ANA

PAYMENT TERMS: CURRENT PRACTICES FOR MARKETING SERVICES

MARCH 2020

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EXECUTIVE SUMMARY

This report covers the findings from an ANA survey of client-side marketers, conducted during January 2020, on the topic of payment terms for marketing services.

Payment Terms Are Either Being Extended or Kept the Same
In the past year (calendar year 2019), 37 percent of respondents report extending payment terms and 18 percent report shortening terms for a list of marketing services covering agency fees, research, media, production, and talent payments. Meanwhile, 91 percent report keeping payment terms the same. (Numbers add up to greater than 100 percent because a given marketer could extend payment terms for one service, shorten for another, and stay the same for yet others.) Those services noted most for extended payment terms are agency fees, research, and production. Note that, according to the survey, the historic payment terms for marketing services varies by specific service, with the mean ranging between 41.1 and 59.9 days.

Payment Terms Extended for Cash Flow/Main Drivers are Finance and Procurement
The majority of respondents who have extended their payment terms have done so to derive better cash flow.

The area of the company that drove change to overall payment terms are primarily finance/CFO and procurement. Qualitative conversations revealed that payment term reductions are almost always led/initiated by finance while procurement's role is to implement/enforce the new terms.

Negative Consequences of Extended Payment Terms
Extended payment terms can have negative consequences, notably strained relationships with vendors, reduction in flexibility, and higher prices.

Longest Payment Terms
Payment terms for research and agency fees are the longest; both have increased since the previous ANA payment terms study in 2013.

Discount Programs for Early Payment and Supply Chain Financing are Limited
Only about 20 percent of respondents either have a discount program for early payment or offer supply chain financing to advertising/marketing vendors.

EXECUTIVE SUMMARY

Payment Term Policies Must Be Monitored/Enforced
For 66 percent of respondents, their companies have a process in place to regularly monitor/enforce payment term policies. This is especially important since internal systems are often not connected and payment term practices need to align with policies.

Almost 30 Percent Likely to Change Payment Terms Within the Next Year
Twenty-nine percent of respondents say they are “very/somewhat” likely to change their payment terms for advertising/marketing services within the next year, including 14 percent who are “very likely.”

The above findings are very consistent with a previous ANA study on payment terms conducted in 2013.

Please note that the ANA does not recommend any specific payment terms practice.

INTRODUCTION AND METHODOLOGY

This report covers the findings from an online survey conducted by the ANA during January 2020. The survey was initiated due to member interest resulting from coverage in the advertising/marketing trade press regarding changes in payment terms being implemented by a handful of companies to some suppliers. The purpose of this survey was to determine if such changes were isolated examples or reflective of a broader trend.

The survey was sent to members of ANA's marketing and media committees.
In total, 109 client-side marketers participated in this survey.
About the respondents:

- 48 percent have been working in marketing/advertising for at least 20 years and 66 percent for at least 15 years.
- 59 percent work at organizations that had a 2019 media budget of $100 million or more.
- For 31 percent of respondents, their businesses are primarily B-to-C, 13 percent are primarily B-to-B, and 56 percent are both.
- 46 percent of respondents are in procurement/sourcing (in the 2013 survey, a high percentage of respondents were also in procurement: 62 percent), and 38 percent are in marketing or brand management.

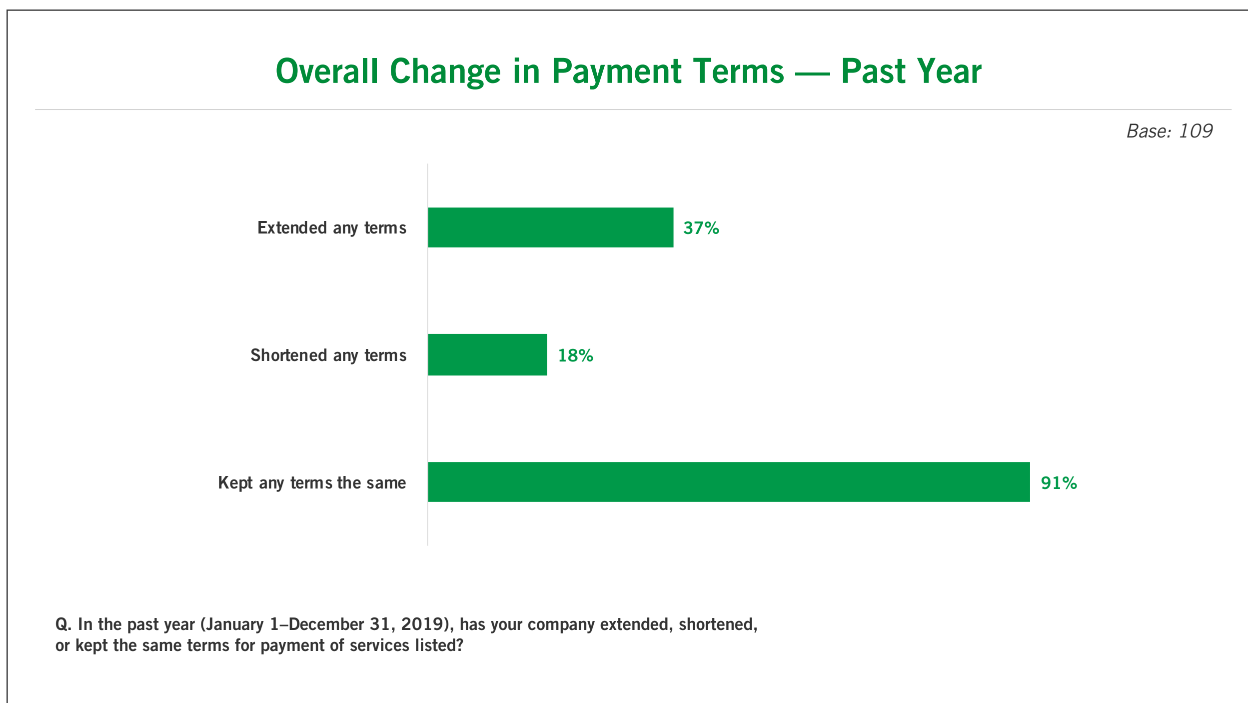
The complete survey questionnaire is **here**.

In addition to the quantitative results, 10 in-depth qualitative interviews were conducted which provided rich insights and perspective.

The ANA last surveyed members on payment terms in 2013 (with 98 respondents), and, where appropriate, current results are benchmarked against that report.

