



Revenue Cycle Best Practices

From RFP to DSO

Released July 16, 2008

These Best Practices have been developed by the IAB CFO Council.

About the IAB CFO Council:

The CFO Council is a forum for finance professionals of IAB member companies to identify general finance related issues and recommend solutions. Among the broad issues that the council will address are: interpreting accounting rules, financing opportunities, and bad debt and receivables. The Council delivers these objectives through industry research, standards and best practice development and stakeholder education.

A full list of Council member companies can be found at:

http://www.iab.net/member_center/35088?iabid=a033000000wefOAAQ

This document can be found on the IAB website at: http://www.iab.net/revenue_cycle

IAB Contact Information:

Ryan Walker
Manager of Industry Services, IAB
212-380-4731
ryan@iab.net

Jeremy Fain
Senior Director of Industry Services, IAB
212-380-4724
jeremy@iab.net

Table of Contents

Executive Summary 3

RFP Stage..... 4

Proposal Stage 5

Insertion Order Stage 6

Delivery and Optimization Stage 7

Collections Stage 9

Appendix: Revenue Cycle Workflow 11

Executive Summary

Finance professionals from the IAB's CFO Council developed these Best Practices to significantly improve the efficiency and effectiveness of the revenue cycle by improving internal controls and processes, resulting in greater client satisfaction. The term revenue cycle refers to all of the steps required in the Sales, Operations and Credit & Collections processes to facilitate revenue recognition. This document is an educational tool for professionals in all departments of publisher organizations and addresses every step of the revenue cycle, from the Request for Proposal (RFP) to managing the Days Sales Outstanding (DSO).

The recommendations outlined in this document address two main areas:

- 1.) **Interdepartmental communication** between Credit & Collections, Sales and Operations
- 2.) **Processes and controls** that ensure the necessary steps are taken and approvals obtained prior to taking action

These Best Practices were developed by examining friction within the revenue cycle and determining the underlying causes and possible solutions. The document is organized by each revenue cycle phase (Request for Proposal, Proposal, Insertion Order (IO), Delivery and Optimization, Collections). Key recommendations include:

- Closely monitor open receivables greater than 60 days overdue, including documented actions and ramifications communicated to sales team
- Document processes for obtaining pricing approval
- Set up appropriate controls along the IO approval process to ensure that all aspects of the insertion order receive the necessary approval
- Collections team should hold regular meetings with Ad Sales Management and Sales Teams to discuss overdue receivables and problematic clients
- Establish a bad debt reserve consistent with company risk policies and process timeline

This document represents the fourth installment in a series of IAB process improvement initiatives. This series includes:

- On-Time Creative Delivery Toolkit
- Interactive Campaign Setup Best Practices
- Interactive Billing Methods Best Practices
- Revenue Cycle Best Practices

The general belief of the CFO Council is that improving overall interdepartmental communication will lead to improved efficiency in the revenue cycle. The IAB is confident that, if adopted, these Best Practices will enable publishers to improve their collection efforts, lower DSO, and improve cash flow.

Request for Proposal Stage

The Request for Proposal (RFP) stage of a campaign should be considered the point of sale. All information pertinent to a campaign, for both the agency and the publisher, including flight dates, creative placements, website specs, and payment practices are initiated during the RFP stage. At this point in the process, the billing and payment of the campaign are often overlooked by both the agency and the publisher, which inevitably creates problems later in the campaign as a great deal of invoice payment is tied to how campaigns are negotiated and built. These recommendations may eliminate confusion and inefficiencies in the RFP Stage, ultimately leading to faster payment in the Collections stage.

❖ New customers should have credit checked prior to being given a proposal.

A new customer (agency and/or advertiser) should be in good standing in order to receive credit from a publisher. Because a healthy revenue cycle is tied to the ability of a customer to pay in a timely manner, the customer's credit should be checked prior to creating a proposal. Before a sale is made it is recommended that the customer making the buy has credit status evaluated by the publisher. In order to have an advertiser's credit checked, the agency will offer an Agency of Record letter, which is verification from the advertiser that the agency has the right to buy media on their behalf.

If credit cannot be extended, the customer should be required to prepay. The company should have a written credit extension policy which is applied consistently to customers. The Credit Extension Policy should be designed in unification with the level of acceptable risk as determined by the business and finance partners.

❖ Establish a credit limit for all customers.

Establishing a credit limit that is documented and in a location commonly accessible to Sales and Credit, (such as electronic filing with IOs, T&Cs or other documented sales tools), is recommended. Executing IOs in excess of the established credit limit may create risk in collections and be subject to revenue reversal. Therefore, any IOs that will exceed established credit limit should first be approved by Credit department.

❖ Open receivables more than 60 days overdue should be monitored closely, with actions/penalties communicated to sales teams.

Once a customer's credit is approved by the publisher, the publisher should also check all accounting reports to ensure that invoices have been paid in a timely manner. If problems are found with the customer's payment status (i.e., receivables not being paid within 90 days of being issued) these problems should be communicated to the primary Account Executive. It is recommended that all delinquent payments on outstanding invoices be discussed and resolved before new IOs are issued.

