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szabo MEDIA COLLECTION PROFESSIONALS

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MORE is better than less.

Dear Friends:

This past year, news of the economy has been full of ups, downs, and disagreements. Will the coming year bring us a real recession, a mild downturn, or neither?

No one knows for sure, but with so many factors in the mix that can trigger economic travails, 2020 is the year when media companies should rev their planning engines to prepare for whatever may occur. In this issue's feature article, we talk about the difficulties of making economic predictions, ways that companies in the past have survived and thrived in tough times, and recommended steps to take now that can help ensure a healthy cash flow in good times and bad.

On January 11, 2020, we celebrate the achievements of our wonderful staff members at the Szabo Employee Appreciation Party here in Atlanta, Georgia. We hope to see many of our friends and clients at the Media Financial Management (MFM) 2020 CFO Summit on March 5-6, 2020, in Ft. Lauderdale, Florida. The MFM Spring Networking Event will also take place in March (exact date yet to be determined) in Atlanta.

All of us at Szabo Associates wish you a very Happy New Year and a prosperous 2020.

Best wishes,

Robin Szabo, President
Szabo Associates, Inc.

Are Recession Clouds Gathering? Take Action to Manage Cash Flow!

Not a day goes by that we do not hear, read, or watch news about the economy. Filings for unemployment benefits are up (or down). The spread between three-month and 10-year Treasury securities is smaller (or greater). The stock market went up (before it went down). The Fed reduced interest rates (but there is little room left to lower further). Wages continue to grow (but wait, the pace of growth is slowing). Trade talks with China continue (oops, another roadblock over import tariffs).

Looming over all of these reports is, are we in for another recession? If so, when? And how bad will it be? No one knows for sure. Even so, it pays to watch for indicators of a potential downturn and, in the meantime, to take preemptive measures to minimize negative effects on your company's cash flow if and when it occurs.

Why So Difficult.

With the country's rich history of economic ups and downs, one might think that economists would be pretty accurate in predicting recessions. In fact, many experts believe that because recessions historically have followed periods of strong economic growth, they are an inevitable part of the business cycle in a modern, capitalist economy.

Unfortunately, what has occurred in the past does not necessarily indicate what will happen in the future. Even if leading indicators—such as gross domestic product (GDP), labor data, and inflation—are known and measurable, there will always be aspects of the economy that are different than before.

Often, positive aspects of the economy offset the negative. The current robust labor market, for example, has eased concerns among economists that a recession is imminent.

Additionally, economics by definition is a "social" science. It studies how people allocate resources for production, distribution, and consumption. Microeconomics focuses on how individuals, businesses, and government agencies make decisions, while macroeconomics studies economies on a regional, national, or international scale. The common denominator is, of course, human beings and, as the old saying goes, "therein lies the rub."

At the root of the discipline is how human beings, individually and collectively, will react to observations about the economy. Economists use models and assumptions to figure out how best to encourage human beings (individuals, businesses, government agencies) to react in certain ways. One correct assumption is that, at the primary level, economic growth is fueled by the confidence of consumers. In other words, "If we put these incentives and policies in place, the human beings in charge of our economic fate should react in a positive way that will lead to continued growth or, at least, a postponement of a downturn."

Of course, even the economic pros fail to agree among themselves what those policies should be. This is the reason that the track records of economists are so

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spotty. In fact, some of the worst upheavals in the past were missed altogether.

The Strong Prepare.
With so many uncertainties ahead, companies should take precautionary steps to ride out a downturn successfully while avoiding strategies that may undermine their competitive edge. The issue should be not whether to prepare, but how to prepare.

In their May article for the *Harvard Business Review,* "What Companies Should Do to Prepare for a Recession," McKinsey & Co. partners Kevin Laczkowski and Mihir Mysore discussed their analysis of companies that not only survived during the last downturn but actually thrived. They found that the "resilients" reduced operating costs earlier and more deeply than their industry peers. As the consequences of the recession became more apparent, these companies concentrated on building more flexibility into their investment planning and operations while pursuing continued earnings expansion.

In addition to reining in operating costs, resilient companies also focused on maintaining loyalty among high-value customers. Some chose to forgo revenues they could have earned by raising prices, instead, maintaining a consistent marketing message that conveyed appreciation for their customers' businesses.

