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szabo MEDIA COLLECTION PROFESSIONALS
SZABO ASSOCIATES, INC. VOLUME 22, ISSUE 3, SEPTEMBER 30, 2007

Dear Friends:

Where would media be without the marginal customer? Companies with few assets and little or no credit history often need media to help grow their businesses. And without marginal customers, media properties' own growth would likely become stagnant, salespeople would become disgruntled, and the advertising community would become dissatisfied. Managing the marginal customer demands discipline, flexibility, and creativity. In this issue's feature article, seasoned credit and collection managers share their real-world experiences and strategies.

Our fall Calendar of Events includes the Advertising Media Credit Executives Association (AMCEA), October 13-17 in Houston, Texas; the National Media Credit Group, November 12 in New York, New York; and the Szabo Holiday Party, December 8 in Atlanta, Georgia.

Best wishes for a glorious fall,

C. Robin Szabo, President
Szabo Associates, Inc.

Managing Marginal Customers…

Credit Managers Weigh In with Real-Life Methods and Stories

Marginal customers can be very good for business. They are, in fact, essential to business vitality and growth. If credit managers accepted business from only those companies with stellar financials and credit histories in rock-solid industries, they might soon find their media property's market share plummeting and their jobs in peril. Marginal customers offer media properties the opportunity for increased profits, satisfied sales personnel, and a larger, more dynamic pool of advertisers.

Szabo Associates interviewed several credit and collection managers from newspaper, magazine, television, and radio media about their "real-world" methods of dealing with customers who pose a higher-than-average risk—how they evaluate and minimize risk, manage payment problems, and turn marginal prospects into profit-generating customers.

Saying "Yes."

A strong common denominator among all of the managers is their "can do" attitude about finding ways to do business with the marginal customer while adhering to company credit policy and procedures.

"The bottom line is, we really bend over backwards to find ways to take business while not putting our company at an inordinate risk," says Michael Cook, Director, Magazine Credit Operations for Meredith Corporation. "We look at different options, depending on the situation."

Bill Kazanecki, Director of Administration and Credit for the *Houston Chronicle*, concurs. "Shorter terms, a deposit, a corporate guaranty from a parent company, or a letter of credit—we're always looking for a creative way to make the deal."

"I have never told a person, 'I am not going to do business with you,'" says Henry J. Malloy, Jr., Director of Credit and Collections, CBS Television Stations. "We do not deny credit; we present terms. The customer makes the decision to accept or deny those terms."

Dennis Miglino, Manager of Revenue and Credit, WABC-TV, implies that this "make it happen" attitude is in part due to the "here today, gone tomorrow" nature of media advertising sales. "Our Director of Finance's point of view is that we are not selling durable goods that we can reclaim when a company is in trouble," he says. "If the air is not filled with a commercial spot, it's going to be filled with a promotion for a news spot or a prime-time show, and promotion spots don't make any money." Miglino agrees with Malloy on the importance of offering to make a deal rather than refusing business. "Companies need to work with us. We try to be flexible, but we don't abridge payment terms. If the company refuses our terms, then at least we've pursued some avenues."

Evaluating and Managing Risk.

Proper due diligence is critical in determining the level of risk and options for managing it. Some of the factors that influence the

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nature of the due diligence as well as the options credit managers make available to the customer are the size of the company, the type of industry, length of time in business, whether it is publicly- or privately-owned, and payment history with other trade creditors.

And if a company has neither a credit reputation nor tangible assets, is it still possible to do business? "Yes," asserts Cook. "It's all about managing risk. We might need payment in advance or perhaps a standby letter of credit. If a customer wants a $100,000 ad, we might ask them to pay a portion upfront—maybe half—to cover some of our costs. Each situation is evaluated on an individual basis."

"For brand-new clients without references, I would require payment in advance by certified or bank check for perhaps the first three issues and see if they pay according to terms," says Vito Cuttone, Credit and Collection Manager for *Newsweek*. "If, on the other hand, they have solid trade references, with a good line of credit and a history of paying those references according to terms for a couple of years, I would extend credit, but I would traffic their ads to make sure they don't get overexposed," he adds. "If they haven't paid for the first two ads, then I would block the account until those two ads are paid."

"We are very cautious about extending credit under such circumstances, especially on high-risk business types such as restaurants," says Grace Carter, Manager of Credit and Collections, *The Washington Post*. "We would ask for a personal guaranty backed by audited personal financials or a recent tax return. And if we were to extend credit, chances are that we would waive the 10- to 15-day grace period extended to other longer established businesses." Carter adds, "If we decide that Cash in Advance is the only option, we ask our sales reps to be certain the checks are numbered with legitimate addresses (no starter checks) or to get payment by credit card. We require certified funds for political (election) advertising."

"Fortunately, many new businesses understand that they are credit risks and are often willing to prepay," says Kazanecki. "Our preferences for prepayment, in order, are debit card, bank wire, cash, credit card, check by phone/Automated Clearing House, and finally, check. Regarding credit cards, we sell the customer on the 'air miles' they'll earn. The discount rate we pay for the credit card transaction is an acceptable cost for doing business with a risky customer."

