Response to the Enterprise Funding:

Program Review and Future Options

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Response to the Enterprise Funding: Program Review and Future Options

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Summary

This response to the Enterprise Funding Program Review (Screen Australia, December 2013) is written from the perspective of a screen producer who is neither a recipient nor an applicant of the Screen Australia Enterprise Program, but one keenly engaged with the subject of enhancing the sustainability of screen production businesses and the screen industry at large. I am grateful to have the opportunity to respond to the Enterprise Funding: Program Review and Future Options and address the challenge of what shape the program should take in the future.

My interest in this topic is informed by my experience as a producer with over thirty years continuous practice of running small businesses engaged in the development, production and more recently, distribution of screen content—film, television, and digital media. Like many of my colleagues, since 2009 I have made enormous changes in business practices and restructured in order to ensure the ongoing viability of my business. Our company[1], Film Art Media, has done this in the absence of any business overheads support from Screen Australia over the past 4 years as all preceding business support programs were wound up at the introduction of the Enterprise Program. We have remained sustainable, not because we have been 'profitable' or 'consistent in production', but because we have been strategic and developed a diverse range of business activities and access to revenue streams.

There is absolutely no doubt that the Enterprise Program has been a game changer and all production businesses in Australia are now operating in a radically altered production landscape as a result. Companies like ours now compete not only with producers funded under the Enterprise Program but also with distributors. Arguably, it is no longer a case of 'the survival of the fittest' at work but 'the survival of the most subsidised' (a deeply ironic situation, given the whole point of the Enterprise Program was to reduce the dependence upon subsidy).

[1] Daryl Dellora and Sue Maslin are joint directors of Film Art Media

That said, the performance of individual companies is largely irrelevant. I am primarily interested in whether the Enterprise Program has delivered *increased* sustainability of the Australian screen production sector in general and believe that this necessitates a discussion around what we mean by 'sustainability', what is measured, and what the Review data can actually tell us.

Secondly, I am interested in providing input to the question on how the Enterprise Program might operate going forward. I have therefore structured my response to the Review in two parts:

1. A response to the Review framework and whether the evidence supports the desired outcomes;
2. Recommendations for the next phase of the Enterprise Program.

It is clear that the Enterprise Program has delivered largely positive outcomes for recipient companies and I applaud their success. There is no doubt in my mind that the program should be retained and expanded upon to meet the challenges ahead facing the screen production sector. However, it does need a major rethink in terms of its focus and operation.

Sue Maslin, 2014
Producer, Film Art Media

Response to the Review Framework

Before responding to the findings of the Review, it is valuable to look at the framework underpinning the survey of Group 1 and Group 2 recipients of Enterprise Funding during the period from 2009/10 – 2012/13.

If the stated aim of the Enterprise Program is to support "*a commercially sustainable Australian screen production industry*" *(SA 2013, pg. 25)* and not simply oversee the migration of substantial resources ($19.5 million, 75% of which in the form of non-recoupable grants) into the hands of a relatively small elite (29 businesses), then the analysis must necessarily extend further than the performance of these businesses. I believe that the Review is currently addressing only one half of the story and its terms of reference do not enable it to measure the impact of this policy initiative on the sustainability of the wider screen production sector.

For example, what are the consequences of providing a select group of businesses (producers as well as distributors) with a significant financial advantage over the rest in an already highly competitive marketplace? What has been the impact of withdrawing all other forms of business support at the time of introducing the Enterprise Program? Have many non-Enterprise funded businesses wound up as a result? Could some of these businesses have developed even more sustainable business practices in their effort to compete? Would a net reduction in the number of production businesses and producers be a good thing for the industry in the long-term?

There is no available current data that allows us to answer these questions and gain a full picture of the impact of this policy initiative on the sustainability of the screen production sector. The data used by Screen Australia by way of comparison does not cover the same period as the Review and dates from the Screen Australia, *Submission to the Australian Government's 2010 Review of the Independent Screen Production Sector*.

Secondly, the Review has relied heavily on the economic indicators - 'consistency of production activity' and 'profitability' in measuring whether the Program has delivered the outcome of increased sustainability for recipient businesses. This is a direct result of the focus of the Review on 'commercial' sustainability and these two primary indicators are deeply flawed in my opinion. I elaborate upon this further on, suffice to say that the framework of 'commercial' sustainability is limiting and immediately opens up the charge of coming at the expense of 'cultural' sustainability. This has led to an industry perception that there is a "policy process that favours notions of enterprise and economic viability over cultural criteria" (Connolly, B 2013). This dichotomy is not healthy, hence another reason why we need to understand and get consensus on what it is we mean by 'sustainability'.

Finally, the measure of ongoing sustainability of the recipient companies will only become evident in the time frame following the cessation of the Enterprise Funding grant/loans and while there are promising indicators, this analysis falls outside the time frame of the Review.

Background to the Enterprise Program

Arguably, in 2008/9 Screen Australia developed the Enterprise Program policy as a result of the following mindset:

> The screen production sector has been unsustainable because there are too many independent producers, too much reliance upon government subsidy, and not enough money to go around. Australian producers are generally under-capitalised, not strategic enough, surviving from fees on a project-by-project basis and with few exceptions, unable to develop any real scale. In short, the screen production sector has been operating like a cottage industry and this needed to change.

Things needed to change and there is absolutely no doubt in my mind that the Screen Australia Enterprise Program has been a game changer—for the recipients as well as the screen production sector at large. There is evidence to suggest that as the Enterprise companies—the few—grow stronger, there is a corresponding decline in the sustainability of the many. The AFTRS in collaboration with Bergent Research (AFTRS, 2009) found that between 2009 and 2011 there was a noticeable drop in terms of financial success (-9%) and creating steady income streams (-7%) for the majority of surveyed producers (Bergent 2012, pg.47). Furthermore, there had been a corresponding 5% increase in the amount of self-funding over that period and an 8% decrease in the amount of government funding in their productions (Bergent 2012, pg.60).

