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SZABO ASSOCIATES, INC. VOLUME 11, ISSUE 4, DECEMBER 31, 1996

Dear Friends:

"What do you think will be your greatest challenges and opportunities in the coming year?" That was the question we posed to several media credit managers for this issue's feature article.

Their answers covered a number of topics—so many that we decided to expand the article into a two-part series, to be concluded in March. We think you'll find their comments interesting, and we invite you to send us your own responses to the question as well. We want to hear from you!

There is much discussion in this issue about technology. Szabo Associates is also working to maximize the opportunities that technology offers. We are now transferring thousands of pages in our library to PC, and later this year we will be able to send any information in our library resource to our customers via e-mail.

Our business continues to grow, including internationally. Some of our employees are rising at 2:00 and 3:00 in the morning to call other time zones. Maybe I should have given them alarm clocks for Christmas!

And speaking of Christmas . . . the 1996 Szabo Christmas party was a smashing success. We thank all our friends who helped us celebrate our Silver (25th) Anniversary and another great year for Szabo Associates.

Best wishes for a happy and prosperous 1997,

Pete Szabo, President
Szabo Associates, Inc.

Media Credit Managers Speak Out on Issues

Part I—Liability, Reengineering, Technology, Bad Checks, and Bankruptcy

What's on the mind of media industry credit managers? Szabo Associates interviewed managers in different areas of the media industry—television, radio, cable, newspaper, magazine, and entertainment—and asked them what challenges they anticipated in the coming year. The answers were varied, with some concerns specific to a particular medium, some shared by all media, and a few shared most certainly with credit managers in any industry. In the first part of our two-part series, managers discuss liability, reengineering, technology, bad checks, and bankruptcy.

Liability Issues Continue to Plague

"Who is responsible for payment?" is a nagging question that continues to cause headaches for many credit managers.

"There is an increasing number of buys being placed involving several parties—advertisers, ad agencies, and buying services," says Neil Best, Corporate Credit Manager at Meredith Broadcasting Corporation in New York City. "Orders that stations receive do not always clarify who is responsible for payment."

The joint and several liability position is contained in Meredith's credit application as a condition. "When an agency or service indicates a position of sequential liability, we inform them of ours," says Best, who admits his company's joint and several liability position has not yet been tested in court.

Brenda Smith, Business Manager of WOAI-AM, KTKR-AM, KQXT-FM, KAJA-FM, KSJL-FM Radio in San Antonio, Texas, feels that the liability issue is further complicated by a disturbing trend—advertising agencies taking longer to pay, and large agencies going out of business.

"We deal with the problem by first sending a copy of the contract directly to the advertiser so the advertiser is aware of what the agency or buying service is doing," says Smith. "Then we require that the person responsible for payment—the *advertiser* —sign the contract and cut the check."

Another problematic trend regarding liability has been observed by Jeanne Puttre, Collections Supervisor at USA Cable Networks. "In the past year or two, more and more agencies are signing contracts 'in care of' advertisers," she says. "Additionally, since agencies book in advance, sometimes we are not

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Credit Managers Speak Out

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aware at the outset that the agency is placing advertising 'in care of' its client."

Regarding ways to address the problem, Puttre says, "It is now becoming increasingly important to get as much information as possible on the advertiser as well as the agency before extending credit."

Pamela Sharp-Brown, Business Manager of WODT-AM, WQUE-FM, WYLD-AM/FM in New Orleans, La., also runs checks on advertisers represented by agencies, even if the agencies are reliable. "Agencies often will not take the responsibility for payment if the advertiser doesn't pay them," she says. "With a loss of 10 cents on the dollar at 90 days, we need to do what we can to insure someone pays us."

Reengineering, Technology Impact Credit and Collections Processes

Pete Gallo, Credit Manager of USA Today, calls 1997 a "time of change," as technological advances, reengineering and "reallocation of resources" create both challenge and opportunity for credit departments. He feels the transition period will take several years as companies get up to speed with technological advances. "Many companies are changing their organizational structures and consolidating functions into one centralized source," he says. "For example, collections might be separated from credit, and credit might become part of customer service. Of course, many companies are further along the technological curve than others. Some newspapers do not even use PCs, while others utilize electronic invoicing, which will definitely become more common."

Gallo attributes the current trend of agencies stretching out payment terms in part to the "growing pains" that accompany technological change. "Agencies are themselves undergoing reengineering, creating additional strains on our credit departments to get the money in on time," he says.

