

## Slash Your DSO with Tactics that Really Work!

### Dear Friends:

You have a solid credit and collection policy, clear goals, and a timetable for collection actions. Even so, your DSO stubbornly resists all efforts to improve it. A broad strategy is simply not sufficient to address the complex human and situational aspects of payment delinquency. What's needed is an arsenal of tactics, which we present in this issue's feature article, to beef up your collection effectiveness and slash your DSO.

Our spring calendar begins with the MFM/BCCA 53rd annual conference, "Media Finance Focus 2013," on May 19-22 at the Roosevelt Hotel in New Orleans, Louisiana. Szabo is pleased to sponsor the opening night party on the Steamboat Natchez, featuring Doreen's New Orleans Jazz Band. We also look forward to attending the Georgia Association of Broadcasters Awards Program on May 31 here in Atlanta.

Best wishes for a wonderful spring,



Robin Szabo, President  
Szabo Associates, Inc.

Reducing Days Sales Outstanding to an optimum level is difficult. If it were not, it wouldn't be the ongoing, energy-sapping, profit-diminishing problem that it is. Even with a solid framework of collection procedures, the variety of circumstances that accompany payment delinquencies complicates the process and often reduces its effectiveness. General goals and timetables for action are simply not enough to address the problem. What is needed is a comprehensive approach, including tactics that can be applied to specific customers and situations.

Before employing these tactics, establish priorities. Plan to use your valuable resources in ways that will likely bring the best return in time and money. Make new customers your first priority. Go for riskier customers second. "High stakes" customers should be third. Your fourth priority should be slow pays.

The tactics we describe are organized within "Collection Action Plans." Each plan includes the type of customer to which it applies, the goal, time to contact, method of contact, purpose of the call, and collection "talk off" that addresses specific circumstances.

### Collection Action Plan 1.

Type: new customer, direct or agency. Goal: to train to pay within terms. When: 15-30 days from invoice date. Method: in-person or phone. Purpose: solicit feedback, confirm receipt of invoice, find out if customer has questions about invoice or terms. If agency, find out if it has been approved by the

buyer. Note: The customer was approved for credit, which assumes the invoice will be paid according to terms, so at this age it is inappropriate to inquire about payment.

The talk off might be, "I want to thank you for choosing us to help you grow your business. We contact all of our new customers after their first billing to not only thank them, but also to obtain feedback about our service, make sure our invoice has been received, and answer any questions they may have about our invoice or terms of payment. You are important to us and we want your experience with us to be rewarding. Is there anything you would like to share with me about our service? Are we meeting or exceeding expectations? Have you received our January invoice? Do you have questions I can answer about our invoice or terms of payment?" Additionally, if an agency: "Has the buyer approved it?"

If all is well, notate the file, and set a follow-up date of the sixth working day of the following month. Check that day for payment; if made, move the date forward 30 days and monitor. If the invoice was not received, confirm the address and immediately send it via fax, email, or overnight delivery depending on the amount. Follow up later that day or the next.

If he has questions, answer them. If he raises issues or makes remarks that lead you to believe payment will not occur at terms, attempt to have him clarify:

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“I sensed some hesitancy when I inquired about our invoice and payment terms. Is there anything you would like to discuss?”

Two of the most common reasons are: They do not normally pay at 30 days or they do not have the funds. If the former, your goal is to convince the customer to modify his policy by appealing to his character:

“Thank you for informing me that your company policy is to pay at 60 days. Our terms are 30 days, and when you decided to allow us to help you grow your business, you agreed to 30-day terms. We approved your credit and accepted your business on that basis. We would like to continue providing advertising services to your business, but will be unable to unless our terms are adhered to. Will you please make arrangements to pay as previously agreed?” Or, “I’m sure you appreciate your customers paying you within your terms because this enables you to provide the best quality and value to your customers. We feel the same way. Will you please make arrangements to pay us according to our terms?” If he will not agree, then inform him that his current advertising will be stopped and the final bill rendered. Do not allow customers to dictate terms to you; the seller sets the terms.

If the reason is that he does not have the funds, your goal is to obtain payment within 30 days and prevent this from happening with future invoices. You may have to accept installments over a short period of time. If the customer says he does not have the amount owed, respond with, “How short are you in paying the \$8,000?” If he says he has only half that amount, say, “Will you send \$4,000 today and \$4,000 on the 5th?” If the answer is affirmative, say, “Your advertising schedule is contracted through April, and the February, March, and April invoices will be around \$8,000 each. Will there be a problem in paying those invoices as agreed?” If the answer is “no,”

notate the file, alert management to a possible problem, and follow up closely. If he defaults on the first payment, be prepared to stop the schedule.