While a general culling of the unwieldy and oversized screen production sector may appeal to screen agencies, we need to understand the consequences for the Australian screen industry over the long term. Could this seemingly modest intervention (only 4% of the SA annual development/production funding allocation) have the unintended consequence of reshaping the screen production industry into an oligarchy characterised by centralisation and gross inequality? Is it leading to the growth of a demoralised and detached underclass of producers? Is there a critical mass of viable producers required in order to underpin a vibrant and productive screen industry and meet the needs of audiences? It is self-evident that these needs cannot be met by 29 Enterprise funded businesses and something more is needed to underpin the complex ecology that makes up the screen production sector and keeps *enough* producers at the coalface year in, year out developing and producing screen content.

It is reasonable to assume that Screen Australia's withdrawal of all other form of business overhead support also raises the barrier to entry for new producers and emerging businesses. What is the long-term impact of this? How do emerging producers develop sufficient track records and business scale in order to qualify for the Enterprise Program in the absence of any other form of producer support?

Review of Outcomes

In my opinion, the best possible outcomes for the sector from Enterprise Program funding would be:

1. Increased sustainability of the Australian screen production sector
2. A sustainable and vibrant screen culture
3. Ongoing sustainability of recipient businesses

The Review on the other hand takes a very specific approach of anchoring the outcomes of the Program to the delivery of commercial sustainability. What exactly does 'commercial sustainability' mean when traditionally the screen industry has been built upon a business model that is characterised by market failure? Owners of intellectual property for the most part do not have meaningful access to revenue streams. Unlike most other industries (except perhaps the mining industry), financial reward has been inversely proportional to the level of time, risk and opportunity cost. The sustainability of producers has therefore been tied to their capacity to maintain production output and generate fees and company overheads. The Enterprise program has effectively ensured this for a select group of companies over three years through a substantial injection of capital and it is therefore not surprising that it reports more production, higher fees for producers and more employment for recipient companies. However, what does it tell us about the ongoing sustainability of those companies in the absence of such funding?

What the Review does demonstrate is that during the three years of funding;

- *Enterprise businesses are more sustainable compared to the broader production sector*
- *Enterprise funding has enhanced business sustainability*
- *Enterprise funding has contributed broader industry benefits*

It is worthwhile interrogating at this point what exactly is meant by 'sustainability' and how it has been measured by Screen Australia.

Sustainability

Businesses become sustainable when revenues exceed expenditure, including opportunity cost, over time. However, there are a number of characteristics that are peculiar to the screen industry that make the above proposition anything but straightforward—the most significant being that "the high fixed costs of production are mostly unrecoverable" (Screen Australia 2010, pg. 26).

This is despite the fact that screen content generates billions of dollars annually from Gross Box Office Returns (GBOR), television advertising revenue, subscriptions and sales. The Price Waterhouse Cooper Outlook (PWC) report for Australian Entertainment and Media 2011-2015 estimates the value of the filmed entertainment market in 2010 was $3.9 billion; free-to-air television $3.51 billion; interactive games $1.6 billion; subscription television $ 2.78 billion. However, the returns are sequestered at the top of the food chain, enshrined in recoupment waterfalls where exhibitors, distributors, broadcasters and lenders all recoup ahead of the production company. Sheehan (2010) argues that the business model is fundamentally imbalanced – "an imbalance caused by a combination of natural advantage and systemic bias (…towards distributors)".

Distributors and exhibitors have the least money at risk but are able to recoup their commissions and expenses from first dollar. Television broadcasters limit growth of local content in the television marketplace by successfully lobbying for caps on Australian content quotas on free to air channels. Indeed up to 70% of commercial free-to-air broadcaster expenditure on drama comprises foreign imported content and more than 90% of all feature films released annually in Australian cinemas are foreign (Screen Australia 2011).

The 2012 Convergence Review outlined the macro challenges affecting capacity such as fixed broadcast quotas, review of broadcasting legislation, copyright and piracy. It described an increasingly convergent environment in which users are at the centre of content delivery and will increasingly transform content, business and delivery models.

"Despite these dramatic changes, Australia's policy and regulatory framework for content services is still focused on the traditional structures of the 1990s—broadcasting and telecommunications (DBCDE 2012)."

In short, Australian screen producers operate in a lopsided marketplace and have very limited access to revenue streams. The Enterprise Program can't alter that fact but it can enable recipient producers to be more competitive by providing them with substantial capital. As a result, *Enterprise businesses are more sustainable compared to the broader production sector.* What does Screen Australia actually mean by ‘sustainable’?

1.1 Indicators of Sustainability

The Enterprise Review (Section 3 Analysis: Impacts of Enterprise funding) has focused upon two main indicators defined in the Screen Australia 2010 Business Survey: ‘consistency of production activity’ and ‘profitability’, defined as follows:

> **(i) Consistency of production activity -**
> A **consistent** business was defined as one with a TV series or two or more one-off feature, TV drama of documentary titles in production over the previous five years. A consistent business that moves from one project to the next or overlaps projects not only reflects sustained business activity in the production sector but also increases its potential to support itself through this ongoing activity.
>
> **(ii) Profitability**
> A **profitable** business was defined as one that reported profit in at least one of the previous two years. A business that achieves profit is more likely to remain financially viable than one that does not.

