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MEDIA COLLECTION PROFESSIONALS

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Questions and Answers Part 3 . . . Media's Changing A/R Portfolio (and What to Do about It)

Dear Friends:

Accounts receivable portfolios are changing rapidly as digital supplants traditional advertising for many media properties. How do credit and collection departments manage these portfolios? How do they identify and credit-check customers in these multi-party transactions? How should they get paid? How have shared services and outsourcing impacted their efforts? How can credit increase its value when sales is "king"? In our final installment of Q & As, we offer information and suggestions for dealing with these complex issues.

Our winter calendar includes the Media Financial Management (MFM) 2015 CFO Summit on February 26-27 in Ft. Lauderdale, Florida.

All of us at Szabo Associates wish you a very Happy New Year and a prosperous 2015.

Robin Szabo, President
Szabo Associates, Inc.

In simpler times, perhaps even five years ago, your accounts receivable portfolio probably looked a lot different than it looks today. Your previous portfolio, a peaceful landscape with traditional components and a single revenue stream, now resembles a Jackson Pollock abstract—digital as well as traditional advertisers, along with numerous other participants, interwoven into a complex web of revenue streams. And to make things worse, the doggone thing keeps changing.

The business environment has also become increasingly challenging. The trend to put sales above credit in the pecking order of importance continues. In fact, in most organizations, the coronation has already taken place—sales is king.

In numerous conversations that Szabo has with its customers, questions arise about how to effectively manage evolving a/r portfolios and meet the challenges posed by changing priorities within media organizations. With valuable input from digital media sources, we hope to offer some answers.

Customer Identification.

Question: With numerous parties and fast-speed transactions involved in programmatic buying, how do we determine and control with whom we are doing business?

First, there still seems to be confusion out there about the definition of programmatic. Many people incorrectly think that "programmatic" and "real-time bidding" (RTB) are synonymous. "Programmatic" simply refers to advertising buying and selling that is automated through technology, and RTB is only one piece. Any transaction accomplished through automation, including automating the invoice process following a direct sale, is programmatic. For many organizations, direct and private deals involving personal interaction and programmatic fulfillment are the biggest components of their digital sales.

While programmatic advertising used to be a way to sell "remnant" digital inventory, this is no longer the case. The technology behind programmatic has evolved to give buyers and sellers the ability to highly target advertising to reach specific demographics with specific online behaviors. Ad campaign planners can integrate customer and site data with specific algorithms to identify individual viewers, which then instantaneously generates real-time bidding. Savvy publishers are now training sales teams to directly sell expensive premium packages that incorporate programmatic for its unparalleled ability to deliver extremely qualified leads.

Your concern probably relates to only one type of programmatic transaction, RTB (or Open Auction), where usually no direct relationship between the

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buyer and seller exists. Some publishers prefer not to participate in this type of transaction. If they do, they may employ parameters, such as blacklists and price floors, to control access. For additional information on programmatic, see *Collective Wisdom,* June 2014.

Credit Checks.
Question: Sales departments complain that they cannot afford to wait even a couple of days for credit approval for fear that the customer may go somewhere else. How do you determine the percentage of risk and establish criteria for doing credit investigations? Is it worth the time and money to do a credit investigation on a $2,000 customer?

Many organizations faced with making quick decisions on a high volume of prospective customers have embraced credit scoring as a valuable tool to determine creditworthiness. Credit scoring allows you to evaluate and score customers in seconds; however, this efficiency is possible only if the scoring logic and functionality is added to your computer system or acquired from a third-party solutions company. In other words, the value lies in avoiding hands-on involvement in the process for the vast majority of applicants.

Credit scoring is particularly valuable, if not essential, if you have a large number of customers with low dollar-amount transactions. Since a single "yes" or "no" will not affect sales revenue significantly, scoring for low-dollar customers can be completely hands-off. Higher dollar-amount customers, with whom you have more to lose, may require some hands-on scrutiny. For those (hopefully few) whose scores fall below your usual threshold of pain, you can gather additional information if deemed necessary, study the data, and reach a relatively quick decision.

Automated credit scoring offers several benefits in addition to speed. It eliminates human error, guarantees consistency/fairness, reduces bad debt losses, and reduces personnel costs. Scoring allows you to easily stratify risk into categories, to which you can apply different collection strategies appropriate for each level. Additionally, scoring enables you to prepare reports to help determine the quality of your a/r portfolio and the effectiveness of your credit policy.

