collective wisdom®

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MORE is better than less.

Dear Friends:

With digital advertising consuming a bigger and bigger slice of the media pie, many credit managers face new concerns about managing their DSO. Effective management requires an understanding of complex digital advertising deals, a new level of teamwork between departments, timely execution of processes, and accountability among all participants in the digital advertising supply chain. In this issue's feature article, we discuss the direction that digital advertising is headed as well as specific ways to control DSO and maximize profits in the digital marketplace.

We hope to see many of our friends and clients at the Media Financial Management (MFM) 2018 CFO Summit on March 8-9 in Ft. Lauderdale, Florida.

All of us at Szabo Associates wish you a very Happy New Year and a prosperous 2018.

Best wishes,

Robin

Robin Szabo, President
Szabo Associates, Inc.

DSO in the Digital Marketplace . . .
Challenges and Solutions

Advertising has historically been a linear process, flowing serenely through a river of logic toward its ultimate goal. The marketer or agency compiled research data on how to effectively reach its target audience, the communications strategy team strategized, the creative team created, and the media campaign was the result of it all. On the media side, the sales team sold, the credit department determined creditworthiness, the contract was agreed upon and signed, and the advertiser or agency was expected to pay within 30 days from the print or air date.

Enter the digital programmatic marketplace where linear processes are pretty much a relic of the past. Data originates in the rapids of the media platform, and from there spews forth to various creative and analytical destinations in no particular order.

It is no wonder, in this environment, that credit and collection managers are saying, "My traditional advertising sales DSO is fine, but my digital sales DSO is out of control," and asking, "What can I do about it?"

The simple answer to this question is "teamwork." Teamwork between departments is more essential than ever, because the advertising solutions are multi-faceted and complex. The first step is understanding where digital advertising is headed; particularly, digital video across multiple platforms. According to the IAB 2017 Video Ad Spend Study, more than 50 percent of digital ad spending is now allocated to video.

Evolving Expectations.
New technologies are creating new opportunities to improve campaign targeting to raise advertisers' return on investment as well as publisher yields. Most notably, consumer video has been rapidly evolving, from content sources and video types to viewing devices and platforms, spurred by technological innovation and consumer behavior changes. While we used to talk about television vs. video, broadcast vs. cable, and desktop vs. mobile, these technologies and markets are now converging.

Customers want to be fully engaged, and the best way to engage them is through sight, sound, and motion, which is the reason movies and television have never lost their appeal. The rise of the internet and digital video adds additional layers to this appeal: specific targeting, cross-platform applicability, and abundance of content.

If television is increasingly digital, then what does digital video mean? The Interactive Advertising Bureau (IAB) seeks to answer this question and more in its recent "IAB Guide to Digital Video Advertising," which includes input from 28 member companies.

The term "video," the guide notes, is perceived through varying yet overlapping frameworks and lenses, including video type, distribution mechanism, viewing device/platform, and ad unit. For example, the ad's distribution mechanism may be broadcast, cable, satellite, or IP-based. On the receiving end, it may be

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viewed on desktop, mobile, gaming console, OTT/connected TV, social, messaging app, or digital OOH (out of home) devices.

While cross-platform application is a valuable commodity, it creates its own challenges. The biggest, according to the 2017 IAB Video Ad Spend Study, is independent measurement. Additionally, variances in digital measurement results and the lack of standards have created friction and inefficiencies in the selling and buying of digital video. Fuzzy definitions of a "view" as well as the lack of agreement on viewability and which engagement metrics matter contribute to these inefficiencies. Also, the lack of comparable metrics between linear TV and digital video causes confusion in buying and planning, making it difficult for media buyers and planners to assess the relevant value of cross-platform buying and selling. For this reason, each platform is typically analyzed separately, even if the same brands are running ads on both screens.

Advertising campaigns may be sold against a number of measurable KPIs, or Key Performance Indicators. In digital video advertising, the abundance of available data allows campaigns to measure a wider variety of KPIs than TV, which usually relies on Gross Rating Points (GRPs), reach, or frequency. KPIs for digital include a specific target audience, verified ratings delivery, viewability rates, and other criteria. Campaigns are typically measured by selecting various KPIs, usually staggered by priority. The IAB is working on a GRP+ (gross rating point +) project to capture the convergence of TV and video so that the same ads that run on a TV screen and other digital screens can have a common and comparable currency with which to transact.