During this process, Credit & Collections should also inform the sales teams of potential credit holds for any agency or advertiser. This way the sales team can ensure that the client has been notified of the situation and the issue can be escalated, if necessary, to minimize the impact it may have on future business.

Proposal Stage

A key element in the proposal stage is ensuring that all information included on the proposal is communicated in a timely manner and is accurate. This requires a high degree of interdepartmental communication since there are often multiple approvals and documentation required.

❖ Maintain clear and open communication between Sales and Accounting

Publishers should obtain buy-in at a high level within the organization about the importance of managing expectations about proposals. Senior leadership from Sales and Accounting should ensure that their staffs are collaborating. Open communication between the front-end sales office and the accounting revenue department is vital.

❖ Pricing should be established and approved by a planning department or pricing committee

This will ensure:

- Full disclosure;
- No side agreements have been made; and
- Unique pricing is escalated through accounting/finance.

❖ Document process and levels for obtaining pricing approvals

Documenting the process used for approving pricing helps ensure that these authorizations will be issued in a consistent manner. The level of the approvers should also be documented and clearly communicated to internal departments. Establishing internal policies and processes for the following items can also ensure transparency on the proposal:

- Pricing incentives
- Added value/bonus
- Production costs (rolled up vs. broken out)
- Credits

❖ Make certain that pricing is approved internally before submitting proposal to agency

The timing of the pricing approval process should be clearly established among all necessary internal departments. No specific CPMs should be given to the agency without first ensuring that it has been approved according to any internal guidelines.

❖ Avoid offering rates outside of the normal rate card parameters, unless predefined by business policies or sell cycle variations/seasonality

Pricing should be monitored to ensure that CPMs are staying within the normal range offered by the company. Anything not within the normal rate card parameters should be explained and documented by the sales team. This process will help ensure accurate revenue recognition.

❖ Approval of terms and conditions should include departments outside of Sales

We recommend that Legal and/or Accounting Revenue review all non-IAB/AAAA Standard T&Cs for unusual payment terms or make-good clauses. This additional approval will help prevent non-standard deal terms with which the company is unable to comply.

❖ **Billing should be in line with IAB/AAAA Terms & Conditions, IO and purchase order referencing IO#**

T&Cs should establish data sources (publisher-side ad server or third-party ad server) and billing method (actuals or contract) and should address how to manage under-delivery. For more information in this area, please see the [IAB Billing Methods Best Practices](#).

❖ **Confirm proposals are correct by comparing them with the agency's IO**

Publishers should confirm proposals by comparing them with the agency's IO to ensure the orders are set up appropriately for revenue recognition. For example, packaged products should be entered the same way in both systems. The agency IO should match the publisher IO, both in dollars and impressions, line item by line item. This will ensure that publisher-generated invoices will match the agency's IO.

❖ **Set up sponsorships with monthly impression goals**

Confirm pacing goals, and any other delivery expectation goals, with the agency. If applicable, sponsorships should be broken out into monthly goals to avoid front-loaded over-delivery. Finally, communicate the monthly goals to the client.

Insertion Order Signature Stage

It is common for both parties to sign an IO, but this is often done using faxed or scanned copies and therefore does not require original signatures from both parties. It is also considered acceptable, but not preferable, for only the publisher to sign an IO, as long as it was generated by the client and does not have a space for a client signature. Likewise, if there is more than one space on an IO requiring approval, such as a page for additional terms and conditions, these too should be signed or initialed.

❖ **Make certain that the proper level of employee is signing and approving insertion orders**

Sales employees at the VP level or above should sign for approval on behalf of the Publisher. On the client side, the signator should have the requisite authority.

❖ **A campaign should not begin without a signature on the IO**

An IO should ideally not be considered approved until signed by both parties. Furthermore we recommend that Publishers refrain from delivering any campaign creative until an IO has been approved. There are exceptions to this practice, but they should require explicit approval from the CFO, the head of Sales, or other executive management.

❖ **Set up controls along the approval process to ensure that all aspects of the IO meet internal requirements**

Final approval by management implies that a set of sub approvals, for items such as T&Cs, inventory, pricing and credit, if applicable, have already been made. Such controls would prevent campaigns lacking one or more of these sub approvals from being submitted for final approval.

Often there is a designated employee that coordinates both the sub approvals and the submission for final approval. There can also be an additional step after final approval that confirms that the terms on the IO are being correctly reflected in the publisher's system. This is a crucial step, given that the publisher is responsible for fulfilling the details of the signed agreement, and that incorrect input may lead to trafficking, revenue recognition and/or other errors.

❖ **Confirm and document the billing method prior to signing IO**

Once the contract has been signed, the billing method should not be changed. There are exceptions to this rule, but we recommend that each instance be handled on a case-by-case basis. Altering the billing method should be a last resort due to the confusion it can cause across multiple departments.

