SPECIAL SECTION
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A NEW GOLD RUSH FOR ADVERTISERS

HOW STATE PRODUCTION INCENTIVES CAN BOOST YOUR BRAND, YOUR COMPANY, AND YOUR BOTTOM LINE

BY JOHN RYAN

THE 1848 DISCOVERY OF GOLD in California sparked the rush that helped the state develop one of the world's top economies. Today most states offer a new type of prospect waiting to be

unearthed: financial incentives for in-state shooting of commercials. Thirty-two states offer these incentives to advertisers because they create jobs and stimulate the economy, but they aren't widely publicized or understood. This is rapidly changing, and those seeking such opportunities in this modern day rush are reaping the rewards.

Here are six steps to help you successfully mine these state programs:

1 FOLLOW THE VEIN

Just like the original gold rush, incentive programs contribute to booms in state economies, so states are heavily investing in them. Many cities and states offer incentives to entice local and regional production of films, TV series, and commercials. Many of these programs also allow digital-only productions and distribution via the Internet to qualify. (See TK map on page TK.) In 2013, Washington Filmworks launched its campaign "Commercialize Seattle" to attract more commercial production business to the region. According to Amy Lillard, executive director at Washington Filmworks, the campaign has since supported 54 regional and national commercials.

In Minnesota, "Commercial production accounts for a large share of our annual $300 million industry GDP," says Lucinda Winter, executive director of Minnesota Film and TV. "Commercials represented about 40 percent of the projects certified during the past year to receive Snowbate, our 25 percent cash rebate."

In Louisiana, commercial production has grown and continues to thrive. "Commercials have a certain efficiency that creates maximum economic impact," says Chris Stelly, executive director at Louisiana Entertainment. In fact, according to the April 2013 report, "The Economic Impact of Louisiana's Entertainment Tax Credit Programs," Louisiana issued more than $575 million through its program between 2010 and 2012.

The Illinois Film Office reports that it has issued more than $45 million just on commercials from the inception of its program through September 2014. These investments have created state-of-the-art facilities, numerous and skilled crews, and thriving economies as a result.

And states with winning programs love commercials. The wages associated with commercial shoots are higher than those associated with films or TV projects, more commercials encourage more vendors to invest in local infrastructure, and high-profile commercial shoots promote state program awareness and tourism. "Connecticut considers commercials an essential part of our program," says George Norfleet, director at the Connecticut Office of Film, Television, and Digital Media. "They provide a continuity of employment and help crew develop and hone their skill sets. That continuity offers opportunities for career advancement in an area of the industry we expect will grow in the future."

Donald Zuckerman, director at the Colorado Office of Film, Television, and Media, agrees, saying commercial production has long been a backbone of his state's media industry.

2 KNOW WHAT TO LOOK FOR, AND WHERE TO FIND IT

To recognize real nuggets from fool's gold, you need to know which kinds of commercials make good prospects. Obviously, location requirements can be create a logical reason for shooting in a state that offers incentives. Celebrity-based and multiday shoots become compelling because of the opportunity to recapture much of these costs through incentives. Indoor shoots are perfect contenders as several key states offer cutting-edge facilities to handle almost every need, and weather is not an issue. And anyone planning for an overseas shoot should first look at states that offer production incentives, as residual payments can sometimes qualify and import customs for product-heavy shoots can bring unnecessary complications to the shoot, as can the obvious travel costs and potential for travel-related delays.

"Marketers have searched the world economies for cost savings on commercial production," notes Shelly Landgraf, chief executive officer at Landgraf Consulting Group, a Chicago-based advertising consulting firm. "The state tax incentive programs have allowed us to match and even beat those savings domestically, while the spend goes to our local economies."

Ignoring those kinds of incentives is literally costing advertisers thousands of dollars per shoot.

3 UNDERSTAND THE ECONOMICS OF MINING

Competitive programs offer 20 to 30 percent incentives on qualified expenses. Savvy advertisers look to the total cost of producing a commercial to maximize the potential of these programs. "Although people often think in terms of the production budget, the true cost of a commercial is much, much more," says Mike Rose, chief executive officer at Ease Commercial Services and a former Procter & Gamble brand manager. "Sponsorship agreements, creative development, talent costs, music, editing, animation, etc., will significantly increase the value of an incentive when utilized correctly."

There are some direct costs associated with the incentive process, such as application fees, cost report audits by independent certified public accountants (CPAs), and brokerage costs for selling transferable tax credits. But the largest cost consideration is usually travel and labor. To compare the cost of a shoot in Los Angeles to one in another state, you must determine which crew members are essential and must travel with the production and then calculate the net cost of those expenses, as many of these incremental costs will qualify for the incentive. Union rates vary but are generally lower outside the production hubs of Los Angeles and New York, so hiring and casting locally creates real savings.