The Review goes on to state, “These indicators were echoed in Jonathon Olsberg’s 2012 report for screen agencies in the UK and Sweden” (Olsberg SPI 2012). In fact, Olsberg does *not* include profitability in his definition of ‘investment ready’ or ‘maintained stability’ businesses, nor in his list of key indicators of business sustainability. There are very good reasons for this. Foremost, that while desirable, it is quite possible that neither of these indicators are reliable indicators of sustainability of screen production businesses.

1.2 Profitability

Profitability is the ability of a company to earn a profit and is a commonly used measure of success for a business. The most straightforward source for this information is the annual profit and loss (P&L) statement for any given business supplied by the company to the Australian Securities and Investment Commission (ASIC) as part of its annual return. The Review reports only whether a company has been profitable or not and provides no detail as to the level of profitability. There is no way to determine if Enterprise businesses record a higher level of profitability against industry average (see Appendix 1). Nor is there any information to indicate what level of profitability triggered private capital.

I believe that 'profitability' is in fact a poor indicator of business sustainability. Firstly, production investment and loan income sit as liabilities on balance sheets until they are expended or repaid. In a year characterised by intense development activity, it is unlikely that a company will report a profit unless sales revenue, royalties, grants and other income offset these liabilities. This is particularly true of companies with a focus on content requiring long development periods, such as feature films.

Secondly, many businesses strategically offset their profit-making activities (sales, service fees, equipment hire etc), by ensuring that there are enough liabilities (such as development loans) on the balance sheet in order to minimise tax. This is a strategy for sustainability directly at odds with using profitability as an indicator.

Finally, unlike other industries, profit is rarely derived from sales revenue exceeding costs of goods (GOG). Brian Rosen, former Chief Executive of the Film Finance Corporation Australia summed up the performance of productions financed with the assistance of the Film Finance Corporation over a fifteen-year period from 1998 – 2003 and famously brought this home as follows;

"Of the 212 feature films supported by FFC finance, only nine films have gone into profit. Of the 523 documentaries, four have gone into profit. None of the 81 adult drama productions have gone into profit and only one of the 75 children's drama productions has made a profit. That's not because they are mostly bad film and television programs.

It is mainly because the majority of income from film and television programs is derived from distribution and exhibition, not from production" (Rosen 2004).

It is hardly surprising that the Enterprise Programs reported an increase of profitability on their P&L statements as a result of receiving substantial Enterprise grant income for three years. Interestingly, it appears to stem from increase in income mostly derived from producer fees and there was no appreciable increase in royalties, EMD[2] grants or distribution rights income over the period (SA Review, pg. 15). This type of profitability relies on high production turnover and unsurprisingly many Enterprise Companies have migrated towards business models such as television that can deliver shorter times in development and production. This emphasis could leave Enterprise businesses vulnerable in a rapidly transitioning media landscape, particularly given the high reliance upon broadcaster license fees to underpin that production activity. There is a danger that comes with dependence upon a television business model that may itself be unsustainable.

There is the much bigger issue of dealing with the barriers to sustainability that need to be dealt with at an industry and policy level. While it has been publicly stated that it is "not the role of Screen Australia to have a vision for the industry", given it is a government agency, it can certainly take a proactive role in future in facilitating an industry-wide discussion around what fundamental changes to the business models and terms of trade are needed for the industry to become more sustainable, and what that sustainability might look like.

1.3.2 Profitability of Enterprise Businesses

The Review reports that 88% of Enterprise businesses reported a profit in at least one of the last two years (SA 2013, pg.9)

[2] Export Market Development Grants

It is self-evident that if a group of businesses (21 in total during the period July 2009 to June 2012) are given a capital injection of up to $350,000 per annum over three years, that production levels will go up leading to higher levels of revenue and employment. It is also self-evident that if *75% of this funding* is a non-recoupable grant, it is likely that profitability will also go up.

The first annual Enterprise Survey revealed an annual increase in revenue of 12% for Group One Businesses. The second annual Enterprise Survey revealed an increase in revenue of 59.9 % for Group One Businesses. As the revenue figures are not provided for confidentiality reasons, it is hard to know what base these increases are coming off.

Unfortunately, operating profit margin is not reported in the Enterprise Review. Therefore, there is no opportunity to compare the profitability of Enterprise Program funded businesses with the industry average (8.1%)[3]. Annual profitability of the Enterprise companies is surveyed but the figures are not publicly available. While the 2011/12 Annual Report indicates a 21% increase in profits, there is no indication off what base this figure is derived.

The real question is whether these businesses have a sufficiently high profit margin to attract private investment and 31% of the Group 1 and 2 Enterprise businesses have indeed achieved this. The capacity to attract private investment is a strong indicator of sustainability and the conditions leading to this should be a major focus of the Review.

1.3 Consistency of Production

Almost all (94%) Enterprise businesses were classified as consistent in 2012/13 compared to 40% of businesses in 2010.

Intuitively, it would seem to make sense that consistency of production would lead to greater sustainability, but things are not so simple. What is interesting about the 2010

[3] ABS 2013 – See Appendix 1

Business Survey is that it doesn't actually support the proposition that consistent and profitable businesses are more sustainable than those which are not. Almost half (49%) of businesses surveyed did not report a profit at all and only 27% of businesses reported a profit in both years (see Table 1 below).

Businesses that reported a profit in:	
Neither year	**49%**
At least one of the last two years	**51%**
Both 2008/09 and 2009/10	**27%**
2008/09 only	**18%**
2009/10 only	**11%**

Table 1. Businesses that reported a profit: Submission to the Australian Government's 2010 Review of the Independent Screen Production Sector (Screen Australia, 2010).

