then print pictures at home.

What strategy would you as Directors of the company take in the light of these factors?

- Distinguish between low or high risk.
- Factors to consider will include a full assessment of where the company is best placed to maximise potential from change in decline in boxed product market
- External research on new product design and pricing, research and review of patenting, routes to market (licensing, distributor networks, partnering), and skills assessment and gap analysis.
- External investment.