

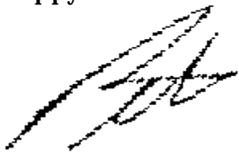
Dear Friends:

What a year this has been, with the rise and fall of many dot coms, dramatic stock market fluctuations, and a presidential election like no other! This year's end is a great time to reflect on the hopes and aspirations inspired by the new decade and millennium, and also to remember those things that endure and help us through difficult times. To that end, our feature article brings our focus back to the fundamentals of credit and collections—those principles that are sometimes forgotten in the face of our rapidly changing industry—but which are critical to your organization's stability and growth.

Here at Szabo, we are pleased that the year 2000 has brought us growth in our business, improvement in our technology, and an increase in our ability to serve the needs of our clients. We are so very grateful to all our clients for the confidence you have placed in us.

Looking ahead on our calendar of events, we hope to see many of you at the Broadcast Cable Credit Association convention, February 21st through 23rd, at the Omni Hotel in Houston, Texas. 'Til then, best wishes for a glorious holiday season!

Happy New Year!



Pete Szabo, President
Szabo Associates, Inc.

It's the End of the Beginning ... Is Your Credit and Collections "House" in Order?

As the year 2000 draws to a close, it is valuable to reflect on some of the year's most interesting events—the explosive growth of dot coms, the subsequent implosion of many, a surreal presidential election, and a wildly fluctuating stock market. It has been a year of high drama, played on the stages of Washington, Wall Street, and Saturday Night Live. So, at this year's end, in the beginning of the new decade and the new millennium, what can we take away from all this with respect to our industry? Perhaps the most important take-away is this: what deserves our attention most now is not what changes but what endures—the fundamental principles that help ensure that institutions survive and determine which companies survive and thrive.

As a credit manager, you can take comfort in the fact that the basic principles of credit and collections work as effectively today as they did decades ago. In fact, as technology continues to transform the world as we know it, adherence to these principles becomes increasingly important, as does well-trained and motivated people to apply those principles.

There's no better time than the start of 2001 to make sure your credit and collections "house" is in order and ready to meet the challenges of the new decade. To that end, we've put together a simple checklist—questions to ask yourself—that will help determine just how up-to-

date and effective your organization is in its application of the basic principles of credit extension and collections procedures:

Credit Extension

✓ Does our credit application clearly indicate with whom we will be doing business and what their qualifications are for credit extension?

The credit application remains the single most important piece of paper to help the credit manager determine whether or not to do business. It should include the year that the agency or company was established; its structure (proprietorship, partnership, corporation, or other); number of full-time employees; annual sales; business license number; the principals of the company, their addresses and home phone numbers; bank references; and at least three trade references, including media.

Clarify whether the customer is an individual, a corporation, a general partnership, a limited partnership, or a limited liability company. Identify the representatives of the parties to the agreement. Determine the legal capacities in which they are signing. This information should be included on the signed application.

✓ Does our credit application clearly state the terms of the business agreement? Because a realistic view of our industry does not always

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“House” in Order? —

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include signed contracts, today's credit application must fulfill more than its original purpose. Today's credit application should clearly define the responsibilities of the parties involved and state your liability position. We recommend that media adopt a “joint and several” liability position, which holds both an agency and the advertiser responsible for payment until media gets paid. This means that you should have a credit application for both the agency and the advertiser. Having signed applications from both provides not only information you need to determine whether or not to extend credit but also written confirmation that the applicants understand and agree to your payment terms and joint and several liability position.

✓ Do we have procedures for dealing with borderline customers?

You might deal with marginal customers by using one or more of the following:

- 1) Request cash in advance;
- 2) Extend credit on a weekly basis, with payment to be picked up by the salesperson;
- 3) Request partial cash in advance with the balance due within 30 days;
- 4) Get a personal guarantee. Remember, however, that the guarantee is only as good as the guarantor's ability to pay. The signature must show that the party is signing personally, the person's title must not appear after the name, and the company name must not appear directly above the signature. The name of the account being guaranteed must match the account on your books, and the guarantee must show it is binding upon the “heirs, executors, and administrators.” Also, the guarantee must show clearly that it truly is a guarantee, and you must

notify the guarantor in the event of a default.

✓ Do we reinforce payment terms at the beginning of the relationship?

A good relationship with sales can really pay off here. At the time of the sale, the salesperson should make it clear to the customer what the agreed upon terms of payment are. Reinforce the message by sending the new customer a “welcome” letter, expressing thanks for its business and restating the credit terms.