DETAILED FINDINGS
PAYMENT TERM CHANGES

In the past year, 37 percent of respondents report extending payment terms and 18 percent report shortening payment terms for a list of marketing services covering agency fees, research, media, production, and talent payments. Meanwhile, 91 percent report keeping payment terms the same. (These numbers add up to greater than 100 percent because a given marketer could extend payment terms for one service, shorten for another, and stay the same for yet others.)



In 2013, 43 percent of respondents extended payment terms, 17 percent shortened them, and 90 percent kept them the same.

DETAILED FINDINGS

SPECIFIC SERVICES AFFECTED BY CHANGES IN PAYMENT TERMS

All marketing services asked about in the survey have had payment terms extended. Those services noted most for extended payment terms are agency fees, research, and production.

Payment Term Changes (%)

Base: 109

	Extended	Same	Shortened	Not Applicable
Network broadcast	6	71	5	18
Local broadcast	7	69	4	20
Social media	12	74	6	8
Programmatic	9	75	4	12
Other digital*	14	73	3	10
Production	21	60	12	7
Talent payments	8	68	8	15
Agency fees (compensation)	24	67	4	5
Research	23	63	2	12

*Not included in programmatic/social

Q. In the past year (January 1–December 31, 2019), has your company extended, shortened, or kept the same terms for payment of services listed?

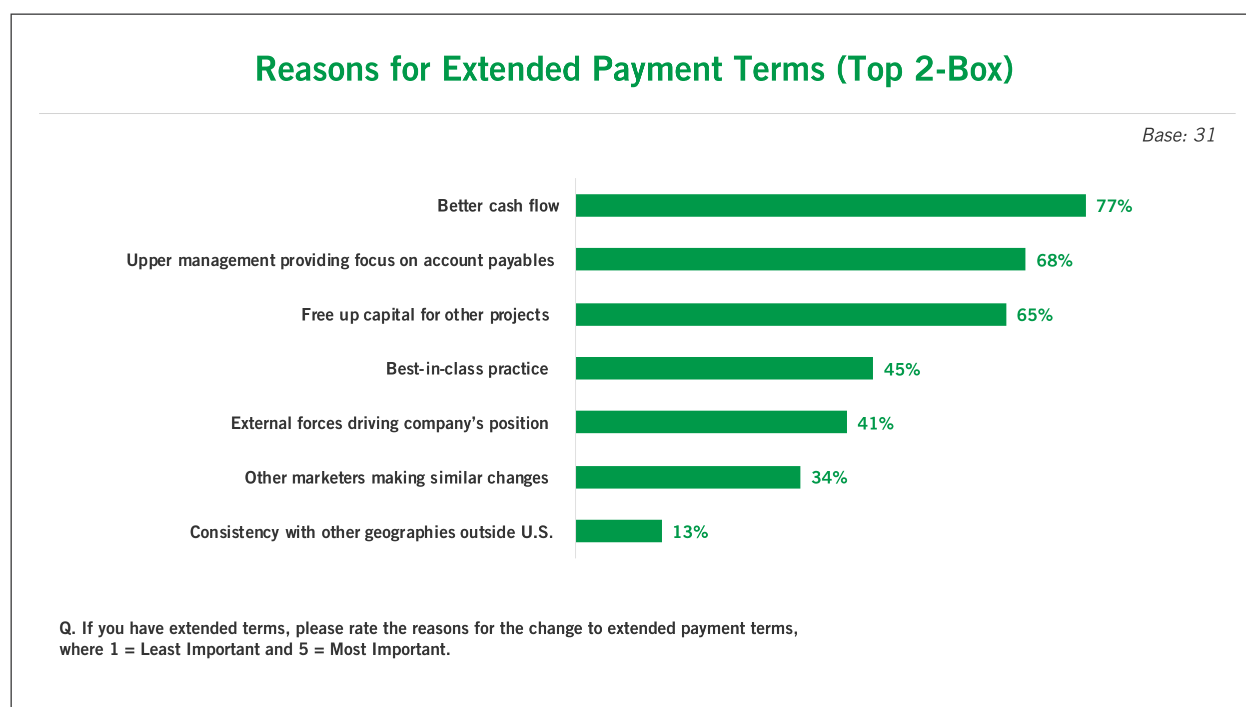
Note: Some rows may not add up to 100% due to rounding.

Later in this report we'll discuss why payment terms have been extended for agency fees, research, and production.

DETAILED FINDINGS

BETTER CASH FLOW MOST COMMON REASON FOR EXTENDING PAYMENT TERMS

For those who have extended terms, the top reasons are better cash flow, upper management focus on accounts payable, and to free up capital for other projects (all are interrelated) — the same top reasons, in the same order, as in the 2013 survey.



As one respondent noted, "Wall Street has started to pay more attention to working capital ratios while evaluating stock valuations. Working capital is a financial metric which represents operating liquidity available to a business. As a result, the financial organizations of many publicly traded companies are focusing on working capital initiatives to drive cash flow from operations. One such initiative is extending suppliers' payment terms." Other qualitative interviewees who work for publicly held companies agreed with this perspective.

> *"Payment terms (working capital) is a company initiative. To make company-wide targets, many suppliers will need to move their payment terms."*
> — Pharma respondent