The IAB states in its report, "IAB Programmatic Video: A Spectrum of Automation," that "programmatic advertising continues to drive growth across all mediums of digital advertising, and video is no exception." "Programmatic" simply means that the process is automated. Programmatic video brings the benefits of automation to buyers, sellers, and publishers across all platforms. That said, the process continues to evolve and, at this time, not all video platforms are created equal in terms of capabilities and scale. Sellers and publishers must provide transparency and clarity with regard to automation capabilities, while buyers must be clear in their expectations, knowing that platforms vary.

Although there are varying degrees of automation in targeting, forecasting, transacting, creative delivery, and reporting, the IAB believes that the general trend is toward increasing automation in each of these steps in the supply chain. According to the organization, there may even come a time in the not-too-distant future when the term "programmatic" becomes completely redundant in much the same way the word "digital" has become when referring to digital video.

Implications for Credit and Collections.

Digital media impose new demands on both the sales department and the credit and collection department. Credit not only must understand the nature of the products being sold, but also must rethink its roles during the sales process.

In a recent article in MFM's *The Financial Manager* (TFM) magazine, Edward Mockus, director of ad sales credit and collections at Scripps Networks Interactive, described his organization's efforts to survive and thrive in the Wild West of digital advertising. At the center of Scripps' best practices is teamwork between the sales department and credit department (led by the credit team's digital campaign specialist), beginning at the time a customer prospect is identified. The following timeline of activities is based on these best practices:

Pre-sale activities. Prior to the sale, sit down with the digital sales team. Ask them to explain in detail the nature of the deal. Who are the parties involved? How can we deal with revenue between parties that are out of our control? For example, if an online car merchant has subscriber dealers who fail to pay and subsequently unsubscribe, how can we capture those transactions? How and when will measurement take place? Will the payment period need to be extended beyond 30 days? If so, why and how much?

According to social media dashboard Hootsuite, social media advertising spending is likely to exceed $35 billion this year, representing 16 percent of all digital ad spending globally. If social media are part of the deal, how will we be paid? What are terms imposed by Google, Facebook, Twitter, etc.? These social media giants offer a variety of options to advertisers.

Secure the appropriate credit documentation for prospective customers that do not have established credit terms, ensure that the customer (agency and/or advertiser) is registered in the systems of record, and create a system record of the potential advertising campaign (also known as an "opportunity").

Pay close attention to detail at this stage. The correct agency, advertiser, and billing contact information must be captured in the campaign management software. Accurate information about where invoices are to be directed, and to whom, is essential for ensuring prompt payments.

Time-of-sale activities. This is the time to make sure everyone is on the same page from the outset. Once the campaign is booked, meet with the team to make sure that the inventory is reserved, any sponsorships are marked closed, and all appropriate information is shared with the creative team. The sales team should then follow up with the agency or advertiser to clarify any issues identified during the meeting.

If all parties are in agreement, the sales team should focus on ad development and traffic. Once the creative has been approved and finalized, the advertising that will be served should be tested in the traffic system to ensure that the coding imbedded to count impressions and delivery is working correctly. If the impressions activity is not accurately discernible to the media company or customer, discrepancies can occur that must be resolved for the invoice to be processed. The resolution process most likely will result in payment delay.

Campaign activities. The company should monitor impression levels to ensure delivery obligations are met. Variances between internal impression calculations and those calculated by a third party that exceed the established threshold should be addressed in a discrepancy resolution process between the selling and buying teams.

Post-campaign activities. Impressions data is reviewed in detail to ensure that the program has met the obligations set forth in the agency's insertion order. If so, the campaign specialist provides a recap deck to the client, which the agency can use to assist in clearing invoices for payment. The timeliness of this step is crucial to the process, since any delay to the agency will surely result in a delay in clearing the invoices and subsequent delay in payment.

Other Considerations.
Current industry practices allow programmatic vendors, such as Google, to calculate payment based on the impressions served by their operations as the transactions take place. This information is compiled periodically, and payment is based on the platform's own data, usually 60 to 90 days later. This practice makes traditional credit, billing, and accounts receivable processes unworkable.

Media providers typically grant credit approval to agencies and advertisers in advance of a campaign, with full payment due according to their terms. Additionally, they try to establish credit terms that enable media to ensure payment by the advertiser if the agency fails to pay.

