collective wisdom®
szabo MEDIA COLLECTION PROFESSIONALS
SZABO ASSOCIATES, INC. VOLUME 31, ISSUE 4, DECEMBER 31, 2016

A Delicate Balance . . . Credit and Collections in the Age of Consolidation

Dear Friends:

The consolidation trend in the media industry that began with the passage of the Telecommunications Act of 1996 continues at a rapid clip. Technological advances, particularly in the last decade, have further propelled companies to join forces in order to remain competitive and prosper. Media credit managers today may have to adjust not only to consolidations of their own and other media companies but also to consolidations among advertising agencies with whom they do business. This issue's feature discusses the reasons for these consolidations, the new credit and collection challenges they impose, and actions you can take to meet those challenges.

We hope to see many of our friends and clients at the Media Financial Management (MFM) 2017 CFO Summit on March 2nd and 3rd in Ft. Lauderdale, Florida.

All of us at Szabo Associates wish you a very Happy New Year and a prosperous 2017.

Best wishes,

Robin Szabo, President
Szabo Associates, Inc.

Media management usually, wisely, develops its credit and collections policy by taking what we might call the "Yin Yang" approach. In Chinese philosophy, Yin Yang refers to two seemingly opposite forces that, when taken together, form a complementary whole. For media, the two aspects are the credit check process and collection procedures, and the whole is the credit and collections policy. Balance between the two helps ensure a successful outcome. Depending on the organization, emphasis is placed on one aspect with lesser emphasis on the other, or perhaps equal emphasis on both. For example, substantial due diligence and strict qualifications with regard to credit extension may allow diminished collection efforts, while looser standards for credit extension will necessarily involve greater collection efforts.

A trend we at Szabo are seeing is a lack of balance—less Yin (credit checks) without more Yang (collection efforts). Media's understandable desire to increase revenue is driving this phenomenon. Additionally, collection efforts are compromised by major structural changes within the industry; specifically, consolidations among industry players. Why is this happening, and how can the challenges regarding collections be met in this changing environment?

Media Consolidations.
A well-known and often-stated fact: Six corporations now own 90 percent of the country's major media companies. The origin of these consolidations can be traced back to exactly 20 years ago.

The law. The Telecommunications Act of 1996 was signed into law by President Bill Clinton. The Act was a bipartisan effort—only 3% of Congress voted against the bill—the intention of which was to increase competition in the media industry by eliminating regulatory barriers to entry. Prior to that year, in the dozen years following the AT&T divesture negotiated by the Department of Justice, neither Congress nor the Federal Communications Commission (FCC) controlled communications policy. Instead, cases went before the U.S. District Court in D.C., which lacked the expertise to make decisions (often involving highly technical issues) regarding telecommunications competition. The 1996 Telecom Act allowed Congress to reassert its legislative authority. No doubt, by reducing the Federal Communications Commission (FCC) regulations regarding cross-ownership, the Act enabled corporations to buy thousands of media outlets across the country.

The technology. Major technology developments, most notably in the past decade, have also contributed to the phenomenon. Media providers in both digital and traditional media are consolidating in order to diversify their revenue streams. Consolidation with like-minded properties allows them to increase selling leverage and programming/carriage fees,

—continued on page 2

Delicate Balance—

—continued from page 1

while acquisition of technology and consumer service companies can reduce dependence on advertising and fuel continued growth.

With consolidation comes structural and operational upheaval, requiring development of new best practices to accommodate these changes. Credit departments are now faced with learning how to manage diverse credit risks. Additionally, shared services operations are commonly implemented among consolidated groups, often resulting in credit personnel working from remote locations. As can be expected, relationships between departments have sometimes become strained because of limited communications. Different models of credit and collections are being considered to address these challenges, but the process remains a work in progress.

Agency Consolidations.

Media credit departments must grapple not only with changes in their own and other media organizations, but also with consolidations among advertising agencies with which they do business. Agencies, feeling pressed to demonstrate enhanced value to advertisers, seek to increase their buying power in order to persuade clients that they can negotiate better rates than the clients can negotiate on their own, provide analytical services and software to help clients get the most for their ad dollars, and provide technology to automate the ad buying process. Only sizable agencies can afford to implement these actions, and consolidation has been the method of choice. While consolidation may greatly benefit some agencies, it inevitably leads to the shutdown of others. Some may close their doors forever; some may change business models; some may disappear, only to come back as completely new business entities.

From a credit standpoint, agency consolidations may make your life easier. You may have fewer agency clients, and consolidation generally results in stronger agencies, reducing your risks. A downside, however, is that it is sometimes difficult to collect payments from businesses that have been acquired by larger entities.