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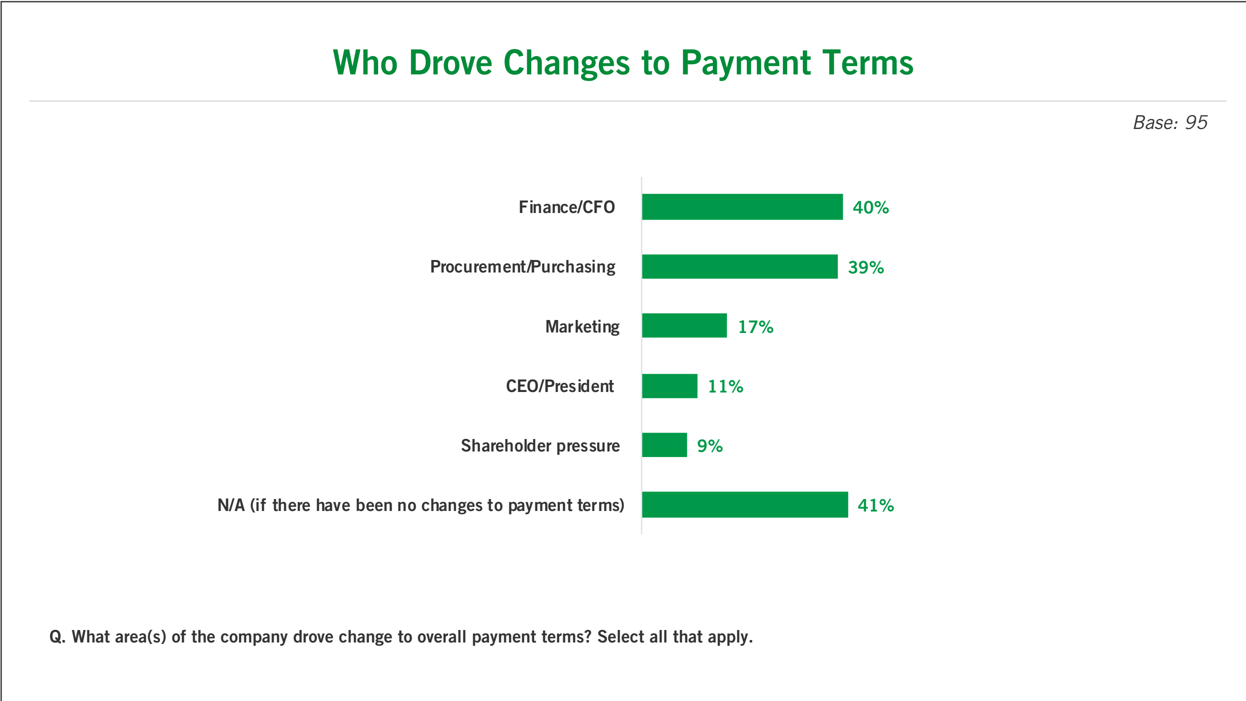
DETAILED FINDINGS

FINANCE AND PROCUREMENT ARE THE MAIN DRIVERS OF PAYMENT TERM CHANGES

Finance/CFO (40 percent) and procurement/purchasing (39 percent) are equally the main drivers of payment term changes. Those were also the top drivers in 2013, but then finance/CFO was noted by 86 percent of respondents while procurement was noted by 52 percent.



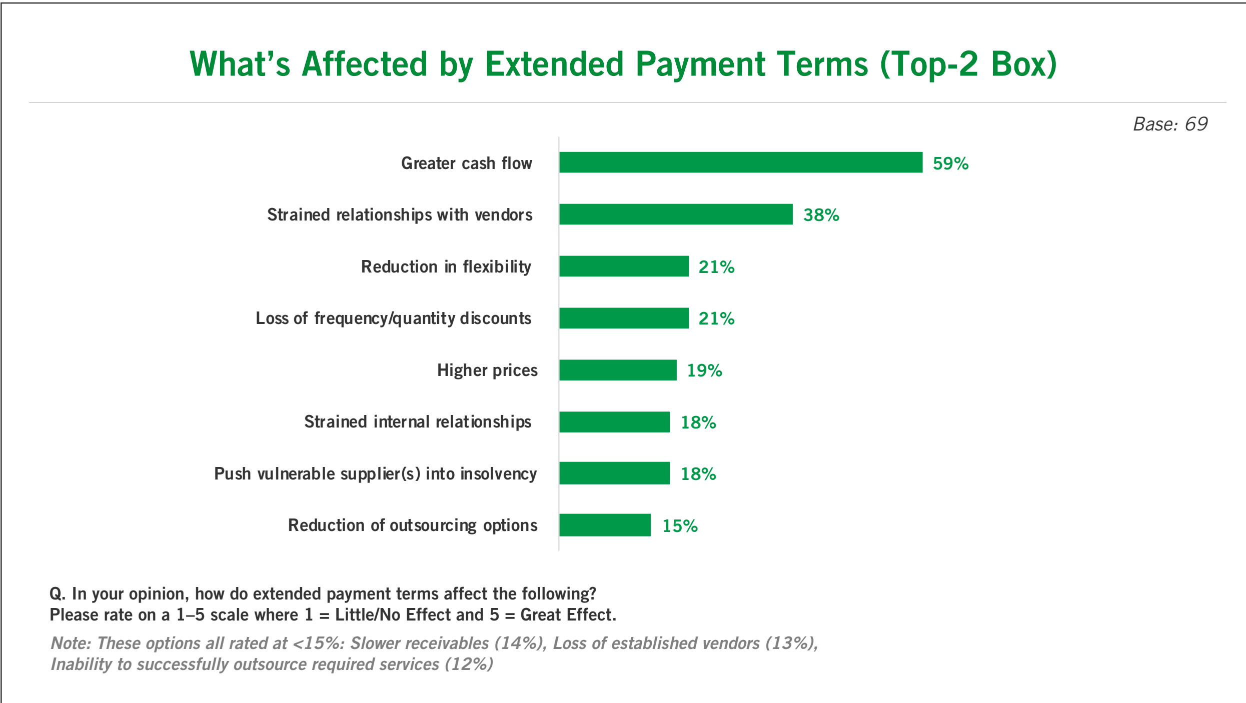
This question asked, “What area(s) of the company drove change to overall payment terms? Select all that apply.” But it did not ask about the primary driver. In our qualitative discussions, the majority of respondents asserted that payment term changes are almost always led/initiated by finance while procurement’s role is to implement/enforce the new terms.

Those who have extended payment terms for at least one marketing service were 50 percent more likely to answer that Finance/CFO drove the change to extended terms than did Procurement/Purchasing.

DETAILED FINDINGS

EXTENDED PAYMENT TERMS POSITIVELY AFFECT CASH FLOW, BUT CAN STRAIN VENDOR RELATIONSHIPS

Greater cash flow is cited as the consideration most affected by extended payment terms (similar to 2013), noted by 59 percent of respondents. However, extended payment terms can also have negative consequences, and strained relationships with vendors was noted by 38 percent of respondents.



"Extending payment terms is a blunt instrument for improving a company's financial situation. There might be other options, leading to better financial outcomes, taken off the table because of a singular focus on payment terms."
— CPG respondent

DETAILED FINDINGS

RESEARCH AND AGENCY FEES HAVE THE LONGEST PAYMENT TERMS

Payment terms for research and agency fees are the longest — and both are considerably longer versus the 2013 survey. Terms for production have also increased.

Mean Length of Payment Terms (Days)

	2020 Mean (Base: 64)	2013 Mean (Base: 64)
Network broadcast	41.3	42.6
Local broadcast	43.1	43.5
Social media	47.3	
Programmatic	44.9	
Other digital*	50.0	
Production	44.9	37.9
Talent payments	41.1	38.7
Agency fees (compensation)	58.1	45.7
Research	59.9	44.0
Digital media		45.9

*Not included in programmatic/social

Q. What are the current payment terms, before any discount is taken, for your company's advertising/marketing services? Select one for each.