Good communication with sales can also bring potential problems to light long before they become a real problem for you. Sales reps are in the best position to become aware early of their customers' management or cash flow problems. Make an effort to visit the sales department for no specific reason, and attend sales meetings periodically to expand and reinforce your understanding of the sales perspective.

Collections Procedures

✓ Do we maximize the effectiveness of our collection tools?

The tried and true collections “tools of the trade” are still effective. The telephone is still the collector's best friend, and a follow-up letter (via the post office, fax, or e-mail) is critical to your confirmation process. The collection letter is also an efficient tool, particularly for smaller accounts. In order to use these tools to your greatest advantage, however, you must remain in control of the collection process.

The Telephone Call:

Short of face-to-face communication, telephone communication cannot be equaled in its combined power of immediacy and intimacy. Its limitation is its intrusiveness, which creates an immediate loss of control for the person receiving the call and which can put the person in a defensive mode. This limitation can be overcome by employing disci-

pline and diplomacy.

Do your homework. Know everything possible about the account beforehand. Make a final check to ensure that your records are accurate and up-to-date. Check the past record of payment to determine whether a pattern of delinquency exists. Finally, have a follow-up system that works for you.

Stay calm, even if verbally attacked. Try to mentally picture the debtor to help your concentration. Be sensitive to the debtor's brief loss of control over his life that the intrusiveness of the call creates. Be aware that the tone and energy of your voice convey an attitude. Speak slowly and deliberately, and convey your message simply and directly. Use words that cannot be misinterpreted. “Will you mail a check for \$15,000 today” leaves little room for misinterpretation, while “Can you send the money immediately?” is vague. Tune in to the debtor's responses, knowing that the words and tone can convey subtle messages about what might motivate him to pay and what might be a reasonable solution.

Use statements that leave the debtor's integrity unchallenged while conveying an unmistakable imperative. Try to pin down an exact date and amount of payment, and try to limit the promise of payment to a maximum of 10 days. Then seize the opportunity to end the phone call, emphasizing how important it is that the debtor keep his end of the arrangement. Ask for a “recap” of the arrangement, including the name and address to which the check should be sent. Immediately send a follow-up letter to the debtor, confirming the conversation (include the date of the call) and the specifics of its outcome.

The Collection Letter:

A carefully worded letter can be the least offensive collection

communication. Your organization should develop its own "form" letters, with two or three variations of each message to disguise its appearance as a form and to add flexibility. You might also develop guidelines to help collectors personalize the letters without changing the message or impact. The style should be clear and uncomplicated, the structure should be simple and easy to follow, and the letter should easily fit on one page. Present the situation clearly (amount due, number and date of invoice) and ask for action. Make sure your information is up-to-date before sending the letter.

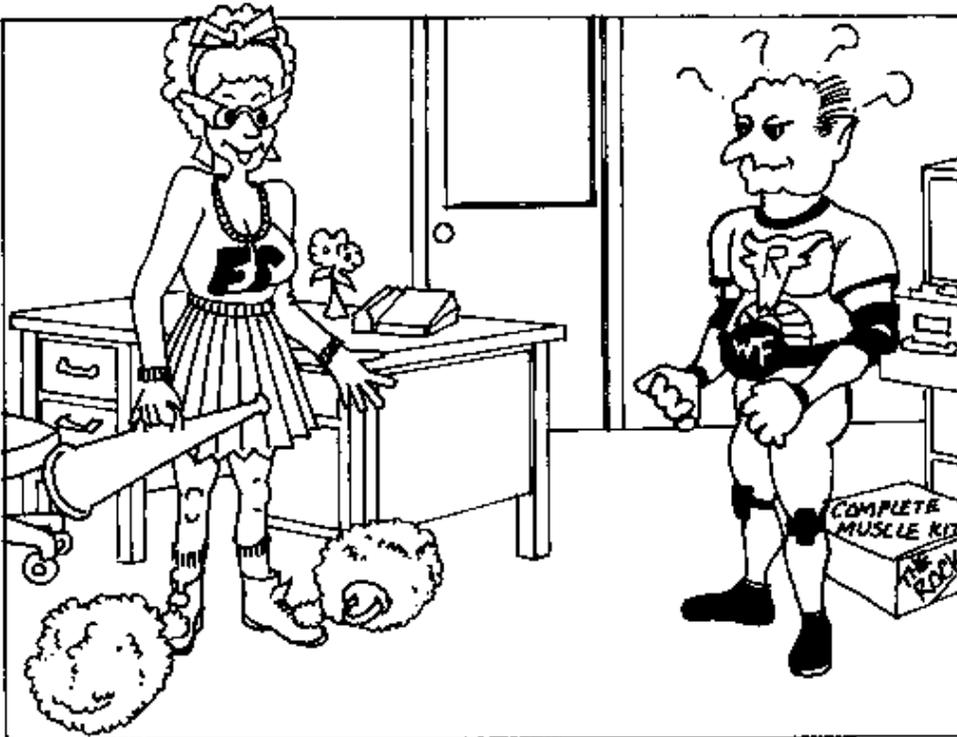
The "First Reminder" letter should have a mild and non-accusatory manner and should offer the suggestion that the nonpayment is probably the result of an oversight. The "Second Reminder" should express puzzlement. ("We still believe the items called to your attention have either been overlooked or delayed in payment for some other reason.") The