Furthermore, the majority (60%) of businesses successfully operated on an intermittent basis suggesting that consistency may not be a significant indicator of sustainability. Most screen production businesses (71%) operating over the period could *not* be defined as both consistent and profitable, yet they remained viable enough to operate and produce content. The data suggests that there must be factors at work other than profitability and consistency of production keeping these businesses viable.

An explanatory note to the 2010 Survey suggests that producer behaviour may have something to do with the high level of intermittent business:

"Analysis of credits in the Screen Australia databases shows a tendency in the screen production industry for mobility between companies. It is quite common for producers to work in teams, which can vary from project to project and year to year. This fluidity can mean that an experienced producer who has worked continuously for many years may currently be attached to a newly formed business. In addition, time in business does not necessarily indicate time of active production. Business may continue to exist while their principals work elsewhere" (Screen Australia 2010, pg.36).

Might this behaviour itself be a sustainable business practice, despite the fact that it undermines consistency of production? It would certainly appear to be very widespread given one recent study indicated that producers on average derive only 58% of their income from producing (Bergent Research 2012, pg.42).

It appears that consistency of production results in higher turnover and together with increased equity resulting from the Producer Offset, the potential for increased access to revenue.

If the screen production sector continues to operate on a largely intermittent basis, can we even assume that having consistent screen production businesses is important? It could be argued that as long as there are sustainable broadcasters, distributors and exhibitors, the sustainability of individual screen businesses is not essential to ensuring supply of content. It is a buyer's market and there has always been an oversupply of content at any one time. This will only increase as the access to the means of production and digital distribution continues to grow exponentially.

That said, consistency of revenue is of utmost importance to any business owner and this is most generally delivered through consistency of production.

2. Alternative Indicators of Sustainability

The Enterprise Review reports data on other means by which businesses are seeking to achieve sustainability including access to royalties and private investment, such as:

- business growth, new partnerships and alliances, board appointments and new staff
- new international marketplace relationships
- new revenue streams
- development of quality Australian projects and emerging talent

- business and creative innovation in the digital and online realm

There is no doubt that Screen Australia Enterprise Outcomes have been heavily influenced by the Olsberg SPI Definition. In his 2012 report "Building sustainable film businesses: the challenges for industry and government, Jonathon Olsberg[4] provided a comprehensive independent survey and analysis of sustainability" (Olsberg SPI 2012). This analysis was based on observations stemming from many years working with screen businesses worldwide with a particular focus on film producers. Olsberg continues to work as a consultant in Australia and his work has significantly influenced the policy and funding guidelines for business development programs implemented by Screen Australia in recent years.

In the introduction to the Olsberg SPI Report, he states "There is much talk about sustainability without necessarily defining what is meant by it—two different definitions are offered in this report; the Investment Ready definition and the Maintained Stability definition". He goes on to define these as follows:

> (i) Investment Ready
> One generic indicator of a successful business is when a company can be considered to be 'investment ready'. Investment readiness depends on an examination of the financial strength of a business, as indicated by its financial statements including revenue forecasts. Where a company can show a robust financial track record and growth potential sufficient to attract private corporate finance (whether debt or equity), it can be considered to be 'sustainable'.
>
> (ii) Maintained Stability
> 'Maintained stability' describes the kind of sustainability seen in businesses that do not have the financials to meet the 'investment ready' definition. However, they are able to produce high-quality films on a regular basis, by relying on some level of

[2] Olsberg SPI is a UK-based, 'boutique' strategy consultancy that provides high-level advice to public and private sector clients in the world of screen-based media. Formed in 1992, it has become one of the leading international specialist consultancies in this sector.

consistent public subsidy support.

He goes on to make the point that "These businesses have demonstrated that they are able to continue to supply films to the market over a sustained period, in countries where public subsidy of production is an important part of the film ecology. Their reliance on public assistance is therefore more a result of the system in which they are operating rather than any financial or corporate weakness" (Olsberg 2012, Pg.9)

This latter definition has considerable resonance for the way screen production businesses operate in Australia. Rather than focusing upon profitability, consistent production or investor readiness as indicators of sustainability, Olsberg has observed alternative key factors common to successful film businesses that had achieved 'maintained stability' and these are summarised as follows:

2.1 Diversity of revenue streams

Olsberg argues that 'diverse' business activity is a key characteristic of successful businesses. Over many years of work with businesses around the world, Olsberg has identified access to "diversified revenue streams across a number of activities, each providing different risk/return parameters" as an important indicator of sustainability. This applies not only to diverse production slates and also to business activities beyond production.

Access to diverse revenue streams could in fact be one of the most important indicators of business sustainability. Most (84%) respondents to the Review of the Independent Screen Production Sector (Screen Australia 2010) engaged in income-generating activities other than film and video production. Around half of the businesses surveyed engage in providing production services, almost a third in providing post, digital and visual effects (PDV) services, and slightly fewer (30%) in content distribution and rights management. About 9% engage in diversified activities such as consultancy, teaching, financing (cash-flowing the Producer Offset), and theatre/arts exhibitions.

These figures suggest that it is not enough to have a diverse *production slate* and in order to remain sustainable, most successful businesses have a range of business strategies in place. These include;

- Vertical integration of development, production and distribution so that the company has the potential to generate revenue from all stages of the production pathway
- Complementary business units such as editing facilities sourced by external clients as well as hired internally by the company
- Provision of consultancy services
- Exploitation of ancillary rights including format rights, merchandise and back catalogue content

Highly entrepreneurial producers who achieve greater diversity of business activities will have a greater chance of ensuring access to revenue. 75% of Enterprise businesses reported five or more revenue streams (SA 2013,pg. 14) compared to 38% prior to funding. Most of the business activities still revolve around production and most income is in the form of producer fees.

