collective wisdom®

MEDIA COLLECTION szabo PROFESSIONALS

SZABO ASSOCIATES, INC. VOLUME 29, ISSUE 2, JUNE 30, 2014

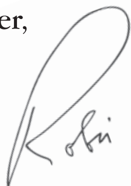
Dear Friends:

While offering terrific opportunities for media, the digital marketplace has also created a whole new set of challenges. Today's credit and collection managers must learn a new vocabulary and new processes while continuing to address age-old challenges such as delinquency and payment liability. This issue's feature begins a series of Q & A's about new and ongoing issues of concern to our customers.

The MFM/BCCA convention last month in Miami was both enjoyable and informative. Our Szabo-sponsored party on opening night was lots of fun. I was also deeply honored to receive the Chairman's Award in memory of Edward H. Deichman. The award is presented to a person who has made a lasting contribution to the growth and expansion of MFM by providing support and leadership.

Our summer calendar includes our annual Szabo Quality Awards Dinner, August 25 in Atlanta; and the IAB (Interactive Advertising Bureau) Mixx Conference & Expo 2014, September 29-30 in New York, New York.

Best wishes for a wonderful summer,



Robin Szabo, President
Szabo Associates, Inc.

Questions and Answers in the Changing Media Marketplace

Media buying and selling are evolving at warp speed. With so many changes in the nature of advertising as well as how it is ordered, paid for, and measured, credit and collection managers can find themselves on a perpetual learning curve. As if it were not difficult enough to keep DSO under control, they now must learn an expanding vocabulary that describes new processes, while keeping track of numerous players in the buying and selling process. Meanwhile, old challenges such as payment liability and delinquency continue as managers work to balance the demand for increased sales with prudent credit and collections policy.

We are often asked questions about how the fast-changing media environment is affecting the role of credit and collections departments, and how managers can better ensure that their organizations get paid on a timely basis in a complex multiple-party marketplace. In this and subsequent articles, we will address some of our customers' most commonly asked questions.

Programmatic Buying.
Question: I've heard a lot about "programmatic buying," but it appears to mean different things to different people. Can you provide some clarity?

It is certainly no wonder that confusion persists since the technology and terminology continue to morph. Depending on the source, the category breakdowns vary. And, to add yet another layer of confusion, people sometimes use the term "programmatic" to mean only one particular type of transaction. The Interactive Advertising Bureau (IAB) provides a clear framework, from the publishers/media providers' perspective, for distinguishing between the various ways in which programmatic transactions can take place.

First, understand that "programmatic" simply refers to advertising buying and selling that is automated through technology. It is the "big tent" under which four distinct types of transactions reside.

Automated Guaranteed. Among the four types of transactions, this type is the closest to traditional digital direct sales. Automated Guaranteed transactions involve deal negotiation between one buyer and one seller, guaranteed inventory and pricing, and equal campaign priority status as other direct deals. It is programmatic in that the Request for Proposal (RFP) and campaign trafficking are accomplished through automation. Automated Guaranteed provides the benefits of traditional direct sales while lowering overhead costs.

Inventory available in this type of transaction is "reserved"; that

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is, advertising space on the publisher's site is set apart for a specific advertiser. The price is "fixed," meaning the buyer and seller have agreed on a flat price. In other words, the publisher maintains control with regard to who can buy and how much they will pay. The ad serving is accomplished programmatically once the digital proposal is executed into the digital insertion order. Other terms sometimes used for Automated Guaranteed are "Programmatic Guaranteed," "Programmatic Premium," "Programmatic Direct," and "Programmatic Reserved."

Unreserved Fixed Rate. This type of transaction typically serves advertisers that demand some predictability within the exchange space. The deal is pre-negotiated between one buyer and one seller, and the pricing is fixed (CPM, CPC, etc.). Unlike Automated Guaranteed, the inventory is not guaranteed. The publisher commits to a price, but there is no mechanism for getting a buyer's commitment prior to execution of the deal. This type of transaction allows publishers to maintain control over price and inventory while giving buyers programmatic access to inventory. Unreserved Fixed Rate transactions are sometimes referred to as "Preferred Deals," "Private Access," or "First Right of Refusal."

Invitation-Only Auction. In this auction type of transaction, the publisher restricts participation to several select buyers. This is accomplished via a "whitelist" (allowed participation) and/or a "blacklist" (refused participation). Since this is an auction, buyers are expected to bid on inventory, and the sale is awarded to the highest bidder. Unlike the previous two transaction types, prices are unfixed and variable, although price floors may be set. Invitation-Only Auction transactions are also known as "Private Marketplace," "Private Auction," "Closed Auction," or "Private Access."

