collective szabo wisdom®

SZABO ASSOCIATES, INC. VOLUME 35, ISSUE 2, JUNE 30, 2020

MORE is better than less.

Dear Friends:

Life certainly has been different for everyone these past few months. The proverbial rug has been yanked from under America's economy, and few have escaped the consequences of the global pandemic. Amid budget cuts, business failures, and changes in consumer behavior, media has had to scramble to adjust in order to stay afloat. In this issue, we discuss the present state of media along with ways for collection departments to maximize their efforts in these unprecedented times.

We look forward to honoring the achievements of our talented associates at our annual Szabo Quality Awards Banquet on August 24 in Atlanta. Our calendar also includes Media Finance Focus 2020, a 10-week virtual conference, from June 16-August 27. Szabo is pleased to sponsor the general opening session, as well as an additional four of the 40-session conference. I will also moderate the June 18 session, "Streaming and Its Input on Traditional Media."

Best wishes for a Happy Fourth of July and a wonderful summer!

Robin Szabo, President
Szabo Associates, Inc.

Media Under Siege . . . Reclaiming Success in Dark Times

Only six months ago, the subject of our *Collective Wisdom* newsletter was how to prepare for our next economic downturn. The cartoon in that December 2019 issue pictured Flo conducting an office betting game on what the cause of the next recession might be. She said, "We've got trade policy, monetary policy, inflation, stock market volatility, weakening global economy, declining real estate prices, it's just time for one, or something we haven't thought of." It was intended to amuse. Who could have guessed that the winning bet would be not only "something we haven't thought of," but also something as devastating as the COVID-19 pandemic?

The impact of the pandemic has been more far-reaching and deeply hurtful than any global event in 75 years. The tragic loss of human life, compounded by the calamitous effects on the world's economies, has created an environment of sorrow, anxiety, and uncertainty, leaving governments on every level, businesses small and large, and citizens across the country scrambling to make decisions to save their futures.

The media industry, reeling from dramatic drops in advertising buys, canceled events, and radically altered consumer behavior has been forced to reassess revenue streams and procedures to keep money flowing into their organizations. At the heart of the matter is uncertainty. Experts can speculate, hope, and advise, but no one truly knows what the future holds in the coming months. All we can do is manage risk and institute changes that can move the odds in our favor. To do so requires imagination, resilience, and flexibility.

The Overview.
The current scene, as we know, is not a pretty one. The COVID-19 pandemic has led Americans to make life-altering changes in days, rather than months or years, according to a study titled "The Coronavirus Disruption Project: How We Are Living and Coping During the Pandemic," conducted by the USC Center for the Digital Future and the Interactive Advertising Bureau (IAB). The online survey conducted in early April used a sample of 1,000 respondents age 18 and older from all 50 states and Washington, D.C.

Consumers being the basis of all marketing, their rapid shifts in behavior have sent shockwaves through the media industry. While digital technology has grown tremendously over the past decade, the "stay-at-home" culture has put consumer use of online services (such as online banking and shopping) and entertainment on a faster track. Nearly three-quarters (72%) of the study's respondents reported increased use of communications technology, especially video streaming on YouTube, Netflix, Amazon Prime, and other services. Sixty-eight percent cited an increase in television viewing, 67% in texting, and 64% in video calls. Additionally, 22% listed CNN, MSNBC, and Fox News as their primary source of news about the coronavirus, followed by

—*continued on page 2*

—continued from page 1

local TV stations at 16%, online news sites or apps at 15%, broadcast network news at 14%, internet searches at 9%, and online daily newspaper websites at 4%. Only 1% cited daily printed newspapers as the primary source of news about the pandemic.

Another noteworthy outcome was that most respondents stated they want to maintain some changes in their lives that began during the pandemic. Fifty-six percent said they want to continue spending more time with family, 42% said they would like to continue working more from home, 39% plan to increase online purchases, and 37% said they will reduce their face-to-face contact with other people.

Advertisers and marketers now are being compelled to ask themselves, "Which of these changes in consumer behavior are temporary adjustments to the situation at hand, and which are here to stay? Who in my previous target audience is no longer viable, and who may be a new addition?"

