

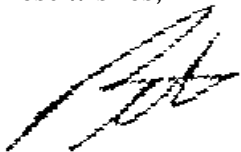
Timely Turnovers Critical During Economic Downturn

Dear Friends:

In the past few months, Szabo Associates has received numerous calls from clients expressing concern over a slowdown in receivables. These concerns are continuing to echo throughout the media industry in companies both large and small. While economic experts may disagree on the prognosis, none would dispute the fact that the health of the U.S. economy is not as robust as it has been. This issue's feature addresses the implications of our economic slowdown for media and offers advice on how to mitigate its effects on your bottom line.

Looking forward on our Calendar of Events, we'll be attending the Broadcast Cable Financial Management Association convention on May 20th through 23rd in Toronto, Ontario. And, when summertime starts really heating up Atlanta in June, we'll head outdoors for our annual Szabo summer picnic. In the meantime, have a fabulous spring season!

Best wishes,



Pete Szabo, President
Szabo Associates, Inc.

Are we facing bad times ahead with the U.S. economy? Recent reports about slowing GDP growth rates and falling corporate earnings have certainly been sobering.

In the past few months, regulators and banks have made announcements regarding the deteriorating quality of commercial credit. In a recent report, analysts at Salomon Smith Barney stated that loan defaults by U.S. companies could jump by nearly 50 percent in 2001 from the previous year. The analysts included in the report a list of troubled loans totaling \$51 billion and estimated that borrowers could default on \$33 billion of those loans in 2001 versus \$23 billion in 2000.

While economists are not, at this time, predicting a dramatic downturn, the outlook is certainly not as sunny as it was a year ago. If the economy continues to slow, we can expect more deterioration of commercial credit, particularly among those industries that borrowed aggressively to finance rapid expansion.

Even if the economy manages the "soft landing" that many experts predict, with continuing but slower growth than we've enjoyed in the past few years, now is definitely the time for credit managers to remind themselves of an extremely important maxim.

economic downturn, receivables are more perishable.

When the economy slows,

many companies extend the time they will allow an account receivable to age before they will engage in formal collection efforts. This is a bad idea! Results of a recent survey of members of the Commercial Collection Agency Association of the Commercial Law League of America indicate that such laxity in enforcement of credit policy can have a severely negative impact on companies' cash flow and bottom lines. The survey results once again confirm what we in the credit and collections business have long known—the probability of collecting a delinquent account drops dramatically as the delinquency period lengthens. After three months, the probability of collecting the account drops to 73%; after six months, the probability is 57%; and after one year, the chance of collecting a past due account is only 29%.

These are the times when it is most critical to take a hard line on past due receivables and to enlist third-party collection assistance when your internal efforts fail. Additionally, organizations should increase their efforts to recognize signs of trouble with their accounts and to react appropriately and quickly when they first show up. With these convictions in mind, we offer a few tips to help your credit and collections staff continue to maintain a healthy cash

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Timely Turnovers —

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flow regardless of any economic turbulence in the months ahead:

for signs of trouble within your customers' industries.

Read financial magazines and newspapers and check financial Web sites regularly to stay abreast of industry trends that might affect your customers' profitability. (See the June 2000 and March 1999 issues of Szabo Collective Wisdom for reviews of some useful Web sites. All issues of Collective Wisdom can be found on our Szabo Web site at www.szabo.com frequent meetings to exchange information with your staff members. Make sure staff members understand the economic interdependencies that exist between industries.

2. Recognize early the "red flags" that can signal potential collection problems.

ations, or management can quickly and dramatically affect a company's health and stability. Have the paying habits of a long-term customer changed? Have there been requests for a "break" during the advertising run or a cancellation of an existing contract? Has the customer defaulted on any commitments? If any of these occur, get an updated credit report and discuss the issue with the customer without delay.

Does the customer repeatedly ask for documentation that has already been sent? This delaying tactic is as old as dirt.

Are there disputes or discrepancies that may signal cash flow problems? If a customer responds to your requests for payment with an

allegation of a dispute, which was not previously brought up and which you subsequently prove to be groundless, you have cause for concern. If the customer fails to make payment after you prove that it is groundless, place the account with a third-party collector.

Is the customer withholding a substantial payment when only a small portion of it is in dispute? Insist that the customer pay the undisputed amount immediately while the disputed amount awaits resolution. If the customer refuses or

fails to pay, turn it over to a third-party collector.

Lesson ser you want to form a long-term partnership.

Choosing to use a collection service should be regarded as neither an indication of failure nor a "last ditch effort" to collect. Even if your upfront diligence and internal controls are beyond reproach, you will never totally eliminate overdue accounts and bad debt. In fact, any organi-

FAQs About Third-Party Collections

Over the past couple of decades, media credit managers have asked Szabo Associates many questions about third-party collections. Here are a few of the most frequently asked:

Why are there considerable differences in the fees charged by collection services, and should cost be a consideration in choosing an agency?

There are no regulations regarding fees that a third-party collection service can charge. Some agencies charge low fees in order to give themselves a competitive edge and to hopefully attract a greater volume of business. Unfortunately, low fees can mean that the agency will lessen its collection efforts in order to cut its expenses and raise its profits. Rather than focusing on an agency's fee rate, focus on what you will net back (what your company receives from placed accounts after the agency has been paid its fee) as a result of the agency's efforts. An agency that charges a very low rate but nets your company less money than one that charges a higher rate is obviously the less desirable choice.