Open Auction. The IAB refers to this type of transaction as the "Wild West" of auctions. Usually no direct relationship between the buyer and seller exists. Generally, any and all buyers can access the publisher's inventory. Buyers are often unaware of the publisher's identity. The Demand Side Platform (DSP) generally provides the buyer with a list of exchanges/Seller Side Platforms (SSPs) that the buyer automatically opts into. Other terms used for Open Auction are "Open Exchange," "Open Marketplace," and "Real-time Bidding."

Question: With buying and selling taking place at nano-second speeds, how is it possible to know with whom one is doing business? How is it possible to perform due diligence in the credit evaluation process?

Once again, technology is our friend! Depending on the platform, publishers may use technology to establish parameters in all four types of programmatic transactions, virtually allowing publishers to control who gets to access their inventory and to what extent. "Deal ID," a unique sequence of characters used to identify buyers and sellers, can be encoded into the exchange, allowing a publisher to provide different information to different buyers. Even in an Open Auction marketplace, publishers can control access by employing blacklists (to exclude certain buyers) and price floors (the rate below which they are not willing to sell the inventory). Some publishers prefer not to participate in the Open Auction marketplace at all.

Transactions can take place with different levels of transparency, from blind to a fully transparent identifying URL. Depending on the platform, media may designate the advertisers and agencies with which they want to do business. Further, they may then classify inventory and set the level of access for each advertiser and agency. For example, parent accounts may be allowed a different level of access than their subsidiary companies.

As in traditional advertising sales, media should continue to apply their credit policies and procedures to the programmatic environment. As always, credit managers must decide whether a prospective customer is creditworthy or not, and if so, the level of credit to be approved.

Payment Liability and Terms.
Question: After decades of trying to settle the issue of payment liability, we continue to have problems when dealing with advertising agencies about responsibility for payment. What can media do to enforce their liability policies with agencies?

Despite media's embrace of a joint and several liability position, agencies largely have adopted a sequential liability clause, which states that they are responsible for payment only if and when they are paid by the advertiser. The Media Financial Management Association (MFM) has offered a compromise solution that toughens the sequential liability position to better protect media. The clause, which is part of its new Electronic Media Credit Application (EMCAPP®), states that the advertiser is liable for payment until the funds have been transferred to the agency or media provider (see *Collective Wisdom*, December 2013).

In order to effectively enforce your liability clause, you must understand the relationship between the agency and advertiser; specifically, the role each plays in the media buying process. In spite of what many believe, advertising agencies

do not have a fiduciary responsibility to pay media providers if the advertiser pays the agency. Neither are they "agents for a disclosed principal" just because they say they are. Without proper documented authority, an agency cannot bind the advertiser to any agreement.

We recommend that media develop an "Agency of Record" document stating the authorities granted to the agency to act on behalf of the advertiser in purchasing space or time, including the agency's authority to contract in the advertiser's name and to bind the advertiser to the agreement's terms and conditions. It should include a statement that, if the advertiser entrusts the agency with money to pay the media provider, the advertiser will remain liable if the agency fails to pay. The AOR document is not enforceable unless signed by someone authorized to do so on behalf of the advertiser.

Question: It seems that more and more agencies are paying media well beyond the payment terms set by media. What can media do to enforce payment terms with agencies?

According to a 2013 study conducted by the 4A's, the majority of agencies are still being paid by clients within a month's time. That said, a report in December 2013 from the Association of National Advertisers stated that 43% of marketers had lengthened payment terms for some of their marketing services in the past year. Agencies, research firms, and digital media were among the most likely victims. The complexities of digital ad campaigns have played a part in slowing payment. Additionally, the growing trend among marketers and agencies to lengthen payment terms creates a cascading effect, with media unfortunately at the end of the chain.

It becomes easier to enforce your payment terms once you understand how and when advertisers pay their agencies. Gone are the days of the standard 15% agency commission, received when the agency made a media purchase. The commission model has been largely replaced with a fee-based model, and a majority of large advertisers employ performance incentives, usually based on agency performance reviews and sales goals.

According to the aforementioned 4A's survey, many agencies bill their clients on estimates and reconcile to actual numbers later. Agencies also often pre-bill clients for fees and commissions. Pre-billing allows advertisers to claim a longer (perhaps 60-day) payment term victory while paying the agency according to its terms. The implication for media is that the agency has likely been paid by the time it receives the media invoice.

