COLLECTIVE WISDOM
SZABO
szabo MEDIA COLLECTION SPECIALISTS
VOL. 2, ISSUE 2, JUNE 30, 1987

Dear Friends:

I hope y'all are enjoying the warm weather and a few outdoor activities. It's hard to complain about the heat when you're out on a lake somewhere or taking in a summer concert in the park.

It was great to see so many of you at the Broadcast Financial Management convention in April. It was very well attended by lots of friendly people. Those of you who couldn't make it missed some very informative workshop sessions. You also missed some great Boston spring weather—17 inches of snow in one day!

Our summer issue addresses an important consideration in credit extension—and one of the most difficult to get a handle on—the "character" of your customer. Accompanying this feature is a brief article on dealing with marginal customers. What do you do when "character" is good but credit history is brief or nonexistent?

Keep in touch—your comments and suggestions help us to better serve you!

Best regards,

Pete Szabo, President
Szabo Associates, Inc.

What A Character!

(or: The Most Important Consideration in Credit Extension)

In most industries, credit grantors rely on what are known as the "five C's" of credit: character, capacity, capital, conditions and collateral. In the media industry, there is no collateral. Capacity, capital and conditions are important and should be given serious consideration; however, if the media industry had to choose just one criterion as the most important, that choice would have to be character.

"Buying on credit," according to Webster, means "buying with an agreement that payment will be made at some future date." The word credit comes from the Middle French word "crédit," which refers to reputation, trust and honor.

The media must rely heavily on the traditional implications of the word credit. Reputation, trust and honor can never be ignored when you are selling someone your unique, intangible product—an audience packaged in time or space.

Ironically, the nature of your product also creates the strong temptation to neglect investigation of a prospect's character in order to make a quick sale. After all, once space or time becomes available, it must be sold and sold fast. The perishable nature of your commodity creates pressure to sell to customers many other industries would reject as poor credit risks. But while there is sometimes room for the marginal or "cash lean" customer under certain conditions (see article, page 3), there should never be room for the customer with a poor character.

Many salespeople and sales managers develop a "sixth sense" about the potential integrity of a client. Even so, it is always a good idea to back up this instinct with a system for appraising both new and returning customers.

Character, in the credit granting sense, is the probability that a customer will try to honor his obligations. This can best be determined by the prospect's payment history, and the best place to start to find that out is the credit application. Don't feel bad about asking for credit references. Most legitimate businesses will not hesitate to provide information requested on a credit application. If a prospect is reluctant to provide references, it

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True Collections

The following story is true. The names, places, and dates have been changed to protect the persons involved.

Tennis Racket, Anyone?

She walked into my office and sat quietly for a few moments. The black net of her stylish hat veiled her eyes, but I could see that she was studying me intently. Her hands were clasped in her lap, fingers tightly woven into an angry knot. Finally she reached into her leather briefcase, pulled out a manila folder and placed it on my desk.

"They seemed like such nice boys," she said. Ms. Cavendish was soft-spoken, but her voice had an angry edge. "I've been in the agency business for years, and I've never had anything like this happen before."

I opened the folder to find a stack of "Client Contact Reports," her system for keeping the lines of communication clear between agency and client during the course of advertising projects. What was intended to be a method of avoiding misunderstanding had in this case become a chronological account of a sordid case of deception and greed.

She rose and extended her hand. "Read through this please, and call me. I'd appreciate whatever help you can give me." She picked up her briefcase, turned and left quickly.

I thumbed through the pile of reports, all of which were headed with the name of the company, ProGrip, Inc., and the client contacts, Bucky and Biff Wellstock. From a previous phone conversation with Ms. Cavendish, I gathered that "the boys" were monied ivy leaguers from Hilton Head, South Carolina. They had been recommended to her by a magazine rep whom she knew well. According to this rep, the two had done business with the magazine for about a year and were great to work with—personable and real "up and comers."

They reportedly had bought the rights to an innovative new product, "sure to take the tennis world by storm," in the rep's words. A custom-made, virtually indestructible racket, the product had been nicknamed "McEnroe's Match" for its ability to withstand hard impact with everything from an asphalt court to a referee's head.

Ms. Cavendish described Bucky as a rather stocky 27-year-old, the more gregarious of the two brothers. Biff was a slightly built, bespectacled 25-year-old with a serious demeanor. Whereas Bucky was likely to show up in her office wearing beach shorts, Biff was always attired like a Fortune 500 CPA. They were both very bright, marketing-minded, and seemed comfortable with the philosophy of spending money to make money.

I settled into my chair to start at the beginning, with the agency's initial client meeting in May of '86, when Bucky stated to Ms. Cavendish that he had $25,000 to spend right away on the product's promotion—a print campaign in both trade and upscale consumer publications.

