Production of TV Commercials in Australia: Key Survey Findings

In late 2004 the Australian Film Commission (AFC) surveyed the television commercials production industry, building on a similar AFC survey undertaken in 2000. The survey covered the commercials production activity of 107 independent Australian production companies. Key results from the 2004 survey are presented here. The full report will be available on the AFC website (www.afc.gov.au) later in 2005.

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Background

The television commercials (TVC) production sector plays an important role in the overall viability of the film and television industry, providing personnel with the chance to maintain income between intermittent work opportunities in other forms of production. High-budget commercials also foster innovation and the development of expertise with expensive new technologies. This sector has traditionally helped sustain an infrastructure of skills, experience, equipment and facilities crucial to the viability of the production sector as a whole.

A recent Australian Bureau of Statistics (ABS) report[1] revealed a significant general downturn in Australian production, creating increased competition for work in all sectors, including TV commercials. The TV commercials sector is also struggling to adapt to changes unique to its own business environment. Digital convergence is hastening fragmentation of the marketing dollar, a process already initiated by the tailoring of marketing campaigns to more savvy consumers and more pluralistic demographics. Niche marketing, direct marketing, in-program promotion, product placement and sponsorship are taking an increasing proportion of advertising dollars away from the production of traditional television commercials. Digital convergence also means an increasing number of media in which to advertise.

Methodology and sample

Scope of the survey

The activity of 107 Australian independent TV commercials production companies was surveyed between October and December 2004, building on a similar AFC survey undertaken in 2000. In order to provide a benchmark against which to measure trends, the 2000 survey questions formed the basis of the 2004 study. Consultation with TV commercials producers via the Screen Producers Association (SPAA) led to modification and expansion of the survey to ensure it met current industry information needs.

To be eligible for inclusion in this study, businesses had to be the principal producer of a commercial during the 2003/04 financial year. Post-production businesses that earn income from work on commercials were not included unless they had performed the principal producer role on a commercial. This was not a condition of inclusion in the 1999/00 survey, so a few businesses included then were not within the scope of the current study.

It should be noted that television stations also produce a large volume of commercials but this activity is not included in this study. Data on production activity by television broadcasters is included in the Australian Bureau of Statistics (ABS) report on film and video production, which provides broad industry statistics but does not focus on issues particular to the commercials production sector. The ABS study also includes all film and video businesses (e.g. casting agencies, caterers, equipment suppliers), while the AFC study focuses exclusively on production companies. The differences in scope need to be understood when comparing the AFC survey findings with ABS industry-wide data.

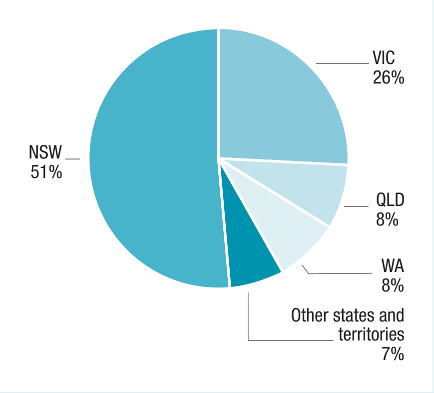
Sample profile by state

A little over half (51 per cent) of the completed surveys were from NSW-based companies. Victorian-based companies were the next most common, comprising 26 per cent of the sample. Companies based in Queensland and Western Australia comprised around 8 per cent each and companies in South Australia, the Northern Territory and the ACT made up the remainder of the sample. The response rate was similar across the different states and territories, and approximates the state profile of registered production businesses according to the ABS survey.

Rounding

Due to rounding some totals do not equal exactly 100 per cent.

