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MEDIA COLLECTION PROFESSIONALS
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MORE SINCE 1971

MORE is better than less.

**Dear Friends:**
In this quarter's article we discuss the necessity of knowing who your client is and their ability to pay. This can be accomplished by checking their credit and establishing clear credit terms. Maintaining best practices via clear communication is essential to securing long-term and productive partnerships with both agencies and advertisers.

It's been a busy summer for Szabo, especially in August, with the Nebraska Broadcasters Convention; the Lekotek Run, which supports children with disabilities; and the Szabo Annual Quality Awards Banquet, where we honored employees Iomie Kendrick, Michelle Pillar, and John Shearer for their excellence in customer service. In September, we attended the Georgia Association of Broadcasters' GABCON 2025 where Szabo sponsored the Gabby Awards after-party.

In October, we will be attending the MFM Atlanta Regional Meet Up, and in November we travel to New York for Forecast 2026, MFM's National Media Credit Conference, and the New York Regional Meet Up.

The holidays will soon be upon us. All of us at Szabo would like to wish you a happy holiday season and thank you for all your support.

Best wishes for this fall!

Robin

Robin Szabo, President
Szabo Associates

# Know Your Client …
# and Your Client's Client

Advertising agencies conduct business on behalf of brands and advertisers, making them a frequent partner of media companies. When extending credit to agencies, smart media firms consider not only the agency's financial health, but also that of their advertiser clients. While many agencies have long business histories and strong financial track records, it's still necessary to do due diligence when signing contracts and doing deals. Agencies depend on being paid by their clients in a timely fashion, so, by default, media companies do as well.

As the digital world has grown and become more diverse, more agencies have popped up to handle clients' digital marketing needs across today's endless supply of platforms. These smaller agencies can come and go, making it all the more important to ensure they are in good financial health before granting them credit.

Salespeople can and should serve as the front line in this process, setting clear expectations for buyers early on so they are not surprised later by credit terms for which they were not prepared. It's not uncommon for salespeople to want to avoid these conversations so they don't throw up roadblocks that might hinder a deal, but salespeople need to understand that it's better to secure a solid arrangement that's likely to be paid than one based on a flimsy agreement with unsteady clients. In addition, skilled and communicative salespeople can escort clients seamlessly through this process so it feels like an expected part of doing business.

In any deal, all parties – agency, media outlet, and advertiser – should be working together to achieve their desired outcomes. For the advertiser, that means reaching customers and potentially convincing them to buy a product or service. For agencies and media companies, that means getting paid in a timely fashion for providing that service. For all participants in any given deal, certain conditions need to be agreed upon upfront to ensure that everyone gets their needs met.

From pitch to close to payment, timely and clear communication with clients is imperative. Good communication creates good relationships built on trust, smoothes tricky negotiations, and clarifies business operations while setting appropriate expectations. If this communication can be delivered in person by a friendly sales representative – especially in a world where almost all information is delivered by cold digital means – so much the better. The more groundwork that can be laid early in the sales process, the more likely the final outcome will successfully serve everyone's interest.

### Crafting Solid Credit Procedures.

While salespeople serve as the entry point, it's up to finance and legal departments to craft and negotiate solid credit agreements with new business partners. If an agency is in good financial shape, it should not be an issue for them to fill out a credit application and allow the seller to run a credit check.

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Although permission is not legally required in order to run a credit check on a business, it's considered good business practice to inform them of these plans. The Fair Credit Reporting Act does require permission to be granted in order to run a personal credit check on a business owner, which is a smart option when working with brand-new agencies with no credit history. Ideally, finance departments will also secure a credit application and run a credit check on the agency's client(s) to make sure that everyone involved in the deal is financially viable.

Something else that can be helpful is if the advertiser has signed an Agency of Record (AOR) agreement with the agency, thereby formalizing the relationship between the agency and the advertiser. If an AOR is in place, and a media organization finds itself in the position of needing to sue to collect, an AOR can firmly establish liability. An AOR also clarifies exactly who the client is. In many cases, agencies run credit checks and secure credit agreements with clients as part of establishing the AOR and that benefits you as the seller of advertising inventory.

