collective wisdom®
szabo MEDIA COLLECTION PROFESSIONALS
SZABO ASSOCIATES, INC. VOLUME 25, ISSUE 1, MARCH 31, 2010

Dear Friends:

Can anything more be said about the conflicts between sales and credit departments? We think, yes. Times are different now, and some of the changes wrought by this recession are sure to stick around for a very long time. Cost-conscious advertisers will continue to challenge media to offer the best value for their hard-won dollars, and meeting this challenge demands a new level of creativity and cooperation between sales and credit. This issue's feature article explores this new dynamic, which bridges the interests of both departments while supporting management's increased focus on sales.

Our spring calendar includes the MFM/BCCA (Media Financial Management Association/Broadcast Cable Credit Association) 50th conference, May 23-25 at the Renaissance Hotel in Nashville, Tennessee. We'll also attend the International Licensing Industries Merchandisers' Association, June 8-10 at the Mandalay Bay in Las Vegas, Nevada.

Best wishes for a wonderful spring,

Robin Szabo, President
Szabo Associates, Inc.

Economic Woes Create New Dynamic between Sales and Credit

Redefining Areas of Common Ground

The general consensus among media professionals is that advertising sales will continue to be sluggish for some time to come. Consumers, concerned about job loss, are saving more and spending less. Until consumers begin to spend again, advertisers will not increase their advertising budgets. In the meantime, television stations are filling unsold advertising time with promotional spots and public service announcements. Cable networks, unable to stretch programs, are choosing to bonus out rather than to drop rates. Television and cable are engaged in a harsh feud over retransmission fees. Radio stations are running more music. Newspaper and magazines are publishing fewer pages.

Embattled business departments in all media have been aggressively formulating strategies to weather the effects of the country's deepest recession since the 1930s. High-level executives, particularly CFOs, have been called to action in areas that previously were left to credit managers, who now face increased pressure to correct departmental deficiencies and failures (see *Collective Wisdom*, December 2009). To complicate the responsibilities of credit and collection managers further, many media properties have shifted priorities in these difficult times to emphasize sales volume over creditworthiness, exacerbating an already fractious relationship between sales and credit.

Maintaining a profitable balance between sales and credit departments' goals and interests has always been challenging. In the present economic climate, never has the challenge been greater, and never has the necessity of meeting the challenge been more critical to your organization's success. As we have often stated in this publication, however, difficult times often create opportunities to look at policies and procedures as well as the dynamics of your relationships within the organization from a new perspective. So how can sales and credit cut new trails through this jungle of competing interests and shifting priorities to find common ground? Is it possible to use upper management's greater involvement and re-prioritization for the benefit of both credit and sales?

Top Down Considerations

According to a recent Ernst & Young survey as reported by CFO Publishing Corporation, 30% of media chief executive officers are demanding "more insight, analysis and planning from their financial chiefs" to help them make strategic decisions. These demands require

—*continued on page 2*

New Dynamic—

—continued from page 1

that CFOs become involved at a more granular level with departmental operations.

The increased hands-on involvement of chief financial officers in the area of credit and collections can create opportunities for stronger cooperation between the sales and credit departments. The CFO is entrusted with monitoring the company's liquidity, preserving assets, and expanding sources of credit while looking for ways to cut costs, drive efficiencies, and increase profits. Today's CFO embodies the interests of both credit and sales, aggressively seeking opportunities to bring in new business and, at the same time, doing everything possible to ensure the continuing financial stability of the organization.

By identifying the interests and goals that bridge both departments and support the mandates of upper-level management, credit and collection managers may discover new ways of working with sales that make practical sense in today's economy. This is the time to find common strategic ground, then to work together to create innovative opportunities for current and potential advertisers.

Laying the Groundwork

The best collaborative efforts are those that can progress without backsliding into old grievances and nonproductive areas. Before you begin working on opportunities, take a couple of steps to ensure that both the sales and credit departments are in the best position to meet each other halfway and move forward in a new direction.

Accept (and Appreciate) the Culture Clash.
We all know the stereotypes. In sales' opinion, credit and collections people are green-shaded, stuffy, rigid, serious pencil-pushers (who, incidentally, don't know how to dress well). In credit's opinion, sales people are pushy, attention-deficit, cavalier, rule-bending mavericks (who, incidentally, don't know how to read a spreadsheet). So now that the name calling is out of the way, consider why these stereotypes exist. The simple reason is that, aside perhaps from the incidental references, they are largely accurate, and the reason they are accurate is that these qualities in sales and credit people usually serve them well in their jobs.

