

**Dear Friends:**

We appreciate the valuable input from those of you responding to our customer service survey including those who responded to us individually. As a result of your comments, Szabo Associates has initiated a program that will restructure the company.

The sole focus of our new program is "Quality Management." We want to give our customers what they want on a consistent basis and at a fair price. Our June newsletter will feature the new program, how it works, and the many benefits to you.

We want to thank everybody for their assistance and look forward to seeing all of you at the BCFM Conference in Orlando May 16th through 19th.

Best wishes,



Pete Szabo, President  
Szabo Associates, Inc.

## Put It In Writing!

### Formal Credit Policies and Payment Agreements Make Collections Easier

Virtually every media company has a credit policy, even though it may be unwritten. If a prospective advertiser has been given payment terms, or has been refused credit, or has been told that its particular type of advertising cannot be accepted, then a type of credit policy exists.

Many of these credit policies, however, are not formalized. Existing only as unwritten "guidelines," they are communicated by word of mouth to advertisers.

The primary problem with unwritten credit policies is their lack of uniformity. The advertiser may be given conflicting information from the same company, or advertisers may be treated differently from one another when no differences in credit qualifications exist.

Written, formalized credit and collection policies help to minimize the risk of unfair credit decisions (and subsequent discrimination lawsuits); help to establish a positive reputation within the advertising community; and most importantly, help your company avoid costly payment delays that result from sloppy credit and collections procedures.

Should a dispute arise, written policy clearly establishes the advertiser's responsibility for payment.

If terms are 30 days and payment has not been received within 45 days, your company can rightfully enforce the collection policy and avoid the costs of carrying the debt.

Because credit policy should benefit both your company's accounts receivable department and the advertising sales department, both departments should be involved in the development of the company's written credit policy. The credit manager should begin the process by developing a general outline of requirements and procedures. The advertising director should then become involved in developing more detailed points of policy that represent both departments' interests.

Since credit and collection policy involves both credit extension and collection operations, policy development can become a challenging balancing act. The first part of the credit policy, the overall objectives, should indicate how credit and collections operations are to be balanced.

One company might choose to balance a rather "liberal" credit extension policy with "conservative" collection operations. Another may choose to have a tighter credit extension policy, which lessens the need for strict collection pro-

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cedures. Yet another may strive to achieve an equal balance between the two. In any case, it should be determined at the outset on which side, if either, the emphasis will be placed.

Because overall objectives become the guiding principles for the detailed operations and procedures that form the “meat” of the credit and collection policy, there should be an enthusiastic consensus of opinion by both credit and advertising departments on what the policy objectives should be. Credit managers’ objectives usually involve minimizing bad debt and maximizing cash flow, while advertising departments favor objectives that will broaden, or at least will not restrict, their sales efforts. A delicate balancing act, indeed!

Additional objectives might address customer relations as they relate to credit and collections. An effective policy should embrace the principles of fairness, firmness, courtesy, and consistency in its relations with customers.

A statement explaining who has responsibility for administering the credit policy should follow the statement of objectives. This should include description of the functions and objectives of the credit department.

The next section should describe payment terms *in detail*: invoice dates; mailing dates; the number of days allowed for payment; procedures for collecting accounts, including when to send letters and make telephone calls on overdue accounts, when to send accounts to third-party collection agencies; and when accounts are to be writ-

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## Payment Agreements and Liability Positions Put Those in Writing, Too!

A payment agreement confirms *in writing* that the advertiser has agreed to make payments on certain dates. Ordinarily, payment terms are 30 days. If the advertiser would like different terms of payment, these preferences should be stated at the time the order is written. Your company can then choose to accept or reject these terms of payment.

If the prospective advertiser is a corporation, and the credit check of the corporation is unsatisfactory, a company may choose to accept the advertising with either a C.I.A. payment or a personal guarantee. A personal guarantee is feasible only if the owner (stockholder) has the resources to pay. The guarantee must be signed by the owner as an individual and not as an officer of the corporation.

It is critical to determine up front, *in writing*, who is liable for payment! There are four liability positions currently in use by media:

- 1) Sole Liability (agency liable);
- 2) Advertiser Liability (advertiser liable. Sales orders should be signed by the advertiser. On the “bill to” line of the invoice, the advertiser should be named.);
- 3) Dual or Joint and Several (both agency and advertiser liable until media is paid. Assuming there are proper credit checks and notification, this clause protects your company if either party fails to pay by providing recourse against both parties.);
- 4) Sequential Liability (agency liable to the extent it is paid by the advertiser). Liability position must be stated in the sales order under “terms and conditions.” ♦

“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:** What is a “Preference Action”?

**F.C., San Antonio, TX**

**Answer:** A “Preference Action” is a lawsuit filed against a creditor on the following grounds:

Within 90 days of filing bankruptcy, a debtor makes a payment to a creditor on an antecedent (not current) debt. At the time of the bankruptcy filing (Chapter VII, XI, etc.), the debtor is insolvent.

