

AUSTRALIAN TELEVISION COMMERCIAL (TVC)  
PRODUCTION COMPANIES SURVEY  
BY THE AUSTRALIAN FILM COMMISSION (AFC)  
JANUARY 2001

## INTRODUCTION

Prior to 1992, virtually all commercials shown on Australian television were made in Australia or principally by Australians. In 1992 the (then) Australian Broadcasting Tribunal issued a replacement for the previous standard covering Australian content in advertisements. This allowed each television station to screen foreign commercials up to a limit of 20 per cent of its advertising time.

The Productivity Commission's Inquiry into Broadcasting, March 2000, called for more data on the production of commercials in Australia. It made a recommendation to remove the current local content quota from the Broadcasting Services Act so that there would be no restriction on the broadcast of foreign TVCs in Australia. The AFC opposes this recommendation and to date it has not been endorsed by the Government.

Television commercials play an important cultural and economic role in the Australian film and television production industry. They help to give an Australian look and feel to our television, and they sustain the infrastructure on which the film and television production sector is based.

The AFC survey was designed to gather some basic data about the TVC industry, which would act as a benchmark for future studies. Australian content regulation of TVCs was a topic of the investigation.

## METHODOLOGY

The target group for the survey was production companies actively producing television commercials. To qualify, companies had to have produced at least one TVC in the 1999-2000 financial year. The sample was based on Australia-wide listings purchased from a private company, *Portfolio and Reel*, established in 1994 as an information and reference service for the advertising industry. Their specialised database was supplemented for the purpose of the survey by a number of additional sources. Additional companies were added from *Encore Directory's* Commercials/Corporate Production listings; *Campaign Brief's A-Z of TVC Production Companies* for Summer 2000; and finally the membership of the Screen Producers Association of Australia (SPAA).

The above sources yielded a database of 217 companies. Interviews were completed with 158 company representatives. The questionnaire was emailed in advance. Interviews were conducted in August 2000 by telephone. The response rate (73%) was extremely high. The sample is representative of the Australian television commercial production industry.

## KEY FINDINGS

### Employment

The survey results clearly revealed the television commercials sector to be a major employer of freelance production crew. In the 1999-2000 financial year, the companies surveyed had provided over 100,000 freelance employment opportunities (of varying length). On average, companies employed 18 freelance personnel for each TVC shoot. Over three-quarters of the companies interviewed reported that the freelance crew they employed also worked on other types of production rather than exclusively on TVCs. This is a particularly high proportion given that the companies we targeted tended to specialise in TVCs.

### Budget Ranges

TVC production in Australia is definitely concentrated in the lower budget range (defined as under \$150,000). In fact 44 per cent of companies worked *only* in this low budget range. The data showed that companies tend to work within the same budget range. TVCs with budgets over \$500,000 had been produced by a small number of companies (20%) but most of those had only produced one to five TVCs in this range. It appeared that few of the top budget TVCs were being produced here – only 14 companies had made TVCs with budgets over a million dollars.

### Source of Work

While Australian production companies are active in seeking overseas work, it is Australian clients who commission most television commercials. On average, close to three-quarters (73%) of a company's work was from Australian clients. Indeed, for half the companies interviewed, over 90 per cent of their work was commissioned by Australians. Nevertheless, work sourced internationally was of growing importance and 64 per cent of companies interviewed had some overseas work. Of those companies who had overseas work (ie 64% of sample), the great majority of companies had Asian clients (84%); and around a third of companies had clients from North America (38%) and Europe (33%).

### Business Trends

The most common business issue raised was in relation to budget constraints. Many companies reported that budgets had decreased and become tighter (60%). A large proportion of the sample (42%) reported a reduction in the volume of work in the last three years.

A number of industry trends were reported to impact negatively on local production:

- an increasing concentration in the agency sector with a large number of Australian agencies absorbed into overseas groups;
- production budgets going down yet costs rising;
- special effects and post-production taking up a larger proportion of the production budget.

### Future Business

The effect of deregulation and the flow of overseas commercials into Australia were the most prominent issues expected to influence future business. Many interviewees raised concerns about the importation of overseas advertisements into the local market and the repackaging of overseas commercials for broadcast in the Australian market.

### **Impact of Deregulation**

The overwhelming view was that deregulation had had a negative impact on TVC businesses (reported by 83%). The vast majority of respondents (88%) reported that the introduction of a foreign TVC quota had led to a decline in business, most commonly estimated to be around 40 per cent.

