collective wisdom®
SZABO ASSOCIATES, INC. VOLUME 38, ISSUE 1, MARCH 31, 2023

MORE is better than less.

Dear Friends:

Many of us have experienced numerous economic downturns and recessions in our media industry careers. And while there are obvious similarities, no two are exactly alike. As a result, there is no tried-and-true formula for addressing the negative consequences. The Federal Reserve is tasked with making its best guesses by periodically adjusting the fund rate to balance economic growth and inflation. The markets then respond according to their best guesses about what the future holds.

This issue's feature delves into our current volatile period, including the various factors affecting consumer behavior and advertising. We then discuss how credit and collection departments can successfully navigate through the unique challenges ahead and maximize profits for their organizations.

We look forward to the MFM/BCCA 2023 Annual Conference, May 21-24 at the Loews Hollywood Hotel in Los Angeles. Szabo Associates is pleased to sponsor the opening night party at La Mesa Restaurant and Lounge, a Tulum-Inspired Magical Experience.

Best wishes for a beautiful and happy spring,

Robin Szabo, President
Szabo Associates, Inc.

Predictions Vary . . . Prepare for Probabilities!

Fifteen years ago, as the serious recession of 2008 loomed, we quoted the esteemed late John Kenneth Galbraith: "We have two classes of forecasters—those who don't know and those who don't know they don't know." As timeless and true as that sentiment is, in all fairness, predicting the state of the economy is difficult for even the most qualified and experienced experts in the field. Like multiple tracking models of hurricanes, one course of direction can easily shift to another with a change in a single variable.

Reserve Judgment.
The Federal Reserve, on February 1st, approved a quarter-percentage-point interest rate increase and signaled plans to raise rates again in March in its efforts to lower inflation. This is the seventh consecutive increase, including a half point in December and three-quarters of a point in November. It also extends the central bank's most rapid pace of increases since the early 1980s to address inflation that hit a 40-year high last year.

Strong wage pressures, a tight labor market, and high service-sector inflation contributed to the Fed's decision to continue to raise rates. The Fed-funds rate impacts borrowing costs throughout the economy, from mortgages and auto loans to credit cards. The idea is to control inflation by tightening financial conditions, raising the costs of borrowing and/or lowering prices of stocks and other assets.

Investors disagree. Interestingly, markets have rallied in recent weeks, indicating that investors do not believe the Federal Reserve will keep interest rates high for long. Even though Fed Chairman Jerome Powell stated that the central bank is unlikely to cut rates at all this year, some investors think that all of these increases will put the brakes on the economy and encourage it to cut rates as joblessness goes up. The truly optimistic believe that inflation could fall rapidly without a serious downturn.

Others are more skeptical, citing the lag time between rate cuts and the bottoming out of the stock market (as in the subprime-mortgage crisis, where the Fed's first rate cut was in September 2007 and the stock bottom did not occur until March 2009). Another red flag is the gap between three-month and ten-year Treasury yields. Last month, the gap grew to the widest since the early 1980s. Traditionally, Wall Street looks at an inverted yield curve (when short-term bond yields exceed long-term yields) as an indicator that a recession is coming.

These differences in perspective are not all that surprising. Everybody has a job to do—the Fed, to restore price stability and achieve 2% inflation, according to Powell, and market participants, to take some calculated risks in order to capitalize on market rebounds.

But wait. On February 3rd, Galbraith's statement was again validated with the January jobs report. A surprising 517,000 jobs were added, following five months of slowing economic growth.

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While the information sector declined, payrolls grew in a number of other sectors, including hospitality, healthcare, and other everyday services. The numbers show that sectors hardest hit by the pandemic's first months are on the road to recovery. Reasons that people are returning to the workforce, as cited by business owners, executives, and economists, include bigger paychecks and benefits, less fear of getting sick, and financial concerns amid high inflation.

Stocks fell and bond yields went up following the February 3rd report. Traders, hoping for signs that the economy is loping along at just the right pace, feared that inflation will continue to rise, prompting the Fed to take rates even higher than expected.

Life on the Streets.
What matters, of course, is what happens in the real world—by the people who make the economic engine purr like a finely-tuned Maserati or sputter like an '85 Yugo. Their activities and behaviors form the basis of decisions by the Fed, whose job is to pay attention and react to what it observes.

Consumer spending. When COVID restrictions were lifted, consumers were eager to head back to their pre-pandemic behaviors. Pandemic programs, government stimulus checks, generous jobless benefits, and higher wages drove up savings and allowed them to enjoy restaurants, travel, and other service-related activities. Through most of 2022, consumer spending growth exceeded price increases by about two percentage points.