"You have to review bids and ensure all variables have been factored in before you can decide if it makes sense," advises Howie Markowitz, executive vice president of production services at Ease. As a former commercial producer, he knows the complexities of the budgeting process.

Returns can be stunning. "Advertisers, in our experience, are saving a quarter of their production budgets by shooting in key incentive states," Rose says. "But we have many clients saving well in excess of that on individual productions."

4 EXCAVATE CREATIVELY

Finding incentives can expand what your brand can do creatively. To illustrate this point, Rose points to a packaged goods client who was determined to land an A-list celebrity. "But the cost was prohibitive," he says. Rather than accept its second choice, this client moved the shoot to a neighboring state that had incentives. In the end, it achieved its original creative choice, and did it affordably.

In another example, an Ease client decided to revise existing footage to produce new commercials. By performing the editing of 42 spots — its entire holiday campaign — in the incentive state, it was able to aggregate these additional costs with the production costs and qualified the combined amount for the incentive.

DRIVING SAVINGS

Celebrities and tax incentives have a lot in common: both can be complicated, and each requires careful handling. But, when managed properly, both can provide the fuel needed to catapult your brand ahead of the competition.

Pepsi's multiyear sponsorship with NASCAR driver Jeff Gordon paid handsome dividends. Not only did it spawn a viral Internet sensation with its Pepsi MAX "Test Drive" and "Test Drive 2" commercials (whose YouTube videos have received more than 60 million views to date), but as Guy Gaster, director at Film NC points out: "North Carolina provided the backdrop and crew to help bring these commercials for Mountain Dew and Pepsi — among others — to life in a cost-effective way."

In 2014, however, the North Carolina Refundable Tax Credit program was slated to expire. Heavy pressure on both sides of the political aisle kept its future in limbo. Says Gaster: "Our new [2015] grant program continues to allow commercials to qualify, a nod that North Carolina continues to see the impact that these productions can have." ***— J.R.***

Markowitz recalls yet another example where incentives were used as a creative solution. A client knew it couldn't get its spokesperson to travel out of state – even when offered a private jet. But this particular spokesperson lived in an incentive state. "So we had our client bring the shoot to them," he says. "By utilizing a local travel company, this production flew its key crew to the celebrity's home state. Not only did the spokesperson payment qualify for a 25 percent rebate, the flight qualified as well. And the crew was thrilled with the star treatment."

5 BE A STRATEGIC PROSPECTOR

Think about the broader goals your company is trying to achieve and connect the opportunities that exist. Production incentives can help in a number of circumstances at the organization level in addition to the obvious cost savings.

By coordinating between your tax and procurement teams, determined marketing managers can see returns to brands increase by eliminating the need to "sell" a transferable credit. Large corporations are often the buyers of tax credits in different states — find out if yours is or wants to be one of them.

Alternatively, perhaps your firm is opening a new distribution center or manufacturing facility or maybe your company's name is on the local stadium. Public relations opportunities can often be found that fit with corporate goals.

"One of our banking clients acquired a smaller regional bank, which had an established practice of

The Golden Rules

The most successful prospectors communicate effectively. Consider these points when interacting with your team members:

BRAND PRIORITY. Incentives should be mentioned in every strategy meeting. Let your teams know that incentives matter to company and brand leadership.

PRODUCTION GUIDELINES. Make sure language in production guidelines is clear. Establishing expectations and ownership in writing can help avoid any confusion later on.

AGENCY COMMUNICATION. Ensure your agencies understand your desire to benefit from these programs. Engaging a professional incentives management firm to work in conjunction with your agency's team helps alleviate some of the pressure of understanding every nuance. *— J.R.*

local charitable giving," Rose recounts. "Rather than cease this practice, our client focused their commercial production in the state — providing an economic boost to areas in desperate need. It was a win-win for everybody."

6 PARTNER WITH EXPERTS

Keeping up with the ever-changing rules and nuances of so many state programs isn't the best use of any marketing manager's time. Smart managers know effectiveness comes from developing the best team, including internal and external resources. "Partnering with a professional incentives manager was a strategic step that allowed us to increase client savings while continuing to provide an unparalleled level of production services" Landgraf says.