In response to the decline in the local market some companies had expanded into other markets but many reportedly went out of business. Others downsized facilities and the number of staff employed in response to the reduced work. Respondents had witnessed many companies leaving the industry and key personnel moving overseas to work.

### **Likely Impact of Full Deregulation**

In speculating about the likely impact if full deregulation were to be introduced, 72 per cent of those who responded stressed that it would have a negative impact. The remainder observed that the current legislation was not enforced or effective, so concluded that its removal would have little effect. Respondents stressed that the current system of classifying TVCs as Australian was problematic and allowed no real measurement of the impact of foreign TVCs on the Australian industry.

Close to a third of respondents claimed that full deregulation would be the 'death of the industry' and an even higher proportion predicted it would result in the closure of small companies (40%). Over one third felt the repackaging of overseas commercials for Australian broadcast would further increase. Many suggested that work in Australia would decrease with estimates of the likely decline ranging between a quarter to half the volume of current work.

Respondents referred to the undesirable cultural impact arising from increasing levels of foreign commercials on Australian television. Reference was commonly made to the role advertising production plays in providing employment and training for feature film production crew. It was felt there would be a general loss of skilled practitioners from the Australian production industry as a result of deregulation, as practitioners would need to work overseas.

## OVERVIEW OF FINDINGS

### Nature of Business

Most of the companies interviewed (72%) reported that television commercials were their main business, accounting for the highest proportion of their annual turnover.

- Eight post-production companies and 12 animation companies were included in the survey because TVCs were a major component of their business.
- Fifteen per cent had other production as their main production activity, although TVCs still accounted for a large proportion of their work.

Main business	Frequency	%
TVC	114	72
Animation	12	8
Post-production	8	5
Other production	24	15
<b>Total</b>	<b>158</b>	<b>100</b>

On average, commercials production comprised three-quarters of turnover. Such levels were not surprising since the survey targeted active TVC companies. The next most common activity was corporate video work, which was undertaken by 28 per cent of respondents, accounting for approximately a quarter of their turnover.

### Location of Business

Companies were selected from across Australia. The sample reflects the distribution of companies in the industry listings and directories mentioned in the methodology. Clearly, the bulk of the industry is based in Sydney therefore companies from NSW comprised over half of the sample (58%). The table below shows the success or strike rate in achieving interviews from the various states.

Location of production company	Frequency	%	Number of listed Companies	Interview Strike Rate %
NSW	92	58	114	81
VIC	47	29	66	67
Other states	19	12	37	48
<b>Total</b>	<b>158</b>	<b>100</b>	<b>217</b>	<b>73</b>

### Years in Operation

The sample of companies was split evenly between those that had been in operation prior to the amendments to television advertising standards in 1992, and those formed subsequently.

Years in operation	Frequency	%	Cumulative %
Less than 2	16	10	10
2-8	62	39	49
9-15	43	27	77
15+	37	23	100
<b>Total</b>	<b>158</b>	<b>100</b>	

## Employment Profile

The companies varied in size from those with no permanent employees to a couple of companies over 100 employees. The great majority were small companies - 86 per cent had 10 or less employees, while 70 per cent of respondents employed five or less.

Number of permanent employees	Frequency	%
0-5	110	70
6-10	26	17
11-20	11	7
20+	11	7
<b>Total</b>	<b>158</b>	<b>100</b>

## Freelance Crew

The television commercials sector is a major employer of production crew. In the 1999-2000 financial year, companies surveyed had provided over 100,000 employment opportunities (of varying length). On average, companies employed 18 freelance personnel per TVC shoot. Over three-quarters of the companies (77%) reported that their freelance crew worked on other types of production, rather than exclusively on TVCs.

Number of freelance crew	Frequency	%
0-5	30	19
6-10	31	20
11-20	45	29
20+	51	32
<b>Total</b>	<b>157</b>	<b>99</b>

## Volume of Work

There was a wide spread in the volume of TVC production among the companies over the 1999-2000 financial year.

- The average or *mean* number of TVCs produced per company each year was 33, although this is not very meaningful given the variation in size of the companies.
- The *median* number of TVCs produced each year was 14. In other words this sample was split evenly between companies that produced less than 14 TVCs and those that produced more than 14.
- A couple of the companies produced only one TVC last financial year, while one post-production company claimed to have worked on close to 1,000.
- The most frequent number of TVCs made by a company in the year, the mode, was 10.

## Production According to Budget Ranges

Australian TVC production spans a wide range of budgets but the data revealed that companies tend to work within the same budget range.