State profile of surveyed companies

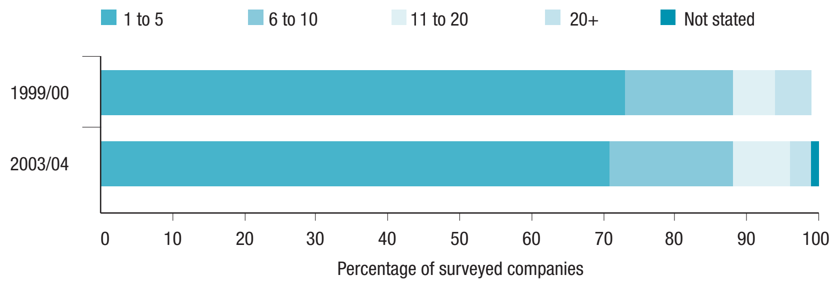


1. ABS, *Television, Film and Video Production 2002/03* (cat. No. 8679.0).

Employment

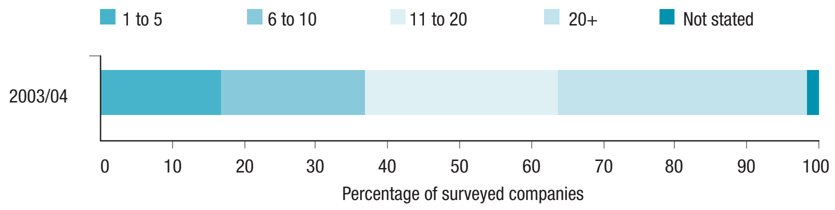
In keeping with the small business model that characterises Australia's audiovisual production sector, most companies (71 per cent) were small enterprises employing less than five permanent staff. Only 3 per cent of companies had more than 20 permanent employees. A similar employment pattern was seen in the 1999/00 survey, suggesting no significant change in the number of permanent staff employed in the sector.

Percentage of companies by number of permanent employees



Permanent staff comprised only a small proportion of the personnel employed by surveyed companies, with 62 per cent of respondents employing more than 10 freelancers on an average TV commercial.

Percentage of companies by number of freelancers on an average TV commercial



Seventy-two per cent of respondents indicated that their freelance employees worked in other forms of production when not employed on TV commercials, confirming a high level of diversification in the employment of production personnel across the audiovisual industries.

Company turnover

Most surveyed companies earned the majority of their annual turnover in the 2003/04 financial year from the production of commercials. On average, commercials accounted for three-quarters of the surveyed companies' annual turnover.

Company turnover from the production of commercials varied widely, ranging from $4,000 to almost $20 million. The median turnover was $550,000.

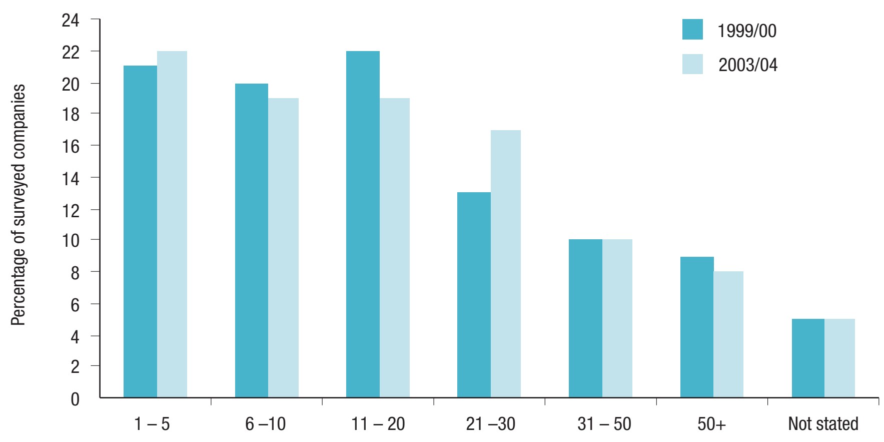
Production activity

Number of commercials produced per company

The number of commercials produced annually by surveyed companies has remained fairly stable since the last AFC survey in 2000. Forty per cent of respondents reported an increase in the number of commercials they produced, while around a third reported a drop. The remaining 20 per cent perceived no discernable change.

The spread of work across the sector has remained fairly constant. A large proportion of surveyed companies (41 per cent) make less than 10 commercials a year.

Percentage of companies by number of commercials they produce per year



Shoot locations

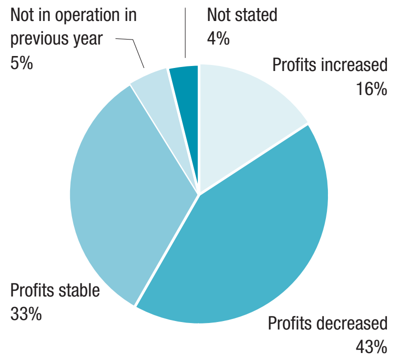
For the majority of companies (63 per cent) all shoots occurred in Australia. Only 5 per cent spent more than half their shoot days outside Australia. The main reason for offshore shoots was the location requirements of overseas clients.

Profitability

Profit margins

A large proportion of companies (43 per cent) reported a decrease in profit margins in the 2003/04 financial year. Most other companies indicated there had been little change while a small proportion (16 per cent) reported profit margins had increased.

