SZABO
COLLECTIVE WISDOM®
szabo MEDIA COLLECTION SPECIALISTS
VOLUME 7, ISSUE 1, MARCH 31, 1992

Dear Friends:

As we swing into spring in this election year, many of us share a number of concerns, not the least of which is the state of the economy. Our feature this issue contains a lot of numbers related to the recession. We offer them, not with the intention of increasing fear, but to encourage our clients and friends to exercise an extra degree of caution and make earlier decisions when dealing with collection issues.

This economic state of affairs will end, as they always have in the past; however, the health of media properties at the end of the recession largely depends on their ability to adjust policies to reduce areas of vulnerability.

Our spring calendar takes us to Las Vegas on April 12th-16th for the National Association of Broadcasters convention. (Yours truly will give a speech there on the 15th). Then on April 22nd-24th, the Broadcast Cable Financial Management Association will convene at the New York Hilton. We will have an open hospitality suite in the East Penthouse each evening. Hope to see you there!

Best wishes,

Pete Szabo, President
Szabo Associates, Inc.

Receivables More Perishable in Recession

During the past 20 years that Szabo Associates, Inc. has been in business, we have had several opportunities to witness the effects that an economic recession has on businesses across the country.

There is a dramatic difference between the current recession and those that we experienced in 1974 and 1982. The recessions of 1974 and 1982 affected only certain industries and certain geographic regions. The recession that we are experiencing now is affecting every industry throughout the United States.

Anyone who has been involved in running a business knows that during recessionary times, collection recovery of past due receivables decreases and accounts become perishable much sooner. The reason is the higher than average percentage of business failures. So just how perishable are your receivables right now?

According to Dun & Bradstreet statistics, which have been compiled yearly since 1927, there has been a record-breaking number of business failures since January 1990. In the recession of 1974, business failures increased six percent over 1973, from 9,345 to 9,915, involving 3.05 billion dollars in liabilities. In 1982, business failures increased 48.3 percent over 1981, from 16,794 to 24,908, involving 15.6 billion dollars in liabilities. By the end of 1990, 60,432 businesses failed, involving 64 billion dollars in liabilities. The liabilities from those business failures reflect an increase of 51.3 percent in only one year. By July 1991, Dun & Bradstreet recorded 17 consecutive months of year-over-year monthly increases in business bankruptcies. In fact, during the first seven months of 1991, the number of business bankruptcies exceeded those of the entire year of 1989. Business failures last year increased 46.3 percent over the previous year, from 60,432 in

Year	Number of Business Failures	% Increase Over Previous Yr.	Amt. of Liabilities (in billions)
1974	9,915	6	3.05
1982	24,908	48.3	15.6
1990	60,432	51.3	64
1991	87,805	46.3	(not available yet)

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Receivables Perishable

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1990 to 87,805 in 1991. The amount of liabilities has not yet been published, but it is certain that it will be record-breaking. Perhaps the most worrisome aspect of our current economic situation is not only that the recession continues but also that once it does end, Dun & Bradstreet statistics show that the trend of business failures will continue for two years afterward.

The media has had to respond to these times by downsizing their businesses, laying off personnel, and increasing the workloads of those remaining. Because of decreases in national advertising budgets and an increase in the number of media businesses competing for the same ad dollars, the media has been accepting more marginal accounts. To compound the problem, those personnel who have been given the responsibility for collecting the receivables have also been given the responsibility of additional duties, limiting time for collection of marginal dollars.

It costs money to maintain an account on the books once that account ages beyond the credit terms. Even if it is collected in-house, its value continually decreases due to the cost of maintenance. Every dollar on the books that is written off requires four dollars in new sales just to replace its value.

It is necessary to break away from the traditional methods of doing business in times like this. Credit practices must be more prudent and the collection process must begin earlier.

Get involved in your accounts when they become 15 days past due. This does not require anything more than a call to the customer to verify that the invoice was received and to find out if there are any problems.

The sooner you spot a "red flag" that can signal potential collection problems, the better your chances of salvaging your money. Common red flags are a change in the paying habits of a long-term customer (28.1 percent of the businesses that failed in 1991 were in business more than 10 years); disputes and discrepancies that may signal cash flow problems; requests for a hiatus or cancellation of a contract in mid-stream; and bounced checks and defaults on commitments. In all cases, it is good business to check into possible problems as soon as they occur.

Now, more than ever before, is the time to form a close partnership with a third-party collection service. Paying fees to a service is a sign that you acted soon enough to recover money that probably would have been lost otherwise. Remember that while a good collection service can be effective, it cannot revive the dead.

Choose an agency with which you want to be partners on a long-term basis. True partnerships are long-lasting and mutually beneficial relationships based on earned trust and loyalty. Agencies that try to be the lowest bidder cannot exist in the long run.