Budget range	No. of companies
Under \$50k	86
\$50k - \$150k	89
\$151k - \$500k	70
\$501k - \$1million	31
Over \$1million	14

- The great majority of companies (89%) were involved in the production of TVCs in the low budget ranges.
- A number had produced across the low budget ranges, that is under \$150,000.
- Only two companies had been involved in productions over all budget ranges in the year.
- Only four companies produced TVCs both under \$50k and over \$1 million.
- Fourteen worked on TVCs worth more than one million dollars.

### **Number of Productions**

<b>Number of Productions</b>	<b>Under \$50k</b>	<b>\$50k-\$150k</b>	<b>\$151k-\$500k</b>	<b>\$501k-\$1mil</b>	<b>Over \$1mil</b>
Mean (average)	18	21	11	5	3
Median (50% above or below)	7	6	7	3	2
Mode (most frequent)	2	2	2	1	2

Among the 86 companies that produced TVCs under \$50k:

- 50% made more than six and 50% made six or less (median 6.5).
- The mean figure is generally inflated by the large number of commercials completed by some post-production companies.

### **Productions under \$50k**

<b>Number of TVCs</b>	<b>No. of companies</b>	<b>%</b>
1-3	23	15
4-10	35	22
11-20	11	7
20+	17	11
Sub Total	86	55
None in range	72	46
<b>Total</b>	<b>158</b>	<b>100</b>

### **Production Range \$50k - \$150k**

<b>Number of TVCs</b>	<b>No. of companies</b>	<b>%</b>
1-3	29	18
4-10	34	22
11-20	16	10
20+	10	6
Sub Total	89	56
None in range	69	44
<b>Total</b>	<b>158</b>	<b>100</b>

Within the \$50k-\$150k and the \$151-\$500k budget range a similar pattern was shown.

- 27 per cent to 33 per cent of companies in these budget ranges produced only 1-3 commercials;
- around 40% produced between 4-10 commercials;
- the remaining minority produced 11 or more in these ranges.

The following characteristics describe the substantial grouping of 69 companies (44%) that only made TVCs worth less than \$150,000 in the 1999-2000 financial year. This profile can be compared to that, over page, of the minority grouping that did high budget worth:

- Thirty-seven (54%) were Sydney-based, 25 per cent were Victoria-based and seven per cent in other states.
- Their average number of permanent employees was five. Half had less than seven permanent employees although four companies employed over 24 staff.
- On average these companies employed 11 freelance crew on a TVC shoot.
- On average these companies made 18 TVCs last financial year, one company made 200.
- Half of these companies only did work commissioned from Australia.
- Six companies (9%) had overseas offices and 14 (20%) had formal international links, but the majority had no international links (68%).
- Forty-two (61%) gave TVCs as their main business; 25 per cent listed corporate videos and 17 per cent worked mainly in animation.

***Production Range \$151k - \$500k***

Number of TVCs	No. of companies	%
1-3	21	13
4-10	27	17
11-20	14	9
20+	8	5
Sub Total	70	44
None in range	88	56
<b>Total</b>	<b>158</b>	<b>100</b>

***Production Range \$501k-\$1million***

Number of TVCs	No. of companies	%
1-5	22	14
6+	9	6
Sub Total	31	20
None in range	127	80
<b>Total</b>	<b>158</b>	<b>100</b>

Only a small number of companies were involved in TVC productions worth \$500k-\$1 million in 1999-2000.

- 31 out of the 158 (20%) companies had produced a TVC in this value range.
- Nine companies had six or more productions of this size.
- Of the 31 companies that produced commercials in the \$501k-\$1million range, most only produced between one to five.

***Production Range over \$1 million***

Number of TVCs	No. of companies	%
1-5	13	8
6+	1	1
Sub Total	14	9
None in range	144	91
<b>Total</b>	<b>158</b>	<b>100</b>

The following characteristics describe the small grouping of 14 (9%) companies involved in productions worth more than \$1 million in the 1999-2000 financial year. The profile can be compared to that preceding of the large grouping that did low budget work:

- 12 were Sydney-based, one in Victoria and one in Queensland.
- Companies ranged in size from two to 20 permanent employees.
- On average these companies employed 28 freelance crew per TVC shoot.
- The average was 30 TVCs made last financial year, one company making 100.
- One company made 15 commercials over \$1 million, the rest made from one to three TVCs in this range.
- Overall, three companies tended to receive a higher proportion of their work from overseas.
- Three companies had overseas offices and eight had formal links. Most of these affiliations were with North America and Europe, while four companies reported links with Asia.
- TVCs tended to be their main business.