If an agency has a good reputation in commercial collections, is it important that it have experience in collecting in our particular industry?

It is very important that you choose an agency that not only specializes in commercial collections but also has considerable experience with your particular medium. An agency that makes it its business to keep abreast of changes in your industry, understand the nature of advertising in your particular medium, and appreciate the relationship you have with your customers will be able to form the most rewarding long-term partnership with you. When considering a national agency, be sure to ask it for media references in your locale.

What can our company do to help maximize a third-party collection agency's efforts on our behalf?

The September 1998 issue of Szabo Collective Wisdom (you can find it on our Web site at www.szabo.com) has some useful tips on working with a third-party collector. The sidebar in the same issue describes what you should expect from your agency and what a good agency should expect from you in order to achieve the best results.

zation that claims to have done so has probably been overly cautious in credit extension and has thereby missed some good income opportunities. Instead, regard your collection agency as a trusted partner that will improve your bottom line by maximizing recovery on your past due accounts while preserving your relationships with your customers.

The agency you choose should reflect your own company's high ethics and standards and should also have extensive experience in media collections. A top-notch agency will also maintain an active involvement in organizations and activities that keep it updated on the latest rules and regulations pertaining to both the collections industry and the media industry.

4. Enlist third-party help when an account is 90 to 120 days past due, depending on its perishability.

Accounts in some types of

media tend to be more perishable than in others. Turnover at 90 days is prudent for accounts in more volatile types of industries. Accounts in more stable industries can be allowed to age a bit longer. It is unwise, however, to allow any account to age beyond 120 days before turning it over to a third-party collection service.

Turning over the account should, of course, follow diligent internal efforts at collecting the account, as prescribed in your credit and collections policies. Internal efforts should begin when the account is 15 days past due, with follow-up efforts at least once a week.

There are two basic reasons to enlist the services of a good third-party collector: money and goodwill.

Money: The longer an account languishes on your books, the more costly it is to keep it there and the less likely it will be collectible at all. By turning over past due accounts on a timely basis, you send your customers

a clear message that you take your payment terms seriously and that you probably will use all legal means of collecting the debt. This "third-party psychology" factor often induces a debtor to pay after the initial contact from the collector.

Goodwill: By the time a third-party collector takes over collection efforts, the relationship between creditor and debtor is often strained. A good third-party collector is often able to resolve disputes, negotiate a favorable outcome, and preserve the creditor/debtor relationship.

Of course, while a good collection agency's specialized resources, skills, and experience can maximize your chances for recovery, there will always be some accounts for which the best solution is either a write-off or legal action. A good collection service can help you decide whether or not to pursue a lawsuit against a debtor and can also recommend an appropriate attorney if you decide to sue.



Regardless of the state of the economy, it is always a good idea to strictly adhere to your company's timetable of collection activities. Doing otherwise not only reduces your profits but also sets an unhealthy precedent with your customers that can haunt you for the duration of your business relationship. Times of economic downturn, however, demand even more of credit managers. They require a heightened sensitivity and responsiveness to the increased external and internal pressures that can influence your customers' profitability—and yours.

"YOU WANTED TO KNOW OUR MOST AGED ACCOUNT, BOSS. THAT WOULD BE OLD MR. BREWSTER. FROM THE LOOKS OF HIM, HE'S GOTTA BE 102."

The Szabo Difference: Experience in a Crunch

Nothing better illustrates the cyclical nature of business than the fact that just four years ago (March 1998) we published an article entitled, "Collection Skills for Good Times." Now, the wheel is turning, and it's important to realize just what it takes to collect past due receivables when the economy tightens.

The most important thing a collections service can bring to your business at times like these is experience. At Szabo, most of our representatives have been through the two economic slow-downs of the past 12 years. We've learned what works, and what doesn't.

The experience we've gained during past economic downturns becomes "collective knowledge" throughout our organization. It's passed along from one representative to another, including the youngest. We have both formal and infor-

mal methods of making certain that the techniques that work are shared by everyone.

In times of a slow economy, your Szabo representative knows the importance of tightening up the collections calendar. When money is tight, the tendency of the debtor is to "delay, delay, delay." This is where the Szabo person-to-person technique is especially valuable. We make our contacts by telephone, not mail. A letter could be put aside for "later." A phone call is more urgent. It places our representative much more in control of the collections process. We're usually able to keep up a constant pressure without alienating your client.

These are also times when it is more important than ever to have a collections service that knows your business. When money gets tight in the media industry, we see an increased number of delayed

payments that are blamed on contract disputes. Sometimes this is an excuse, sometimes it's not. Our representatives are trained and experienced in media, so they can tell the difference between a genuine contract dispute and a mere excuse. If the delay is caused by a genuine contract dispute, our people are trained in the art of negotiation. This means that often we are able to find a settlement that satisfies your need for payment and your client's need for a satisfactory solution.

Finally, we need to remember that a weak economy is always temporary. A good collections representative can often collect your money and still keep your client. Some clients who are slow pay in bad times can be your best clients when good times return. And good times always return. ♦



Collective Wisdom® is a publication of
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