Reported change in profit margins 2003/04



Among those reporting a decrease in profit margins, half indicated a change of 3 to 15 per cent. The other companies reported the decline in profits to be much greater, ranging from 20 to 100 per cent. The average reported decline was 20 per cent.

The 17 companies reporting a rise in profits indicated an average increase of 20 per cent.

The size, location or age of the business did not seem to affect whether the company experienced an increase or decrease in profits. The presence of overseas clients was also irrelevant. The qualitative data suggests that the ability of a business to adapt to the changing business environment was the key factor affecting profits.

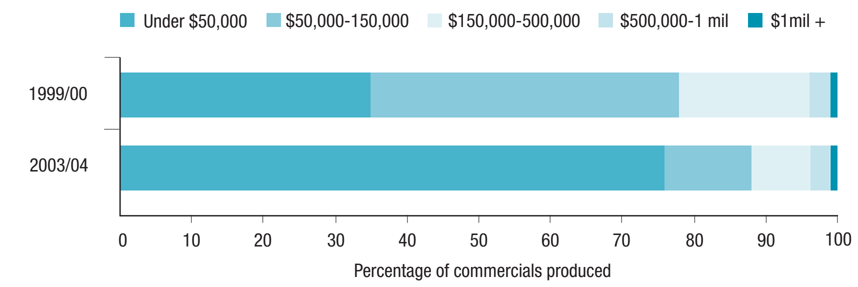
Budget ranges of commercials

The key concern raised by most respondents was that while the number of commercials produced annually has remained stable, there has been a massive shift to lower budgets: 77 per cent of commercials produced in 2003/04 cost $50,000 or less, compared with 35 per cent in 1999/00. Commercials with budgets under $25,000 were the most common in 2003/04, representing 68 per cent of commercials made by surveyed companies.

Mid-budget range commercials between $50,000 and $150,000 have shown the largest decline, now comprising only 12 per cent of commercials production, compared with 43 per cent in 1999/00. Only 20 per cent of companies have produced a commercial in the $500,000–$1 million range and even fewer companies (9 per cent) worked in the $1 million plus range.

Profitability

Percentage of commercials produced by budget range



Companies identified a number of business trends impacting on the budget range of commercials. These included:

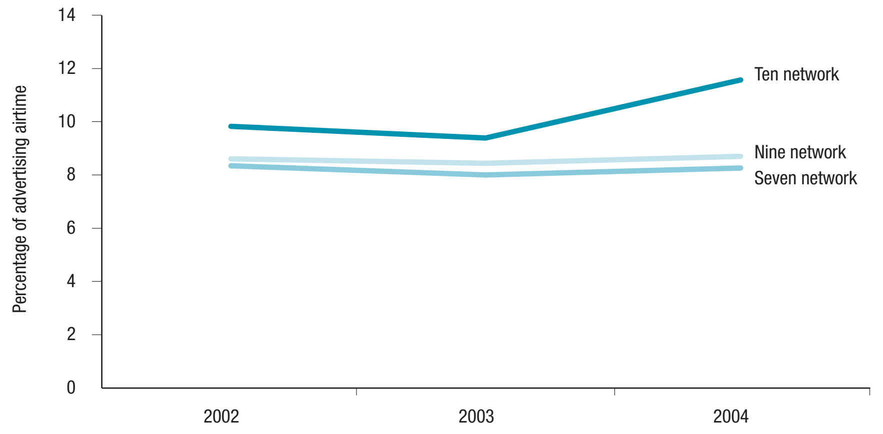
- Increased local competition from new entrants to the market who are willing to work for very little. Some respondents suggested these younger market entrants had unsustainable business practices which were placing downward pressure on budgets across the TV commercials sector.
- Increased local competition from large advertising agencies becoming vertically integrated by establishing their own inhouse production entities.
- Increasing use of foreign commercials for corporate brand campaigns, reducing the demand for locally produced higher-budget commercials.
- Fragmentation of the marketing dollar, with other forms of advertising attracting a growing share of marketing budgets. Sponsorship deals tied to major sporting events or television programs, product placement in TV programs, and a range of alternative mediums have taken advertising dollars away from traditional television commercials. The internet and direct marketing have also become major components in marketing strategies, and many large businesses such as banks and telecommunication providers are increasingly investing in customer relationship systems (e.g. schemes like *Fly Buys*).
- Low-end technology has changed clients' and agencies' cost expectations. A trend towards using more 3D animation was noted by a number of respondents.
- A large proportion (40 per cent) of those interviewed reported an upward shift in the budgetary allocations for post-production in recent years, although a similar proportion considered that post costs had remained stable. Some interviewees commented that the big shift occurred five years ago. A trend towards fewer shoot days and less time and money spent on set construction was also noted, with more visual content being generated in post-production. Many production companies have brought post-production inhouse in order to help reduce overall costs.