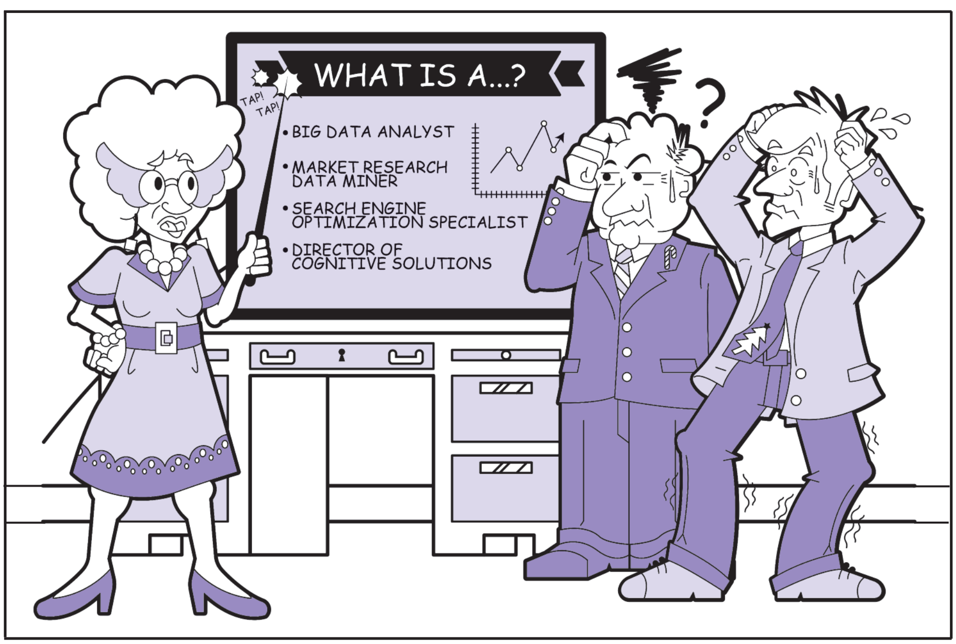
For programmatic vendors, media providers have developed a different practice. While traditional advertising revenue is reported internally when payment is received from the agency or advertiser, programmatic sellers establish an accrual in anticipation of payment from their programmatic vendors, and then "true up" the revenue once payment is received for the accrual period.

Understanding and Accountability.
The dynamic, complex nature of digital advertising demands understanding of the digital supply chain as well as accountability among its participants. Since traditional timelines of credit approval, billing, and accounts receivable are largely thrown out the window for programmatic deals, knowing who the "good guys" are is more important than ever. A common framework is necessary to help buyers know which sellers to trust and to allow sellers to show their ability to meet advertisers' needs.

The Trustworthy Accountability Group (TAG), a cross-industry accountability program created by the digital advertising industry's top trade organizations, is the first and only registered Information Sharing and Analysis Organization (ISAO) for the digital advertising industry. The group works collaboratively with companies throughout the supply chain to eliminate fraud, combat malware, fight internet piracy, and promote transparency.

TAG's initiatives aim to make it easier for honest participants to stand out through their voluntary adherence to industry standards and best practices. The group supports the development of common standards and will promote the adoption of those standards throughout the industry. Its Registration Working Group helps responsible companies know their partners and empower the companies to track payments so that ad revenue is not flowing to criminal networks. The Evolved Guidelines Working Group aims to reduce friction and foster an environment of trust in the marketplace by providing a common framework to describe and disclose the characteristics of advertising inventory.

TAG Registration verifies that companies are legitimate participants in the digital advertising industry. Applicants undergo a proprietary background check



"I'm thinking, Boss, if we're gonna work as a team, maybe we need to start by asking these folks just what it is they are and what the heck they do."

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and review process powered by Dun & Bradstreet and subsequent approval process by TAG. If approved, a company can be verified by name, or by its unique persistent TAG-IDs (a privacy-preserving user identifier), in the TAG Registry. In August, the group announced that more than 350 companies worldwide had applied for TAG Registration, an increase of more than 75% in the preceding three months.

Bottom Line.
Successful credit and collections in the digital marketplace depends on understanding—the products, the partners, the structure of the deal; teamwork—communication, division of roles and duties, timely execution of processes; and accountability—of media, advertisers, agencies, and all participants in the digital advertising supply chain.

Revenue is the goal and the ultimate metric, and controlling your DSO is an important contributor to your organization's bottom line. While your traditional payment terms and collection procedures may need to be altered for digital advertising sales, terms and procedures remain critical for controlling your DSO. Once impressions are verified, your organization's obligations have been met, and this validation has been remitted to the advertiser or agency, the countdown for collection should begin. Given that multiple partners are involved in digital transactions, it is imperative that you know the responsible party, respond to the least amount of delay in payment, and stay on top of it until you get paid! ♦