Agency consolidations, with service centers and regional hub operations, have resulted in more transactional and fewer personal, customer-based relationships. Negotiating payment arrangements on a local level may not be feasible, and it may be necessary to "go up the ladder" to get understanding and agreement. This may be the job of the corporate CFO or controller rather than that of the credit manager.

Even with a good credit policy, a clear timetable for collection efforts, and an understanding of the advertiser/agency relationship, you need an arsenal of collection tactics to effectively reduce DSO. These tactics involve training new agency accounts to pay according to your terms, then maintaining their willingness to do so.

Call every new agency account 15 to 30 days from the first invoice date. Solicit feedback, confirm receipt of the invoice, and ask if the agency has questions about the invoice or terms. Find out if the advertiser has approved the invoice and terms. If all is well, make a note in the file and set a follow-up date of the sixth working day of the following month. On that day, check for payment; if made, move the date forward 30 days and monitor. If not, and the agency says that the invoice was not received, confirm the

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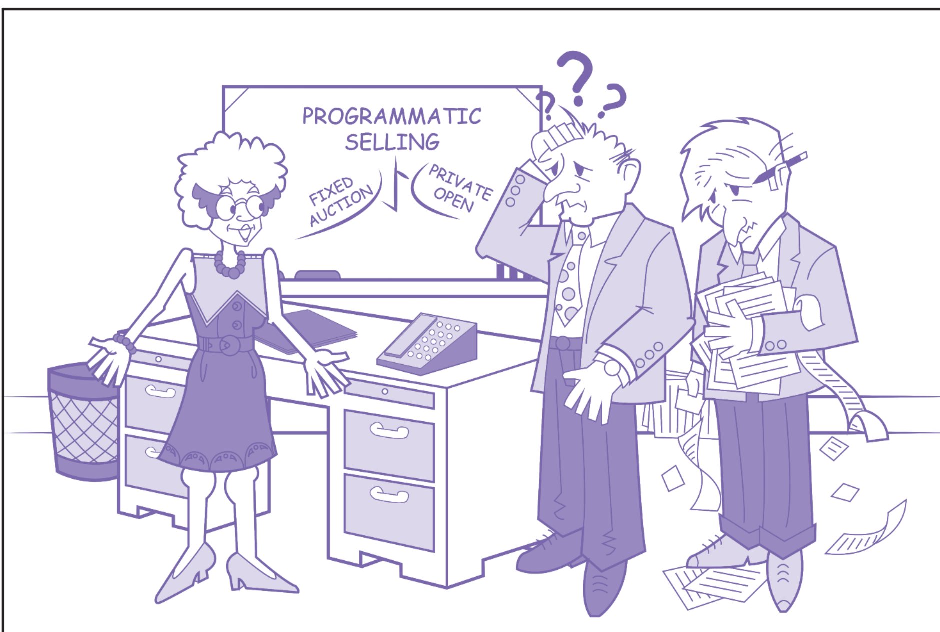

"Sales wants to know if we're gonna do programmatic selling. And if it will be fixed or auction, guaranteed or unreserved, private or open. And if you can hire a technogeek who can explain what all that stuff means."

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address and immediately send it via fax, email, or overnight delivery depending on the amount. Follow up later that day or the next.

If an agency holding a sequential liability position claims that it has not been paid by its client, ask questions: "When did you bill the client?" "What were the terms?" "What is your client's payment history?" "When do you expect payment?" "How soon after receipt of payment will you pay us?" You must decide whether the answers are acceptable; however, payment to media from local agencies on orders accepted on sequential terms should not exceed 45 days from your invoice date.

If payment is not received within 40 days from the invoice date, pressure the agency to secure payment from the advertiser. If it is probable that you will not receive payment by day 60, you may need to pressure the advertiser, but only after informing the agency of your intent to do so.

Again, ask questions. If the agency makes excuses for the advertiser's nonpayment, ask how much the advertiser owes the agency for the invoice in question. You are well within your rights to ask the question because you may have to reevaluate the advertiser's credit standing for future buys. Establish firm dates for payment, and ask the agency for its commitment to comply. The "stick" should be that noncompliance will result in the advertiser's credit standing to be revoked and its schedule to be cancelled. If the agency balks, ask, "Do you want me to contact the advertiser or will you do so?"

A well-defined credit policy, along with consistently applied collection procedures and tactics to help enforce them, should go a long way toward managing agency customers and reducing your DSO. For more detailed tactics for dealing with both direct customers and agencies, see *"Collective Wisdom,"* March 2013.

One final word: If you are operating under the myth that you should expect payment after 60 or 90 days, change that mentality! Thirty-day payment terms are reasonable and should be enforced. ♦