When seeking a credit report, the main reporting agencies that are typically used are Dun & Bradstreet, Equifax, Experian, and Transunion. Businesses can access reports from all four bureaus. Szabo Associates offers its clients DebtorNet®, a vast database that includes data on more than 650,000 advertisers and agencies going back to the firm's start in 1971.

In January, the Media Financial Management Association (MFM) announced a strategic partnership with credit risk and business intelligence firm Creditsafe to "help businesses in the media industry take a more data-driven approach to credit risk management," according to the MFM. The partnership allows MFM members to access business reports, media industry reports, and credit risk management services at preferred pricing. Beyond those reports, MFM members also can access Accounts Receivable data about advertising agencies and individual advertisers to help them spot payment patterns early.

An agency also may simplify the process by providing a copy of their credit report with their application.

When compiling credit scores, these reporting bureaus take into account such factors as how the agency has used its credit, how many open trade lines they may have, whether there has been any payment delinquency, and the size and age of the applying company. An agency that is financially stable should not be resistant to a credit check, and should understand that media firms need to do their due diligence before agreeing to credit terms. In addition, agencies should be on similar terms with their own clients, ensuring that they are solvent before proceeding in business with them.

### Capturing Red Flags.

Once a credit report has been pulled, there are several red flags to look for. Catching any one of these could be grounds for not extending credit to the applying agency.

The most obvious one is the agency's payment track record. Late, missed, or delinquent payments are the first sign that a business is having cash-flow problems. Another is how high an agency's credit utilization rate is. If a business is already using a high percentage of its credit, it will have less options available to it should a client delay or default on payment. If it is using a high percentage of its available credit and payment on those accounts in arrears, that is grounds for serious concern about whether to extend credit to them.

Another factor to evaluate is an agency's debt-to-income (DTI) ratio, which reveals how much of an agency's income must be earmarked in order to fully service its debt. Businesses with a lower DTI have access to more capital, which means they are more likely to be able to pay their bills. A general rule of thumb is that a company's DTI should be under 36%.

Beyond the credit check, another place to look is at public fillings, which can uncover such adverse actions as bankruptcy, liens, judgments, collection notices, or Uniform Commercial Code (UCC) filings. UCC filings are notices from lenders that they have an interest in specific assets or properties, preventing businesses from selling off those assets to pay outstanding debts. UCC filings also inform would-be business partners that certain liened assets cannot be considered if collection actions need to be taken.

Other documents that can be considered are tax returns, balance sheets, P&L statements, and so forth. If an agency is so new that it doesn't have much of a financial record, that is all the more reason to be careful about extending full credit to it.

Beyond document searches, agencies should provide business and bank references on their credit applications, and these should be followed up on. These references can also provide insight into the company's overall professionalism. Even looking at client testimonials on their websites or on places like Google, Yelp, Angie's List and so forth can help gauge how well they function in the professional space. Are they organized? Are they reliable? Do they provide work in a timely fashion? How they behave with their clients is a good measure of how they will behave with service providers.

Finally, larger industry trends and surrounding economic conditions that could affect business operations should be taken into consideration. For example, rising interest rates might cause an automotive dealer's business to slow, which in turn could affect their ability to pay for advertising. In addition, if the economic environment is impacting a company's business, they may blame the advertising for being ineffective, lessening their desire to pay for it.

### Joint and Several Liability.

Once the agency and the advertisers pass the credit check, a credit agreement can be signed. Even then, when securing credit agreements with agencies, a "joint and several liability" clause should always be included, holding both the agency and the advertiser liable for payment.

According to Cornell Law School's Legal Information Institute, "when two or more parties are jointly and severally liable for a tortious (a behavior that may be sued upon as a civil wrong) act, each party is independently liable for the full extent of the injuries stemming from the tortious act. Thus, if a plaintiff wins a monetary judgment against the parties collectively, the plaintiff may collect the full value of the judgment from any one of them. That party may then seek contribution from the other wrongdoers. This concept of choosing the defendant(s) from whom to collect damages is called the "law of indivisible injury."