### Source of Work

The survey showed that Australian clients commissioned most television commercials. On average, almost three-quarters (73%) of a company's work was from an Australian client. For half the companies interviewed, more than 90% of their work was for an Australian client. Nevertheless, overseas work was clearly vital to TVC business. One hundred and one of the companies interviewed (64%) undertook some overseas work in the 1999-2000 financial year.

- The split between overseas clients and local clients was similar in NSW and 'other states' (mainly Queensland).
- The level of overseas clients for Victorian companies was lower than for NSW, and 'other states'. Only 7% of Victorian companies' work was from overseas clients compared with 32% on average for NSW companies.

<b>Companies with overseas work</b>	<b>Asia</b>	<b>Nth America</b>	<b>Europe</b>	<b>Other</b>
Number of companies with clients in the region	84	38	33	5
Average proportion of work for companies with clients in the region	75%	50%	42%	49%

### International Connections

Respondents reported whether their company had an overseas office or formal links with overseas clients, agencies or other production companies.

- Half of the companies interviewed had no links with an overseas agency, client or production company nor an overseas office.
- The other half (76 companies) had some form of linkage with other businesses or an overseas office.
- Among those who had some form of overseas presence for their company, around 15% had an overseas office and 28% had formal links with overseas business entities.
- However, 43% of those with overseas clients had no specific links with international businesses.

<b>Overseas links</b>	<b>Count</b>	<b>Response %</b>	<b>Cases</b>
Office	24	15	15
Formal links	45	28	29
Informal links	12	7	8
No links	81	50	52
<b>Total responses</b>	<b>162*</b>	<b>100</b>	<b>104</b>

\* Companies may have more than one type of overseas business linkage.

- Where companies had linkages, the regions were fairly evenly spread between Asia (50%) and North America (52%) but fewer in Europe (24%).
- Though significantly more companies had Asian clients, the number of companies with Asian linkages was the same as the number with linkages to North America.

### **Regional Links**

<b>Region</b>	<b>Count</b>	<b>Response %</b>	<b>Cases</b>
Asia	29	33	50
Nth America	30	35	52
Europe	17	20	29
Other	11	13	19
<b>Total responses</b>	<b>87</b>	<b>101</b>	<b>150</b>

Of those companies who did some overseas work in the year, a considerable proportion (43%) claimed to have no specific overseas links. It appeared that formal international links were not necessary for Australian companies to gain overseas work.

- Of the 84 companies with Asian clients, only 18 (21%) had linkages with Asian businesses.
- Of the 38 companies with North American clients, 15 (39%) had some formal or informal linkages.
- Of the companies with European clients, 9 (27%) had linkages in place.

### **Business Trends**

A range of comments were offered about business trends in the past three years:

- The most common issue raised was in relation to budget constraints.
- Well over half (60%) reported that budgets had decreased and become tighter.
- Forty-two per cent of companies reported a reduction in the volume of work in the last three years.
- Many referred to increased competition in the market (28%) .
- A minority referred to an over-supply of producers and directors (9%).
- The competitive environment was also reflected in comments about clients increasingly demanding more for less (22%).

The analysis of business trends by state showed that companies from all states raised concerns about budget constraints however NSW companies were more likely to express concerns about increased competition in the market and reduction in the level of work available. NSW companies more commonly referred to expanding overseas and diversification.

The key issues have been summarised under broad themes in the table below.

<b>Trends</b>	<b>Specific Issues</b>	<b>Number of responses</b>	<b>% of responses</b>
Budget constraints	Budget decreased/static Marketing dollar spread too wide Technology taking large share of budget Technology entailing higher costs Crew rates risen	133	(31.5%)
More competitive environment	Clients expecting more for less Over-supply of producers and directors Market more volatile High-end work going overseas	91	(22%)
Work decreased	Deregulation has reduced work available	81	(19%)
New markets	Diversification Increase in retail and low-end TVCs Expansion overseas	52	(12%)
Technical trends	Computer animation dominating Technology is making production cheaper and quicker	12	(3%)
Other	Creative standards have dropped More post-production done in-house	53	(12%)

### **Factors to Impact on Business**

Respondents mentioned a number of issues that would affect the business environment in the forthcoming year:

- The effect of deregulation and the flow of overseas commercials into Australia were the most prominent issues. Nineteen interviewees specifically referred to deregulation.
- Close to a quarter of the sample raised concerns about the importing of overseas advertisements and the repackaging of overseas commercials for Australian broadcast.
- The vertical integration of larger production companies was an issue for post-production and animation businesses.
- Reading of the overall Australian economy was mixed, particularly the impact of the Australian dollar against other currencies.
- Many cited the Internet as a potential threat to business as more marketing dollars were spent on web pages and direct marketing.
- The negative impact of the GST was commonly mentioned.
- A minority (6%) raised the potential impact of digital television to increase TVC demand.
- New technology was viewed by some as having a positive impact on their business, while for others it was seen as a threat.