Now, however, the party is ending, and the guests are starting to go home. Benefits that encouraged spending, such as cheap credit and greater government benefits, are fading away. High inflation continues to chip away at wage increases and savings. Businesses have had to increase prices because of higher wage costs, higher borrowing costs, and higher leasing costs, at the same time their customers are trying to cut back on expenses. Though advertising is even more important during tough times in order to stay competitive, businesses often eliminate or reduce advertising, choosing some media outlets and foregoing others.

Fragmentation of Media.
If not knowing what lies ahead is reason enough for media to be concerned, the continuing fragmentation of media adds an additional layer of complexity and unease. Digital advertising commands the largest percentage of media ad spend and continues to grow. Out of Home (OOH) was the fastest growing ad format last year, as new digital technologies enabled advertisers to get their messages out and track their results.

Consumer behavior is changing, driven by both economic issues and technological advances. Streaming services are nudging out cable and also continue to grow, with many introducing ad-supported subscriptions. More and more consumers are "cutting the cord" with cable providers, putting price pressure on advertising rates. Artificial intelligence and augmented reality continue to evolve, QR codes are becoming ubiquitous, and gaming is going mainstream. (For more details on these developments, see *Collective Wisdom,* December 2022.)

The Money Chase.
We have lived in strange times for three years. We are still living in strange times, for different reasons, but strange nonetheless. A consistent reality, however, has been the challenge of remaining profitable in a media-verse of expanding choices, limited advertising dollars, and economic uncertainty.

While we have no control over external decisions and behaviors, we do have control over our internal activities. If your organization has not reviewed its policies and procedures as well as its performance in the past few months, do not delay any longer. Knowing what has been working and what has not, taking measures to update practices in areas that need improvement, and taking into consideration the current economic environment are essential to remain competitive and profitable this year. Here are some important "do's" to assist in evaluating your department's strengths and weaknesses:

Do re-examine policies and procedures. Economic realities are changing. The marketplace is changing. Perhaps your organization is changing as well. Changes in departmental personnel may result in a different emphasis with regard to policy objectives. Establishing the right balance between credit extension and collection operations can be a tough negotiation between sales and credit, but the clarity that results can prevent many problems down the road.

Do reaffirm your terms and conditions. Emphasize the importance of enforcing them. Establish a schedule for collection efforts on overdue accounts. Discuss your "tools of the trade," which may include phone calls, written communications, video conferences, and in-person visits.

Agreements need to be respected and kept on both sides of the table. If your terms and conditions call for payment within 30 days, start the collection process on day 45 with follow up at least once a week. Suspend future schedules or revoke credit privileges on 60-day past-due accounts. If your company chooses to continue doing business on a cash-in-advance basis with customers whose accounts are delinquent, negotiate a payment schedule for the overdue amount and firmly enforce it. Place accounts for collection when they are between 90 and 120 days past due.

Prioritize your collection efforts to maximize cash flow. New accounts need to be the first priority to avoid establishing precedents for late payments. Second priority should be "high stakes" accounts. When time is limited, it is better to focus on significant amounts that are 90 days or less past due rather than to spend time and resources to collect relatively insignificant amounts that have aged beyond 90 days.

Slow pays should be your third priority. Some customers are consistently, notoriously late, even if they do end up paying the invoice. Often, a quick, good-

natured phone call will bring the desired result. Finally, your last priority is everyone else who is past due 15 days or longer.

Do determine creditworthiness. The five C's, long an integral part of every credit grantor's lexicon, often become lost when trying to bring in business in difficult times. Too bad, since consideration of character, capacity, capital, conditions, and collateral might have lessened or prevented economic meltdowns in the past. While collateral does not apply to media, the other four certainly do, with character taking position number one. A prospect's payment history best illustrates character, a willingness to honor obligations and to cooperate with respectful efforts to collect on the past-due account.

Do complete all pre-deal documents. Determine who is responsible for payment and get written confirmation. If possible, get a credit application signed by the person responsible for payment. Include a joint and several liability clause. Even though this position is often struck out and replaced with a sequential liability clause, it still is a good practice to put it in your company's applications and agreements. Notify all parties involved in the buy of your liability position and reiterate it on every subsequent written communication.

Do monitor companies and industries for signs of distress. Many industries, such as hospitality and travel, took a hit during the pandemic. Small businesses struggled to survive. Supply chain problems affected automobile and other manufacturing industries.

Now, with supply chain shortages easing and consumers venturing out once again, things are looking better for many of these companies. Additionally, more than four million new businesses have opened in the past year in the U.S., offering new opportunities for advertising dollars.