Budget Cuts.

While most marketers are now focusing on post-pandemic strategies, global ad budgets are expected to be down 36% in the first half and by nearly one-third for the full year 2020, according to a late-April poll from the World Federation of Advertisers (WFA). The survey findings were based on responses from 38 companies with a total ad spend of $46 billion.

As reported by Richard Whitman for *MediaPost Publishers Daily,* the cuts are deeply impacting ad agencies, which have shed thousands of employees since the onset of the pandemic. Nearly three-quarters of the marketers surveyed feel they must find ways to support agencies during this crisis. Because of this situation, along with shifting consumer spending patterns, more than 90% of polled marketers agreed the crisis will have a long-term impact on the way they operate, and 84% said now is the right time to "rethink everything in terms of our marketing organization."

At the same time, decreased demand has led to price drops for most of the major media, particularly in the most developed markets in North America and Europe, according to a special report released by ECI Media Management.

Additionally, national television has taken a major hit due to COVID-19 issues that forced major cancellations from television marketers, reports the Standard Media Index. The programming development calendar has been thrown into disarray, with many new and returning programs suffering from production halts.

With doors shuttered, businesses small and large have limited, if any, money to spend on advertising. The advertising that we see now feels like public service announcements, while past campaigns seem inappropriate to the times.

The dilemma of how and where to advertise for those companies with the money to spend has had a significant impact on news organizations in particular. News organizations are caught between the need to cover the crisis and the need to respect advertiser preferences for ad placement. "Many companies are trying to protect their brand names by keeping their ads away from media reports about overrun hospitals, joblessness and death," states *New York Times* media reporter Tiffany Hsu.

Business Failures.

Sadly, many businesses may not recover from their economic woes. Recent days have brought us the news of longtime businesses such as Neiman Marcus, JCPenney, Cinemex Cinemas, J.Crew, Gold's Gym, and Hertz filing for bankruptcy.

The financial hit has been particularly tough for small businesses. According to a March survey by business.com of more than 350 small business owners from across the country, nearly 62% of respondents said their businesses had two months or less in current economic conditions before they go under, and 42% either planned to hold off on paying certain bills or already have begun withholding payments. Thirty-three percent said they were laying off employees, 32% said they were cutting back on non-employee costs, and nearly 31% intended to borrow additional money. Along with social distancing, disruptions to their supply chains have hit small businesses particularly hard. While some state governments have put a halt on bankruptcy proceedings and have issued rent freezes, federal help may be too little and too late for many business owners.

Collection Matters.

With advertising revenue down, it has become more critical than ever to bring in money that media properties are owed. This is, admittedly, a dicey issue. How do credit and collection managers, whose jobs are difficult under the best economic circumstances, optimally manage accounts receivable in an environment such as this? And indeed, who wants to increase the pain of businesses struggling to keep their doors open and their employees employed?

Focus. Keep in mind the 80/20 rule: 80% of your business comes from 20% of your customers. Stay close to your biggest customers with consistent and frequent communications. Then, focus on new customers and do the same. As time and resources permit, move on to those less critical to your bottom line.

Teamwork. Chances are, you and your team of collectors have been working remotely. While technology affords us an array of communication options, they do not take the place of human contact between team members. Maintaining a high level of performance should be foremost, and the best way to do this is to establish and maintain a "team" environment. Your staff must be adequately trained and technologically equipped at home to meet your organization's standards.

Scheduling regular virtual staff meetings can give members the opportunity to share ideas and concerns. This also can give you the opportunity to make sure procedures are followed and work standards are met. Additionally, team message platforms and document sharing can contribute to a feeling of camaraderie and provide help to teammates with questions or problems.

Flexibility. This is no time to be rigid. Just as you appreciate the business of your customers, they in turn appreciate the opportunity to attract business through advertising with you. According to the research firm IHS Markit's estimate, each dollar that companies spent on advertising in the U.S. last year led to $9 in sales. In other words, you really need each other.