In the film *Broadcast News*, a successful behind-the-scene news writer becomes resentful of a handsome (and in the news writer's opinion, shallow) reporter's meteoric rise to the nightly news anchorman slot. When the producer finally gets a chance to go before the cameras, however, he stammers his way through the newscast, sweating profusely and ending his anchor career as abruptly as it began. At the price of personal humiliation, he realizes that, as smart and talented as he may be in his job, he simply did not have the right qualities to be a successful on-air reporter.

The same could be said for the way sales and credit sometimes regard each other. Sales may think that credit has the easier job, sitting behind a desk, and having the power to say "yes" or "no" after sales has been beating the pavement to bring the customer in. Credit may think that sales has the better deal, with plenty of freedom, an expense account, and commissions paid for what they enjoy doing most.

The fact is, most credit people would do a poor job of selling, and most sales people would do a poor job of extending credit. When everyone admits that this is the case, it becomes much easier to develop genuine respect and appreciation, attitudes that are integral to building effective teamwork.

Own Up to Deficiencies.
In the interest of both fairness and outcome, we need to admit and correct our own shortcomings before we can expect others to do so. By using such measures as Average Days Delinquent, Best Possible DSO, and Percent Current, (see *Collective Wisdom*, December 2009), you can objectively evaluate the performance of your credit and collections department.

While these objective measures can provide valuable data to help determine areas of strength and weakness, you also need subjective data. At the end of the day, you know how satisfied you are with your department, what factors may have contributed to changes in performance, and what, if any, changes were made in response to those factors. Do you know, however, how the sales department perceives you? What are sales' expectations of credit? How does it rate your performance in meeting those expectations? Do you think that sales' expectations are realistic right now? Turnaround is fair play, of course, and sales needs to be willing to conduct its own critique and to receive your evaluation of its performance as well.

Moving Forward

Share Your Findings.
Schedule an interdepartmental meeting or two to share your self-evaluations. Encourage an open dialogue that avoids recriminations. Reconvene in a few days with suggestions that focus on ways to change things for the better for both departments. Weigh these suggestions against your CFO's priorities. Would the implementation of these suggestions support upper management's expecta-

tions about your accounts receivable management? Would it drive efficiencies? Does it have the potential to increase profits? Would it help position your organization for greater success when the economy improves?

The CFO's examination of departmental performance can create not only the opportunity to measure and evaluate your effectiveness but also to facilitate sales' buy-in of your credit process. Communicate the message that a good credit department drives sales. Be candid about the expectations of upper management, its tolerance or lack of tolerance for rising DSOs, the current quality of your receivables, and any changes in policy that have affected your credit and collection procedures.

Share the Data.
In tough economic times, companies are more eager than ever to keep their customers happy. The unfortunate flip side of the coin is that many companies now are easing up on collection procedures and delaying the turnover of accounts to third-party collection agencies in an effort to appease even severely delinquent accounts. The key to keeping customers satisfied with regard to payment terms is not to allow customers to disregard them, but instead to do everything possible to keep the situation from happening in the first place. When sales and credit work in tandem to keep communication lines open between both departments and the customer, conflicts that can cause irreparable harm to the business relationship can often be averted.

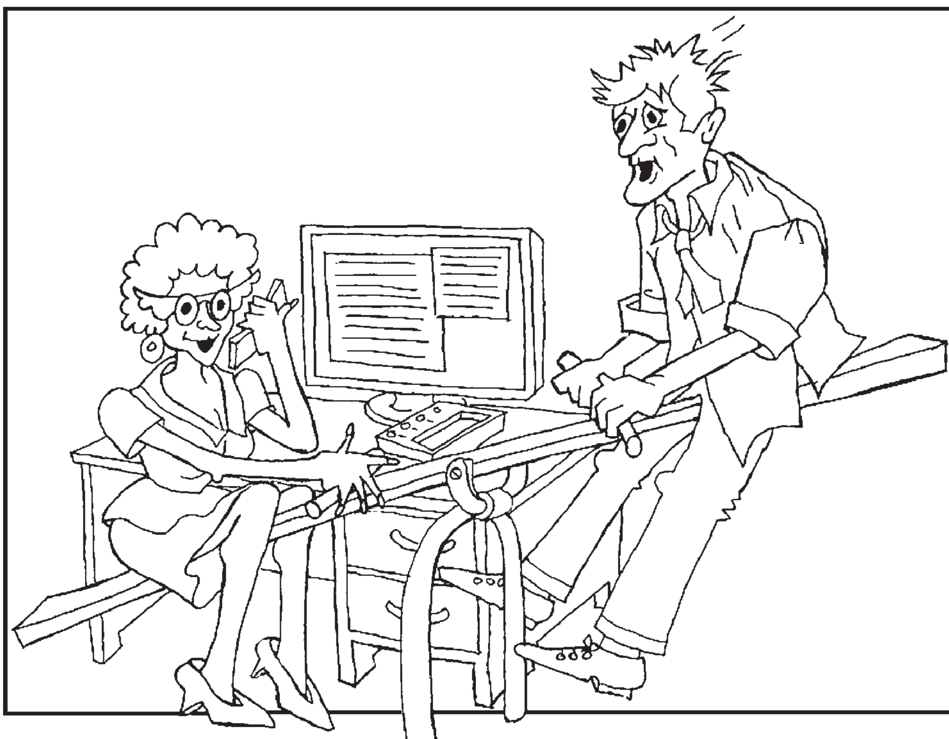
Many CFOs are now more willing to exchange some additional risk for the potential of generating greater profits. The wisdom of those decisions relies on the sober evaluation of the exposure prior to extending credit—including not only how the company has done in the past but also where the company is going—and the assiduous monitoring of the account following the sale. Salespeople by nature are inclined to move on to the next opportunity once the sale is made; however, they should be reminded that every account dollar lost requires three to replace it.