The problems we face during this recession are certainly formidable; however, they can be dealt with successfully. The first step is to recognize that accounts are more perishable now, and the second is to act promptly at the first sign of possible trouble. ♦

— contributed by employee
Andy Carros

"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: In today's tough economy, at what point should I revoke credit privileges on an account?

J.T., Louisville, KY

Answer: When extending credit in today's economy, it pays to keep a tight rein on your accounts. A general rule of thumb is 60 days. By this time, the account is severely in default of your original credit terms, and allowing more credit will only increase your exposure to potential bad debt. Allowances should be made, however, for special circumstances, such as co-op advertising or non-typical agency buys.

COLLECTOR'S CORNER

True Collections

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

A Collision at Sea Can Ruin Your Entire Day

Sometime around dawn, a large ship crashed into the Skyway, the bridge that connects Sarasota to St. Petersburg. Imagine it. You're driving along minding your own business, thinking about maybe catching the Gators game that weekend, and BLAM. All of a sudden you're staring into the jaws of some steel-bellied whale of a freighter that wants your Chevy for breakfast. Makes you appreciate things. Like having a good job, which for me was collection manager for a large retail jewelry chain.

Anyway, I'm feeling pretty fortunate when I arrive at my office, and who do I see first thing but Adam Taylor, with a big smile on his deadbeat face. Months before, I had learned that for each tooth Adam flashed at me, I could count on being stiffed about a hundred bucks. After a quick on-the-spot count, I figured he wanted credit for about a $3,000 purchase.

So I say to him, "No way will this company extend you credit for three dollars, let alone three thousand," and just as "no way" is leaving my lips, the chairman of the company walks in.

Mr. Eli Williams was a soft-spoken, elderly man with an unflagging belief in the basic honesty of most people. He prided himself on his uncanny ability to detect those few less well-intentioned people by their eyes. "If their eyes keep moving," he would always say, "then move 'em toward the door." Unfortunately, Mr. Williams' visual acuity was no longer what it used to be.

We all realized that fact the day he praised the coffee machine for being the only person who kept his cool during a particularly heated policy meeting.

Anyway, Mr. Williams asks me what the problem is with Adam Taylor, and I tell him the last merchandise Taylor purchased

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"YOU SAID WE NEEDED TO TALK ABOUT A 'VISION FOR THE FUTURE.' ANYBODY HERE HAVE A BETTER IDEA?"

Shaping Your New Staffers

In our last issue (see "What Makes a Good Credit Staffer?," Dec. 31, 1991), we discussed the personality characteristics and credentials that you should look for in credit staff candidates. So let's assume you've found a promising candidate—outgoing, bright, confident, adaptable, three years credit experience. Now what?

On-the-job training is the best way to learn a business, so invest the time and effort in a consistent, well-planned training period for your new employee. The newcomer should be placed under an experienced person's wing until he or she is fully oriented in your medium and your organization's policies, your procedures, philosophies, and goals.

Include the new employee in weekly meetings with sales and management to discuss solutions to credit problems. Allow attendance at industry seminars, such as BCCA and AMCEA, which offer good exposure and exchange of information. ♦

True Collections

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came back to us as a repo. Then Mr. Williams says in his best George Bailey It's A Wonderful Life-type voice, "Now, Mr. Taylor, you do intend to pay us, don't you now?"

"Before I put food on the table to feed my kids," says Taylor.

"Well, that's good enough for me," says Mr. Williams, and I'm thinking we could all use George Bailey's angel right about now. But I say nothing and proceed to explain the credit terms to Taylor.

During the next couple of weeks, I start to think that maybe I had become a little hardened in my years on the job, especially when I get a call one morning about 9:45 from Adam Taylor. He seemed in a bit of a rush, but he wanted to let me know that he intended to send payment in full within the week.

That evening, as I was driving home over the Skyway, just past the mangle of concrete and cable that served as an instant reminder of the ephemeral nature of good fortune, I turned on the radio. "According to witnesses," the news announcer said, "the robber arrived at the bank at 9:30 A.M. After leaving the bank with approximately $5,000 in cash, he reportedly made a brief call from a pay phone and boarded a small motorboat, which later collided with a large freighter during a high-speed chase by the Coast Guard."

I'll never know why Adam Taylor did what he did that day. Maybe his way of owning up to his past transgressions was to develop a highly individualized code of honor. Or maybe he was just dumb.

One thing's for sure. He gave everything he had to pay off his debts, because you sure can't be poorer than dead.

Hmm. I wonder if I can find another route home. ♦

— story contributed by
employee Spencer Bard

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Szabo Collective Wisdom® is a publication of Szabo Associates, Inc., 3355 Lenox Rd., Suite 945, Atlanta, Georgia 30326 Telephone 404/266-2464

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