collective wisdom®

MEDIA COLLECTION szabo PROFESSIONALS

SZABO ASSOCIATES, INC. VOLUME 28, ISSUE 3, September 30, 2013

Dear Friends:

Every day your organization is not paid is another day of lost DSO. For that reason, prompt dispute and discrepancy resolution is a high priority for successful credit and collection managers. Even so, disputes and discrepancies not only have continued to be a big problem but also have continued to increase in complexity because of digital advertising. This issue's feature article offers a new view of an old challenge, along with a report on ongoing efforts to create solutions.

We enjoyed celebrating the accomplishments over the past year of our talented and hard-working employees at the Szabo Quality Awards Dinner last month. Our fall calendar of events includes the Broadcast Cable Credit Association (BCCA) annual conference, November 12 in New York, New York. Also, our annual Szabo Holiday Party will take place on December 14 here in Atlanta.

Best wishes for a terrific fall,

Robin Szabo, President
Szabo Associates, Inc.

Disputes and Discrepancies . . . New Rocks in the Old Road to Resolution

Disputes and discrepancies have always been a part of the media business, and their resolution has always been among the least enjoyable tasks for credit and collections departments. Traditional media still grapple with problems arising from issues such as programming shifts, last-minute order changes, payment liability, and failed expectations. Even as these old challenges continue, however, the growth of non-traditional revenue has piled on additional layers of complexity. As the late comedian Gilda Radner used to say, "It's always something."

The "something" in this case is the convoluted nature of digital buys, which requires new processes to meet the objective of preventing and resolving disputes and discrepancies. That said, the strategy remains the same as with traditional media—to establish policies and procedures to identify the parties liable for payment; establish ad verification systems that track, store, and access revisions; identify performance metrics for billing; address risk-management issues; and identify responsible personnel, roles, and instructions for dispute and discrepancy resolution.

Payment Liability.

As we have advised many times in this newsletter, know who is liable for payment! Many disputes continue to arise over the issue of payment liability because of conflicting liability positions among the parties involved in the buy. While the joint and several liability position offers the best protection for media companies, agencies generally adhere to the sequential liability position, in which the agency is responsible for payment only if and when it is paid by the advertiser.

In June, the Media Financial Management Association (MFM) announced the launch of EMCAPP®, Electronic Media Credit Application, an industry-wide tool that can be used by advertisers, advertising agencies, and media providers. Developed by MFM's subsidiary BCCA, the media industry's credit association, EMCAPP expedites the credit application process for all three entities. EMCAPP's back-end monitoring capabilities give media providers online access to credit applications from the advertiser and agency as well as an agency of record (AOR) letter when available. Single agency applications can also be linked to multiple advertiser applications, streamlining the credit application process. The terms and conditions of EMCAPP require an AOR document that details all of the parties involved in the transaction.

The liability clause issue is addressed by EMCAPP's terms and conditions, which can be described as "sequential liability

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with teeth." The advertiser is liable for payment until the funds have cleared the agency's or buying service's bank. Media providers have the right, upon reasonable notice, to contact the delinquent advertiser and/or review the agency's payment records from that client. Holding payments for non-disputed portions of invoices is prohibited. Additionally, participating media properties can easily move from the EMCAPP website to the BCCA Credit Reporting System. The system allows access to two types of credit reports through BCCA, including BCCA Custom Credit Reports. These custom reports provide the latest information on a particular advertiser or agency, including payment history for recent media purchases.

The growth of non-traditional, digital media further complicates the liability issue. These buys usually involve more than one agency in the buying process, necessitating credit investigation of several entities. Additionally, the explosive growth in the digital marketplace has spawned a complementary number of new advertising agencies dedicated to non-traditional advertising. With little or no credit history, these agencies present a significant challenge to credit managers seeking to verify their creditworthiness.

In an article he wrote for *The Financial Manager,* Greg Frost, Credit and Collections Manager at Hearst Television, cites several steps that can help you determine a new agency's creditworthiness: Check the legal status of these agencies through your state's corporation bureau website. Obtain credit reports from several credit reporting services to (hopefully) find consistency in credit ratings. Look for industry-specific organization data. (BCCA's Custom Credit Report is recommended for its ability to provide data for agencies and advertisers.) Finally, ask the agency for its financial operation plan for its first two years in business, and find out terms of any financial backing from investors or banks. Frost also suggests that your company's share of the market where the new order will be running may influence your decision about extending credit. If your company has a large share of the market, you might choose to be more conservative, while you might opt for a more liberal approach if your company is working to increase your share of the market.

