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FastPay Report: Real-Time Ads, Delayed Payments

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Synopsis

In the wake of the recent press coverage focused on payment trends in the advertising industry, the 4A's (American Association of Advertising Agencies) released a report that detailed the findings of a survey on the payment terms for invoices issued from advertising agencies to their clients.[1] Their survey concluded that 30 day payment terms are the predominant standard for advertiser payments to agencies. However, this report only accounted for the direct constituency of the 4A's, the premium agencies directly serving the largest brand advertisers. Expanding this analysis, FastPay has drilled down into its proprietary dataset to explore how payment trends percolate through the rest of the ecosystem, particularly within the world of digital advertising.

Analyzing this dataset, which consisted of 2,509 invoices processed over the last three years, FastPay discovered the following payment trends for the rest of the digital advertising industry, outside the elite ranks of the 4A's:

- Average days sales outstanding (DSO) for client invoices was **66 days**
- 94% of all invoices were paid after 30 days
- 62% of all invoices were paid after 60 days

This variation from the result of 4A's survey indicates a possible class division in payment terms: vendors are forced to accept elongated payment terms. Vendors in the digital advertising industry must accept Net 60 or even Net 90 terms simply as a requirement of doing business, no matter the impact on their working capital or operations.

Digital Media Payments Primer

Unlike the other sectors featured in the 4A's payment trends survey, digital media is a relatively nascent industry, especially in comparison to stalwarts such as traditional print and broadcast television. Even so, worldwide digital media spending is expected to grow 13% this year, from $104.0 billion in 2012 to $117.6 billion by 2013 EOY. Digital media spending is increasingly becoming the most important component of brand advertising spend. According to a study by Deloitte, traditional media is beginning to converge on a digital strategy: the reconciliation, billing, and performance assessment processes in traditional media are starting to adopt the methods used in digital advertising such as real-time bidding, interactive units and other performance-measured products.[2]

[1] "4A's Survey Report: Agency Billing Practices and Client Payment Terms", http://www.aaaa.org/news/bulletins/Documents/AgencyBillPaySurveyReport_final730.pdf

[2] In fact, a WPP company, Xaxis, is already developing technologies to make traditional advertising outlets such as network television amenable to programmatic buying, akin to mature mechanisms used to buy online advertising today. Such a shift would push the traditional television world toward a more digital media performance and billing profile.

This evolution will likely force even traditional media partners to adopt the dynamic, performance-oriented billing practices of digital advertising: invoicing clients after media delivery and based on audience reach rather than a flat rate per spot as has been the norm historically.

The issue of slow vendor payments is of increasing concern to the digital advertising industry. The IAB (Interactive Advertising Bureau) CFO Council itself established a working group to investigate this issue and survey CFO's throughout the digital advertising space. Their findings closely mirrored those based on FastPay's data: Net 60 to Net 90 is standard for the internet advertising industry.[3] The shift toward slower vendor payments is well-documented within the business world at large. Partially as a response to tighter credit markets post-recession, the large brands, which supply a major portion of advertising budgets online, have moved to prolonged terms as a means to improve their financial performance and conserve cash. With an annual global budget of over $10 billion and the world's largest advertiser,[4] Proctor & Gamble, has officially modified its payment policy from Net 45 to Net 75.[5] These well-covered, general trends are echoed and confirmed by the historical data analyzed by FastPay.

Population and Methodology

FastPay provides asset-based loans (ABL) to small and mid-sized digital media companies based upon their accounts receivable. Consequently, FastPay possesses a deep repository of invoice aging data collected during the course of our lending operations. Fiscally, FastPay's average client profile is as follows:

- $3.8mil in annual revenue
- 233% growth rate over tenure as FastPay client
- $242k in outstanding invoices financed at any given time on average

The portfolio is comprised of a wide range of digital media companies including ad networks, publishers, DSPs, SSPs, Facebook PMDs, YouTube channel partners, creative agencies, and app developers. This varied sample set provides a comprehensive selection of businesses active in digital media advertising.

For this particular study, FastPay examined invoice data collected between January 2010 and December 2012.[6] The sample dataset included 288 debtors (defined as the invoice payor, typically an advertiser or ad network) and 2,509 invoices, with an average value per invoice of $28,518.

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[3] From the IAB CFO Council Updates (January 24, 2012): "Days Sales Outstanding (DSO) Survey: Most survey responders report DSO in the 60-90 day range. The response percentage in the 60-90 day category has remained consistent over the last 3 quarters. We are seeing an increase in the over 90 day column. Group consensus is that 60-90 day range is accurate."

[4] "How Facebook Helped Screw Up P&G's Ad Budget", Business Insider, May 7 2013.