"Third Reminder" must reflect growing concern and should include a positively phrased benefit statement to motivate the debtor to pay. ("Payment of the invoice by the 10th will ensure your continued favorable credit standing.") At this stage, particularly for larger accounts, a phone call may be a better idea than a third letter. Depending on the size and nature of the accounts, a combination of letters, phone calls, and a personal visit may be best. The "Final Demand/Other Action" letter contains your final request plus a statement of your next action if you are not paid. "Other action" usually means referring the account to a third-party collector. Of course, some collection situations warrant non-form letters, such as delinquency of a major or new account. In any case, collection letters should always comply with Federal and State legislation.

✓ Do we adhere to a strict schedule of collection efforts? Begin the collection process when the account falls 15 days

past due and then follow-up at least every week. You never want to let a debtor think that an extra week or two makes little difference to you. Communicate only with the person in charge. Consider enlisting the help of the account's sales rep, either for the first try or after your first try meets with resistance. Revoke credit privileges on overdue accounts as outlined in your company's policies and procedures. Finally, enlist third-party help when the account is 90 to 120 days past due, as specified in your policies and procedures. Customers of some types of advertising media outlets are more perishable than customers of others. Engage the services of a collection service at 90 days past due in more perishable circumstances and up to 120 days for less perishable. If there is a dispute or denial of liability, provide your collection service with complete information on credit apps, knowledge of any disputes, notices, and any additional information that your sales department may have. Centralize all pertinent documents into a single file. Do not engage in any collection activity once the account is placed, and notify the collector of any payments received by the debtor as well as any conversations the debtor had with anyone in your company.

The strength of an organization depends on the solidity of its foundation. Only with a sound foundation can an organization proficiently support growth and change and weather inevitable economic ups and downs. The fundamental principles of credit and collections are the foundation of your credit and collections department. By honoring those principles, you can help ensure that, regardless of the challenges this decade holds, your organization will continue to survive and thrive. ♦



"I DUNNO, BOSS. THE THEME OF OUR HOLIDAY COSTUME PARTY IS 'BUILDING TEAM SPIRIT' AND YOU'RE GOING AS 'THE ROCK'?"

The Szabo Difference: The Art of Persuasion

The past season of political campaigns reminds us that not all arguments are logical. And that a heated but illogical argument does nothing but reinforce resistance in the person who is supposedly being “convinced.”

That’s a fact of life that Szabo representatives have to remember every minute of their working day.

Our people deal in the Art of Persuasion. In many ways, we are like salespeople. We have to overcome resistance. The resistance we run up against can take a lot of forms, and not all of them are logical.

Our experience in three decades of collecting past-due accounts has taught us that success in this field relies on two things. First, it takes a persuasive and knowledgeable negotiator. Second, that negotiator

needs all the support we can provide.

Our clients can help this process by planning in advance the kind of support that’s needed to collect the debt. This support includes a carefully thought-out credit application, a sales agreement that includes clear terms in as much written form as possible, and a billing and initial collection process that clarifies what has been agreed to and delivered.

The Szabo organization can give our representative a wealth of support as well. We can add substantial strength to our representative’s efforts by providing him or her with the most up-to-date information on credit laws, judgments, and customs.

Collection technique is another area where we can provide our representative with even more support. As a group, we have

gathered invaluable information on techniques for countering excuses, deflecting antagonism, negotiating differences, and clarifying repayment intentions. Our representatives learn these techniques in training, and they relearn them throughout their years of experience with us.

But before any of this can work, we have to make a point of hiring the kind of people who are most likely to succeed. We look for self-reliance, control, persuasiveness, an ability to deal with people in person and by telephone, and many other factors that are more difficult to put into words.

The end result is a Szabo representative who can succeed where others might fail—recovering a debt you thought might never be paid. ♦



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