Effect of screening foreign-produced commercials on Australian television

One in four respondents made reference to increasing use of overseas commercials on Australian television and many felt the 80:20 rule was not being enforced. This rule is set out in the Australian Content in Advertising Standard (TPS 23) introduced on 1 January 1992, which requires that 80 per cent of broadcast time devoted to advertisements comprise commercials produced in Australia. Some respondents also noted that foreign commercials were now being aired without any local components such as re-voicing.

However, concerns expressed by the TV commercials production sector about a significant general increase in the number of foreign commercials being broadcast do not, on the face of it, appear to be supported by ABA data on compliance with TPS 23.[1] According to this data, the amount of airtime devoted to foreign-produced commercials is well within the TPS 23 quota.

Percentage of advertising airtime taken by foreign commercials[2]



There are a number of possible explanations for the perception that more foreign commercials are now being aired.

- Monitoring occurs across the whole period from 6am to midnight. It is possible that a larger proportion of foreign ads go to air in prime time, while local ads tend to fill the quota outside peak viewing times.
- The ABA compliance figures measure the percentage of airtime devoted to foreign and locally produced commercials. However, this does not necessarily reflect the number of individual commercials being aired, as locally produced commercials may be repeated more often than foreign commercials.
- Some commercials classified as Australian by Commercials Advice Pty Ltd (CAD)[3] may only contain minimal Australian content and be largely produced offshore. The classification system was seen by many respondents as outdated, inaccurate and unreliable.

1. ABA, annual compliance results, www.aba.gov.au/tv/content/requirements/advertising/compliance_results/2004.shtml, accessed 28 July, 2005.
2. ABA, annual compliance results.
3. CAD is the organisation responsible for classifying commercials as Australian or non-Australian; it is operated on behalf of Free TV Australia, the industry body representing Australia's commercial free-to-air TV stations.

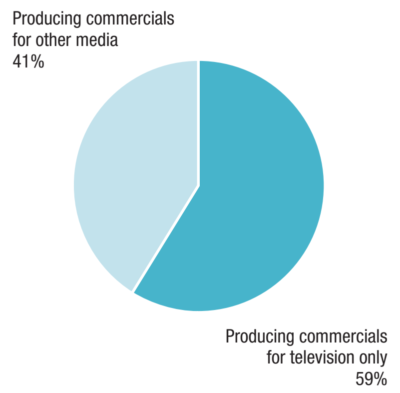
Profitability

Responses to falling profits

Diversification

Most surveyed companies (59 per cent) produced commercials just for television broadcast. However, a substantial number (41 per cent) also produced commercials for other media. Of these companies, 79 per cent produced commercials for the internet, making it the most common non-television related activity. A small number of companies also produced commercials for radio, point of sale displays and mobile phones. This level of diversification was not apparent in the 1999/00 survey.

Percentage of surveyed companies making commercials for other media



Other forms of production being actively explored by surveyed companies included DVD production, internet content, corporate videos and DVDs, direct marketing, TV series, interactive TV, and SMS content. Some respondents also saw feature films as a viable alternative to shrinking opportunities in the TV commercials sector.

Structural changes

A number of industry-wide and internal company structural changes are also occurring in response to falling budgets and reduced profit margins. General trends included:

- Bringing post-production inhouse to reduce costs and make businesses more competitive.
- Downsizing to make businesses more cost competitive.
- Moving businesses offshore to reduce labour and shoot costs, and taxes.

