4. PRODUCTION OFFER

4.1. INTRODUCTION

A production offer from an independent Production Company consists of a production budget, a bid letter, a director's treatment, and a production back timing.

Each offer is based on the most recent version of the briefing created in the BCP Production Briefing Tool, completed by the designated individual from the Advertiser or their Communication Agency.

If no briefing is created in the BCP Production Briefing Tool, the offer from the independent Production Company cannot be considered final, and the Production Company reserves the right to finalize their offer after discussing specifications with the Advertiser or Communication Agency.

4.2. PRODUCTION BUDGET AND LUMP-SUM OFFERS

Production budgets made before the availability of the director's treatment are considered estimates based on the provided information, script, or storyboard from the Advertiser or its Communication Agency and may be subject to change.

If there are any changes to the briefing after it has been submitted to a Production Company, the company will be notified and given the option to incorporate these changes into their submitted offer. Updating the briefing in the BCP Production Briefing Tool will automatically notify the participating Production Companies.

The Production Company aims to adhere to the budget indication from the Advertiser, provided it is realistic. If the budget indication is not feasible, the Production Company will inform the Advertiser or Communication Agency as soon as possible.

It is important to note that at this stage, it is particularly challenging to provide an accurate quotation that covers all aspects of production. If additional location recce or research is required to make a precise offer, the Advertiser or its Communication Agency will cover the associated costs.

In the advertising industry, Production Companies create lump-sum offers that cover all complex production processes. Producers request and estimate third-party services as close to market conditions as possible to secure the order. These third-party services, which are temporary items for the producer, constitute the majority of the budget.

This approach provides several advantages:

1. **Predictable Costs:** Clients know the total cost upfront, making budgeting easier and avoiding surprises.
2. **Simplified Management:** Fixed offers eliminate the need for ongoing cost tracking and adjustments.
3. **Efficiency Incentive:** Producers are motivated to save money since any savings increase their profit.
4. **Clear Boundaries:** A fixed amount sets clear project expectations, reducing disputes over extra costs.

Advertisers prefer lump-sum offers for the financial stability and simplicity they offer. The spending of the lump-sum offer is entirely at the discretion of the production house and it's important to understand that it is not possible to negotiate costs downward after the agreement; the fixed amount is set to manage the creative process's inherent uncertainties. This understanding makes lump-sum offers the standard practice in the international industry.

Conversely, detailed production budgets break down every cost item separately, providing transparency on individual expenses and their prices.

The Production Company is free to select its subcontractors (suppliers and crew/personnel) to ensure that the Production Company and its director can make appropriate creative decisions to deliver the commercial or branded content at the highest quality, based on the agreed approach. The production budget and all associated cost items are accurate and market-conforming for all parties involved.

If a Communication Agency is involved, it will inform the independent Production Company in advance of any internal agency costs that need to be included in the production budget. These costs will be transparently listed in the budget.

All offers specify the period for which they are valid at a given price, with additional charges applicable for unforeseen circumstances. Any supplementary costs will be discussed with the Advertiser and/or Communication Agency beforehand.

A production offer is considered complete only when it includes a quotation for pre-production, production, and post-production. Post-production is a crucial and integral part of the production process, and BCP recommends that the independent Production Company includes all aspects of post-production in their quotation, including sound design, voice-overs, and music as well. This approach allows the Production Company and its director to oversee the entire process, ensures clear communication, and guarantees the quality of the outcome.

A production offer is considered final when based on the latest version of the briefing created in BCP Production Briefing Tool and the director's treatment.

4.3. MARKUP POLICY

Background:
Since the 1950s, it has been standard practice to add a constant markup to production costs for commissioned TV productions. Similarly, a standard 20% lump-sum markup on production costs is common practice in the international advertising film production industry.

Production offers include calculated third-party expenditures such as crew, actors' fees, location rentals, technical equipment costs, and directors' fees. Market participants compete to procure these production resources. BCP advises its members not to deviate from the international practice of a 20% markup unless exceptional circumstances justify it.

Purpose of the markup:
The 20% markup on transitory items covers the following services provided by the Production Company:

>> Participation in the bidding process, including calculation and offer preparation.
>> A contribution margin to mitigate budget overrun risks.
>> Ordinary business operations unrelated to the project (office management, permanent staff, finances).
>> Management and return on equity investment.

Cost Trends and Challenges
While technical progress has reduced third-party expenditures for the average advertising film project, office and tender costs have risen. Savings potential cannot be leveraged within operations or human resources, such as through automation. Cost optimization is not feasible in calculating or completing individual advertising film projects. Studies indicate that only 4% of revenue remains as profit. Companies with lower revenues cannot absorb further erosion, making the 20% markup a critical threshold..

Markup Rate Questions
Questioning the usual markup rates is inconsistent with a competitive market environment, where Production Companies' margins are linked to third-party expenditures. Adjusting markup rates in favour of clients would lower the capacity to cover costs. Advertisers questioning cost contribution margins act unreasonably, given that an average company profit of 2% cannot be negotiated downward.

Exceptions
Production Companies may apply lower rates, although this defies sound business judgment. While loss-making projects can occasionally be justified for favourable references, long-term adoption of this strategy is unsustainable. Dumping policies to secure market shares are ruinous in the creative industries, where products are not standardized, and market players cannot sustain prolonged equity investments.

It is naturally at the Production Company's discretion to apply unusually low rates that defy the principles of sound business judgment. While no one is forbidden from taking such risks, Advertisers should carefully consider whether they want to entrust their projects to companies willing to do so.

4.4. RULES FOR EVALUATING OFFERS
Once the advertiser and/or its communication agency has received comparable competitive offers, the following rules apply:

- >> Each offer will be handled with strict confidentiality, and under no circumstances will details of any proposal be communicated to competitors.
- >> Each offer will be evaluated based on all relevant factors—not just the price—before deciding to award the production to a Production Company (e.g., director's treatment, number of shooting days, locations, talent, directors and Production Company's portfolio, etc.).
- >> If a Communication Agency is responsible for organizing the bid, the agency will present all offers to the Advertiser along with their recommendation of the independent Production Company and the associated director.

Before awarding the production, the Advertiser and/or the Communication Agency will ensure that the Production Company meets the professional standards and possesses the necessary resources to execute the production to the highest standard.

The final details of the collaboration are defined before production starts, ensuring the awarded Production Company receives written confirmation before any money is spent.

If none of the independent Production Companies meet the expectations regarding the director's treatment and/or production budget, a discussion will take place between the involved Production Companies and the Advertiser or its Communication Agency to identify a market-conform solution. This may include adjusting the production budget or revising the creative concept, either on the side of the Production Companies or by the Advertiser or its Communication Agency.

If the Advertiser or its Communication Agency has prior doubts about the production budget estimate, they may request a ballpark figure (rough price indication) from a few Production Companies before initiating the pitch.