Mike Singer, Director of Credit and Collections for The Hearst Corporation Service Center, concurs. "Agencies have definitely been tightening up," he says, "but I honestly don't believe they've made a conscientious decision to withhold payment. It's because their payables departments have been downsized."

Singer believes that the trend among agencies to send out one payment per month rather than weekly is a function of fewer people doing the job. "Of course, we bill throughout the month, and our terms are net 30 days, so we often do not receive payment within 30 days," he says.

Singer states that his toughest problem lately involves his "good" accounts. "In the last six months, I've seen payments slowly slipping," he says. "While payments are not so slow that they're something to get alarmed about, the trend is a fairly steady one, and it's making our DSO go up." Singer's department is looking at various ways to reverse the trend. "We have all payments sent to one central lock box to minimize delays and are working toward faster resolution of billing discrepancies," he says. "I also believe that as more agencies improve their technological capabilities, we will get payments in faster with electronic invoicing and direct deposits."

Jeanne Puttre of USA Networks believes also that electronic data interchange will be a boon to the credit and collections process. "EDI can minimize miscommunication, facilitate money transfers for cash-in-advance payments, and eliminate delay tactics," she says. "As EDI becomes universal, a claim that 'the invoice was lost' or 'the check's in the mail' will be a thing of the past."

Technology will also speed the upfront credit approval process. "I believe that in the future we'll spend much less time gathering credit information," says Kathy Clark, Credit Manager at Disney. "We'll have immediate access to that information via technological delivery systems. While we still pay for information services, we're finding that we can obtain similar information through the internet, and we're now working on strategies to accumulate more data that way."

The immediacy and accuracy facilitated by technology can, however, cause discrepancy issues relatively unheard of prior to computerization, according to Neil Best of Meredith Corporation. "Ten years ago, it was understood that if a spot ran within a couple of minutes of time purchased, it was acceptable," he says. "Now, if a spot doesn't match almost exactly to the time purchased, it gets 'kicked out' by the computer, and there's a problem. Additionally, with the amount of information available to the advertiser, particularly demographics, advertisers are more savvy and watchful about how their agencies are buying time."

Bad Checks and Bankruptcies Increase

"Our challenge is constant vigilance," says Bill Wallace, Credit Manager of the *Daily Oklahoman*. "We've had accounts on our books for years, then suddenly they slow up with payments, getting later and later each month," he says. "That's when you realize you've got a Chapter 11 waiting to happen. We have to take a renewed interest in these accounts, get new D&B reports, and make a recommendation to management on how to handle the problem."

Pamela Sharp-Brown of WODT cites an example of an advertiser that ran spots for five years with no payment problems. "Suddenly the payments stopped coming," she says. "It turned out that the company had been bought out, although the name, address, everything was the same. We lost a lot of money."

Pete Gallo of USA Today speaks of the risks inherent in the retail industry. "There seems to an overabundance of retail outlets compared to the demand for goods," he says, "and the risk filters down to newspapers. There are a lot of discrepancies coming in from retail, and we need to react quickly, putting more emphasis on customer service."

Bea Giordano, Advertising Sales Coordinator for Time Warner Cable Advertising in Newburgh, N.Y., has noticed an increase in bankruptcies and bad checks among advertisers. "We deal with many small local businesses," she says. "I think many declare bankruptcy as an easy way out. We also have problems with returned checks, particularly among advertisers on our photo advertising channel, where the cost for a 12-second spot is only about $60-70 per week. I believe they should always pay a month in advance," she says. "This year we required political advertisers to pay in advance, but we still ended up with returned checks later."

Brenda Smith of WOAI deals with cash-in-advance local advertisers by requiring the sales representative to bring in a cashier's check prior to running the spot. "For non-local advertisers, the requirement is a check seven days before the schedule starts, to provide time for the check to clear," she says. "And for out-of-town entertainment enterprises, we require a wire transfer."

"I believe bankruptcies among our advertisers have quadrupled in the last year," says Dee Vickers, Credit Manager of WDIV Television in Detroit, MI. "In the face of increasing bankruptcies and having to consider marginal accounts, our credit policy remains the same. We do more credit work up front as opposed to collections. It's important for management to be your ally and understand that the company loses money when an account ages 90 or more days. This revenue is their greatest liquid asset and needs to be protected," she says. "In my opinion, it's better to run promotional spots for the station than to run an ad for someone with bad credit."

Pamela Sharp-Brown of WODT says this year her management instituted an effective way to keep national accounts from aging 90 days. "At the end of a month, if an account hits 90 days, the national rep's commission is charged back, so the national rep gets an adjusted commission," she says. "Then when the money comes in, the commission is added back. It's a real incentive for them to get the money in on time."