Note that categories were slightly different between the 2013 and 2020 surveys.

About 10 percent of respondent have payment terms, before any discounts, of 90 days or more for both agency fees and research. See details in Appendix 1.

> *"Ultra-long payment terms (beyond 90 days) by marketer clients can stifle entrepreneurship and small business ownership in the advertising and media industry."*
> — Pharma respondent

DETAILED FINDINGS
RESEARCH AND AGENCY FEES HAVE THE LONGEST PAYMENT TERMS

We used qualitative discussions to take a deeper dive into the segments where payment terms had the biggest increases and learned:

Agency Fees:

- There was the perspective that some agencies often offer up less resistance and have more willingness to extend payment terms when asked. A common perspective in our qualitative discussions was, "This is a reality. Agencies are in a tough position and most don't have a choice when asked to extend terms."
- Furthermore, the industry transition from retainer to project work may have also led to extended terms. There is a perspective that marketers can "push harder" for extended terms for project work, especially with new agencies, because many agencies will accept such terms to get a foot in the door with a marketer.

Research:

- Research startups are proliferating globally, offering various solutions. One respondent noted (and many others agreed), "There is a bigger pool of suppliers than you might think… under competitive pressure, aggressively trying to grow and win business. Many of these companies have been flexible with their payment terms."

Production:

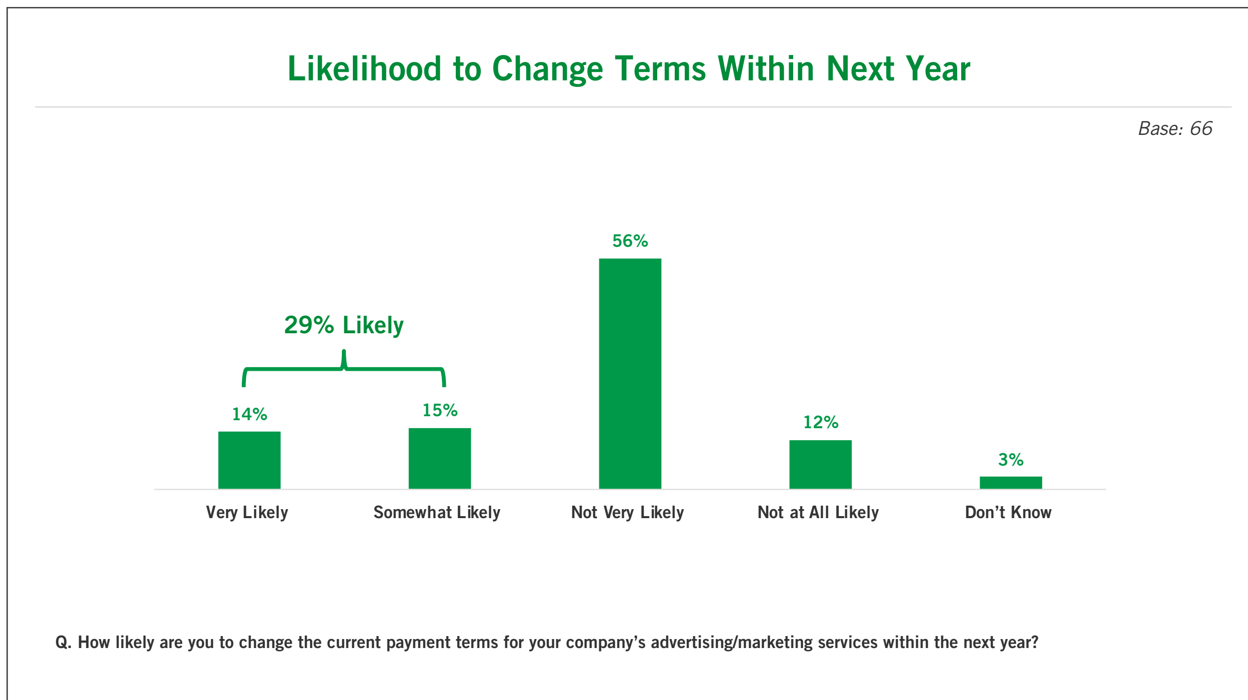
- The production landscape has changed dramatically since our 2013 report. Historically, production spending was concentrated with traditional production and editorial houses. But today, production is driven by the need for more content, often required faster and cheaper than before.
- Many agencies now have in-house production and editorial capabilities. Also, a new category of content agencies, sometimes called "decoupling" agencies, has emerged; some are affiliated with holding companies and some are not. These new models with new competitors, in some cases, have introduced suppliers for production which have had their payment terms extended.
- Meanwhile, in-house agency penetration is rising, and workloads are increasing. According to the 2018 ANA report **The Continued Rise of the In-House Agency**, 79 percent of in-house agencies have in-house video production capabilities; 49 percent of those established their in-house production capabilities within the past five years. In-house agencies in many cases are sourcing production suppliers directly. Without having an intermediary, there are no longer pass-through costs, so payment terms can be extended.

Meanwhile, it was noted in our qualitative discussions that there is little opportunity to extend payment terms in network broadcast or with the big digital players.