If the customer is an agency, the agreed-upon payment liability position will dictate whom you contact and your line of questions. Many agencies bill clients on estimates and reconcile to actual numbers later, so by the time your invoice is received the agency many times has been paid. Additionally, local agencies are only as strong as their clients. Both local and national agencies will be reluctant to pay, however, when their client has not paid them, even if they have agreed to be liable.

If the position is joint and several and the agency says it does not pay at 30 days or does not have the funds, use the responses above. Additionally, inform him that failure to pay at terms or make arrangements will jeopardize his credit standing and his clients will become direct bill.

If he has not been paid by the client, remind him that the agency is responsible for payment in accordance with the agreement. You also need to ask what he is doing to collect, when he expects to be paid, and how he intends to prevent this from occurring again.

If he will not make arrangements that allow you to collect by the 10th of the month, place a credit hold on the agency, accept business only on a CIA basis, and inform him of the new terms. You may also need to stop any current orders involving the agency’s client to prevent the debt from growing.

If the position is sequential, and the agency is not liable until the client pays, ask when he billed the client, what were the established terms, what the payment history has been, when he expects to be paid, and how soon after receipt he will pay you.

Depending upon the answers, you will need to decide if this is acceptable. Payment to you from local agencies on orders accepted on sequential terms should not exceed 45 days from invoice date. The payment is conditional, however, and requires you to “train” both the advertiser and agency to pay within an acceptable time

frame. If he has given terms beyond 30 days to his client, require him to either change those terms or advance the money on his client’s behalf.

### **Collection Action Plan 2.**

Type: existing customer, direct or agency. Goal: to keep customer payments below 45 days, improve customers who pay beyond 45 days, and keep customers from aging to 60 days. When: 40 days from invoice date. Method: personal visit, phone, or letter. Purpose: to obtain immediate payment.

Excuses for nonpayment may involve terms, unresolved discrepancies, or cash flow issues, and with agencies, nonpayment by the client. Even if the agency did not bill on estimate, it should have received payment by the 40-day point. Exceptions do occur, especially with some digital campaigns where sometimes billing occurs at the end of the campaign rather than monthly.

Use the talk-off examples above to try to reach acceptable terms. If there is a discrepancy, you will not, in most cases, be able to collect until it is resolved; however, it is always worth asking for the undisputed portion while the discrepancy is being worked out. Most national agencies will not partial pay. There must be a complete match of order to invoice before payment is approved.

Customers with cash flow issues may say, “The check is in the mail.” If so, thank the customer, ask when the check was mailed, notate your file, and tell him that you will review it again in three days. If not received, contact immediately, ask where it was mailed, ask for a copy of the check by fax or email, and advise the customer that you will contact him after making inquiries with your personnel.

If the address is correct and he sends the copy, study your records to see if it was misapplied. If you locate it, call him back, thank him for his help, and inform him that his account has been credited. If you can’t locate it, contact him and ask that he

check with his bank to see if it is outstanding. Many companies have online access, and this can be ascertained while on the phone. If it has not cleared, have him put a stop payment on the original check and reissue. If he has not mailed the check, your goal is to obtain full payment as quickly as possible.

If the customer says he is short of funds, take the approach described in Collection Action Plan 1, restating the commitment at the close of the conversation: "To recap, you will mail \$4,000 today and the remaining \$4,000 on the 15th. I'll notate your file and I appreciate your cooperation."

Follow up closely to make sure the payments are made as agreed. If you have to structure payments that are not immediate and where the payment promise is more than 10 days out from your conversation, confirm the commitment in writing to reinforce the promise. All payment plans should bring the account current and keep new invoicing current. Do not agree to payment plans that will age the account beyond 90 days.

The talk off with the agency is similar as with direct account; however, liability positions may

call for different approaches. If joint and several, put pressure first on the agency, then on the advertiser. Use the agency talk off examples described in Collection Action Plan 1. If the agency says that he will not have the funds until paid by his client, ask him the amount he is short. If he replies, "All of it," tell him that while you are willing to work with him, you must have activity on the account: "I'm sure you have resources. What about an advance from your bank?" If he replies that he does not use his line of credit to pay his client's bills, remind him that it will be his credit rating that will be affected by nonpayment and that you are not in the business of financing his business: "Please draw on your line and send me the \$8,000 today to bring your account current and preserve your credit standing."