Customers realize that you have to bring in money, just as they do, especially during dark times. The key is to come up with a plan that both of you can live with while making it clear that it is a temporary fix for a temporary situation. Inform them that extending terms or coming up with a payment plan does not represent an alteration of your organization's policy. Set clear expectations and document them.

Empathy. No one is having too much fun right now. Find subjects on which you can commiserate with your customer in a hopefully lighthearted way. The pitfalls of home schooling. The scrubbing of the NCAA Men's Basketball Tournament. The fact that your hair looks like it did in 1972 and it wasn't a good look then either. Anything that you might have in common suggests, truthfully, that we are all in this together.

No one knows right now how the current crisis will affect businesses in the long run. Anxiety is pervasive these days for numerous reasons. Once you have agreed upon a payment plan, communicate with your customers as often as is feasible, using whatever method is most comfortable and making sure your attitude is upbeat, encouraging, and respectful.

Some customers will need a longer time to recover from their economic woes. Evaluate each customer's situation individually as you consider payment arrangements once the crisis has passed. For example, a small business whose success has relied largely on a client base built over time may not get some of those customers back.

Preparedness. Virtually all industries have been hurt in the current crisis. Some, however, due to their size and/or indispensable nature, have a better chance of surviving than others. Many small businesses have limited reserves, and a couple of months of closure can lead to doors shuttered for good. Federal and state measures can help, but they are not a panacea.

Understanding your customer's business and how the current crisis has affected its cash flow is essential to evaluating a plan for debt payment. You should understand the specifics of recent legislation on federal and state levels, such as the CARES Act, and know if the customer has applied for and received government loan assistance.

Creativity. The business model of many businesses is no longer relevant during this crisis. Chances are good that your customer has had to explore ways to do business differently in order to stay afloat. New revenue streams, such as virtual events and drive-by or pick-up services, are taking the place of conferences and in-store services.

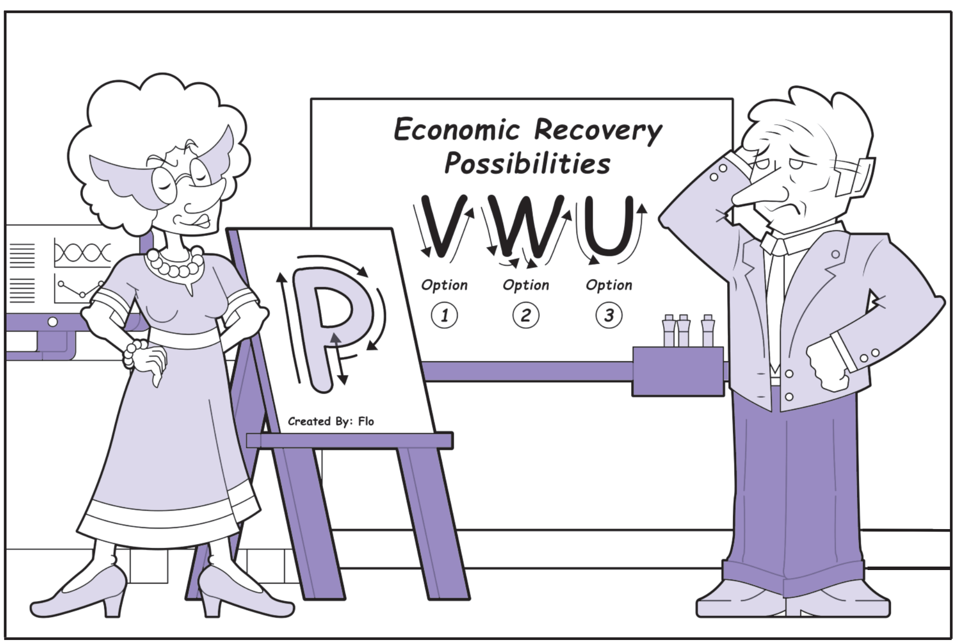
Ask the customer about any changes that have been made to shore up business. Perhaps your organization can offer ways to market new revenue streams.

