collective wisdom®

MEDIA COLLECTION PROFESSIONALS szabo

SZABO ASSOCIATES, INC. VOLUME 37, ISSUE 3, SEPTEMBER 30, 2022

MORE SINCE 1971

MORE is better than less.

Dear Friends:

While we may or may not be in an official recession, American consumers are scaling back on spending, and businesses are feeling their pain. When consumers suffer, businesses suffer, and media companies often take a hit when their clients' advertising and marketing budgets are cut. In this quarter's newsletter, we share some ways to stay fiscally sound during this economic downturn. Businesses that prioritize good accounts receivable practices, regardless of economic conditions, are well-positioned to survive – or even prosper – in any economy.

Our annual Quality Awards banquet on August 30 at Fogo de Chao Buckhead was great fun. 2022 Quality Award recipients were: David Grieco and Robbin Steele, and Iomie Kendrick received the President's Award for her outstanding contributions.

Our fall calendar includes two Atlanta events: the Georgia Association of Broadcasters' GABCON 2022, October 21-22, where Szabo will be the after-party sponsor for the Gabby Awards; and the MFM/BCCA networking event at Gray Media Group Headquarters, October 27.

Best wishes this fall.

Robin

Robin Szabo, President
Szabo Associates, Inc.

Dodge the Pitfalls of a Slowing Economy . . . Savvy Credit Managers Take Charge!

Is it or is it not a recession? Though experts are divided as to whether the United States is heading toward an "official" recession, businesses and consumers are feeling some pain.

A traditionally accepted definition of a recession is a fall in Gross Domestic Product (GDP) in two successive quarters. The National Bureau of Economic Research (NBER) defines a recession as a downturn that is deep, diffused, and lasts for at least a few months. Real GDP decreased at an annual rate of 0.9 percent in the second quarter of 2022, following a decrease of 1.6 percent in the first quarter, according to statistics from the NBER. Employment, personal income, consumer spending, and manufacturing and industrial production can also be indicators.

As of August 31, 2022, the unemployment rate was 3.7 percent. Also worth mentioning, however, is the labor participation rate, which indicates the percentage of all people of working age who are employed or are actively seeking work. In February 2020, just prior to the Covid shutdowns, the rate was 63.4 percent; in August 2022, the rate was 62.4 percent. While not as high as pre-Covid, it is much better than its low point of 60.2 percent in April 2020.

The *Wall Street Journal* had an interesting perspective in its July 29 article, "Recession or Not, The Recovery Has Ended." Instead of a recession, the article predicts that the United States could be in for a prolonged period of growth below its normal potential rate, which is likely under 2 percent, referred to by former Federal Reserve Board of Governors member Larry Meyer as a "growth recession." But the final result is the same: a smaller and less vigorous economy because of the disruptions that the last two years have wrought.

What's in a Name?

Whatever we care to call our current state of economic affairs, the label becomes somewhat irrelevant when your personal and/or business well-being starts to suffer. That's when smart individuals and businesses look for ways to tighten their belts — cutting expenses and keeping a closer eye on cash flow.

Consumer behavior has been changing, largely in response to rising costs for housing, gasoline, and groceries. Fueled by low inventory and low interest rates, the average home price in the United States in August 2022 was $428,000, a 30 percent increase from the August 2020 average of $329,000. The average price of food in the United States jumped 10.9 percent in the 12 months ending July 2022, according to the U.S. Labor Department's Bureau of Labor Statistics. And while the average national price of a gallon of regular unleaded gasoline fell to $3.84 as of August 31, more than one dollar cheaper than at the end of June, gasoline prices are still higher than a year ago. Consumer spending has been flat or falling this summer, according to U.S. Commerce Department figures.

Of course, when consumers

—continued on page 2

Dodge the Pitfalls —

—continued from page 1

suffer, businesses suffer. And media companies often take a hit when their advertisers take a hit. Unfortunately, advertising and marketing budgets are often among the first line items to be slashed when revenue shows signs of dropping.

The Predictables.
Whatever the catalysts are for economic downturns, certain events are predictable. "No matter how unique the situation, downturns always hit businesses in the same places — revenue and margin," stated Thomas Aronica in his article, "What The Pandemic Has Taught Businesses About Accounts Receivable," in the July 2021 *Forbes* magazine. "When income and available cash get tight, so do companies."