At the same time, interest rates are climbing, affecting companies' ability to borrow and customers' ability to finance purchases. Higher wage costs and inflation also have a dampening effect on profits.

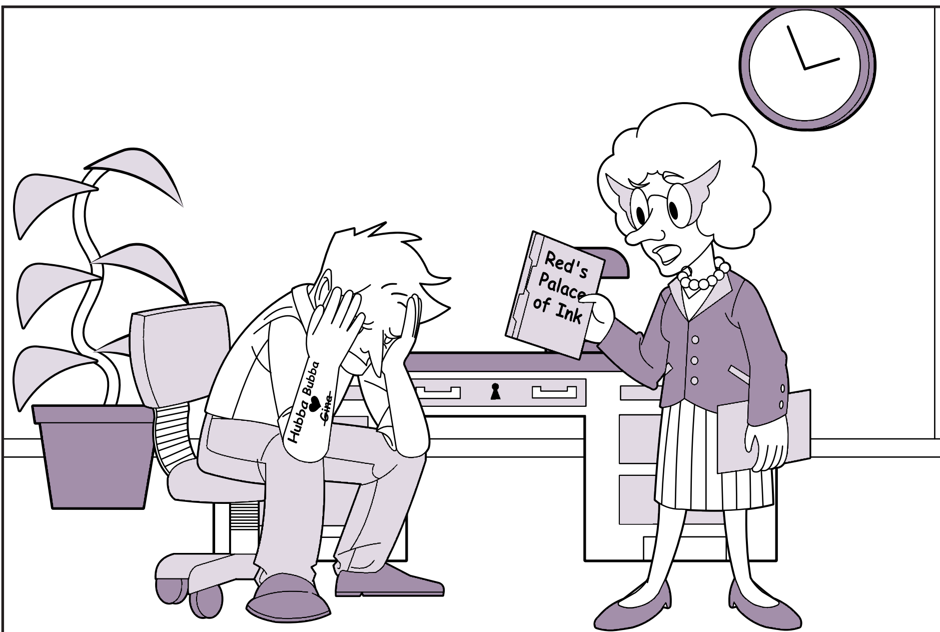
Schedule meetings among staff members to share information, pay attention to changes in payment habits and/or advertising frequency, and monitor all industries through financial publications and websites.

Do come to the table with the facts. Emphasize to staff the importance of gathering every scrap of information on a customer before they pick up the phone or write a letter asking for payment. There is nothing worse than asking for money that has already been paid or being unaware of a legitimate dispute. Also, there may have been a significant change within the company that has resulted in the delinquency.

Do empathize with your customers. Even your best customers may have trouble paying occasionally. Besides illustrating your own good character, your goodwill and support in tough times may reap long-term rewards. A grateful customer could well purchase more advertising in the future when times get better. There is no need (in fact, it is a bad idea) to alter your terms and conditions. Rather, show your willingness to spread the amount due into multiple payments. Enlisting sales in these negotiations can be helpful, since the sales rep knows the customer personally.

Fostering an atmosphere of cooperation and mutual respect is essential to getting the desired result. Emphasize to staff the importance of listening and knowing when to be silent. These are the times when the customer may be most forthcoming with useful information about the situation that could lead to a mutually satisfactory solution.

Do engage in staff support. The pandemic was bad enough, but now, as personnel return to the office and assume some measure of pre-COVID normalcy, challenges remain. Your organization may be experiencing staff shortages, with existing personnel stretched a bit thin. Try to schedule meetings to allow staff to discuss challenges and problem accounts with their colleagues. Every organization is different, so recognize that a once-per-week meeting may work for some companies but may be a time-sapping annoyance for others. Encourage one-on-one meetings if and when requested. The goal of these meetings should be to instill confidence at the individual, team, and organizational levels, creating and maintaining a culture that helps employees thrive in an uncertain environment.



Red's Palace of Ink says clients are cutting their studio time in half now, so he can only pay half of his invoice. By the way, next time, maybe think twice before getting a tattoo after the first date?

Turning the Corner.
The media industry has survived

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many cycles of pain and economic uncertainty, several of which have been more worrying than this one, if not as long. We have endured three years of shock, fear, and loss that will never be forgotten.

But, as in the past, things will get better; everything will be alright. There will be stories to tell. There was an amusing anecdote recently about a NYC tattoo artist who specializes in projects that take days to complete. After a rush of post-lockdown customers, flush with stimulus checks and unemployment insurance, customers are now cutting back or cancelling sessions altogether. "In my 15 years of doing this, I've never seen that," he said.

He probably should not be overly concerned, though. If we know anything about tattoo fans, they will return. In the meantime, half of a landscape back mural is better than no mural at all. ♦

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