Generally the Enterprise Program has supported a diverse mix of screen enterprises – television (drama and factual), features and transmedia enterprises. Over the first three years, the program was weighted towards businesses that rely upon television as predominant business model and away from features that have weaker revenue models. In 2011/12, only one company that produced feature films was funded leading to the announcement of a special initiative in 2012/13, Feature Enterprise. Increasingly, businesses with strong digital media business strategies have been funded, recognising the growing value of that sector.

Screen Australia has recently extended the Enterprise Program to games businesses, in order to “support games development in terms of their turnover, scale and the range of business activities to enhance their sustainability, as well as to fund ongoing development of games projects” (Screen Australia, 2013e).

Documentary formed at least 50% of the combined Enterprise slate between 2009 – 2013 and the vast majority of these were series. This has been the result of a long-term trend (see Appendix 2) driven by broadcaster commissioning priorities and it is not surprising that Enterprise businesses have similarly reported on increased number of documentary projects and hours. (SA 2013 pg.12). Series production enables consistency through multiple episodes, larger budgets and longer production periods. Higher turnover together with increased equity resulting from the Producer Offset has led to increased access to revenue for these businesses. As for non-Enterprise producers of one-off documentaries, they are simply unable to compete with Enterprise businesses and have become significantly less sustainable over the same period.

2.2 Access to revenue streams

I agree with Olsberg when he declares, "The single most important factor in determining a company's potential for sustainability and growth is its ability to take a meaningful share of revenues generated by any successful content that it makes".

Where revenue streams are available to producers, access is enhanced by the following:

(i) Strong relationships with markets
(ii) Equity retained by the business that in turn enables producers to share in the benefit of any ongoing or future earnings

One of the key objectives of the Producer Offset introduced in 2007 was to provide a real opportunity for producers to retain substantial equity in their productions and build sustainable production businesses. Equity is important because it's what enables producers to share in the benefit of any ongoing or future earnings. The greater the equity, the greater the potential there is for the producer to benefit from revenue over the long tail life of the production.

Research has demonstrated that since the introduction of the Producer Offset, there has been a significant increase in producer's equity (Screen Australia 2012a). The potential to recoup revenue arising from equity depends upon the terms of trade, the success of the production in the marketplace and the time it takes for revenue to make its way down the waterfall. Equity remains meaningless unless the negotiated terms of trade enables returns to flow to investors.

For example, the greatest potential beneficiaries of equity are feature film producers; however, they have been consistently shown to be the least sustainable businesses due to the poor terms of trade that limit access to revenue. On the other hand, television production businesses have less equity but have higher access to revenue streams. Commercial production businesses have the least equity and own the least amount of intellectual property but have a significantly higher access to steady revenue streams (Screen Australia 2010, pg.33).

2.3 Ongoing relationships with successful talent

According to Olsberg (2012, p.11), "Production businesses which have demonstrated on-going success have often benefited from long-term relationships with successful creative talent, in particular with directors and writers. This appears to be a key factor in enabling a film business to build on prior achievements and strengthen its ability to get projects off the ground in future".

This might suggest that businesses that are more 'people' rather than 'project'-driven have a better potential for sustainability. There is no available data to test this proposition, however, going by my own experience of productive creative partnerships spanning 12 – 30 years and my observations of long standing working relationships amongst my more successful colleagues, I believe that this is a factor important to the sustainability of my company.

As much as long-term relationships might enhance sustainability, it should also be kept in mind that new relationships and strategic clusters of producers that might not have previously collaborated are proving to be a successful formula for growing scale and capacity of businesses. The Screen Australia Enterprise Program is monitoring these kinds of alliances and joint ventures and records them as a key outcome of the program aimed to enhance sustainability. Recent examples include: Prospero

Productions/Boomerang productions (UK); Matchbox Pictures/Homerun Pictures (Singapore); Matchbox Pictures being majority-acquired by NBC Universal International (Screen Australia 2011b).

2.4 Strong entrepreneurial leadership

Olsberg observed that most film production businesses are owned, managed and run by creative individuals whose principal talents and experience lie in the business of bringing individual film projects to fruition rather than running businesses. He strongly argues that producers need to shift their primary focus from content creation to creating sustainable businesses engaged in content creation.

This has possibly been one of the strongest outcomes of the introduction of the Enterprise Program as the focus on business entrepreneurship has increased across the board and this has been a long time coming. One of the more alarming findings of the *Understanding Screen Content Producers: Wave 2 Survey* was that producers rated business and professional qualifications as among the least important factor to a successful career (Bergent 2012, pg.66). Added to this was the fact that the vast majority of producers viewed their job as a creative art form and not a business.

The Enterprise Program surveys business development activity amongst its recipients and provides a valuable template for methodology that could be applied industry wide. There is no doubt that those companies that have secured experienced entrepreneurial leadership by way of corporate mentors, company advisers, non-executive directors, board members and the like have a competitive advantage.

2.5 Scale

Does size matter? As businesses grow, so do the volume of product and the economies of scale. They become more competitive because they can operate on lower margins for any one title (Sheehan, 2009). Could company growth be a reliable indicator of sustainability? Or in the highly volatile digital landscape of the future, should businesses avoid growing large infrastructure and remain as nimble and flexible as possible with scale up/scale down business models?

The vast majority of producers either work on their own or employ up to four people (Bergent 2012, pg.39). It is difficult for these businesses to produce content on any real scale, particularly given the length of time it takes to bring productions to market. Most feature films take between 3-8 years to complete, television productions take 1-5 years and digital media 6 months to 3 years (Bergent 2012, pg.49).