What to Do.

Dealing effectively with consolidated entities requires an understanding of the nature and structure of the corporation and deployment of your credit and collection resources to most efficiently address the challenges that the new entity poses.

Merger vs. Acquisition. Know the difference between the two. Generally, if the company undergoes significant restructuring and leadership changes, it is probably a merger. If corporate leadership does not change much, it is probably an acquisition.

If the consolidation is an acquisition, understand what type of transaction occurred; i.e., an asset sale or a stock sale. With an asset sale, usually the debts remain with the entity that sold its assets, which may prevent you from asserting a claim against the buyer or "new entity," leaving you with no recourse other than against the "old entity." With stock sales, the assets and debts are acquired by the buyer, allowing you to pursue the new entity as if a sale had not taken place.

Internal and External Challenges. Some credit managers have to deal with both consolidations of customer companies and consolidation of their own media organization. Internal relationships often suffer with such commonly employed methods as shared services, which distance the credit and collections department from other departments in the organization, compromising both credit extension procedures and collection efforts.

Continuity—with sales, general management, and customers—remains critical to success! Prior to the phenomenon of shared services, it was much easier to effectively engage salespeople and more efficiently resolve issues because we knew one another. Make adjustments to compensate for geographic remoteness and reestablish ongoing connections. Consider assigning credit personnel in a way that allows them to become familiar with personnel in other departments through consistent contact. At Szabo, we assign clients to our representatives not only by the type of media but also by geographic area. For example, magazine clients in Atlanta are assigned to one representative, and radio clients in Atlanta are assigned to another representative.

Casualties. With consolidation comes failure of companies that can no longer successfully compete. Unfortunately, sometimes a company rises like a phoenix from the ashes of failure, assuming a new name, a new tax I.D. number, and a clean credit history. Reevaluate the creditworthiness of any new entity, find out if the management structure is the same as the failed entity, and find out what happened to the clients of the previous company. Monitor agencies that may be in trouble and possibly headed for bankruptcy. The only improvement in the bankruptcy process has been electronic filing. Even so, the process continues to move forward at a snail's pace.

Tools. Take advantage of data that others have already gathered. Good systems for historical customer profiles can reduce your workload and increase your department's effectiveness.

BCCA, the media industry's credit association, is a valuable source of relevant credit information. The association can provide members with custom reports, commercial credit reports, D&B trade reports, and Equifax Canadian reports. BCCA's new product, called Media Whys, addresses the loss of local knowledge and the "need for speed" in the world of near-real time media buying. The report includes a credit score based on industry-specific aging combined with trade data from Experian or D&B. The media-specific section of the report contains media industry trade payment information, current payment performance, and payment trends reported by other industry members. Additional analytics illustrate the risk of severely delinquent payment and the improvement/decline/stability

of a company. Its database of payment habits allow media to decide if a company's payment habits are acceptable. For example, if other properties are allowing 90 to 120 days to get paid, you may (or may not) decide to accept the business. Members interested in performing trend analysis and/or automating credit decisions can have access to aging analysis and credit decision tools.

Protection. If you opt to limit your credit investigation of a prospective customer, take some other protective measure to put yourself on safe ground. At the very least, get a completed credit application so you know with whom you are doing business. Make sure to state your terms and conditions on the application as well as on any subsequent correspondence.