Among other predictables are such things as interest rate adjustments by the Federal Reserve to control inflation, volatility in the stock market, and the inability of some businesses to weather the downturn successfully.

The Controllables.
So what can we do to offset all of these factors? Actually, plenty. With the proper measures, not only can you control their effects, but you can also prosper in these difficult times. Businesses that continually prioritize good accounts receivable processes, regardless of economic conditions, are in a better position to weather economic downturns.

Balance dueling goals. The age-old conflict between sales and credit can reach a flash point during difficult times. An internal review of policies and procedures can help make sure sales and credit are on the same page. Sales teams are under increased pressure to bring in new or missing revenue and might be prone to overlook late payments or grant credit to new customers who fail to meet the creditworthiness requirements. Including both departments in the review process lets everyone discuss perceived shortcomings of the existing policy and the need for adjustments. Here, your top goal is to keep existing clients current, with payments coming in according to your agreed-upon schedule.

"Train" new customers. Before granting credit to new accounts, some due diligence is required, particularly in the case of new startup companies that may not have a sufficient credit history. Follow your established guidelines, even when advertising sales are down and new customers are highly desired. Payment in advance may be your best option, with the potential for credit or more flexible payment terms down the road. Allowing customers to set a precedent for late payments will encourage a pattern of delinquencies and the expectation that late payments are acceptable.

Be transparent. Discuss payment terms early in the sales process. Set credit terms and conditions in detail, thoroughly explaining that clients are responsible for all collection fees if debt exceeds credit terms. Transparency in the very beginning makes it easier to collect an outstanding debt later on.

As soon as a new customer is approved for credit, get confirmation of responsibility for payment. If an agency is involved, clearly establish a "joint and several" liability position on all written contracts, invoices, and correspondence. Notify all parties involved of your terms and conditions for payment. Determine who should be contacted if there is a problem or dispute with the account. Send new accounts a welcome letter, thanking them for their business and restating your credit terms.

Document, document, document! Keep a record of every collection effort and communication, including calls, texts, emails, online meetings, and any other messaging type. After any phone call or virtual or in-person meeting, confirm to the customer, in writing, any money promised.

Keep current on industry conditions. Monitor companies and industries for signs of distress. Read industry news and touch base often with customers. Any changes in payment habits or advertising frequency should be flagged and investigated. If you suspect there's a problem, address it early. Provide an updated credit report, and communicate the issue with your customer. This might be the time to start negotiating a payment plan.

When advertising is placed by an agency, keep an eye on the agency's fiscal health as well, particularly if a contract with sequential liability provisions is in place. If the agency places ads with your company for more than one client, be sure all those accounts are being paid in a timely basis. Involve the customer immediately if the agency's payments fall behind.

Keep receivables young. The point at which a customer fails to meet the terms of your contract is the point at which profits start to deteriorate. Bill promptly and accurately. Institute systematic actions to be taken as the account ages.

If your terms and conditions call for payments within 30 days, the collection process should start by day 45, with a follow-up at least once a week. If your company chooses to accept advertising from a customer whose accounts are delinquent, a payment schedule for the overdue amount should be negotiated and enforced. Suspend future schedules or revoke credit privileges on 60-day past-due accounts.

The services of a collection agency should be enlisted when the account is 90 to 120 days past due or sooner if the debtor has moved without providing a forwarding address, appears to intend to move/close down, or previously failed to follow an agreed-to payment plan.

When customers are struggling to keep their businesses afloat, it may seem callous to insist on strict adherence to your terms of payment. However, you are also charged with keeping your business solvent. The longer receivables are allowed to age, the lower the chances are of the payments being collected.

Set priorities on past-due accounts. Make "high-stake" customers — those who owe what your organization considers significant amounts — your first priority, contacting them first and most often.

Next, target the slow payers.

There will always be some customers, even good and reliable ones, who are notoriously, consistently late with payments. A quick, good-natured reminder call is often all it takes to get these customers caught back up.

Third, contact everyone else who is 25 days or more past due. Once the first three priorities are handled, call or send letters to remaining past-due accounts. Make as many calls as you are able to without compromising the thoroughness and attention due each account. On the other hand, do not spend a disproportional amount of time on small accounts with small balances and little chance of return. Communicate the purpose of your call only with the person responsible for payment and document all conversations. Keep detailed records of all communications.