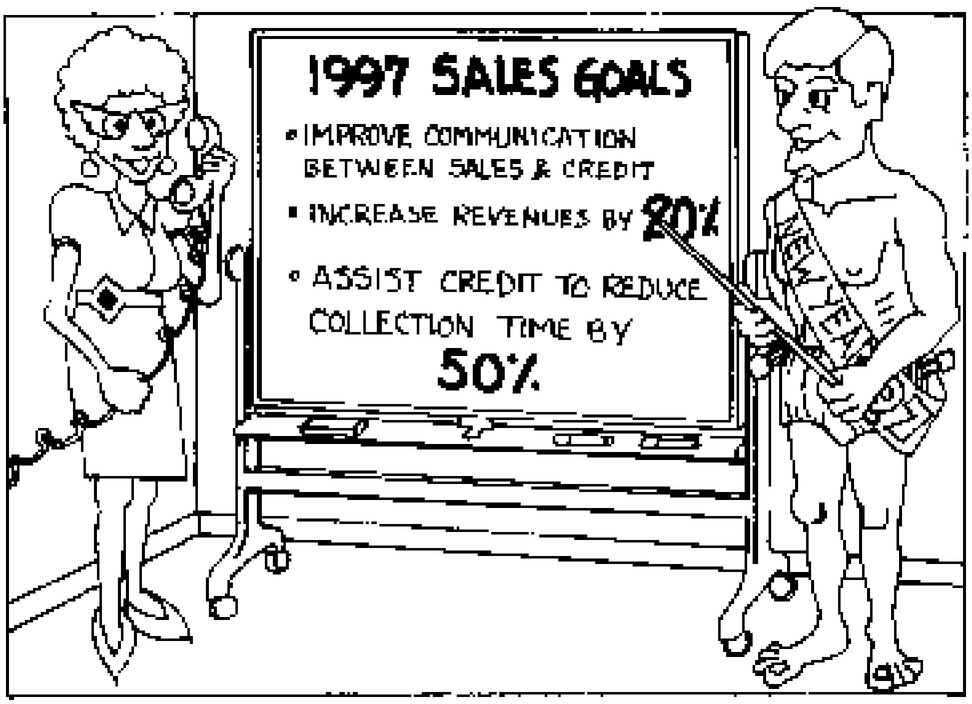
In our March 1997 issue, managers discuss international business and management support. We would like to thank Neil Best, Brenda Smith, Jeanne Puttre, Pete Gallo, Mike Singer, Kathy Clark, Bill Wallace, Pamela Sharp-Brown, Bea Giordano, and Dee Vickers for their contributions to Part 1 of this article. ♦

CALENDAR OF EVENTS

January 13-16
National Association of Television Program Executives
New Orleans, Louisiana

February 11-13
Georgia Association of Broadcasters, Radio and TV Institute
Athens, Georgia

February 19-21
Broadcast Cable Credit Association
San Antonio, Texas



"DON'T WORRY, BOSS. I CAME UP WITH A SUREFIRE WAY TO GET EVERYBODY'S ATTENTION AT THE JANUARY SALES MEETING!"

Why We Work the Way We Do
Bankruptcy Expertise

That "B" word is about the most unpleasant sound a creditor can hear. Unfortunately, it's sometimes all too real. The important question is how a creditor can deal with it — before, during and after various kinds of bankruptcy.

Szabo clients know they can turn to our experts to help answer questions like:

- How can I obtain payment prior to the debtor's bankruptcy without risking losing a preferential transfer?
- How can I see that my rights are protected?
- When can I safely issue credit to a Chapter 11 debtor?

Our people regularly work on creditors' committees and creditors' plans, both in and out of bankruptcy court. Because of our knowledge of debtor and creditor rights, we can usually negotiate the best possible settlements for our clients.

We have our own litigation department, made up of paralegals who have specialized training in bankruptcy procedures.

We have a close working relationship with our own network of attorneys located throughout the country. These attorneys specialize in collection cases and have in-depth knowledge of bankruptcy procedures. (You saw an example of that in an article on Chapter 11 debtors in the last issue of *"Collective Wisdom."*)

In addition, our Library Resource Center contains the latest information on debtor/creditor rights and pertinent court cases.

Even all this know-how can't make the "B" word pleasant. But the more help you get from your collection service, the easier it is to manage credit risks more profitably. ♦

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