DETAILED FINDINGS

ALMOST 30 PERCENT OF MARKETERS ARE LIKELY TO CHANGE PAYMENT TERMS WITHIN THE NEXT YEAR

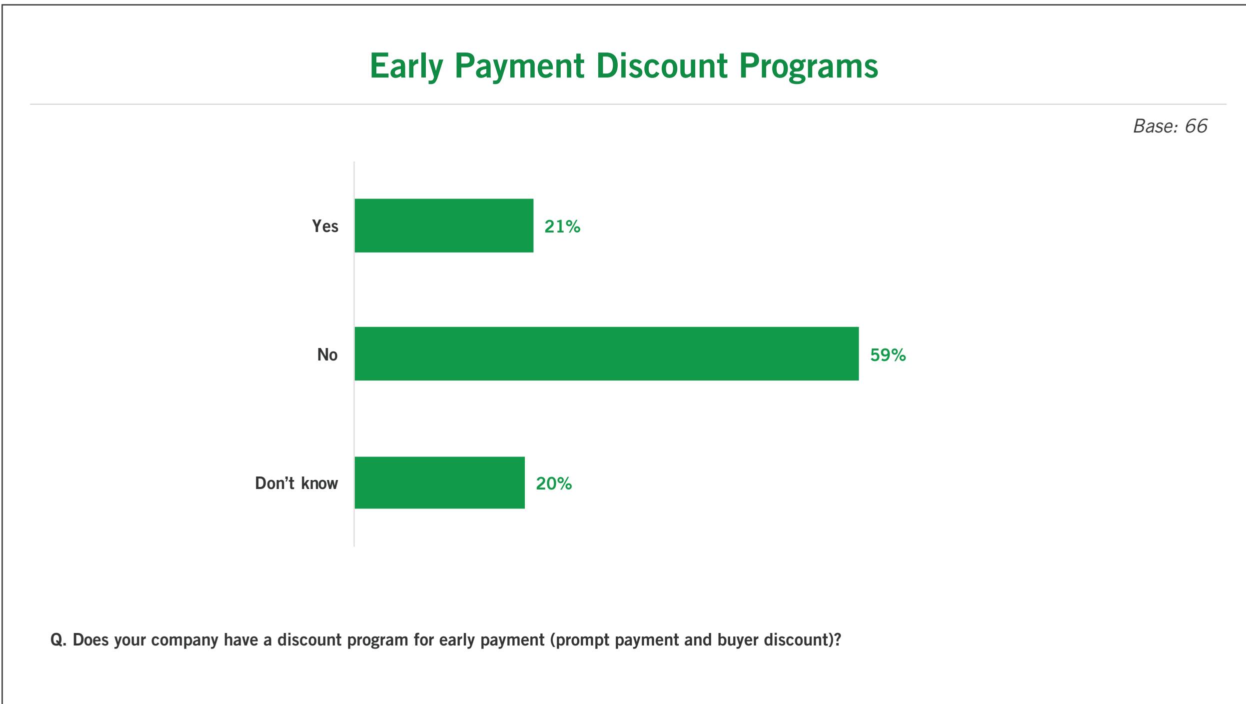
Twenty-nine percent of respondents say that they are “very/somewhat likely” to change their payment terms for advertising/marketing services within the next year. That’s down a bit from the 2013 survey, when 42 percent were likely to do so.



DETAILED FINDINGS

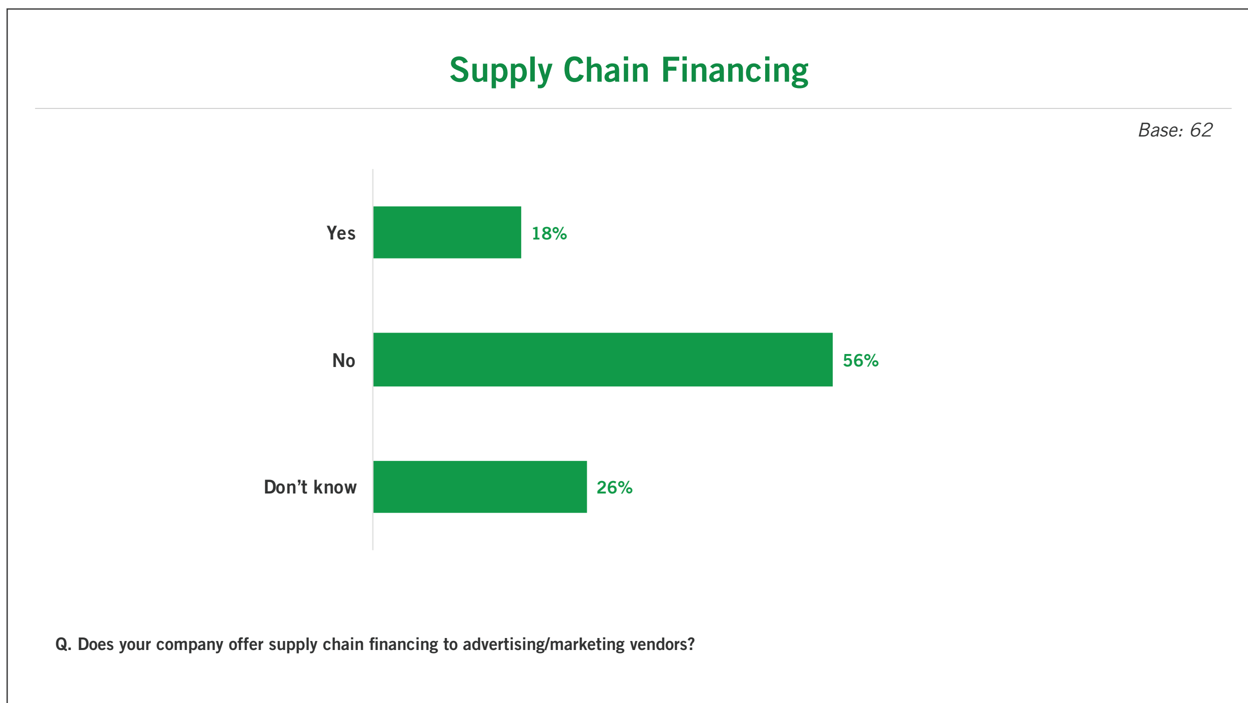
ONE IN FIVE HAVE DISCOUNT PROGRAMS FOR EARLY PAYMENT

Only 21% percent of respondents have a discount program for early payment (prompt payment and buyer discounts).