Ad Verification.

A common dispute in media buys involves whether or not the advertiser received what was ordered from the media provider. While print advertising allows a fairly straightforward verification process with hard-copy proof, other media face more difficult challenges.

A frequent complaint among agencies and advertisers involved in broadcast buys has been that reports generated by ad sellers and third-party processors are delivered too late for make-goods to be scheduled within the flight. Commercial monitoring services, such as Nielsen's Keeping Trac, have sought to address that problem by offering agencies and advertisers daily verification that spots have aired as well as where and when they ran.

Excessive discrepancy rates in the spot advertising arena have long been a major thorn in the side of buying agencies. Discrepancy rates as high as 85% between invoices and buy sheets, largely related to undisclosed preemptions, have been reported. To address this problem, the Television Bureau of Advertising in 2007 launched TVB ePort, an "electronic bridge" for buying and selling spot TV. The service, funded by local television broadcasters, allows any trading partner (buyer, station, rep) to send and receive any transaction, such as orders and makegoods, whether national or local. Its aim was to take some of the manual labor and high costs out of buying spot TV, and thereby keep advertisers from moving to cable and other easier-to-buy media. The project has been challenging for stations and traffic and billing vendors to implement the software upgrades necessary to interface with the ePort system, particularly since its launch took place shortly before the recession; however, it passed the billion-dollar mark in order volume by 2010.

Interactive buys have further complicated the verification process. As a standard practice, advertisers and media providers use independent ad servers to manage their interactive campaigns. Discrepancies arise because each party counts an impression at a slightly different point. Media properties count at the ad request point while advertisers count at the ad delivery point, resulting in a mismatch. The difference, called a 'third-party discrepancy," has been considered an inescapable part of doing business in the interactive world, with the expectation that it generally should not exceed 5-10%.

Last year, the Interactive Advertising Bureau (IAB) released its final version of "Guidelines for the Conduct of Ad Verification." Developed in conjunction with the Media Rating Council, the framework ensures a common set of methods and practices for ad verification. In creating the guidelines, the IAB ultimately seeks to provide assurances to both advertisers and publishers that companies verifying interactive campaigns can be audited

against a common transparent standard. The organization offers a number of best practices for both publishers and agencies, stressing the importance of communication between and within both in order to ensure accuracy.

Metrics.
Since the inception of interactive advertising, advertisers and agencies have had concerns about the lack of standardized methods to measure ad effectiveness. Additionally, as we noted in a previous article (see *Collective Wisdom,* December 2012), discrepancies have occurred as a result of different counting methodologies used by the various ad serving technologies as well as the complexity of these technologies.

In 2004, the IAB formulated a plan to resolve this issue. With a task force composed of publishers, technology providers, networks, and vendors, the IAB developed guidelines for measuring impressions related to interactive display advertising and continually releases updates as additional media and metrics develop. With the strong support of AAAA and other members of the buying community, the organization recommends all ad-serving applications used in the buying and selling process to be certified, at minimum annually, as compliant with these guidelines.

