collective szabo wisdom®
SZABO ASSOCIATES, INC. VOLUME 23, ISSUE 2, JUNE 30, 2008

Dear Friends:

As the economy continues its slow crawl toward better times, what better time than now to talk strategy and tactics to meet the increased challenge of past-due accounts? This issue's feature offers a number of tips for managing receivables through tough times and beyond.

Our conference-packed spring included an event very special to all of us here at Szabo, the presentation of the 2008 Peter F. Szabo Career Achievement Award to Dee Vickers, Credit & Collections Manager of WDIV-TV/Post Newsweek stations. The award, established in memory of our founder, Pete, recognizes Dee for her valuable contributions to the growth of BCCA and the industries it serves. Congratulations, Dee!

And speaking of achievements, we look forward to recognizing the accomplishments of our amazing employees at our annual Szabo Quality Awards Banquet on August 25th here in Atlanta. Our summer calendar also includes the National Association of Broadcasters (NAB) Radio Show in Austin, Texas, September 17-19, and the MIXX Conference & Expo 2.8 in New York, New York, September 22-23.

Best wishes for a wonderful summer,

Robin Szabo, President
Szabo Associates, Inc.

Tough Times Call for Tough Tactics

In our last issue, we talked about the nature of the current economic downturn, its implications for media, and the importance of the timely turnover of troubled accounts. Recognizing that accounts become more perishable and collection recovery of past-due receivables becomes less likely in difficult economic times is essential to creating the "mind-set" necessary for credit and collections departments to most effectively ride out the storm. Certainly, appreciation of the challenges that a slow economy presents can help provide the motivation to step up your department's monitoring of industries and accounts as well as enforcement of terms and conditions. Tough times, however, demand more than well-defined policy and determination to adhere to it. They require an arsenal of effective tactics within broader strategies to help your department keep past-due receivables to a minimum. Here are a few strategies and corresponding tactics that work well in tough times and will work even better when good times are here again!

Strategy: Prioritize your collection efforts.
Tactic #1: Make new customers your first priority. Allowing a new customer to set a precedent for late payment will encourage a pattern of delinquency as well as an expectation that late payment is acceptable to you. Even if the amount owed is relatively small, the long-term benefits of establishing your position early are incalculable.

Tactic #2: Go for the "high stakes" as your second priority. If you don't have time to call every delinquent account, call the ones with which you have the most to lose if they fail to pay.

Tactic #3: Target the slow pays as your third priority. There will always be some customers, even good and ultimately reliable ones, that are notoriously, consistently late with payment. A quick and good-natured "reminder call" is often all it takes to bring in the money in short order.

Tactic #4: Contact everyone else who is past due 15 days or longer. Once the first three priorities are taken care of, call or send letters to your remaining past-due accounts. Make as many calls as you are able to make without compromising the thoroughness and attention due each account. On the other hand, do not spend an inordinate amount of time on a small account with little chance of return.

Strategy: Schedule your collection efforts according to your terms of payment.
Tactic #1: Start the collection process when the account falls 15 days past due. Follow up at least once a week.

Tactic #2: Communicate the purpose of your call only with the person responsible for payment. If the person in charge is unavailable, ask when that person will be

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available to take your call. If "Mr. Smith will be back in his office at 3:00," call back shortly after 3:00. Calling back promptly at the time suggested will send the message that you fully intend to collect.

Tactic #3: Revoke credit privileges in accordance with your policies and procedures. This should usually occur at 60 days past due.

Strategy: Team up with sales.
Tactic #1: Develop a mutually beneficial relationship with the sales department. Communicate with sales regularly on both an informal and formal basis, reinforcing your understanding of the sales perspective and encouraging sales to inform you of any cash flow or management problems the customer may be experiencing.

Tactic #2: Make sure salespeople reinforce your payment terms at the time of sale on new accounts. While the business of payment is one of the least pleasant aspects of the sales pitch, sales reps should appreciate the consequences of a customer's failure to understand terms of payment.

Tactic #3: Consider asking the sales rep to help collect a delinquent account, either on the first attempt or after your first attempt meets with resistance. Ongoing personal contact with the debtor often allows the salesperson to discover information that might be relevant to the delinquency.

Tactic #4: Consider a joint visit by sales and credit. If the customer is experiencing a temporary problem period, a visit by both departments can help create an atmosphere of goodwill and cooperation and facilitate a manageable payment arrangement.

(For additional tips on face-to-face negotiation, see *Collective Wisdom*, December 2005.)

Strategy: Document all communications.
Tactic #1: Get confirmation of responsibility for payment at the time of sale. If an agency is involved, clearly establish a "joint and several" liability position on all written contracts, invoices, and correspondence. Notify all parties involved of your terms and conditions for payment.

Tactic #2: Send new accounts a "welcome" letter. Welcome letters give you the opportunity to thank clients for their business and restate your credit terms.

Tactic #3: Keep a record of every collection effort and communication. Even a brief note from the debtor that seems inconsequential may prove valuable in supporting your case, particularly if you end up in court.