In a brief published in May, "Beyond the Downturn: Recession Strategies to Take the Lead," Bain & Company partners Tom Holland and Jeff Katzin stated that the lengthy current expansion, signs of overleveraging in the corporate sector, and geopolitical uncertainty suggest that the next recession is not far off. They also suggest, however, that the next downturn will be just one element roiling the global economy, and that structural changes—the end of non-tech business and the end of low interest rates—will combine to set off a new business cycle. In their view, these structural changes also should inform how businesses view and prepare for the coming recession.

Practical Steps.
Regardless of when the next downturn will occur, there are several steps organizations should take now. Not only will they help companies weather the downturn; they also will help companies position themselves to surge ahead of the competition when the economy turns around. While some of these steps must be decided at the topmost level of management, credit managers will likely have significant input with regard to choices and departmental implementation.

Begin at the end. To raise the odds of success, Holland and Katzin advise management teams to map out a series of offensive moves that aim to strengthen the business through the downturn and beyond. They suggest a "future-back" approach: What do you want the company to look like at the end of the downturn? Three years after? This scenario planning helps you know where to invest, the customer segments to target, the value proposition, and the digital technologies needed to support the business.

Stress test. Model your 2019-2022 P&L, cash flow, and balance sheet through bad scenarios. Do so with an eye toward your competitors as well as your own organization, suggest Holland and Katzin. As you run a typical recession through your financial planning model, do the results meet your cash flow and earnings needs? If not, what action steps can you take?

Cut costs. As useful as their study is, McKinsey's Laczkowski and Mysore recognize that future recessions will differ from those past, and that companies will have to adjust their strategies accordingly. Many industries, including media, have already experienced pressures to become as lean as possible. At the same time, cost cuts have consequences—from hits to the brand, political backlash, or diminished company morale—that may backfire as a method to grow earnings. With a cultural landscape such as ours, it is easy to recognize that cost reduction strategies must be studied within the broader context of overall long-term performance goals.

Cost management steps need not—and should not—wait until your organization is in the throes of a recession. With regard to personnel, monitor your staffing requirements continually, not just when the economy goes south. Perhaps some departments need more personnel, while other departments no longer need as many as they have. Massive layoffs are spirit-crushing and reflect badly on management. Better to consider retraining staff to meet the needs of your changing organization. If this is not possible, the employee is much better positioned to find a new job elsewhere while the economy is still strong.

Invest wisely. Ironically perhaps, one effective way corporations can avoid narrowing profit margins is to spend money; specifically, on productivity-enhancing technologies. Laczkowski and Mysore expect companies to increasingly turn to digital tools and advanced analytics to bolster productivity and drive growth.

Investing in digital technologies can reduce costs and improve productivity now, through a recession, and beyond. Some companies choose the acquisition route to procure the technological expertise needed to meet their efficiency and growth goals. In any case, deployment of new technologies, along with cost management tools, can be the game-changer that substantially increases your competitive edge.

For example, technologies continue to be developed that can streamline accounts receivable processes. Identify areas where technology investments might save money and time (transactional, time-consuming tasks, for example), and perform a cost/benefit analysis to determine whether such a solution is feasible.

Interest rates remain near a six-decade low and must eventually rise. Because a higher cost of capital will put pressure on capital spending, state Holland and Katzin, companies that want to invest in technology, growth opportunities, or acquisitions should do so now.

Reexamine policies and procedures. Your overall policy objectives, which provide the framework for detailed credit and collection policies and procedures,

may need to be "re-thought" to accommodate the organizational and marketplace changes that accompany a recession. These objectives should address the balancing act between credit extension and collection requirements.

By reviewing your policies and procedures now, before a downturn has exerted stress on personnel, you can avoid conflicts later between the sales department and credit and collections. Including both departments in the review process allows all involved to discuss perceived shortcomings in the existing policy and to "sign off" on any changes.

Monitor indicators, industries, and companies. As a downturn nears, economic indicators flash more brightly. Pay attention to imbalances such as corporate costs relative to profits, financial market variables such as the spread between three-month and 10-year Treasuries, the Conference Board's Leading Economic Index, and weekly filings for unemployment benefits.