Consider asking the sales rep to help collect a delinquent account, either on the first attempt or after your first attempt meets with resistance. This is especially helpful when the sales person has a good relationship with the client. Ongoing personal communications often allows the salesperson to discover information that might be relevant to the delinquency. If a payment plan is in order, a joint visit by sales and credit can help create an atmosphere of goodwill and cooperation.

Sharpen your tools of the trade. Assemble and review all documentation before scheduling a call, video conference or personal visit. And make it easy for your customers to pay online with ACH, credit cards, PayPal, wire transfer, or other automated payment options.

Well-worded form letters can conserve time, energy and cost for organizations that do not have the resources for calls or personal meetings. If a series of two or three letters fails to elicit any response, switch tactics. Depending on the size and nature of the account, a combination of letters, phone calls and a personal visit may be needed. A "final demand" letter should make your final request for payment and detail other action that will be taken if the account is not paid, usually referral of the account to a collection agency.

Negotiate reasonably. Once you reach the key contact, stay professional, positive and in control, even if the client is upset or angry. The goal is a mutually beneficial agreement, positive cash flow and keeping/gaining future business from the customer. State the reason for the call in simple and direct language and ask for payment in full. Then listen carefully to the customer and guide the conversation toward a solution.

Work with the customer to establish a reasonable payment schedule for an overdue amount while collecting payment in advance for new advertising. Commiserate, but don't capitulate! Ask questions to find out about downturns in sales, financing issues, supply chain disruptions, and whether problems are relatively short-term or long-term. The goal here is to establish fair payment terms that are mutually beneficial.

After you have reached an agreement, recap the agreement and let the customer know you appreciate his efforts to resolve this issue. Send a follow-up letter, confirming the conversation and the agreed-upon payment arrangement. Then allow sufficient time for the payment to be processed and call the debtor again if the funds do not show up.

When I said "find out all you can about our new client, Bob's Bakery," I meant to review their credit history and verify their contact information, not to sample every single one of their products!

Now for Some Good News.
This year is a big one for political spending. AdImpact projects that spending for mid-term elections will reach close to \$9.7 billion, more than double the \$4 billion spent in the 2018 election cycle and slightly more than the \$9 million spent in 2020 when the White House was in play.

Political advertising is not the only sector showing growth. In fact, the July 22, 2022 Dentsu Global Ad Spend Focus report predicts continued growth despite global economic turbulence. The report projects global advertising spend to grow by 8.2 percent in 2022, reaching \$738.5 billion by the end of the year. Digital continues to drive the growth and is expected to comprise 55.5 percent of that overall ad spend. Further increases of 5.4 percent and 5.1 percent are predicted for 2023 and 2024.

Another significant growth market is Out of Home (OOH) advertising, which is increasingly going high tech with digital and three-dimensional advertisements. In the first quarter of 2022, advertising revenue increased 40.5 percent compared to the previous year, accounting for \$1.8 billion,

—continued on page 4

SZABO ASSOCIATES INC. szabo MEDIA COLLECTION PROFESSIONALS

PRSRT STD
U.S. POSTAGE
PAID
MARIETTA, GA
PERMIT #215

Collective Wisdom® is a publication of
Media Collection Professionals,
3355 Lenox Rd. NE, Suite 945, Atlanta, Georgia 30326
Tel: 404/266-2464, Fax: 404/266-2165
Website: www.szabo.com
e-mail: info@szabo.com

Dodge the Pitfalls —

—continued from page 3

based on figures released by the Out of Home Advertising Association of America (OAAA).

Take the Long View. Recessions are certainly nothing new. Weathering a recession is exactly what any company in business for more than two years has done. The "The Rules of Recession-Proofing" report from Analytic Partners, issued August 2, 2022, stressed the need for long-term thinking. The report's bottom line is that brands that "play the long game" during a recessionary cycle have the "best odds of success" coming out of it.

While cash flow is an important consideration at all times, every receivable dollar becomes even more valuable during recessionary times or in economic slowdowns. Recognize that accounts are more perishable now, follow your set procedures and act promptly at the first sign of trouble. Taking action on past-due receivables is the key to maintaining your organization's financial health in down times and positioning your company for continued success when the economy rebounds. ♦