Tactic #4: Confirm to the debtor, in writing, any money promised outside of 10 days. Written confirmation reinforces promises of payment. If the money does not arrive on the agreed upon date, call the debtor without delay.

Strategy: Relate to your customer's situation.
Tactic #1: Get the facts. Find out as much as possible about the circumstances surrounding your customer's delinquency. Is there a legitimate dispute? If so, is the entire amount that the debtor owes in dispute, or is the debtor delaying payment on undisputed amounts as well? Are the company's internal processes weak? How much has the economic slowdown affected the debtor's industry in general? Is the company undercapitalized? Has the structure of the company changed?

Tactic #2: Prepare yourself psychologically for the collection call. Empathize with the heightened emotions and added stress that an economic downturn can induce. Try to anticipate the debtor's emotional responses to your statements. The more dire the debtor's situation, the more defensive he likely may be. Debtors who feel "painted into a corner" may resort to avoidance, blame, or outright anger.

Tactic #3: Foster an atmosphere of cooperation and mutual respect. Give the debtor ample opportunity to explain the delinquency or offer a point of view. Listen carefully. Often, the debtor's explanation will provide additional information about the situation, clues about what might motivate him to pay, and ideas for a mutually agreeable solution. Sympathize with the debtor's situation, show genuine interest in resolving the problem, and allow the debtor to collaborate in formulating a solution. Appeal to the debtor's sense of fairness, pride, and desire to maintain a good credit reputation.

Tactic #4: Keep your sense of humor. It is easy to forget, particularly in situations with the potential to become adversarial, that a bit of tasteful, well-placed humor early in the conversation can help set the stage for collaboration and agreement.

Strategy: Make the most of the "tools of the trade."
Tactic #1: Assemble all documentation on the account prior to making the collection call. Make sure the account activity information is accurate and up-to-date. Doing so will help you avoid the unfortunate circumstance of having to say "I'll have to get back to you on that" to a debtor who denies having made the buy, disputes the amount owed, or denies liability for payment. The time and effort you made to prepare for the call also sends a clear message that you intend to accomplish your goal. If you have no signed contract or

signed credit application, compile billing, traffic, sales records, confirmations of changes and cancellation, and all correspondence with the debtor to support your position.

Tactic #2: Pick up the phone. The telephone is still the collector's best friend and, short of a face-to-face meeting, the best tool for relating effectively with the debtor. Although the intrusive nature of a phone call can put the debtor on the defensive, this limitation can be overcome with discipline and diplomacy.

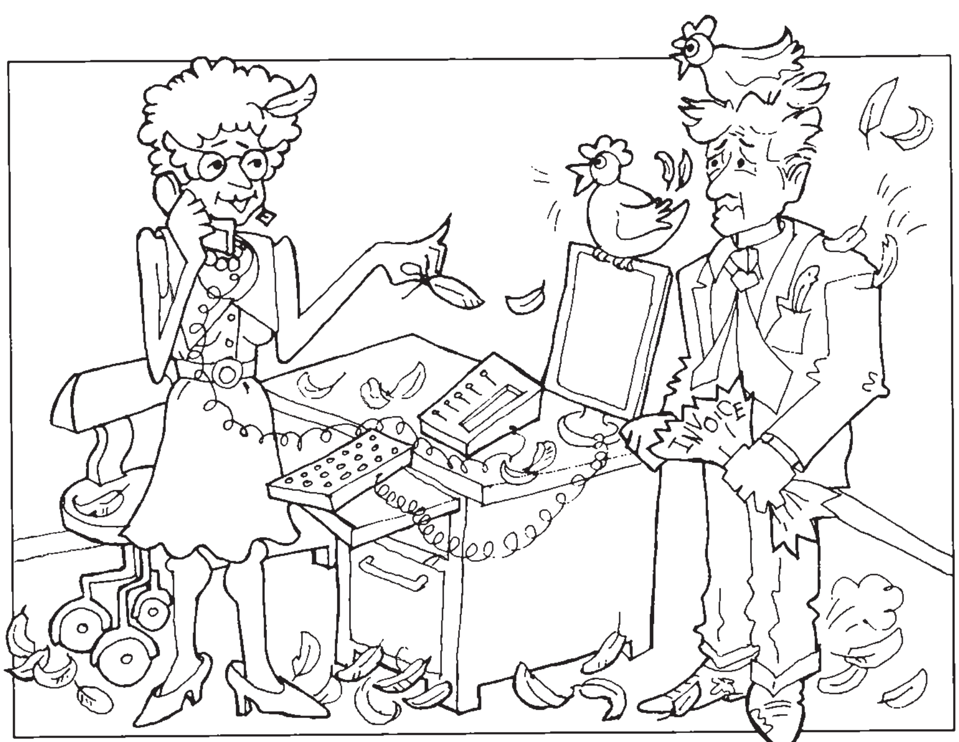
Stay positive and stay in control, no matter what happens. Speak slowly and deliberately. State the reason for the call in simple and direct language. Ask for payment in full, using words and tone that convey urgency and determination. "Will you mail a check for $5,000 today?" leaves no room for misinterpretation. After you make your statement, say nothing and wait for the debtor to respond. Silence is an often overlooked and underrated negotiation tool. Listen carefully and guide the conversation toward a reasonable solution. If the debtor balks, stay calm and positive, and try to motivate the debtor toward a change of attitude by appealing to his honesty and sense of pride. "I know your credit standing is important to you" or "We're sorry that you misunderstood our payment terms, and we would appreciate payment in full today" motivate the debtor without challenging his integrity. (For additional tips on how to deal with a hostile debtor, see *Collective Wisdom*, March 2006.)