Explore ways to expedite the transfer of information between departments. Automated systems can be very valuable in this regard, but no system is perfect. Regardless of whether you employ automated or manual processes to share information, recognize that immediate transfer of relevant information will help avoid mismanagement of time and misunderstandings with the customer. Provide sales with regular updates on accounts, highlighting those at risk. Because everyone has a stake in determining customer health, tell sales when a worrisome pattern with an account becomes apparent. Doing so will allow the salesperson to prioritize his or her efforts and possibly resolve the problem before the customer places a new order. In return, sales should look for any signs that indicate a drop in the customer's profitability and communicate this information to credit.

Emphasize the fact that the credit department is often the face of your organization to customers following the sale. When sales fails to share information and help settle disputes, credit cannot easily foster a positive relationship with current customers or deploy its resources in ways that best benefit sales' efforts to get new business.

Disputes cost money and, in these times, few organizations can afford them. Counsel sales on the pitfalls of making spur-of-the-moment promises, which often fail to appear on invoices. Encourage reps to immediately follow up all communications with the customer in writing,

—continued on page 4



"Boss, I figured out a great workshop exercise to help credit and sales see each other from a whole new perspective, and to realize just how much we need to work together to survive."

New Dynamic—

—continued from page 3

and to provide credit and collections with a copy. Too many unfounded disputes are settled in customers' favor because of insufficient data to support media's position and the cost of resolution.

Share the Wealth.
In boom times, business is easy to get, assuming you have a valuable product or service to sell. In tough times, even organizations that offer good value have to dig harder to find the volume of business they need to remain successful. Remember those personality stereotypes we mentioned earlier? Now is the time to take full advantage of them.

It takes creativity to find, get, and keep advertisers in today's economy. Salespeople, those right-brained forces to be reckoned with, are in their element when faced with the challenge of finding new ways to sell. For example, sales might suggest targeting a particular business neighborhood for a special promotional section in the newspaper, offering discounts and editorial write-ups to potential advertisers. Well in advance of the promotion, they create a list of businesses in the area. Credit, those left-brained logical number-crunchers, immediately get to work on pre-evaluating those neighborhood prospects. Any concerns over marginal customers come to light early on, and credit has time to work the problem and to collaborate with sales on ways to mitigate the risk.

Ideas such as this one often reap long-term as well as short-term benefits. Special incentives create a wealth of goodwill among advertisers, making them better prospects for future business. Additionally, your proactive efforts to facilitate sales can reap substantial relationship benefits down the road.

Stay Focused.
Company CFOs recognize the negative impact, on their own pockets as well as the company's, that an adversarial relationship between sales and credit can produce. If business fails to come in to the organization, or if customers fail to comply with terms and conditions, the pay incentives of management suffer. At the end of the day, it is the CFO who must determine the organization's appetite for risk in view of its working-capital requirements. Once the balance is determined, it is credit's and sales' job to focus on the expected result.

Focusing on the present should not exclude keeping an eye toward the future. Even as the economy improves, the market may be changed, perhaps forever. A new frugality has set in among advertisers, who will continue to seek the most "bang for the buck" among their many marketing options. The media properties that thrive in this changing marketplace will be those whose managers recognize the imperative of separating themselves from the pack, directing their credit and sales departments to cooperate in creating opportunities for advertisers and the organization, and providing them with the support and resources to do it well. ♦

©Szabo Associates, Inc. 2010. 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., Suite 945, Atlanta, Georgia 30326
Tel: 404/266-2464, Fax: 404/266-2165
Web site: www.szabo.com
e-mail: info@szabo.com