The reports indicated a smooth agency/client relationship for the next four months, with the agency producing and placing ads for ProGrip in several magazines, and with the boys reporting good response on the ads. Then all of a sudden, it seemed, the trouble began.

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"Collector's Corner" is our readers' forum for suggestions, comments, and idea swapping. If you have information to share or input on how our newsletter can better serve you, please write or call. We want to hear from you!

Question: When should a creditor ask for a "personal guaranty" and what form should it take?

Answer: When you encounter a customer with limited or shaky credit and you still want to extend credit to the customer, you might consider an **unconditional** personal guaranty. This is a statement, in writing, that the creditor is responsible personally for the debt and is useful for situations in which the ability of the legal entity (corporation, etc.) to pay is questionable.

COLLECTOR'S CORNER

This written form should include specific dates indicating the period of time the guaranty will be enforceable. Enforcement problems can occur when the guaranty is perpetual, or without specific time limitations.

Dealing With Marginal Customers

You would love to sell only to those customers whose ability to pay is clearly established or who pay in advance. Unfortunately, the realities of the media industry are that you must sell your product fast and sell a lot of it before it disappears. To do that, you sometimes have to be willing to consider less than optimum situations.

By first recognizing the "marginal" customer and then making certain preparations, you can often turn a risky situation into a success story.

If a business is new but the owner has solid ties to the community and a good personal credit reputation, he is most likely a good credit risk. The salesperson must be careful, however, of overselling and overburdening the new business with a large debt. The primary reason most businesses fail is that they fail to recognize their inabilities to meet obligations until it's too late.

If the business has not established a credit reputation, you need to determine if the customer has other tangible assets such as bank accounts, real estate or other property. Be careful, though—these assets may or may not be available to satisfy the obligations of the business. For instance, if you are dealing with a corporation rather than a proprietorship, the personal assets of the principals or their other businesses cannot be used to satisfy liabilities if the corporation fails.

If the prospective customer lacks both a credit reputation and tangible assets, you can still make the sale if you use one or a combination of the following techniques:

1. Request cash in advance (the easiest and safest method).
2. Extend credit on a weekly basis, with payments to be picked up by the salesperson.
3. Request partial cash in advance with the balance due within 30 days after billing.

The most important factor in making a successful sale to a marginal customer is to accurately convey your credit policies at the time of the sale. If you project the attitude that you are offering a valuable and limited commodity, the customer will develop a respect for its worth. If he is convinced it is valuable, he will pay for it much more readily. ♦

"SORRY WE HAVEN'T PAID YOU, MR ZANDER. WE RAN OUT OF MONEY AT THE LETTER "P."

szabo's FORECAST

Pete Szabo, President

The economy is a "mixed bag" now, with the dollar dropping in value, interest rates escalating, and the fear of inflation growing. While I'm still a Bull as far as the overall market is concerned, I believe some customers of the advertising media will have their problems.

I advise an extra measure of caution when extending credit and recommend tighter controls on collection follow-up. Good collection management will bring problems to the surface at an early stage so that management can promptly deal with them.

Past due accounts appear to be more perishable now, so I want to emphasize the importance of timeliness. Consider placing your 90- to 120-day accounts in the hands of a third party for collection unless you have a bona fide commitment from the debtor. Partial recovery is better than none, and "he who snoozes loses"! ♦

What A Character!

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is a fairly good indication that either he has none or they are not favorable. Also, be suspicious of customers who won't give you a street address in addition to a post office box number.

And finally, GET TO KNOW YOUR CUSTOMER AT THE BEGINNING OF YOUR BUSINESS RELATIONSHIP. The most important time in the life of any account is when it starts. And the more you know, the easier it is to collect. ♦

True Collections

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Date: September 7, 1986
Agency called Bucky to request payment for media placement. Agency informed by Biff that Bucky is recuperating from a bleeding ulcer in Hilton Head. Biff will look into delinquent invoices.

Date: September 14, 1986
Agency called to request status of payment. Biff confessed that Bucky is no longer with the company and that the "fat low-life" charged the maximum on the company charge cards then left town. Biff also stated that the company, ProGrip, Inc., wasn't exactly their company, but instead was owned by an organization in Florida, which had recently declared bankruptcy. Biff will see what he can do about delinquent invoices.

Date: September 21, 1986
Agency called to make appointment to meet with Biff about invoice "situation." Biff tells agency that if "you don't stop pressuring me about this, I may be forced to declare bankruptcy, and then you won't be able to talk to me at all since I'll be protected."

This was the last contact Ms. Cavendish had with Biff. I closed the folder and reached for my desk pad. We would do what we could, but the prognosis for this one was grim. "The boys" had committed fraud, but a long and costly legal battle might be all for nothing. And Ms. Cavendish would never again let the recommendations of a friend take the place of her usual approach to new clients—a complete credit check and a thorough investigation of corporate structure. ♦

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