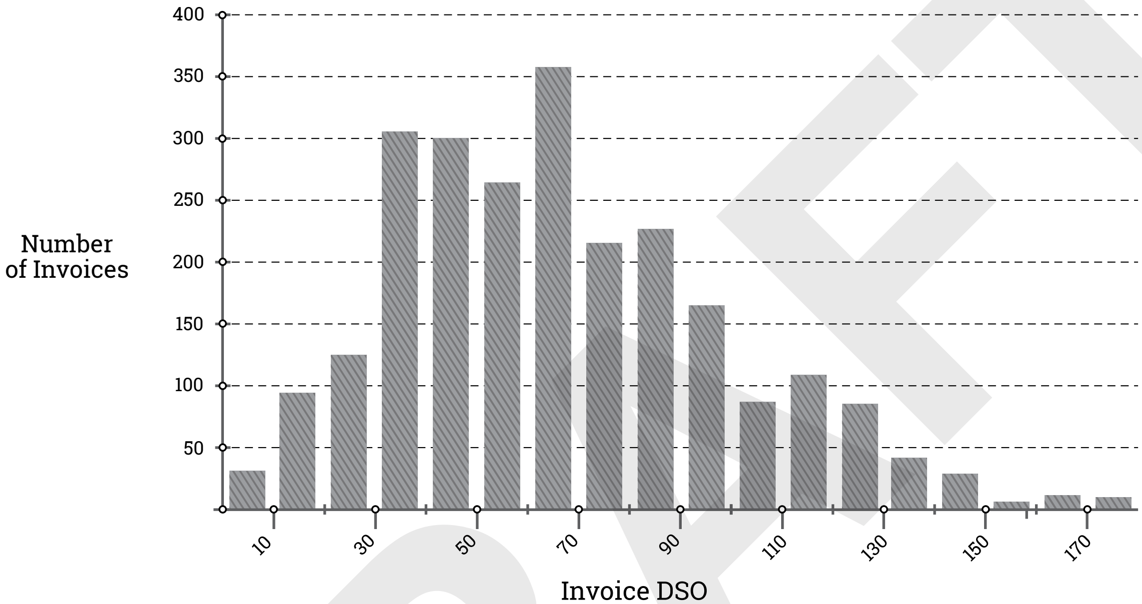
[5] "P&G, Big Companies Pinch Suppliers on Payments", Wall Street Journal, April 16, 2013.

[6] Invoices from 2013 have been excluded as a significant portion remains unpaid. Additionally, by focusing on full year statistics, FastPay's study is not influenced by the cyclicality of billing within the advertising industry.

Results

We categorized the debtors by their industry types and subsequently analyzed their aging trends to inform this study. The chart below summarizes the general results of FastPay's study:

DSO Histogram[6]



The results clearly indicate that 30 day payment terms are not the norm for the digital media industry as only 6% of invoices were paid within 30 days, and 62% of invoices fell past the 60 day mark. Invoice payment trends definitely skewed toward slower payment: 167% more invoices were paid after 90 days than were paid within 30 days. The following chart breaks down the payment profiles of each sector analyzed; in each category, 60+ day payment terms were the apparent standard.

	Example Invoice Payors	Average Invoice DSO	Invoice Count	Net 30 (%)	Net 60 (%)	Net 90 (%)	Net 90+ (%)
Direct Advertising	Ad Agencies & Brands	62	1,420	9.2%	35.6%	43.6%	11.6%
Ad-Tech	Ad Networks, DSPs, RTB, SSPs, Social Networks, Search Engines	66	1,041	2.5%	27.7%	35.4%	20.0%
Digital Agencies	Creative Production	78	47	0%	31.9%	17.0%	51.1%
Total		66	2,509	6.3%	32.3%	45.7%	15.8%

[6] Histogram illustrates the count of invoices by days outstanding

These statistics reflect the general consensus of our industry: Net 30 payment terms are the exception rather than the rule. As a whole, echoing the corporate developments as reported in the Wall Street Journal and by the IAB, payment terms, at least for smaller suppliers, are stretching. Net 60 is the new norm.

Conclusion

While slow payment is a recent development to the advertising industry, payment terms of more than 60 days are common in several other sectors. The Hackett Group US Working Capital Survey noted that the median DSO's for companies in ten economic sectors: aerospace, biotechnology, construction, electrical equipment, electronic components, energy, healthcare, IT services, life sciences, and professional services, were all greater than 60 days.[7] These mature industries, with supply chains as complex and intricate as those in digital advertising, have all developed solutions and processes to cope with their challenges in working capital. The digital advertising industry will have to adapt to handle these extended payments as well.

Unfortunately, the brunt of slow payment is felt by the parties least equipped to handle long payment cycles. While agencies are often part of holding companies, with sufficient capital support from their parent entities to support extended payment cycles, downstream vendors are in no such position. Long payment terms are already having a negative effect on the industry as whole. Brett Colbert, chief procurement officer at InBev, an early adopter of extended payment terms,[8] has commented, "Something that seemed like a good idea then did not deliver the best results. The best result remains that you pay the best people when they need to get paid based on an industry best practice." [9] The entire supply chain suffers when vendors are forced to carry the financial burden of slow payments, constricting their ability to attract talent and reinvest in their companies. On the other side, with ever decreasing margins, it is not the responsibility of the agencies to forward payments before they themselves have been able to invoice their own clients and collect.[10] As lengthy payment terms become a standard industry practice, service providers will have to adapt, becoming more financially sophisticated in using flexible debt solutions to support their operating capital and help them power their growth.

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[7] Industry data provided by 2013 US Working Capital Survey, published by The Hackett Group.

[8] Anheuser-Busch InBev implemented a Net 120 policy for advertising payments in 2009. Net 120 payment terms have also been adopted by Mondelez, owner of the Kraft brand.

[9] "A Vicious (Billing) Cycle in Adland," Advertising Age, June 17th 2013.

[10] "WPP CEO Martin Sorrell on Advertisers' Delayed Payments: 'We're Not a Bank'", Advertising Age, June 27, 2013. In this interview, Martin Sorrell discusses the challenges of delayed payments on the agencies and how this affects his ability to provide prompt terms to his downstream vendors.