Because the creditor received more than it would have received if the debtor had liquidated, the court deems that the creditor has received “preferential treatment” and that monies should be paid back to the bankruptcy estate for either pro rata distribution to all creditors or as working capital in a Chapter XI.

Since a “Preference Action” is a lawsuit, the creditor’s failure to respond may result in a default judgment entered against the creditor.



# True Collections

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

## Revenge on the Airwaves

Hammerhead Nightingale was no pushover. One could speculate that with a surname like "Nightingale," he'd had to get tough early on the mean streets of south Philadelphia. The "Hammerhead" part came later, during his first year as a linebacker at Ole Miss. The 280-lb. freshman had single-handedly hospitalized three seniors, four juniors, and eight freshmen on opposing conference teams. By the time he was a junior, Hammerhead's reputation as a first-rate mangler on the football field had positioned him as a first-draft pick for the NFL, and his subsequent 15-year professional career had made him a wealthy man.

When his playing days ended, Hammerhead settled in a small Mississippi town whose residents, like folks in just about any town anywhere, regarded Hammerhead's fame and fortune with a variable mix of admiration, respect, and jealousy. And if Hammerhead's ownership of the town's most successful car dealership, hotel, and sports bar was enough to set most people's teeth on edge, his marrying the most beautiful of the town's belles was what snapped the last twig of resignation and good sportsmanship in the mind of one citizen in particular.

Bernard Brazelton had courted Mary Sue Winston Nightingale during all four of their high school years, only to have his future plans with the former "Miss Soybean" dashed immediately upon Hammerhead's arrival in town. And to add insult to injury, each of the next five years had witnessed the birth of yet another little Nightingale – in fact, the previous year had brought twins – each blessed with the angelic blue eyes of Mary Sue and the brawn of Hammerhead. It was simply more than Ber-

nard could take. So Bernard's ownership of the town's only radio station, a struggling enterprise with a C&W format, did little to distract him from the primary directive in his life: to somehow wreak vengeance on Hammerhead for stealing his woman.

Coincidentally, in addition to a finely tuned penchant for retribution, Bernard was also gifted with a lively imagination. And so it happened, one morning while spinning one of his favorite records (he was also the station's sole disk jockey), "How Can You Say You Have Love When You Don't Have Me," Bernard was struck with the plan that would prove to be both his final ungluing and his final undoing.

The following morning at 8 A.M., Mary Sue Nightingale was driving the twins to the pediatrician when she heard Bernard's drive-time banter take an unusually sinister turn. "Not mentioning any names," he said, "one of our town's most prominent citizens has failed to pay for radio time on this station."

Bernard's voice then began to quaver slightly as he continued with the fervor of a televangelist. "Because all attempts to collect this debt have been disregarded by this Town Council member, who will remain nameless, I regret to inform our audience that this station will be forced to close its doors if the debt remains unpaid. Perhaps this wealthy citizen can pull himself away from the formidable diversions of his three businesses and his lovely wife to write a check for the \$20,000 owed, thereby preventing the untimely loss of our town's primary source of free entertainment." And with that, the broadcast segued into Tammy Wynette's D-I-V-O-R-C-E while several hundred listeners hit



"THIS SKIP TRACING SURE PAYS OFF! I JUST LEARNED THIS DEBTOR'S FIRST COUSIN ONCE REMOVED WAS MARRIED TO MY FIRST HUSBAND'S UNCLE'S COLLEGE ROOMMATE!"

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ten off. Samples of collection letters should also be included.

Once a credit and collection policy is in place, it is a good idea to subject it to review periodically. Since rates change with some frequency, advertising rate cards represent a regular opportunity for policy review and are useful formats for presenting revised terms and conditions.

Upon completion, the credit and collection policy is typically made part of an accounting procedural manual and should be distributed to the General Manager, Sales Manager, Account Executives, and Credit Manager for administration. ♦

# szabo

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the phones to inform their friends of the scandal.

Well, it took only one day for Hammerhead's attorney to respond to Bernard's rantings with a lawsuit for libel and defamation of character and only one hour for Hammerhead to appear at the station, wrap several equipment cords around Bernard's neck, and tighten them only enough to extract a full if somewhat strangled retraction of his accusations over the airwaves.

Hammerhead's legendary brute strength and love of competitive advantage, however, seemed to have tempered with age and perhaps the influence of the genteel Mary

Sue. A terrified listener's call to paramedics on Bernard's behalf proved unnecessary, and Hammerhead even later dropped his \$5 million lawsuit.

Presently, Bernard rests comfortably at a nearby sanitarium, Hammerhead and Mary Sue await the arrival of their seventh little Nightingale, and for all it's worth, payment for airtime on Bernard's station has never been more timely. ♦

— story contributed by  
Robbie Knight of Szabo

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