As businesses grow in scale, so too does the level of production and the potential access to revenue streams. Apart from the Screen Australia Enterprise Program, there has been no analysis conducted to date showing the correlation between size of company and sustainability, but this would be an important area for further research. The 2012 Producer Offset survey indicated that the majority of Producer Offset applications were accessed by less than 10% of production businesses, indicating a very high level of turnover amongst larger businesses. It would be valuable to know the average size of these businesses in terms of employees and business activity.

Many Enterprise-supported businesses have rapidly grown in scale. Businesses are reporting higher annual turnover as a result and significant increases in the number of employees. Some producers have described the necessity for continually finding the investment to underwrite this level of turnover as “feeding the monster” and it has impacted upon the kinds of programs they develop and produce. Their production slates are skewing towards a ‘market-pull’ model of commissioned television programs with faster turnaround than programs or features that operate on a ‘market-push’ model. Over the long term, this will have an impact on the level of cultural risk taking and innovation that characterises the annual Australian production output. For instance, in the documentary sector, much has been made of the diminishing number of major international festivals and awards each year and a sense that the golden era of documentary is well and truly over (Connolly B, 2013).

Summary

I would argue that 'profitability' and 'consistency of production' should not be relied upon as the key measures of business sustainability. It is limiting the kinds of business models currently being supported under the Enterprise Program while it dominates the criteria being evaluated. It is precisely for this reason, the Enterprise Program is throwing up Targeted Enterprise initiatives and become increasingly proscriptive rather than responsive to real-world business strategies. This just adds to a paternalistic attitude in determining support for particular business models and dismissing those that do not readily fit within the guidelines.

Rather, there is a combination of indicators at work in determining whether a business is sustainable or not and any future Enterprise Program needs to have the flexibility to recognise and support businesses that can demonstrate qualities such as:

1. Strong entrepreneurial leadership and business skills
2. Access to revenue streams coupled with equity
3. Diversity of business strategies (as opposed to diversity of production slate)
4. Strong relationships with markets, both domestic and international

3. Future policy approach to business sustainability

Sustainability can be achieved by adopting many different strategies when engaging with the complex ecology that is the Australian screen industry. For this reason, no single policy approach to supporting sustainable screen production businesses is likely to be successful.

In order to properly examine the variables that are relevant to the lack of sustainable screen businesses, one methodology would be to frame questions relevant to the original dilemma, namely:

> The screen production sector has been unsustainable because there are too many independent producers, too much reliance upon government subsidy, and not enough money to go around. Australian producers are generally under-capitalised, not strategic enough, surviving from fees on a project-by-project basis and with few exceptions, unable to develop any real scale. In short, the screen production sector has been operating like a cottage industry and this needed to change.

Evidence-based policy is much needed going forward and would benefit from addressing questions such as:

1. How many independent production businesses are there currently operating in Australia and how many would be required in order to meet domestic and international market demand for content (film, television, and digital)?
2. How much annual government subsidy is necessary to underpin a sustainable screen production sector?
3. What is the minimum amount of government funding required as a percentage of annual turnovers in order for production businesses to maintain sustainability?
4. What is the scale and aggregated turnover required annually by businesses in order to remain sustainable?
5. What percentage of retained earnings is required in order to provide screen businesses with sufficient capital between productions?
6. What annual operating profit margin would be required in order for production businesses to be ‘investor ready’?
7. What percentage of production costs should the marketplace reasonably meet and how should this be reflected in terms of trade?

All of these questions can be answered by measurable data, however, not many of these questions arising from the dilemma *are asked* or indeed answerable using the currently available methodologies and data. It is hard to know how meaningful policy aimed at enhancing sustainability can be developed in the absence of such data. But it needs to be more sophisticated that picking an arbitrary amount of funding for the Enterprise

Program, withdrawing all other forms of business support and then seeing what happens.

Research has demonstrated that the vast majority of Australian screen businesses are intermittent (Bergent Research, 2012) and that this may or may not impact upon their capacity to produce over the long term. In order for the industry to be sustainable, enough *viable* businesses are needed to ensure a reliable supply of quality screen content in order to meet growing market and audience demand. But how many?

It is difficult to determine exactly how many core screen businesses currently operate in Australia. The 2012 ABS Survey reported a total of 2,412 registered Australian Businesses Numbers (ABN's) at June 30 2012, up from 1,995 at June 30 2007. However, both figures include Special Purpose Vehicles (SPV) that by definition are not ongoing companies. The number of core production businesses will be significantly less, therefore the ABS figures are not indicative of the size of the screen production sector. In 2010, Screen Australia estimated that there were 394 active production businesses (Screen Australia 2010, pg.27) and during the five years to 30 June 2012, a total 294 businesses accessed the Producer Offset.

An accurate count of Australian screen production businesses is much needed if we are to meaningfully address the issue of sustainability. The number of Enterprise Companies as a percentage of the total number of active businesses is possibly sitting around 5 – 10%. However, if there is a mass reduction in the total number of production companies making up the pool then there could be major unintended consequences for the ongoing sustainability of the screen production sector. For instance fewer, bigger companies could lead to a net reduction in the amount of diversity, flexibility and innovation within the sector. In any event, sustainability of the production industry must necessarily be greater than the capacity of individual screen businesses to be sustainable on an ongoing basis. It must also address the cultural sustainability of the screen industry.

So what would a model for measuring business sustainability actually look like and could there be a framework that accommodated both screen businesses and the wider production industry? Most literature on the topic argues that no one single measure of sustainability is likely to be sufficient.

Many models of environmental sustainability have been developed globally and some of these offer interesting pathways for addressing this problem. They generally take the form of matrices involving many different variables, all of them measurable. In Australia, the Department of Sustainability, Environment, Water, Population and Communities introduced the Measuring Sustainability Program in 2012 and this provides a very sound framework for consideration by the screen industry (DSEWPC 2012).