Malloy says, "I would ask for Cash in Advance—either certified check or a check in our office at least 10 days before the scheduled start to allow time for it to clear. At the end of six months, I would reevaluate their credit status, grant terms if acceptable, then send weekly invoices, payable upon receipt." He adds, "Once they receive credit terms, I would not approve an order for an amount in excess of what they spent on Cash in Advance."

Kimberly Riley, Credit Manager, *St. Petersburg Times*, seeks personal guaranty signatures from owners or principals of companies that want credit but have inadequate credit histories. "A personal guaranty allows us to verify personal creditworthiness in order to establish a credit line. For Cash in Advance accounts, we accept all forms of payment; however, if an account then establishes poor payment patterns, such as bad checks or declined credit cards, then we ask for certified checks, cashier's checks, wire transfers, or cash." Riley reviews the credit application on a high-risk customer once a payment history has been established. "Because business may be seasonal in our area, I like to have 12 months of history so we can get a clearer picture of how the advertiser pays through various seasons of business," she says.

"About the only way we would do business in these circumstances is Cash in Advance, although making sure the cash is in when it's supposed to be can be pretty labor-intensive," says Shirley Ware, Collection Manager, ABC Radio Networks. Ware also says that her organization will reevaluate a Cash in Advance customer's request for credit terms after it has established a solid payment history.

Linda Mitchell, Credit and Collections Manager, *AARP*, believes that, with a bit of creativity, it is often possible to strike a comfortable balance between the interests of her organization and the advertiser. "We might want to give a chance to an advertiser who has a product or service that is valuable to our members. Let's say the ad costs $150,000, but the advertiser qualifies for no more than $50,000 credit. Because we've closed the November/December issue, and it's now September, I might say, 'Pay $50,000 upfront, another $50,000 in a month, and the remaining balance in December.' I'm giving them credit, the order has gone in, and even if they don't follow through all the way, we've at least recouped our production charges."

Sometimes, "going the extra mile" to find a way to do business with a marginal customer requires credit to pull off the green-shade and put on a detective hat. Malloy recalls a request for credit from a new film company with no credit history or financial statements. "I started looking into the film industry to see who these two partners were. It turned out that they were very visible within their industry but nowhere else. They had always worked in the background, but with a solid track record. I saw no reason why we should not extend them credit, because I thought they would be a successful account, and they have been."

The process is complicated further when an advertising agency, rather than the advertiser, is the entity with which the media property has an agreement. Although the agreement may be with the agency, the

agency most likely states a position of sequential liability for payment, which holds the advertiser responsible for payment until it pays the agency. Media, on the other hand, most often states a joint and several liability position, which holds both the agency and advertiser responsible until media is paid.

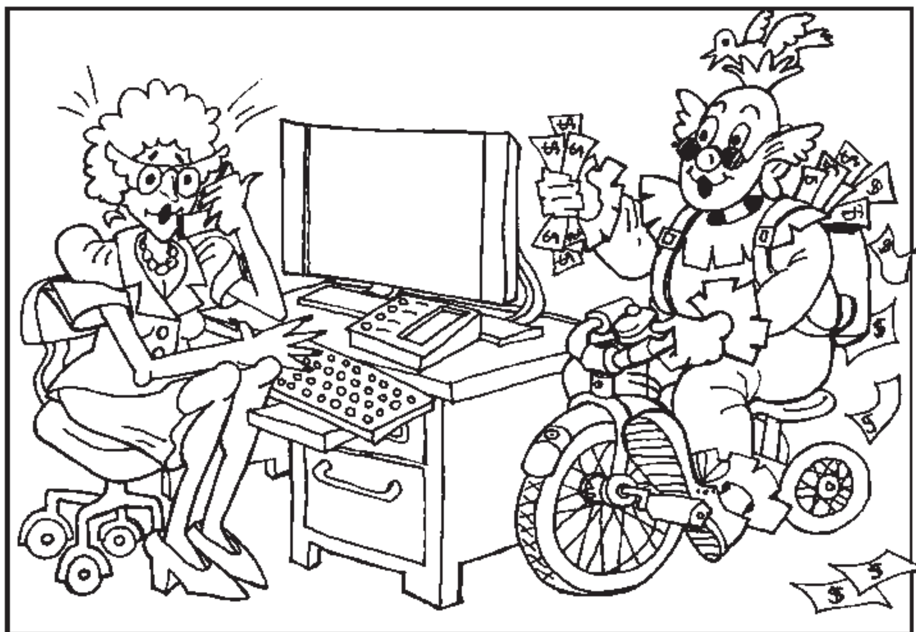
"More and more now, when we perform credit checks, we look at both the agency and the advertiser," says Cook, "and what we find out will guide our options. If we have a strong advertiser and a weaker agency, we might get an 'advertiser guaranty' from the advertiser—a 'non-legalese' document that tells us that the advertiser has appointed this agency to place advertising on its behalf, and if we don't get paid by the agency, then the advertiser will pay us. We've done quite a few of these in the past six or eight months."