Once you have reached an agreement, "recap" the arrangement (or better yet, ask the debtor to do so) and end the call. Send a follow-up letter, confirming the conversation, including the date of the phone call, and the details of the agreed upon payment arrangement. Allow only sufficient time for the check to arrive and for transmittal to take place, then call the debtor if the money fails to show up.

Tactic #3: Use "form" letters to conserve time, effort, and cost. A well-worded letter can be the least offensive collection communication and may be the best overall choice for organizations that do not have the resources for telephone calls or personal visits. Organizations should develop their own "form" letters with two or three variations of each message. The style should be clear and uncomplicated, the structure should be simple and easy to follow, and the length should be short (one page with plenty of "breathing room" around the content). State the amount due, the number and date of the invoice, and ask for action. The "First Reminder" letter should be mild and non-accusatory and should suggest that the nonpayment is probably the result of an oversight, which is often the case. The "Second Reminder" letter should express puzzlement, in a non-accusatory way, that the First Reminder has gone unanswered. The "Third Reminder" letter should reflect growing concern and include a positive statement to motivate the debtor to pay. "Payment of the invoice by the 15th will ensure your continued favorable credit standing" is positive, while "If you don't pay, your credit standing will be compromised" is negative.

If the "Third Reminder" elicits no response, consider using another collection method. Depending on the size and nature of the account, a combination of letters, phone calls, and even a personal visit may be most effective. The "Final Demand/Other Action" letter should make your final request for payment and include a statement of your next action if the debtor fails to pay. "Other action" usually means referral of the account to a third-party collector.

Strategy: Enlist the services of a third-party collector.
Tactic #1: Enlist third-party help when the account is 90 to 120 days past due, as specified in your policies and procedures. In general, after 90 days, your



"REMEMBER THAT MARGINAL EGG HATCHERY ACCOUNT BAXTER TALKED US INTO ACCEPTING, BOSS? WELL, IT APPEARS 'THE CHICKENS HAVE COME HOME TO ROOST.'"

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chances of collecting deteriorate to less than 70% and continue to drop dramatically as the delinquency period lengthens (see *Collective Wisdom*, March 2008).

Tactic #2: Maximize the return on third-party efforts.
Consolidate pertinent documents into a single file and provide complete documentation on the delinquent account. Cease all in-house collection efforts immediately after placing the account with a third-party collector. Notify the collector of any payment received by the debtor as well as any communications the debtor has had with anyone in your organization.

Outlook Moves in Positive Direction.

At the time of this writing, the Federal Open Market Committee (FOMC) of the Federal Reserve Board had cut the Fed Funds rate an additional quarter of a point at its most recent meeting on April 30th. The 2% prime rate, down from 5.25% in September of last year, is the lowest it has been since November 10, 2004. While the cut was based on reports indicating that the economy remains weak and markets continue to be stressed, the smaller size of this cut indicates to many analysts that the Fed may be easing up on rate reductions in favor of alternative measures to address tight credit conditions.

A growing number of economists, including some who previously stated that a recession was all but inevitable, have begun to take a more positive stance, citing policy response, the fiscal-stimulus package, and a stronger-than-expected series of economic reports as reasons for their change of heart. Additionally, the stock market has experienced a general upswing over the past couple of months, reflecting a increasingly positive outlook among investors.

Even so, continuing problems such as the troubled housing market, tight lending standards, and soaring energy and food prices continue to nip at the heels of consumer confidence. Consumers burdened by debt spend less on products and services, shrinking the customer base of many businesses. Business bankruptcy filings in March, as reported by AACER (Automated Access to Court Electronic Records), totaled 4,724, up nearly 40% from the same period in 2007.

While approximately half of U.S. economists are not forecasting recession, most agree that the U.S. may have to endure a period of protracted slow growth, with the economy pulling out late in the year. As the number of bankruptcy filings suggests, the downturn has taken a significant toll on consumers and businesses, many of which will continue to feel its effects for some time after economic reports indicate that the cycle has ended.

Where there is adversity, however, opportunity is never far behind. The opportunity for media organizations at this time is to maintain a healthy balance between firmness and understanding, diligence and flexibility, analysis and creativity. Such organizations will reap significant benefits from those efforts not only in the short term, but also in the good times ahead! ♦

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