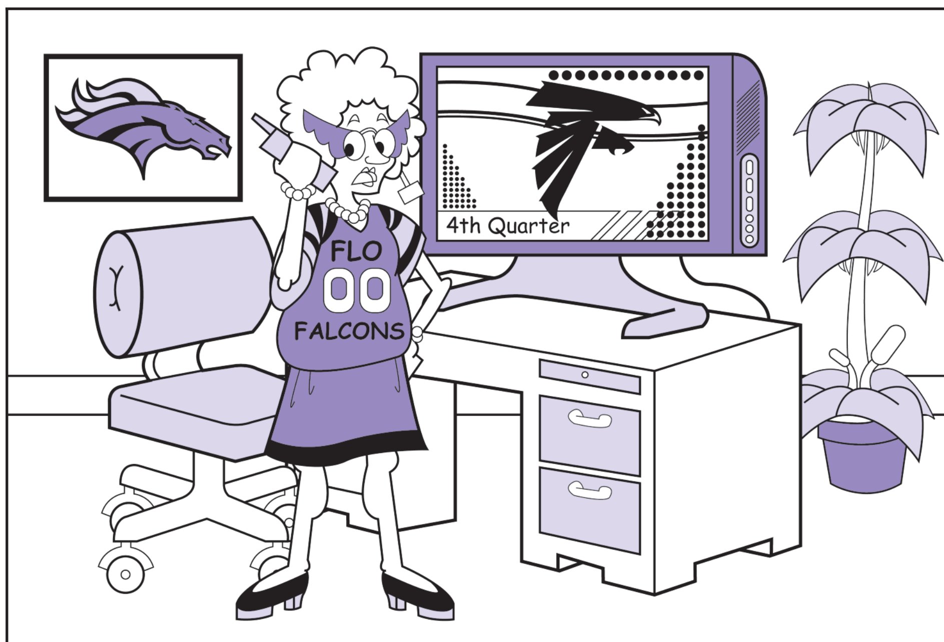
Risk Management.
With new revenue streams come new exposures to risk. In an article for *The Financial Manager* magazine, Jonathan Arnold and John Love of TechAssure urged media companies to review the fundamentals of risk transfer in their sales contracts as well as their cyber-risk coverage, which addresses dangers that relate to client-sensitive material on intranets and websites.

Risk transfer begins when the sales representative sends the terms and conditions of the sales contract to the client. The proper contract language releases the media property from potential damages arising from trademark or copyright issues.

According to Arnold and Love, a key to successful risk transfer is the indemnification provision, which states that the counterparty must honor three obligations: to indemnify (reimburse for a loss), to defend (pay the other party's legal expenses incurred during defense of a third-party claim), and to hold harmless (agree not to seek recourse for any damage arising out of the legal agreement). An example cited was a situation faced by a station sued for copyright infringement. The producers of a spot promoting a special event at a local hotel used background music owned by a well-known band without obtaining licensing rights. The plaintiff sued both the station and the hotel, but the hold-harmless language in the station's agreement protected it from having to pay damages.

The authors also warned that indemnity provisions might be of little value unless evidence of the other party's insurance coverage is supplied at the point of sale, especially when the counterparty is a high credit risk. They also stated that indemnity provisions are subject to state interpretations, which makes it very important to have your legal counsel review the language in your contract to confirm that it complies with the jurisdictions in which your company operates.

General liability policies usually do not address the particular dangers of data exposures on an intranet or website. According to Arnold and Love, the best way to ensure proper protection is to procure a specialized policy that specifically addresses cyber-related risks. For example, it provides defense if a site is breached and customer information is stolen, covering claims for lost business income, public relations expenses, and data restoration costs.



"I need to speak to Coach Smith ...Why? Because I need for him to make sure our ad runs in the last two minutes of the fourth quarter. Which, by the way, can't end later than 4:20 because I have to watch the Broncos at 4:25 on another network."

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Roles and Instructions. When disputes arise, they need to be immediately addressed. Your organization's credit and collections policy should include clearly stated objectives, timetables, team composition, and specific roles of team members involved in the resolution process. Procedures for resolution should be described in detail.

The IAB, in conjunction with representatives from major agencies, again developed best practices to decrease operational inefficiencies in billing and discrepancy resolution. While the organization's recommendations were created for publishers and agencies involved in interactive advertising buys, they are generally applicable to other media. Improved internal and external communication and improved systems and processes that support data integration and analysis are key components to its approach. Publisher best practices consider the entire revenue cycle from proposal to signed insertion order to campaign launch to invoice: increasing internal communication between sales, accounts receivable, service reps, and finance to minimize the time it takes to resolve discrepancies by keeping all customer touch-points involved and responsible; enabling systems to track and store all revisions for easy access, and store third-party numbers for discrepancy and post-campaign analysis; and ensuring that one tag is implemented in only one placement in order to avoid further confusion of additional, unordered lines being invoiced to agencies.

Streamlining your dispute and discrepancy resolution process through communication, access, and clear roles and procedures is essential for operational effectiveness. Every day that your organization is not paid because of unresolved disputes or discrepancies is another day of lost DSO. The complexities of today's marketplace, with an expanding medley of media and players, make it not only more difficult but also more imperative for credit and collections managers to anticipate its demands and meet them head on. ♦