If the position is sequential, pressure the agency to secure payment from the advertiser. If it is improbable that payment will occur by day 60, you may need to pressure the advertiser. Contact the advertiser only after informing the agency of your intent. Use the talk-off examples described in Collection Action Plan 1 to determine what the agency has done to

receive payment. If the agency makes excuses for the advertiser's nonpayment, ask how much the advertiser owes the agency for the invoice in question. If the answer is, "I don't think that's relevant," state that it is indeed relevant since you must now reevaluate the advertiser's credit standing for future schedules. A talk-off example might be, "I can't deal in unknowns with regard to your client's ability or willingness to pay, so this is what must happen. It is now February 10th, and I must receive payment for December by Monday the 13th and a commitment from you or them that our February invoice will be paid by March 31st. Otherwise, their credit standing will be revoked, and the schedule beginning the 16th is subject to be cancelled. Do you want me or you to contact them?"

### Collection Action Plan 3.

Type: existing direct or agency.  
Goal: to collect before the account ages to 90 days. When: 60 to 75 days from invoice date.  
Method: personal visit, phone, letter. Purpose: to obtain immediate payment. Customers in this age are customers that have grown accustomed to being allowed to pay at this age, smaller customers who were not contacted at the 40-day point, customers that have broken promises of payment, or customers that have had recent changes in financial strength.

Customers accustomed to paying at this age need to be urged to make payment closer to your terms. Go after the biggest accounts first as they will have the greatest impact on DSO. This may involve discussions with their senior management to reach new terms that are acceptable even if not your standard terms. If you do establish nonstandard terms, document them! Old habits are often hard to break.

Customers not contacted at the 40-day point need to be contacted immediately and brought current so they do not become habitual slow pays. Customers who have broken promises are exhibiting untrustworthy behavior and signaling that they have no



"While we appreciate your honesty about the reason for nonpayment, Mr. Jones, 'losing your self-control at the slot machines in Vegas' doesn't leave us optimistic about the future of this relationship."

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intention of paying. Use the “three broken promises and you’re out” rule! Revoke credit privileges, pull the schedule, and issue a final demand: “This is my final attempt to work something out with you for full payment of your account. Will you bank wire or overnight mail your check for \$8,000 today?”

If the answer is “no,” make one last appeal: “I want to remind you that when you established your account with us, you agreed that if your account were placed with a collection agency or attorney, you would pay costs of collection, including attorney fees and court costs. What will you do today to avoid further action?” If he refuses to commit, say, “If we do not receive payment by February 15th, we will have no choice but to avail ourselves of all remedies provided by law.”

Customers whose financial strength has recently diminished need to be contacted quickly. A thorough review will help determine the size of the risk

and assist in developing a strategy that will allow the quickest and largest recovery.

### Collection Action Plan 4.

Type: existing customer direct or agency. Goal: to collect before the account ages to 120 days. When: 90 to 105 days from invoice date. Method: personal visit, phone, or letter. Purpose: to obtain immediate payment.

Accounts that are 90 days aged are major problems. Credit privileges and schedules should have been cancelled and discrepancies resolved. This is the last effort to collect. It is usually unproductive and costly, both in time and recovery, to continue to pursue accounts beyond 120 days. A better approach is to refer these accounts to a third-party collector.

Make a final demand: “Will you bank wire or overnight mail your check for \$8,000 today?” If the answer is “no,” cite the customer’s agreement to pay costs of collection. If he still refuses to commit, state that your organization will avail itself of all remedies provided by law if payment is not received by a specific date.

### A Comprehensive Approach.

Collection action plans, when consistently employed in support of a comprehensive credit and collection policy, can go far to substantially reduce your DSO. In order to maximize their effectiveness, institute total management involvement in the credit and collection process. Ask salespeople to reinforce payment terms at the time of sale on new accounts. Lay the groundwork with upfront due diligence in the form of credit applications and credit checks on new accounts as well as confirmation of payment responsibility from agencies. Stay alert to types of businesses that are volatile in your market, and encourage salespeople to resist the temptation to oversell customers. And finally, when collection challenges arise, remind yourself that patience is key to rehabilitating a slow-paying account. Professionalism, persistence, reasonableness, and flexibility will be respected by your customers, most of whom share your desire to preserve a mutually beneficial relationship. ♦

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