Including this clause in the credit agreement places the burden of collection and payment on the agency if the advertiser doesn't pay on time, although it holds both the agency and the advertiser liable. Once established in the credit agreement, joint and several liability clauses should be reinforced across all forthcoming agreements and notifications, including insertion orders, contracts, and invoices. Copies of all of these documents should be kept and correctly filed. These are essential should litigation become necessary.

While joint and several liability clauses should be included in any credit agreements, sequential liability clauses should be excised. Sequential liability excuses the agency from liability for payment until it has been paid by the advertiser. Sequential liability clauses can significantly slow the billing process if the advertiser is delinquent on payment. These clauses tend to show up in digital advertising deals so pay close attention when working with agencies on digital deals, such as streaming and FAST channels, websites, and other digital platforms.

This is another area where it's important to understand the chain of companies who are involved with a deal. A large advertising holding company, for example, can own many agencies within its corporate structure. Credit agreements should correctly identify all of those entities and make clear who is responsible for payment, even if the holding company moves an account from one internal agency to another or even shuts down one agency and shifts its business to another. Not understanding these types of business structures before entering into a deal can make it difficult to collect later.

Having clearly-worded credit agreements in place is important regardless of the size of the agency or advertiser with whom you are working. In an ever-shifting digital economy, small agencies and small advertisers can come and go. Media companies don't want to be left holding the bag if their client suddenly goes out of business and disappears.

**Securing Payment.**
All that said, finding potential problems doesn't have to kill a deal. There are other ways for agencies and advertisers to pay that can alleviate credit concerns.

The simplest solution to this problem is to request all payments Cash in Advance (CIA). Of course, if an agency is already having problems paying its bills, this may not be an option. It's also probably a strong indication that this agency is not a good business prospect at the moment.

Another option is requesting a deposit or a percentage of the overall deal prior to running the campaign. The remainder of the payment can be billed as portions of the campaign are completed. For example, if a client wants to run an advertising campaign over several weeks, a percentage of the cost can be billed upfront with the rest of the payments requested as certain key performance indicators (KPIs) are achieved or impressions are served.

Lastly, the agency can set up escrow or dedicated accounts to ensure funds are available for payment in a timely manner.

Should you decide to extend credit, media companies typically do that on a net 30 basis, meaning that the client has 30 days to pay their bill after the date of invoice. Longer terms, such as net 60, are generally reserved for secure clients with long histories of paying their bills on time. Even if you feel that an agency is coming in the door with solid credit, there shouldn't be a need to extend credit past the standard 30 days. If the agency insists and you still want to do business with them, consider tacking on a small percentage fee – for example, 1% of the total invoice per month. Once you've established a solid relationship with the agency and they have shown that they are a

Flo: "What are you doing?"
Sales Guy: "The Boss asked me to help you look for red flags."

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timely payer, you can choose to renegotiate the terms of payment.

**Protect Your Interests.** Working closely with agencies is a necessary part of any media business. Keeping these principles in mind can ensure your interests are protected.

First, set expectations early and keep communication open. Next, do your research, making sure to the best of your ability that you know what advertisers the agency is representing. Follow through on all credit applications and credit checks for all involved entities. While this can be laborious and time-consuming on the front end, it can save many headaches on the back end. When credit agreements are written and signed, make sure to include joint and several liability clauses in all contracts and paperwork so that both the agency and their clients are held responsible for payment. Similarly, excise any sequential liability clauses from agency credit agreements. Finally, set clear payment terms – whether that's Cash in Advance or net 30 – and then be willing to remind the client to pay via pleasant, but firm, reminders.

At the end of the day, protecting your organization's financial health is about more than collecting overdue balances – it's about setting clear expectations, holding parties accountable, and acting decisively when those expectations are not met. By putting the right safeguards in place, you ensure that your organization can focus on what it does best: delivering exceptional media content and services while knowing that your receivables are secure and your interests are protected. ♦



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