### **Perceived Impact of Deregulation**

Interviewees were asked about the perceived impact of the change in local content rules for TVC broadcast on commercial television. Those not operating in television commercials at the time of deregulation in 1992 did not respond to this issue. The overwhelming view was that deregulation had had a negative impact on TVC businesses (83%). Three reported a positive impact, while a minority (15%) felt it had had no major impact.

Companies that had been in operation for longer were more likely to view the impact as negative. This perception was consistent across all states and irrespective of the nature of the business. Even companies that had formed since deregulation in 1992 felt the impact had been negative.

Asked to estimate the level of increase or decrease in business post deregulation, the overwhelming majority felt it had lead to a decrease. Respondents offered an estimate of the size of the decline ranging from 5 per cent to 100 per cent. Most estimates were around 40 per cent. Nine felt the level of activity was the same, while one company suggested a modest increase.

In response to the decline in volume of the local market, many companies apparently had expanded into other markets. Nearly 40 per cent of those that described their response to deregulation reported expansion into the global market. Others downsized facilities and the number of staff employed in response to the reduced work. A significant number diversified their business, moving into the low-end retail TVC sector. Many companies reported having to market themselves more actively in the more competitive environment. A number of respondents reported that many companies had gone out of business and that key personnel had moved overseas to work following deregulation.

### ***Company's Response to Deregulation***

	<b>Count</b>	<b>% Responses</b>	<b>Cases</b>
Expansion into global market	44	19	37
Many companies out of business	30	13	25
Diversification	29	12	24
More active marketing of company	28	12	24
Downsizing staff	23	10	19
Downsizing facilities	19	8	16
Move into more lower-end retail work	14	6	12
Key people left to work overseas	5	2	4
Other	46	19	39
<b>Total</b>	<b>238</b>	<b>101</b>	<b>200</b>

### **Likely Impact of Full Deregulation**

Asked about the likely impact of full deregulation, 72% of respondents stressed that it would have a detrimental impact on the Australian TVC industry. The minority felt it would have no major impact, simply because the current legislation is neither enforced nor effective.

<b>Impact</b>	<b>Frequency</b>	<b>%</b>
Positive	3	2
Not major	37	23
Negative	103	65
Total Respondents	143	91
No response	15	10
<b>Total</b>	<b>158</b>	<b>100</b>

Asked to comment on the likely impact of full deregulation, most estimated that work would decline between 20 per cent to 50 per cent or more. Half predicted the impact to be more than a 30 per cent decline while the other half felt it would be less.

Comments on the expected outcome for the Australian TVC industry were as follows:

- Full deregulation would be the 'death of the industry' or at the least result in the closure of small companies;
- Overseas commercials would further increase;
- A negative cultural impact would arise from more foreign commercials being shown on Australian television;
- The role of advertising work in underpinning other film and television employment and production would be undermined;
- The role advertising production plays in providing training for feature film production crew would disappear;
- A general loss of skilled practitioners was expected as key Australian production crew sought work overseas;
- Companies would need to diversify in order to survive;
- The Australian TVC industry would be able to prove a capacity to compete globally.

***Expected outcome of total deregulation***

<b>Category label</b>	<b>Count</b>	<b>% Responses</b>	<b>Cases</b>
Many smaller production companies would close	58	15	40
More overseas ads would be re-packaged	52	13	36
Death to the industry / major decimation	44	11	31
No real change because the quota is not enforced	37	10	26
Many key crew would have to leave Australia	22	6	15
Breakdown of culture/ negative cultural impact	20	5	14
It would seriously damage the film industry	20	5	14
Companies would have to survive on overseas work	19	5	13
Australian TVCs would only exist for retail sector	17	4	12
Removal of major training ground for film	14	4	10
Forces Australia to improve its standard	12	3	8
Clients will benefit / clients will save money	12	3	8
It would confirm our capacity to compete globally	10	3	7
Diversification the only way to survive	9	2	6
Other	42	11	29
<b>Total responses</b>	<b>388</b>	<b>100</b>	<b>269</b>