There are two basic types of credit scoring models. The "statistical model," sometimes called a "scorecard," uses statistical methods to determine the factors to be used and to assign statistically derived weights to them. The "judgmental model" uses traditional factors such as payment history, bank and trade references, credit agency ratings, and financial statement ratios, which are scored and weighted. It differs from the statistical model in that you choose the factors to use as well as the weights to assign each, which allows you to create your own risk matrix. Because you make your own determinations based on your particular credit policy and level of complexity desired, the judgmental model is also the easier of the two methods to implement.

Payment Methods.
Question: Our organization is paid primarily by check. Should we allow our customers to pay by credit card? Should we insist on ACH payments?

As you may know, we are big fans of ACH, or Automated Clearing House Processing. A secure computer network designed to connect individuals, businesses and banks through the Federal Reserve System, the ACH enables currency to securely move from sender to recipient in a fraction of a second, efficiently and inexpensively. A paper check requires multiple people and steps to process, bank charges and fees, and supply and postage costs. It is also the riskiest form of payment. If the check is not good or the bill is not paid on time, there are additional costs to collect and damage to your DSO. ACH processing can be set up for one-time transactions as well as recurring billing and payment plans on an agreed-upon schedule. Once authorization is granted, it is as easy as a credit card transaction, but much less costly. In fact, ACH is generally the lowest cost option for accepting electronic payments. For more detailed information on ACH, see *Collective Wisdom,* March 2014.

While we recommend promoting ACH to your customers, you probably should not eliminate other payment options that customers may prefer. After all, you want the business, and you want to keep your a/r carrying costs in line. Credit card payment, while more expensive than ACH, offers greater security than paper checks. The 3% transaction fee you will pay may be a worthwhile investment, particularly for marginal customers, when you consider the costs of collecting overdue accounts. It may be a useful exercise to study your yearly costs of collecting delinquent accounts. How much of your staff resources were required? What was the outcome of those efforts? Could your resources be applied more profitably elsewhere? You may find that the 3% charged by credit card companies is not so bad by comparison.

While paper checks will likely continue to be the most common form of payment to media for some years to come, we hope and predict that ACH payment processing will surpass credit card payment as the number two payment method to media properties.

Shared Services and Outsourcing.
Question: What are the benefits and challenges of shared services and outsourcing?

First, let us clarify the differences and connections between

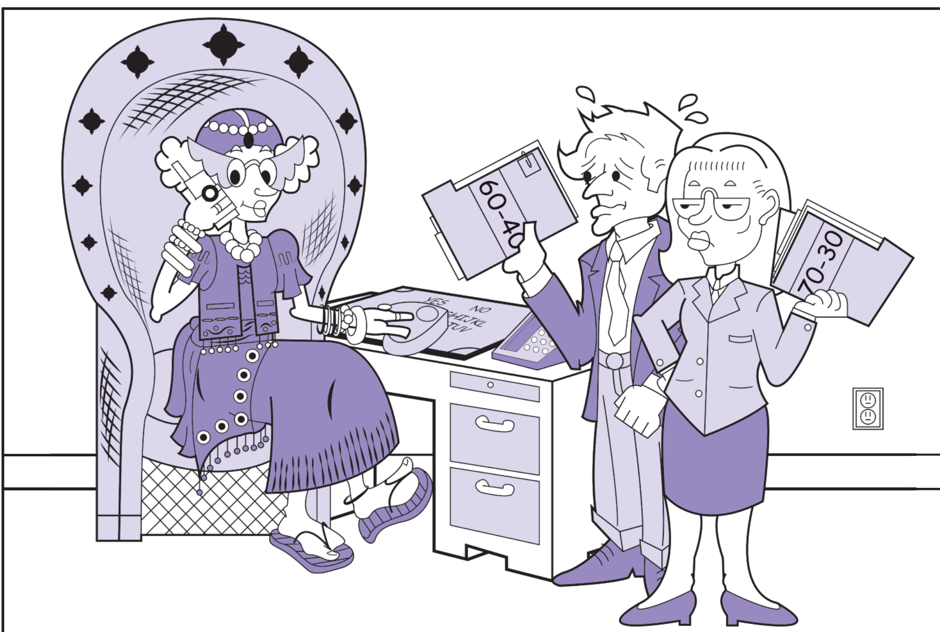
shared services and outsourcing. Shared services is a model designed to deliver corporate support by consolidating services from its headquarters and its various business units. It is considered a business unit within the organization, with other business units as its customers, and with prices attached to the services it provides them. As such, it is managed as an outside vendor; thus, its viability depends on its ability to successfully compete with the best outside vendors in the marketplace. As with other business units, shared services is free to choose and use outside resources, which also must employ best practices, when deemed critical to establishing its competitive advantage. Organizations may opt to use its shared services unit to provide one or several areas of service, including financial, legal, information systems, and human resources.

