Small-budget TV ads put paid to big ideas

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The trend towards low-cost commercials looks like continuing, writes Julian Lee .

If you thought that a creative renaissance in Australian advertising was around the corner, think again. The ascent of the budget television commercial - typified by the incessant but effective Harvey Norman ads - looks set to continue.

Production budgets will come under pressure next year as marketers shave ad agency costs ahead of widely anticipated budgets cuts in the 2006-07 financial year, predicts a leading consultant. Ad agencies can expect TVC budget cuts of up to 12 per cent from June as client marketers are told to pare back costs.

"They [clients] are going to have to meet their retainers and they know that they have to keep their media spend up," Darren Woolley, managing director of P3, said. "They would have already negotiated on that [media], so they will have to look at other areas and production is one of them."

He says current production budgets are no longer justifiable when marketers are spending more on media other than free-to-air TV. In 2004 Australian advertisers spent $3.1 billion on the medium.

"What's the point in spending $1 million on production when you are only going to be spending $1 million on media?" he says. "It's a no brainer when you make up a PDF and put it on the internet."

Based on conversations with his clients - which he says include 40 of the top 100 Australian advertisers - Woolley is predicting a flurry of activity in the first half of the year as marketers spend up ahead of those anticpated budget cuts .

Executives from the advertising and production industries have labelled his forecast as nothing more than "crystal ball gazing" and "provocative". His predictions are in stark contrast to last week's forecasts of how much marketers will spend next year on the mainstream media, from a conservative 4 per cent growth indicated by Harold Mitchell to the most bullish of 9.3 per cent issued by Fusion Strategy.

More controversial though is that Woolley, who runs Australia's largest auditing and benchmarking consultancy, is recommending that clients negotiate directly with production companies to get a better deal, re-use existing footage to make new TVCs or simply hold off for another year before shooting a new commercial.

Observers say his advice could stifle the desire for more creative, ambitious ads in which a big idea is backed up by an equally big budget. Earlier this month Carlton Draught's Big Ad, which reputedly cost $1 million to make, cleaned up at the industry gong fest, AWARD.

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Other advertisers are said to be clamouring for their "very own Big Ad", say agencies.

The executive director of the Advertising Federation of Australia, Lesley Brydon, is dismayed at the prospect of agency margins coming under further pressure.

The industry average is about 14 per cent but Brydon says many agencies are "struggling". "Darren is all about cutting costs," she says. "That's his job. Any further [cuts] and it will impact on quality."

The chief executive of DDB Australia, Nick Cleaver, says he sees no evidence of budgets being cut back by his clients, which include Unilever and McDonald's. He hit back at Woolley's argument that agencies rely upon a cut in the production budget for a substantial part of their income.

"We are not into making expensive TV commercials," he says. "Occasionally we do, but we are into leveraging creativity into any medium."

He adds that the bulk of his revenue comes from fees and not from a percentage cut in production, which along with the now defunct media commission system, historically made up the bulk of an agency's revenue.

"You get what you pay for in this environment," he says, adding: "I don't know where those hidden margins are."

The CEO of M&C Saatchi, Simon Corah, is more phlegmatic, saying there will always be exceptions to the rule. He cites how, in 1989, on the eve of a global recession, British Airways aired the extravagant "Face", with its cast of 4000 and £1 million budget - the inspiration for Big Ad. "The truth is that there will always be brave companies willing to do the big thing," he says. "It all depends on what they want. If you want a big return then you have to do something big."

Woolley's predictions will make dire reading for the commercial television production industry. They follow a study released earlier this year by the Australian Film Commission, which concluded there had been "a massive shift to low-budget commercials" in the past four years.

It said that 77 per cent of TVCs produced in the 2003-04 financial year cost less than $50,000 - more than double the percentage four years ago. Those that cost under $25,000 were the most common, representing 68 per cent. The number in the $51,000 to $150,000 range had dropped from 43 per cent to 12 per cent, while those in the $500,000-plus bracket remained relatively stable at 4 per cent.

The policy manager at the Screen Producers Association of Australia, Bethwyn Serow, says there is "not much slack there" among her members, the production companies. "It is quite provocative to say that there is."

However, she welcomes the suggestion of dealing with client marketers directly - or, as she puts it, a three-way dialogue with the ad agencies. "There is a distance between the marketers and the production companies and if a marketer was to understand what we do it would be a good thing," she says. "Then they might see how the budget was spent ... and they might even spend more."