"The program offers a comprehensive and integrated approach to measuring and monitoring sustainability in Australia. It will provide information on current and emerging economic, environmental and social issues - and the linkages between them - to support decision-making and planning at national and community levels. One way of determining sustainability is to look at the quantities or stocks of the resources (or 'capital') on which our wellbeing depends and measure their change over time".

This type of approach suggests that the screen industry must also meet the needs of future generations of practitioners (by ensuring the development of emerging talent) and audiences (by the supply of culturally relevant content) in order to remain sustainable. Therefore, in any future Enterprise Program, the cultural dividends must be taken into account on par with the economic returns.

4. The Enterprise Program – Going Forward

Screen Australia has demonstrated it can disrupt the paradigm of a 'cottage industry' screen production sector by injecting targeted capital, soft loans and encouraging a stronger entrepreneurial culture amongst screen production businesses. It has raised the bar, led to some outstanding success stories forced all production companies to address their business planning in a strategic manner. The next phase needs to broaden the scope of the Program by engaging with more and a wider variety of businesses or risk the collapse of the 'gene pool' by concentrating on larger scale companies. Remember it was the nimble small mammals, not the dinosaurs that survived the cataclysm at the end of the Cretaceous Period!

Screen businesses can take on many forms—large scale businesses and small, core businesses and Special Purpose Vehicles, sole traders and partnerships—and any approach to ensuring future sustainability of the screen industry needs to take on board the complex ecology that is responsible for the development and production of screen content. Sustainable businesses of the future may in fact look very different in the 21st century. "We still think of a business as a collection of assets under a roof but a successful business is actually a pattern of behaviours, insights, technologies and talent configured in such a way that it makes money" (Mike Walsh 2009). Business entrepreneur, Mike Walsh argues that the key to success is abandoning 19th century ideas of building infrastructure around a successful business strategy and instead, think lightweight and have the flexibility to scale. He believes that the availability of cloud services coupled with ready access to global markets has changed the way we will do business in future. "The best way now to be global is to be as lightweight as possible – the less your business model relies on infrastructure, people on the ground, offices and lawyers, the better chance you have of scaling. The secret to being very big is actually to be very small" (Walsh, 2009).

Exactly how much working capital do producers need to remain viable? The greater the risk, the more working capital is required in order to bring projects to market. This is particularly the case for feature films that can take anywhere up to 3 – 5 years of development before they are ready to secure marketplace attachment. There are very few sources of funding for producers during this period and this is the area that is least catered for by the Enterprise Program, presumably because it doesn't meet the criteria for 'profitability' and 'consistency of production'. It is common for producers to spend 2-3 years with almost no remuneration and on top of this, loan funds anywhere up to $100,000 prior to commencement of cash flow on those films fortunate enough to be fully financed. Who, apart from Enterprise businesses will have the resources to do this in the future given the withdrawal of all other forms of support? This will have major repercussions for the diversity and breadth of the feature sector in future. The key issue here is that in the absence of meaningful returns to feature film producers, with the exception of the Enterprise Feature Initiative, there is currently no mechanism to reward success and thereby ensure that there are sufficient funds for producers to develop their next production. This is something that needs to be remedied as a priority if we are to secure a viable feature film sector.

It is understood that most producers will continue over time to work despite the fact that their income is not commensurate with their opportunity cost. As investors in their own businesses, they generally hold remarkably little equity and their profit margins are relatively low by small-business standards. Simon Molloy and David Court (2012, pp. 30 - 40) have argued that were it not for the fact they derive high levels of psychic income that appears off the balance sheet, the screen production business model would collapse. The concept of psychic income is defined as the subjective value of non-monetary satisfaction.[5] It could also be quantified as the value of *psychic investment*, that is, the amount of time and energy producers will willingly commit to a given project in the absence on any remuneration. Its value to the Australian screen industry economy has been estimated to be between $150-295 million dollars annually (Molloy, S. & Court, D., 2012). This contribution should also be acknowledged in any meaningful analysis of sustainability.

It may be that many producers could deliver the desired outcomes of Enterprise Program on significantly lower amounts of business support funding, for instance $70,000 - $100,000 per annum for three years. Rather than adding on more and more targeted initiatives, Screen Australia should just operate one program and evaluate the strength of each business plan on its own merits.

I would strongly recommend that the Enterprise Program budget be increased to at least 7 - 10% of Screen Australia's total development/production funding going forward.

[5] It consists of the myriad intangible benefits that together compensate for the loss of financial income; "We're not only in it for the money" in other words (Verhoeven, D. & Cameron, A, 2010, pg.57).

4.1 Measuring outcomes

We will know that the future Screen Enterprise program is a success if the overall capacity of the screen production sector grows, rather than the rise of the few at the expense of the many. It will be measured not in terms of 'profitability' and 'consistency of production' but in terms of:

- Increased diversity of revenue streams
- Better terms of trade and access to revenue
- Increased entrepreneurial leadership
- More private investors
- Stronger relationships with growing international markets
- Increased GBOR for Australian feature films
- Producers earning on average between $70,000 - $100,000 per annum or more
- Growth in production activity across all genres

The current program may have reached market saturation if it limits the kinds of models that are eligible. The assessment process needs to be less proactive and more reactive to actual business strategies in place underpinning a hugely diverse ecosystem. The Program should mature and have the confidence now to recognise great business ideas, great talent, and strategies to implement them.