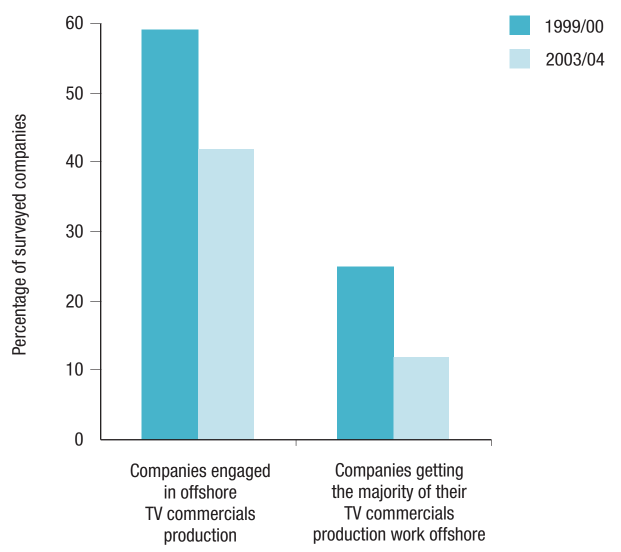
Additionally, as advertising agencies become more vertically integrated, some respondents felt this offered new opportunities for smaller businesses to either form more direct relationships with corporate clients or offer sub-contractor services to other firms. Independent production companies perceive that they can offer better value by working directly with clients.

Work for offshore clients

The trend towards greater competition and lower profits in the local market has been coupled with a decline in demand for commercials production by overseas clients. The percentage of businesses engaged in production for offshore clients has dropped from 59 per cent in 1999/00 to 42 per cent in 2003/04.

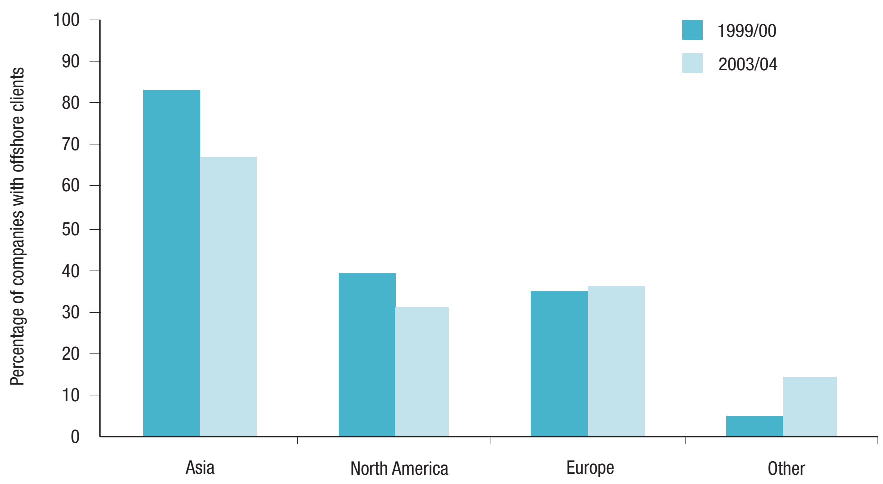
The proportion of companies getting the *majority* of their work from offshore more than halved, from 25 per cent in 1999/00 to 12 per cent in 2003/04.

Percentage of surveyed companies doing work for offshore clients



Some sources of offshore work have fallen more than others. In 1999/00, 83 per cent of companies involved in offshore production had Asia-based clients. This dropped to 67 per cent in 2004. There has also been a drop in the proportion of companies working for North American clients, from 39 per cent in 1999/00 to 31 per cent in 2003/04.

Location of offshore clients



Note: in 2004, the only ‘other’ offshore clients were from New Zealand.

Offshore

China-based clients were the most common source of offshore work. More than half the companies with Asian clients (16 out of 30) sourced work from China (including Hong Kong). Japan was a source of work for 14 of the 30 companies with Asian clients, and Singapore was the next most important regional source, with 11 companies gaining work from there. Work also came from Indonesia, Vietnam, Taiwan, South Korea and the Philippines.

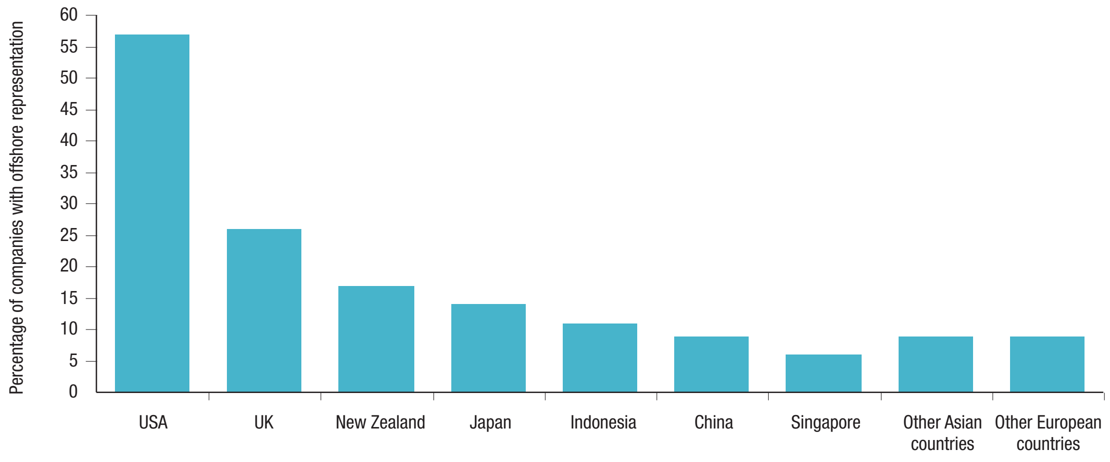
Australia was perceived by respondents to have lost its global competitiveness against new production centres such as South Africa, Eastern Europe and more recently South America. This was partly attributed to the rise in value of the Australian dollar and increased production costs.