DETAILED FINDINGS
FEW USE SUPPLY CHAIN FINANCING

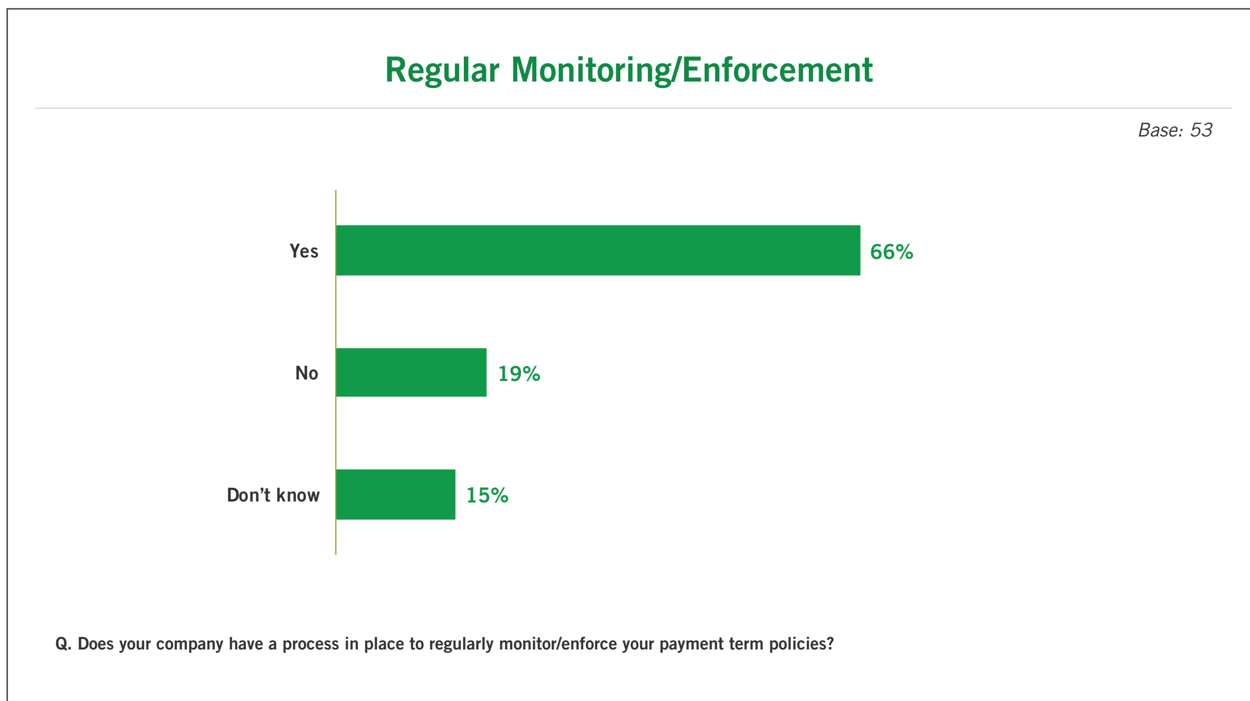
A small percentage (18 percent) of those surveyed say that their company offers supply chain financing to advertising/marketing vendors, consistent with the 2013 survey. Supply chain financing is where the ultimate buyer of the product provides some partial payment to a party earlier in the chain, allowing both the buying company and the vendor to optimize cash flow.



Larger holding companies usually decline the option of supply chain financing because if capital is needed, they can usually secure financing on "the street" for less than the cost of supply chain financing. Supply chain financing is more appealing to smaller companies that do not have the borrowing leverage and will pay the supply chain financing fee so they can get paid immediately.

DETAILED FINDINGS
TWO-THIRDS MONITOR PAYMENT TERM POLICIES

For 66 percent, their companies have a process in place to regularly monitor/enforce their payment term policies.



One respondent noted that there are often "disconnects" or "sloppiness" between the contract terms negotiated with a supplier and the terms specified in a company's internal accounts payable system. Example: a supplier's payment terms have been extended from 30 to 60 days per the contract. But the internal accounts payable system is not updated and the supplier continues to be paid in 30 days. According to the respondent, "This happens all the time." Multiple other qualitative respondents agreed, stating that internal systems not being connected is a common problem. One even said, "This is a gigantic truth and gigantic hole of a mess. People are poor at managing what they commit to doing," hence the need to regularly monitor/enforce payment term policies.

DETAILED FINDINGS

TIMING OF BILLING

Discussion of payment terms also needs to incorporate the timing of billing. As one CPG respondent commented, “Terms of ‘30 days billed on actuals’ are very different from terms of ‘60 days billed on an estimate’… payment terms need to coincide with invoicing terms.” The grid below provides responses on the timing of when billing has been allowed to take place.

Timing of Billing (%)

Base: 65

	Upon Signing of Estimate	Month Prior to Activity	Month of Activity	Month Following Activity	After Being Actualized	Not Applicable	Don't Know
Network broadcast	14	14	17	11	16	14	14
Local broadcast	12	12	20	12	16	16	13
Social media	9	8	23	16	23	5	16
Programmatic	9	11	20	16	20	8	16
Other digital*	10	10	24	13	17	8	19
Production	38	14	23	3	11	2	9
Talent payments	32	3	24	10	16	7	8
Agency fees (compensation)	5	3	48	23	9	6	5
Research	16	2	28	19	12	7	16

*Not included in programmatic/social

Q. When has your company allowed billing to take place for the following specific services? Select one for each service.

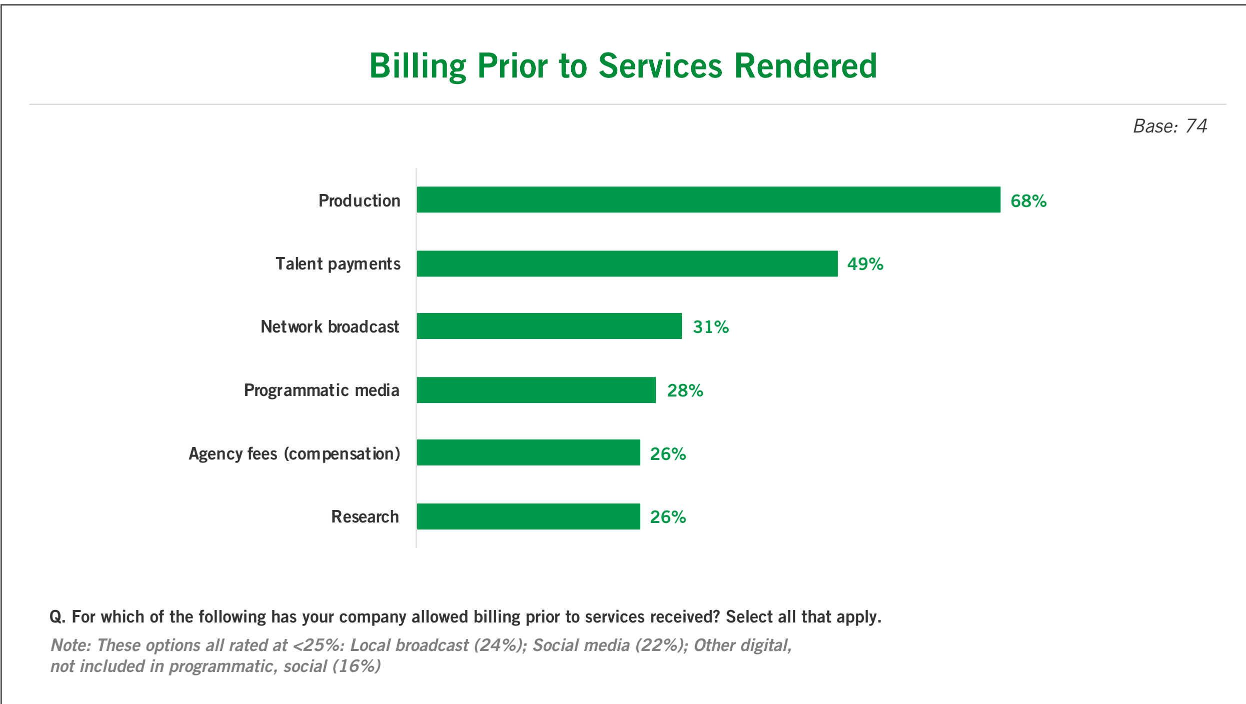
Note: Some rows may not add up to 100% due to rounding.