I strongly recommend that Screen Australia survey non-Enterprise funded producers for the same time period to provide a meaningful comparison across all indicators outlined above. The current Enterprise Survey could be adapted and used as the basis for such a survey. Arguably, those who did not retire, become insolvent, forsaken self-employment or moved out of the screen production sector altogether have had to become even *more* entrepreneurial in a radically altered business landscape without the benefit of business support funding. This in my view is not a bad thing, and by measuring the impact of the Enterprise Program on the wider screen sector, it should be possible to address future support mechanisms for the many different types of business models that underpin a diverse and healthy screen production ecosystem.

In summary, I would recommend;

1. Retaining the Enterprise Program and increasing funding to at least 7% of Screen Australia's total development/production funding budget
2. Allowing more flexibility into the system to reflect a broader range of business strategies. Production businesses would be invited to make a convincing business case and assessed on their potential capacity to deliver outcomes.
3. More diversity of scale. It is simply not sustainable to favour only larger scale, high turnover businesses largely underpinned by a television business model that might itself not be sustainable for much longer.
4. Screen Australia's goal of 'commercial sustainability' is not enough. The Enterprise Program must also underpin the delivery of a sustainable and vibrant screen culture.
5. The next phase addresses the issue of emerging producers. 20th century business models, dominated by an ageing producer demographic, would appear to be in decline. Digitally savvy young producers, many of whom don't have access to the traditional government subsidy models, are already learning all the skills necessary to become the screen entrepreneurs of the future. Going forward, the Enterprise Program needs to be available to these producers if we are to secure the long-term sustainability of the screen production industry.

Appendix 1

Profitability of Australian Screen Production Businesses

The two major sources for collected data on profitability are the Australian Bureau of Statistics (ABS), which surveyed the screen film, television and digital games sectors in 2006/07 and again in 2011/12, and Screen Australia, which has conducted a number of key business surveys in recent years including the Review of the Independent Screen Production Sector (Screen Australia 2010).

The ABS Survey (2013) reported that the average operating profit margin of Australian screen production businesses is approximately 8.2%. This is below the national average of Australian business profitability for all industries (13.2%) and almost half the average profit margin for its economic category (15.7%), Arts and Recreational Services (ABS 2013). Moreover, profitability of the screen production industry has not changed significantly in five years despite a compound annual growth rate between 3.7% and 4.1% (PWC 2010). Some markets such as online, games and subscription television are growing a higher rate again. For instance, the investment by subscription television in Australian content grew by 13% in 2011 (ASTRA 2013).

SUMMARY OF OPERATIONS, Time Series (a)

		2006 – 07	2011 – 12
Businesses at end June	No.	1,995	2,412
Employment at end June (b)	No.	10,873	13,414
Total income	$m	1,584.2	2,194.2
Total expenses	$m	1,461.8	2,012.0
Operating profit or loss before tax (c)	$m	^125.1	^180.9
Operating profit margin (c)	%	^8.1	^8.2
Industry value added (c)	$m	631.6	929.9

Table 2. Summary of Operations: Australian Bureau of Statistics, 2013, Survey Film, Television and Digital Games.

The 2010 Screen Australia survey concluded that a business that achieves profit is more likely to remain financially viable than one that does not. That is an unsurprising conclusion, however, the fact was that *most* businesses were neither consistent nor profitable. Only 27% of businesses managed to report a profit in both years and just half reported a profit in at least one year.

Appendix 2

Documentary Production Survey

A major survey of the documentary sector between 1997/8 – 2011/12 (Screen Australia 2012b) revealed the scale of this increase:

"The increase has been in series production has risen from 145 hours a year (average 2002/03–2006/07) to 237 hours a year (average 2007/08–2011/12). The production of single documentaries has fallen, from 88 hours a year (average 2002/03–2006/07) to 74 hours (2007/08–2011/12)."

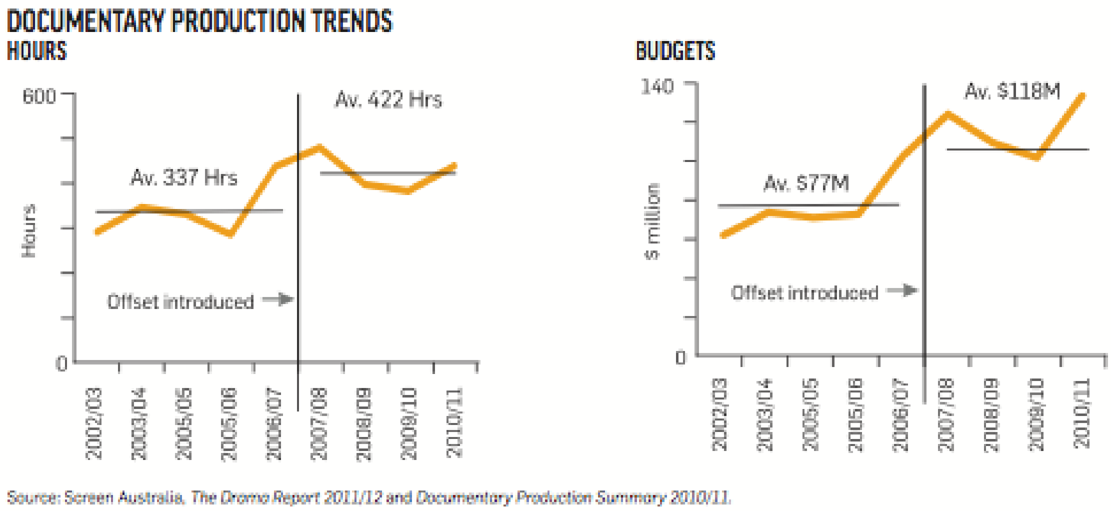

Table 3. Documentary Production Trends: prior to and following the introduction of the Producer Offset.

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