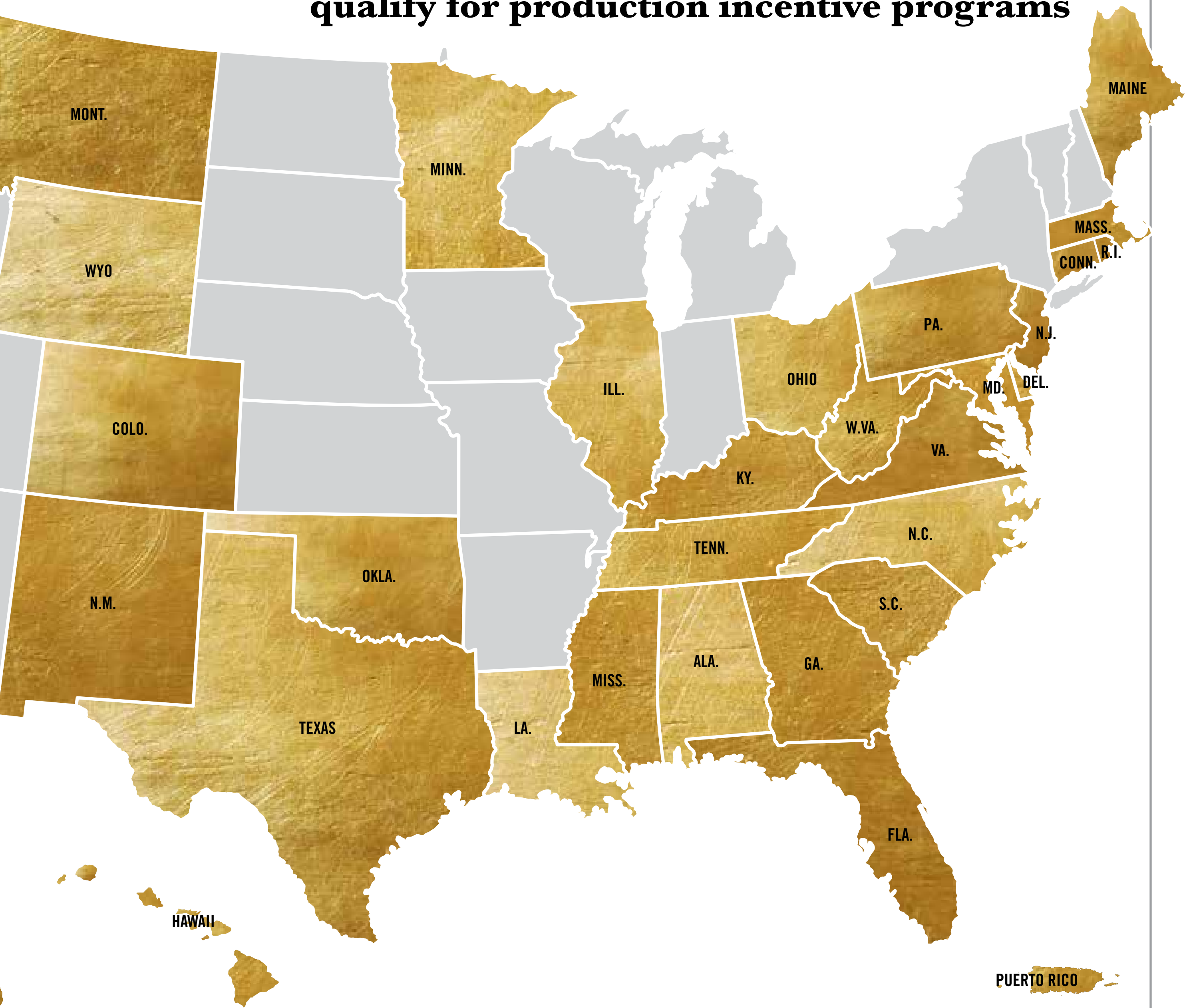
Professional incentives management experts, sometimes called third-party administrators, are an essential component on any successful team. But what should you look for when searching for one?

Maximized returns. It's more than just filing paperwork. A professional incentives management firm should be working closely with your team, crafting production guidelines that work for you, suggesting creative approaches to maximize your returns, and answering your questions throughout the production.

Minimized risk. Reputable specialists should indemnify the brand against any errors or omissions in the state incentive process. Your trusted adviser should help you avoid any pitfalls and protect brand identity.

Trusted experience. Look for an established track record. Ask for client referrals. While most advertisers are unable to go on record, many are happy to speak to a peer about their experience. Experienced specialists have close relationships with the film offices and state CPAs. They should also bring solid

U.S. states and territories where commercials qualify for production incentive programs



production advice, and that comes only through years of experience.

Assured confidentiality. Incentives specialists should ensure confidentiality among all parties. The incentive process contains an inherent conflict: production companies sign fixed-cost bids and are understandably reluctant to then share their actual costs. An incentives specialist offers an independent viewpoint and should have non-disclosure agreements, allowing those production companies to collaborate freely while minimizing the conflict.

Successfully mining state production incentives can yield significant rewards in multiple ways: through substantial cost savings for tight brand budgets; through the ability to afford more on the screen, enhancing creative approaches; by integrating brand marketing objectives with other strategic corporate goals; and by identifying those guiding the mining efforts as thought leaders within their organizations. For advertisers, it's just a matter of knowing where to dig. ■

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