Offshore representation

There has been a significant drop in the number of surveyed companies with an offshore office or representative, from 48 per cent in 1999/00 to 33 per cent in 2003/04.

Despite Asia being the most common source of offshore work, the USA and UK are the most common locations for offshore bases.

Percentage of companies with offshore representation by country



Future trends

Respondents were asked to outline the issues that would impact on their business in the next year. Most felt the recent trends of lower budgets and increased competition were likely to continue. The key factors they perceived impacting on their businesses are outlined below.

- US-Australia Free Trade Agreement: This was the single most common factor commented upon in terms of future trends. Most respondents anticipated it would open the door to more foreign commercials being broadcast on Australian television. A few viewed the FTA as providing new opportunities for Australian companies to enter the lucrative US market.
- The local and global economy: The value of the Australian dollar was regarded by respondents as particularly crucial to Australia's global competitiveness. Interest rate rises were viewed as a potential threat to the level of demand for commercials in the local market, while the threat posed by terrorism to global stability could affect demand from offshore.
- Costs associated with industrial agreements and legislation: These included cast and crew wages, council fees for shoots, and the costs associated with occupational health and safety compliance, insurance and GST.
- Rising advertising rates on free-to-air TV: The advertising rates charged by television networks are perceived to be sending advertising dollars to other forms of marketing. Some respondents called for greater deregulation of the free-to-air TV market and the introduction of additional stations to reduce advertising rates. Others felt free-to-air TV had become less popular as a marketing medium and this was reducing demand for TV commercials.

Conclusions

The business environment for the production of TV commercials is experiencing major changes. The high-budget corporate TV advertising campaign is no longer the centrepiece of corporate marketing. As marketers now seek to spread their budgets across many media, TV commercials have an altered status in the marketing mix.

The AFC survey data supports anecdotal reports from respondents of a massive shift to lower budgets for TV commercials. While the number of commercials produced each year has not fallen, the budgets for commercials being produced by Australian companies has significantly decreased. Budgets between $50,000 and $150,000 (previously the norm) have been replaced by budgets under $25,000. According to qualitative data, this downward budgetary trend has been partly fuelled by a large number of newer companies entering the market and under-cutting older companies with cheaper rates. Respondents also claim the reduction in budgets has not been accompanied by a corresponding shift in client expectations regarding what can be delivered, rendering current budgetary levels unsustainable in the long term.

Lower budgets also mean new entrants to the industry are not getting opportunities to work on higher-budget commercials, limiting the development of the wider industry's skills base. Consequently, the role commercials once played in providing training and financial support for production crew may now be reduced.

On a broader level, despite the fact that the regulatory change allowing 20 per cent of advertising time to be taken up with foreign commercials was introduced in 1992, a significant proportion of respondents made reference to the ongoing negative effects of the 80:20 rule. Moreover, the system for classifying commercials as Australian or foreign was seen to be flawed and inaccurate.

Reduced profits resulting from increased costs and lower budgets have also meant established production companies have had to change how they operate, finding a variety of ways to adapt including reducing costs by bringing post-production inhouse, diversifying their activities, and dealing directly with clients rather than going through agencies. These factors suggest that the TVC sector can no longer rely on being sustained by traditional sources of business and must become highly adaptive to survive.

There has also been a significant decline in demand from overseas clients for Australian-produced commercials. Consequently expansion into offshore work is no longer perceived as a viable defence against downturns in the local market.

Finally, any consideration of the challenges being faced by this sector needs to be placed in the context of impending and probably more profound changes that will be wrought by digital broadcasting and convergent technologies.

Australian Government

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