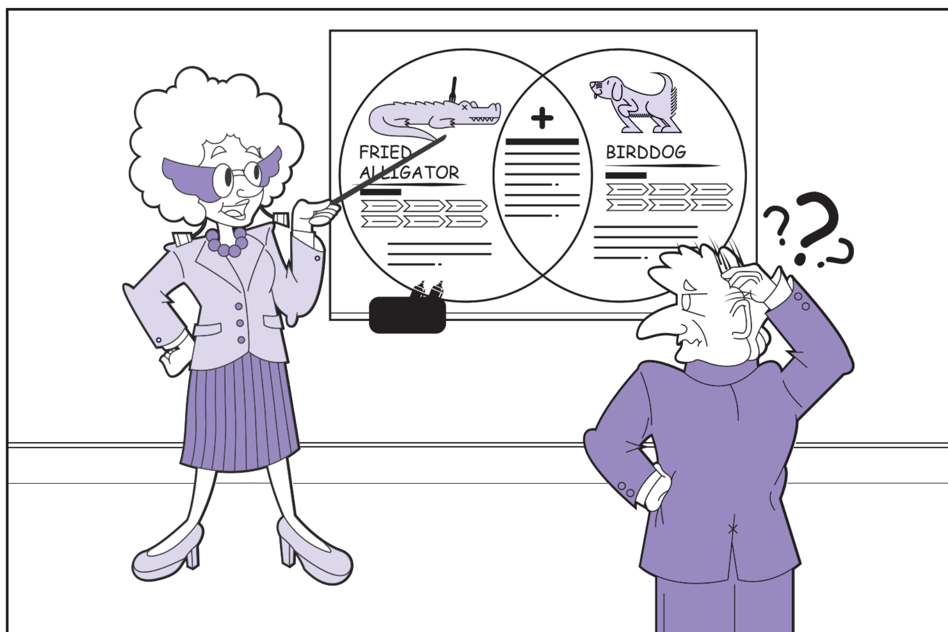
Credit policy. Conduct an annual review and make changes necessary to meet the challenges of a changing media environment. Are agencies insisting on paying sequentially (after they are paid by the advertiser)? If so, you must decide whether to accept or reject this position. Do you have an increased number of low-dollar transactions due to the growth of digital advertising? Consider credit scoring, which allows you to evaluate and score customers in seconds. Define steps to monitor, control, and mitigate risk. Make sure they meet the 11 principles of risk management defined by the International Standards Organization (ISO) in its ISO 31000 standard.

Payment. Insist on advance payment from a new agency until a credible credit history is established. If you transition the account from CIA to credit after several payments, monitor the account for any substantial changes in the nature and amounts of orders as well as the timeliness of payments. Consider Automated Clearing House as a payment option for your customers. ACH is experiencing explosive growth because of its convenience, cost savings, speed and security.

Advertiser relationships. Even if you work directly with an advertiser's agency, try to engage the advertiser as a participating player in the buying process. Media, agencies, and advertisers all can benefit when they know one another. Advertisers who allow media providers to become acquainted with their businesses and with their agency agreements reduce the likelihood that media will pursue them for payment if they have paid the agency. Involved advertisers require detailed billing and "police" their agencies to ensure media is paid on a timely basis. If the media provider approves the advertiser, who fails to pay the agency, the agency is more likely to get help from media to resolve the problem.

Contracts. Study contracts from new and consolidated companies for changes regarding liability. With regard to digital advertising, look for clauses that hold media liable for fraud, such as bot traffic or nonhuman digital traffic. (At the same time, your organization should proactively monitor your traffic sources using available tools. Doing so allows you to ensure that you are not unintentional vehicles for fraud and signals to the other participants that your inventory is clean.)

Litigation. Avoid it if at all possible by adhering to your collection policy and procedure schedule. Litigation costs are high and commercial litigation attorneys are few. Of those who do commercial litigation, many are raising contingency fees and the minimum amount they will take on.



"I'm drawing the flow chart for the Fried Alligator-Bird Dog agency merger, Boss, but I ran out of white board."

Moving Forward.

The consolidation trend will surely continue in the media industry, and lawmakers are already painfully aware of the need to update the Telecommunications Act to address the challenges posed by new technology. In 2013, the House Energy and Commerce Committee and the Subcommittee on Communications and Technology announced the beginning of a multi-year process to update the Act. The debate that ensued with the various stakeholders became more complicated a year ago when the FCC approved rules governing net neutrality, increasing the agency's regulatory authority over internet service providers.

This year, technology groups and companies commemorated the 20th anniversary of the Act and used the occasion to evaluate its successes and failures with some of the lawmakers involved

—continued on page 4

©Szabo Associates, Inc. 2016. All rights reserved. Materials may not be reproduced or transmitted without written permission.

PRESORTED
STANDARD
U.S. Postage
PAID
Atlanta, GA
Permit No. 747

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

Delicate Balance—

—continued from page 3

in its creation. In his article in *The Hill,* "Bill Clinton's Telecom Law: Twenty Years Later," David McCabe reported that the recurring theme in these discussions has been the need for statutory guidelines to provide the industry with the certainty necessary to make long-range business plans. While the Act restored the authority of the FCC in telecommunications regulation, the lack of statutory guidance has resulted in the agency's expanding its authority over time and facing increased challenges in court. Perhaps the 115th Congress, which convenes in January, will take up the challenge of providing more distinct legislative boundaries regarding the FCC's intervention in the telecommunications marketplace.

In the meantime, credit managers should stay abreast of consolidations among media properties and agencies, FCC activities that affect the telecommunications marketplace, and the activities of the new Congress. ♦