Monitoring Progress.
Keeping tabs on marginal customers can often prevent pay problems from turning into irretrievable losses. For many media properties, this monitoring includes keeping informed of industry changes that might affect their clients' ability to pay as well as the financial health and payment patterns of individual customers.

"We do keep closer tabs on industries and advertisers," says Cook. "That imperative has come down directly from senior management and is something that we're making part of our credit policy this year. We are hooked up with *Advertising Age*, *The Wall Street Journal* and other news resources to help us stay on top of what might be happening to clients in various industries as well as the agencies. Most of our top accounts are public, so additionally we regularly pull either Dun & Bradstreet reports or pull down financial statements from their websites."

"We receive trade reports from two vendors that give us updates on customers," says Riley. "We electronically exchange information through trade tape reports with these vendors, who provide alerts on financial updates, UCC filings, lawsuits, etc. One provides portfolio monitoring on how our customers pay not only us, but also other vendors. Knowing that a slow-paying customer is paying everyone else better, worse, or the same can be helpful in negotiating a better payment arrangement."

Of course, downturns in a customer's industry do not necessarily translate into a downturn in the customer's ability and willingness to pay media. "Some companies will stand out regardless of how the industry is doing because they provide a better product or service and have a strong reputation," says Malloy. "I would do my due diligence on the industry, but basically it's the company itself that's most important."



"Boss, I am not 'passing judgment prematurely on a prospective customer.' There really IS a clown driving a trike with funny money here to see you!"

Kazanecki concurs, saying, "The most important factor is the company's track record with us. If we notice a slowdown in payment time, we'll take a closer look at their financials from outside sources. Of course, if news reports first indicate problems, even in the absence of slower payments, we'll do a full review on the company. If there is a problem, we will contact the customer. We actually contact our largest customers shortly before the due date each month to coordinate month-end payment and proactively discover customer service and billing problems."

Miglino also regards each case individually, comparing recent activity to the customer's track record. "Certainly we consider payment over 60 days to be a bit of a problem, and over 90 to be a bigger problem," he says. "That said, we take into account that the agency for one automotive client may pay us differently than the agency for another. They all have different policies and procedures."

Dealing with Payment Problems.
Doing business with marginal customers carries with it, of course, the inevitability that a serious payment problem will occur with somebody at some time. When a customer's payment habits degrade, credit's investment in developing and maintaining good relationships with the advertiser, its agency, and sales can pay big dividends.

Knowing the customer and understanding the customer's business can facilitate a course of action that benefits both the customer and media. "Ordinarily, we put a customer who is behind in

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payment for three or four issues on hold for future advertising, even if its agency is well-established," says Cuttone. "Telling the agency that its client is on hold usually will generate revenue." Cuttone does make exceptions to this general practice, however, based on individual circumstances. "The customer may need the ad to promote business. In that case, we have them prepay the next ad and hope that it will generate business so they can pay for outstanding invoices. We might devise a payment plan for the balance. If they are extended too much, however, they must pay off what they owe before they run new advertising."

"If there's a problem, I'm right there on the phone," says Miglino. "I believe in direct, personal client contact."

"You don't want to shoot yourself in the foot with a good client," says Riley. "If the client's payment habits change, we consider payment plans, including prepayment of new ads, until they get back on track. Working with customers through difficult times makes the relationship stronger and more valuable when the economy turns around."

"We add threatened industries to our bad debt reserve list," says Carter, "but we work with sales to control exposure. If payments degrade, we tighten terms and are ready with payment plan options—anything to keep them viable. An advertiser who goes out of business is a pure loss—we need all of them that we can get—so we are much more cooperative than we were a dozen years ago."

Malloy also emphasizes the critical role that sales plays in managing troubled accounts. "If payments degrade, the first thing I do is let sales know that we might have a problem that could potentially affect their ability to get more sales from the client," he says. "Salespeople are the ideal frontrunners, so I ask them to do the initial legwork to find out what's going on. Sales has to believe in what we're doing, and we have to support them in what they're doing."

There are times, however, when efforts to turn around a problem account simply do not work. "I try to look at the whole picture and do what's best for my company as well as the advertiser," says Riley. "My first duty is to my company. In some cases, it's just better to cut your losses—stop future advertising, try to get paid on what you have, refer to legal counsel or a collection agency if you get nowhere directly. There are just those times when you know the account is in serious trouble, and you know that the first one to put their hat in the ring may get a piece of the pie."

Credit managers in every medium, recognizing the value that the marginal customer can bring to their organizations, rely on a combination of sound credit policy, due diligence, and good instincts that are the benchmarks of effective credit and collection management. Additionally, they also maintain a healthy measure of trust in the advertising community.

"We have an industry where we send out contracts that never get signed, most of our business is done with a hand-shake, and millions of dollars change hands between stations and agencies without one signed document," says Miglino. "It's a trust business; that's what credit is all about." ♦

Szabo Associates would like to thank Grace Carter, Michael Cook, Vito Cuttone, Bill Kazanecki, Henry J. Malloy, Jr., Dennis Miglino, Linda L. Mitchell, Kimberly Riley, and Shirley Ware for their time, consideration, and assistance in the publication of this article.

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Collective Wisdom® is a publication of
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