“Moving 100 percent of our media to being paid post-reconciliation a few years ago was a significant and welcome change. It maintains pressure on the agency to reconcile in a timely fashion because the media owners want to be paid, and there are no longer scores of post-reconciliation debits and credits to square, which made payment and reporting challenging.”
— CPG respondent

DETAILED FINDINGS

PRODUCTION COMMONLY BILLED IN ADVANCE

Production is commonly billed prior to services being rendered, as production companies can have significant out-of-pocket expenses in preparation for shoots.



In our qualitative discussions, two reasons were offered for the talent payments being billed prior to services rendered:

- **Celebrity talent:** It was noted by one respondent that there is "always payment upon signature" for celebrities. Another noted that their company is "writing big checks up front" for celebrities.
- **Influencers:** Influencer marketing has surged in recent years. It was noted that often influencers ask to be paid at least partially in advance.

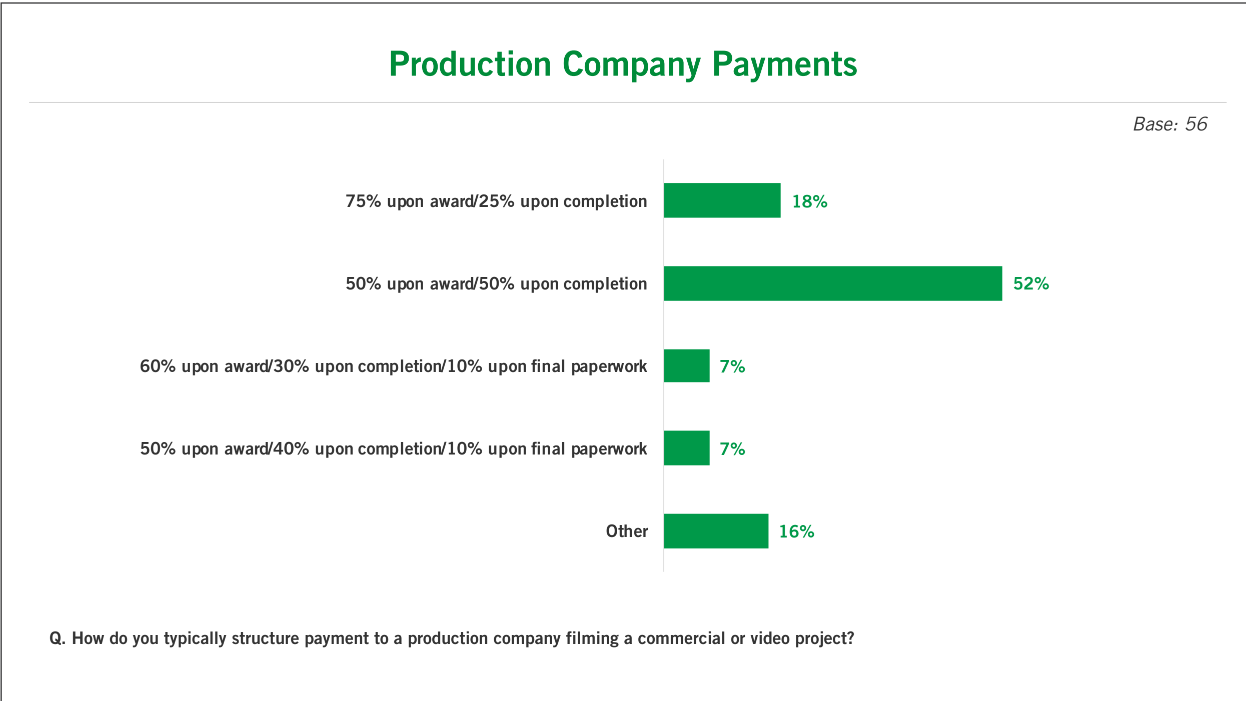
DETAILED FINDINGS

PRODUCTION COMPANIES OFTEN RECEIVE SIGNIFICANT PAYMENT UPON AWARDING THE JOB

Payment to production companies is most commonly 50 percent upon awarding of the job and 50 percent upon completion, although other payment allocations are also used. Again, production companies can have significant out-of-pocket expenses in preparation for shoots.

The most common other payment structure is 50 percent upon award/25 percent upon completion/25 percent upon final paperwork.

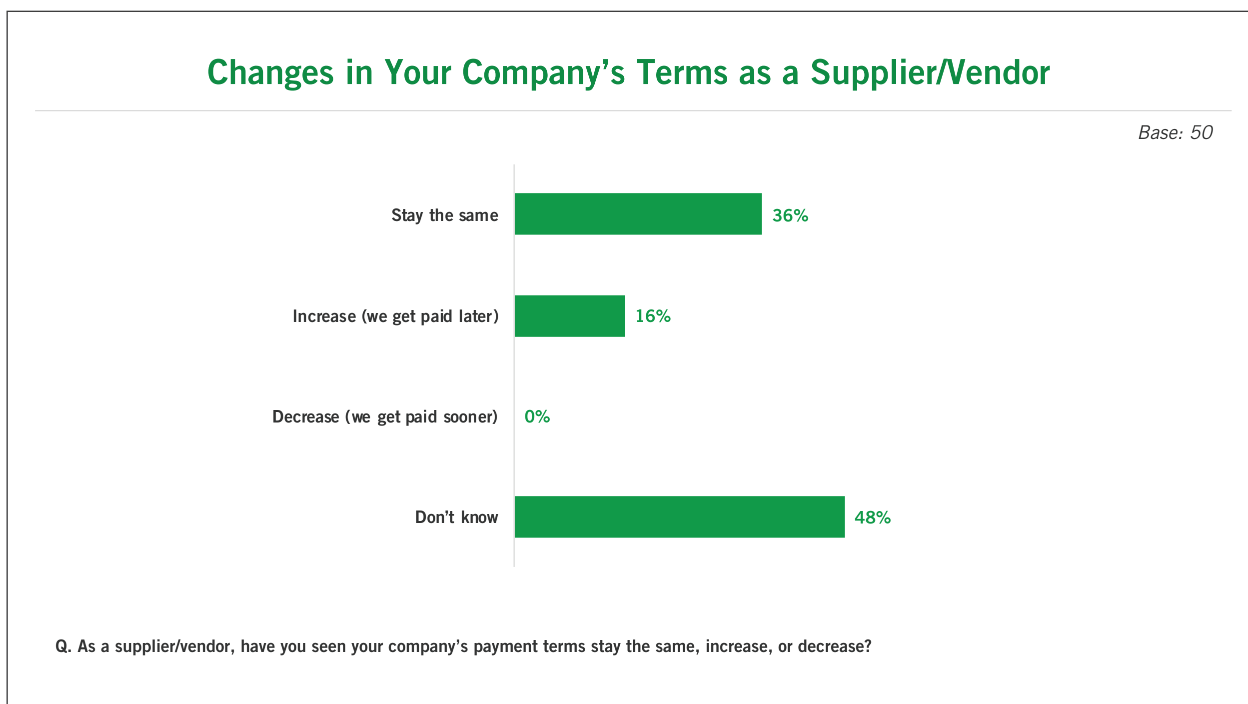
One of the qualitative respondents commented, "A three-step process can be friendlier to the vendor but entails more paperwork and can be more labor-intensive."



