

## GUIDANCE/ RECOMMENDATIONS

### Standard terms and conditions of payment for advertising film production

#### Commercial Principles:

The production of advertising films is characterized by a high level of third-party services that are billed by subcontracted third parties in advance, especially when the films are produced abroad, and the invoices must also be paid before the work starts. The surcharge to cover the required contribution margins for business operations and the business profit calculated as usual in the industry, i.e., the compensation for the advertising film producers' own performance, make up only a small portion of the total calculation.

All of the third-party costs due before acceptance must be provided by the client to the contracted producer. Otherwise, the producer would be providing a substantial financing service to the client that can only be provided by banks for commercial products of such high value. Third-party financing of a client contract is just as impossible in advertising film production as in other production services in business in which the cost of materials and third-party services are financed by the client contracting the work and not by the party performing the work.

These circumstances have led to the establishment of the following standardized terms and conditions of payment that apply both domestically and internationally; the Producers Alliance, the Association of Advertising Agencies (GWA), and the Association of Brand Manufacturers and the Advertising Industry (OWM) have been recommending their application for many years:

#### Payment Model I:

- 1/3 of the total production costs as down payment immediately upon conclusion of the contract,
- 1/3 of the total production costs as down payment before start of filming up to a maximum of 14 days after issue of the invoice,
- 1/3 of the total production costs after online final acceptance, maximum of 14 days after issue of the invoice.

This payment model I is also included in our current sample templates for film production contracts with agencies / clients, which can be obtained at any time via the download area of our website.

If the production is not responsible for the final version of the film, the most recent valid acceptance is deemed the issue date of the invoice.

Additional costs are due and payable a maximum of 14 days after issue of the invoice.

#### Payment Model II:

- 1/2 of the total production costs as down payment immediately upon conclusion of the contract,
- 1/2 of the total production costs after online final acceptance, maximum of 14 days after issue of the invoice.

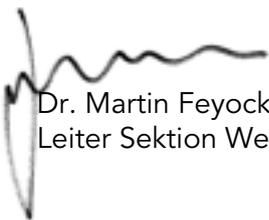
If the production is not responsible for the final version of the film, the most recent valid acceptance is deemed the issue date of the invoice.

Additional costs are due and payable a maximum of 14 days after issue of the invoice.

In both cases, the production company is as a rule involved in the interim financing of the production and does not receive compensation for its own work until after conclusion of the production.

#### Cash Discounts:

Cash discounts are not included in the standard calculations for advertising films and as a consequence cannot be granted. The principle of granting a discount for early payment presumes that the provider can calculate a price that contains a surcharge in the amount of the cash discount. The cash discount is then "priced in". The deduction of the cash discount when early payment is made represents the "non-utilization" of the provider's loan so that the payment can be made at discounted interest. Since all advertising film contracts these days are offered for tender at a high level of transparency and the film producer cannot and should not, on the instructions of agencies and client, incorporate such an element into the price, the converse is that a cash discount cannot be claimed. In the case of specific quotations in which prices are fixed as a consequence of competitive pressure, a purchasing department cannot assume that the company is expected to grant a provider's loan and has "priced in" this amount.



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