Agency sensitivity. Advertising agencies are in a world of hurt. For years, advertisers have been taking capabilities in-house and competition from new entrants has increased. With changing customer expectations and behaviors along with increasingly difficult financial dynamics, agencies have moved beyond the halcyon days of old. With the current crisis, clients have slashed their budgets, and agencies are having to do more with even less than before. Furloughs and staff reductions have become commonplace at agencies and large holding companies.

Negotiating for payment from agencies that have been paid by their clients is difficult enough. If the agency has not been paid, it will likely fall back on its sequential liability position and refuse to pay. At the same time, it may not want you to call its financially distressed client either.

Try to get as much information as possible on the advertiser's financial condition. Discuss with the agency how you might together develop a workable arrangement with the advertiser so that you both can get paid.

Contractual obligations. Many companies struggling to meet their obligations have found relief within a "boilerplate" provision called a "force majeure" clause. Present in most commercial contracts, the provision excuses a party's performance of its obligations under the contract when certain circumstances arise beyond the party's control, making performance inadvisable, commercially impracticable, illegal, or impossible. The clauses vary in language and length; however, many include events such as epidemics or pandemics, along with war, terrorist attacks, "acts of God," famine, strikes, and fire in the list of events excusing overall performance or



After looking at post-virus economic forecast models, I decided to come up with one myself: the "P"—straight-up until it flattens and turns into a downward curve, which flattens out again and ends up in the middle. At that point, it can go down or up, depending on stuff.

—continued on page 4

SZABO ASSOCIATES INC. szabo MEDIA COLLECTION PROFESSIONALS

Collective Wisdom® is a publication of
Media Collection Professionals,
3355 Lenox Rd. NE, Suite 945, Atlanta, Georgia 30326
Tel: 404/266-2464, Fax: 404/266-2165
Website: www.szabo.com
e-mail: info@szabo.com

Reclaiming Success —

—continued from page 3

delay in performance.

In their article for *The National Law Review*, P. Danielle Cortez and Jason B. Sims state that courts have generally interpreted force majeure clauses narrowly; consequently, only an event actually listed in the clause will be considered a force majeure event. If the clause includes pandemic (or similar such as disease, epidemic or even, potentially, "acts of God") or "governmental action," then it is likely the COVID-19 pandemic and related sweeping action to combat it is a force majeure event under the clause.

The authors advise timely notice to parties to the contract if the intention is to use the clause as a basis for suspending performance. Many force majeure clauses include a "carve-out" for payment obligations, meaning the clause cannot be used to excuse a party's breach of its payment obligation under the contract. Cortez and Sims suggest that governmental actions taken to combat the pandemic and supply chain interruptions will likely provide the strongest position for those seeking to invoke the clause. They also state that force majeure is temporary and applies only for the period of time the event restrains a party's performance under the contract.

Opportunities.

As we have often stated, with challenge comes opportunity. In his May 13 commentary for *MediaPost Television News Daily,* "The Stay-At-Home Economy and its Effect on Consumers, Engagement," David Fischer states that one area of opportunity for marketers lies in advancing their interactions with consumers via CTV (connected TV). CTV offers opportunities that cannot be found elsewhere, he stated. "With streaming up 57% in the first quarter of the year, even though the surge only began March 15, and the majority of streaming happening on CTV, the conduit of the future for marketers has gone mainstream earlier than expected."

Additional opportunities for revenue streams have come to light in the last couple of months. For many B2B businesses, conferences have been a key revenue stream, and these events have been postponed or canceled. Several media companies have changed their planned conferences to virtual events. While forgoing the traditional handshakes and networking opportunities is a pronounced negative, the cost can be considerably less. Also, lower fees for attendance and the elimination of travel expenses may allow more people to participate.

Traditional media companies may also see opportunity in the increased demand for valuable content. With the abundance of choices, consumers will gravitate toward those outlets they deem solid and trustworthy.

With so much that we cannot possibly know about the months ahead, we do know this: The course of history has been altered. Every country and every industry will feel the effects of this destructive event. We also know that while the media industry has made progress in embracing the digital transformation over the past decade, now it will be full speed ahead! ♦