DETAILED FINDINGS

AS A SUPPLIER/VENDOR, 16 PERCENT SAW PAYMENT TERMS EXTENDED

Companies are managing both accounts payable and accounts receivable, and the respective companies of survey respondents can also be suppliers/vendors. As a supplier/vendor, 16 percent claim that they have seen their company's payment terms increase and are therefore being paid later themselves. Note, however, this question received a high number of "don't know" responses.



CONCLUSIONS

As stated in the introduction, this survey was initiated due to member interest resulting from coverage in the advertising/marketing trade press regarding changes in payment terms being implemented by a handful of companies to some suppliers. The purpose of this survey was to determine if such changes were isolated examples or reflective of a broader trend. The answer is clear: payment term changes, notably extended terms, are reflective of a broader trend.

For some publicly held companies, pressure from Wall Street has resulted in a focus on working capital initiatives to drive cash flow; one such initiative is extending suppliers' payment terms.

Payment terms are one element of a broader relationship between a marketer and supplier. When considering payment term length or if changes are warranted to current terms, many factors must be considered. Those factors may include length of relationship, services provided, spend with supplier, the position in the marketplace of both the marketer and supplier, the percent of revenue the marketer represents to the supplier, past history of terms, competitiveness of current terms, the timeliness of invoicing by the marketer, the financial status of the supplier, and the marketer's cash flow requirements.

Client-side marketers who are considering changes in their payment terms for marketing services — particularly extended terms — should proceed with caution. Extended terms can create "ripples through the system," and as one qualitative respondent noted, "Suppliers are not just absorbing this." Another said, "Nothing is free; often a marketer needs to give a supplier something in return for extended terms." Extended terms often come with consequences, including strained relationships with vendors, reduction in flexibility, and higher prices. According to Marla Kaplowitz, president of and CEO at the 4A's, "Experience reflects that extended payment terms will result in elevated supplier pricing and reduced supplier choice. A recent analysis of the extensive Aprais database of over 20,000 cases reveals that a client-agency relationship where parties 'win' financially, achieves the best results."

In addition, the business models and livelihoods of smaller players in the marketing supply chain can be threatened by extended terms. This includes some agencies, research companies, production companies, and editorial houses. Such companies are not banks. They require a predictable cash flow, often don't have access to large lines of credit, and have pricing models that do not reflect the costs to their business resulting from extended terms. Both marketers and smaller suppliers, in particular, need to proceed with caution to ensure that the terms of their relationship — including payment terms — are sustainable.

CONCLUSIONS

In the past year, 34 percent of respondents report extending terms for at least one marketing service. Within the next year, 29 percent are "very/somewhat likely" to change terms — almost certainly extending terms in most cases, rather than shortening them.

As multiple respondents stated in our qualitative interviews, "This is not going away." It makes good business sense for marketers and their suppliers to have open, honest, and transparent strategic conversations to discuss payment terms, any changes under consideration, and the pros/cons of such changes. Client-side marketers need to consider what is fair and how they would want to be treated. If the payment terms they are suggesting to their suppliers would not be acceptable to them as suppliers, a reconsideration might be in order.

In closing, the ANA does not recommend any specific payment terms practice.

APPENDIX

APPENDIX 1: CURRENT PAYMENT TERMS, BEFORE DISCOUNT

Current Payment Terms, Before Discount (%)

Base: 64

	Mean	0–15 Days	16–29 Days	30–44 Days	45–59 Days	60–89 Days	90–119 Days	120+ Days	Not Applicable	Don't Know
Network broadcast	41.3	9	9	28	9	13	2	0	16	14
Local broadcast	43.1	9	6	28	11	14	2	0	14	16
Social media	47.3	6	11	34	11	17	6	0	2	13
Programmatic	44.9	6	11	33	12	12	5	0	6	14
Other digital*	50.0	5	8	29	13	21	5	0	5	14
Production	44.9	20	5	23	14	16	6	2	2	12
Talent payments	41.1	11	11	30	8	9	5	0	5	22
Agency fees (compensation)	58.1	2	8	23	15	30	8	2	2	11
Research	59.9	2	5	21	14	26	6	3	5	18

*Not included in programmatic/social

Q. What are the current payment terms, before any discount is taken, for your company's advertising/marketing services? Select one for each.

Note: Some rows may not add up to 100% due to rounding.

APPENDIX

APPENDIX 2: FREQUENCY OF PAYMENTS TO SUPPLIERS

Frequency of Payments to Suppliers (%)

Base: 66

	More Often than Once a Week	Once a Week	Once Every Two Weeks	Once a Month	Less than Once a Month	Not Applicable	Don't Know
Network broadcast	2	6	6	32	6	15	33
Local broadcast	2	6	5	28	8	15	37
Social media	2	8	5	40	8	5	33
Programmatic	2	8	5	38	6	6	35
Other digital*	2	8	5	34	9	5	37
Production	2	5	3	22	22	6	41
Talent payments	2	3	2	17	18	12	46
Agency fees (compensation)	0	3	2	54	8	6	28
Research	0	6	0	29	14	10	41

*Not included in programmatic/social

Q. How often does your company — or the agency on your behalf — make payments to the media company or other supplier? Select one for each service.

Note: Some rows may not add up to 100% due to rounding.

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MARCH 2020