Outsourcing can be done at various levels, depending on the shared service unit's needs and charter. A third party's contribution may be confined to well-defined processes such as accounts payable. At the other end of the spectrum, partnerships can develop that involve a third party's contribution of sophisticated analytics and business acumen. For example, a media property's shared services unit might team with a third party for data analysis related to ad performance and behavioral targeting, as well as for recommendations based on the analysis.

We spoke to a large multinational mass media company with years of experience with both shared services and outsourcing. The company believes that having a centralized credit and collections process allows it to "create efficiencies and improve standardization and the customer experience in dealing with us." By working with an outsourcing service provider across its shared service center, the company has realized "tremendous efficiency, cost savings, and flexibility in providing services to our end customers."

Some business unit managers, perhaps fearing a loss of control and a lack of accountability of the shared service unit, resist the concept. That said, well-conceived and well-executed shared service units can significantly reduce the costs of doing business by eliminating redundant tasks and dynamically tailoring its services to the needs of the business units they serve. Shared services allows the customer unit to allocate additional time and resources to its principal purpose. Additionally, the shared service unit and its customers must agree on the product, quality, and price before the service takes place. If not, company management may, after review, allow the business unit customer to seek an outside vendor.

As we mentioned in our last issue (see *Collective Wisdom,* September 2014), shared services are becoming increasingly common among media properties. While offering substantial benefits to companies, shared service centers that provide financial services may also pose some challenges to credit and collections. All shared service centers that deliver financial services are not the same. Some do everything—credit, collections, billing, etc.—while others may do credit investigations but not collections, except on an as-needed basis. Our observation is that those that do collections sometimes start late in the process, making successful collection more difficult.



"I got lots of input about our digital-to-traditional a/r portfolio ratio five years from now, Boss. Sales has it at 60-40, the strategy consultant insists on 70-30, and my Ouija board, which never fails me, says 50-50. So which do you want to go with?"

Sales vs. Credit.

Question: It appears that now, more than ever, sales is king, and credit is considered an impediment to sales. What can credit do to increase its value?

Most controllers and CFOs recognize the need to have effective credit and collections operations. After all, without the judicious use of credit data, companies waste one of their most valuable assets—employees' time. That said, media are right-sizing their shops, hiring additional personnel for digital advertising, while allowing credit and collections departments to stagnate or even shrink. Credit managers must do more with less, and they continue to face increased pressure to approve credit on marginal or unacceptable prospective customers.

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Questions & Answers—

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In this sales-oriented environment, credit departments must change management's perception that credit and collections is a necessary expense rather than a revenue supporter and generator. How can you maximize your value? That is, how can you best support revenue while managing risk and providing excellent customer service?

Review your credit policy and procedures. Are they flexible enough? Have they kept pace with the changing media landscape, or are they mired in the pre-digital past? Be proactive rather than reactive. Embrace an attitude of continuous improvement. As one of our media sources stated, "Dedicating time to evaluate and address process problems instead of dealing with the symptoms one at a time is time well spent. Thinking about process end to end and working with people all across the order-to-cash lifecycle usually leads to the improvements that are required to do more with no new resources. A good partnership with your IT organization is a must-have as well."

We also suggest that you meet with your strategists and sales personnel to determine, to the degree possible, what your organization will look like in five years. This is a hard task in such a fast-changing environment; however, participating in trade groups and investing time in staying abreast of industry trends can be very helpful in this endeavor. Ask yourself, "How will the anticipated changes impact my a/r portfolio?" "How should I staff to accommodate the changes?"

If, after careful analysis, you feel you need to make adjustments in the structure of your department, such as an increase in personnel, take your case to the CFO or controller. Offer clear data as well as your expected outcome should your request be accepted: "This is what we need to look like. If you agree to my request, I can keep DSO in this range and even improve it. This is my projected net benefit to the company."

When all is said and done, of course, you must make the best with what you are given. Boost your staff's efficiencies by maintaining a good relationship with all stakeholders in your credit decisions. Involve them in the decision-making process to help win their buy-in. While you may not always agree, your reasoning and position are more likely to be supported when you have a solid foundation of respect and goodwill. ♦