By the last quarter of 2008, economic woes had spread across virtually all sectors of the economy and to all areas of the country. While the next recession will probably not be as deep or wide, credit managers should closely monitor all industries. Watch individual companies for signs of distress, and hold frequent meetings among sales and credit staff members to share information. Changes in payment habit or advertising frequency can be an early sign that a company is in trouble.

Prioritize collection efforts. New customers should be your first priority and high-stakes customers should be your second. The former need to know at the outset of your relationship that you will enforce your policies. The latter need to stay current because you have too much to lose if they do not. If new and high-stakes customers are allowed to become delinquent during the "good times," you can only expect that the situation will worsen when a downturn occurs.

Slow pays should be your third priority. Those with an established pattern of paying late will likely pay even later when the economy slows down. Your fourth priority should be everyone else who is past due 15 days or longer. If an account is small with little chance of return, do not spend an inordinate amount of time trying to collect.

Enlist the services of a third-party collector when the account is 90 to 120 days past due, as specified in your policies and procedures. Maximize the return on third-party efforts by providing complete documentation and by notifying the collector if any payment or communication has been received from the debtor.

Maintain good relationships. Recessions are hard on everyone, and some customers may have a particularly "short wick" when it comes to collections. Asking for money from a customer is much easier if you already have made an effort to establish a positive relationship in good economic times. Usually, such customers are more willing to make good on their debt or to work with you on a payment plan when times are tough.

It's our "Biggest Cause of the Next Recession" pool, Boss. 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.

Confidence is Key.

The audience at the 2019 meeting of the American Economics Association shared a laugh when past Federal Reserve chairs Janet Yellen and Ben Bernanke exchanged views about recessions. Yellen said, "I don't think expansions just die of old age." Bernanke replied, "I like to say they get murdered."

While there are many factors that contribute to economic contraction, the parties dealing the final death blow are consumers. When the confidence of individuals, businesses, and investors begins to sag, the fear that a downturn is looming can become a self-fulfilling prophecy.

"When will a recession hit?" and "How bad will it be?" continue to be the subjects of debate. Even so, companies should begin preparing themselves. Companies that assess the degree of exposure they have to a downturn, identify initiatives that can help to mitigate the exposure, and implement those measures that meet their criteria for long-term growth will gain a competitive edge, now and into the future. Getting ahead relative to the competition during recession gives companies an advantage that is difficult to overcome when the economy improves. As we have said numerous times in this publication, "Where there is adversity, opportunity is not far behind!" ♦

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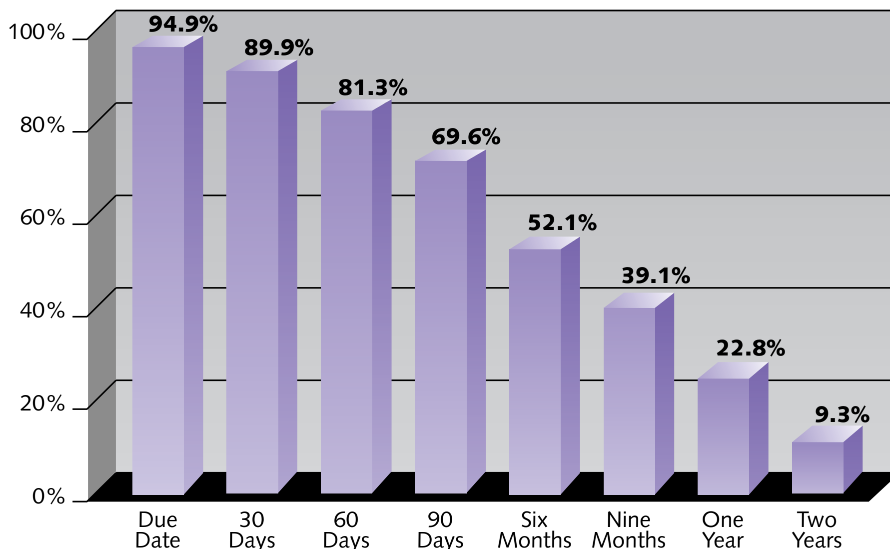
Szabo Associates recommends account placement at no later than 90 to 120 days past due.

Probability of Collection of Delinquent Commercial Debts at Time Intervals After the Due Date.



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As you reflect on your 2019 accounts receivable process, keep our recommendations in mind when you are formulating your 2020 plan.