❖ **Keep all signed copies of the IO on file**

After the necessary signatures have been obtained, it is important to keep the IO on file. Hard copies will ideally be filed in a place that is known and accessible to multiple departments within the organizations. Digitally signed copies should be kept on a shared drive (or similar tool). We recommend that each publisher formalize their own policy for how long the IOs be kept on file.

Delivery and Optimization Stage

Interdepartmental communication remains vital during campaign delivery. It is important to apply measures that ensure accuracy across all departments. Additional credit approvals can also become necessary when campaigns change due to unforeseen circumstances.

❖ **Before beginning the campaign, make certain that the IO matches the current information in the order entry system**

Since many changes can often occur between the time that the IO is signed and the campaign start date, we recommend checking to ensure that the following items on the IO match the current information in the booking/order entry system before commencing the flight:

1. Creative Unit
2. Start and End Date
3. Ad Server
4. Sponsorship/SOV vs. Impression/Performance
5. Rich Media Fees
6. Targeting

❖ **Collections team should hold regular meetings with Ad Sales Management and Sales Teams**

It is important that Collections team and Sales teams maintain open lines of communication. The two departments should hold meetings on a regular basis to discuss trends and issues with any particular receivables that could adversely affect the Days Sales Outstanding (DSO).

❖ **Credit approval should be obtained again, if optimizations lead to changes in CPM or payment terms**

Due to the change in monetary value, the credit approval should be re-obtained anytime there are changes to the CPM or payment terms.

❖ **Collections team should keep both Sales and Accounts Payable contacts well-informed of past due invoices**

Delinquent payment can lead to credit holds and suspension of active campaigns; however, it is more likely that only new orders would be suspended. Since these types of actions can strain business relationships, Collections should keep both Sales and Accounts Payable informed of all past due invoices.

While it is completely up to the individual publishers to set specific dollar or time thresholds, the aging report should be reviewed by Collections with everything over 60 DSO being monitored, referred to agency Accounts Payable contacts and communicated to Sales. For more information in this area, please see the IAB Billing Methods Best Practices: http://www.iab.net/media/file/Billing_Methods_Best_Practices.pdf

❖ **Require written documentation when a change is requested/made (e.g., revisions, reallocations, optimization, cancellations)**

Communication of revisions between publishers, planners, and the accounts payable department is generally inconsistent in the industry. When email alone is used to communicate revisions and approvals, it is not uncommon for Accounts Payable departments to lack the full revision history of an IO. This is why it is strongly recommended that publishers require signed change documentation on material changes, including dollar amounts, start and end dates, types of creative, etc.

- Email revisions are only recommended on a case-by-case basis and should be limited to changes that do not affect the dollar value or other material aspects of the IO.
- Both agencies and publishers should create a centralized system that keeps records of all changes, available to all teams.
- Publishers should run a cost/time/benefit analysis when deciding which changes require a change order and which do not, however, implementing this policy based on partner experience may be more practical when only a few agency customers have recurring revision communication issues. Overall, developing better controls on revision approvals is essential.

[NOTE: For more on delivery and optimization, please refer to the IAB Interactive Campaign Setup Best Practices: http://www.iab.net/campaign_setup]

Collections Stage

The Collections Process should be designed in line with the level of acceptable risk as determined by the business and finance partners. If the business is prepared for higher write-offs, then Collections processes may be more lax. Where write-offs are not acceptable, the Collections process will generally be stricter, with tighter timelines to service interruption. Publishers should clearly define and socialize the Collections process with the sales force, finance and any other internal stakeholders.

Also recognize that account complexity impacts collectability. For accounts with more complex billing requirements, more attention may be required.

❖ Collections team should send monthly statements to Accounts Payable contacts

Statements should be sent via email to Accounts Payable on a consistent monthly basis within 10 days of invoice generation. These statements should include:

- Document number, issuance date, due date, and amount;
- Campaign name associated with each invoice;
- PO/IO information associated with each invoice; and
- Invoice copies, if possible.

❖ Accounts Payable contacts should be sent a reminder notice based on days past due

The Collections team should also send reminder notices to the agency. These notices should be based on days past due and include all information provided in the Monthly Statement. Timelines and deadlines should also be reiterated.

❖ Contact customer by phone

It is important to establish working relationships with agency contacts. We recommend reaching out via telephone to confirm that emails have been both received and understood. This opportunity should also be used to reaffirm deadlines and find out the agency's anticipated timeline for resolution and payment.

❖ Engage the agency Account team to confirm contacts, request insight and customer contact

We recommend reaching out to the Account team frequently to better understand the issues from the agency perspective. It is also imperative to maintain accurate contact information.

❖ Send Agency and Sales contacts a final warning, if promise of payment is not received

A final warning should be sent after established deadlines have passed and communication has not been satisfactory (i.e., lack of payment promise with specific payment deadline). The consequences of further delinquent payment should be made clear to the agency at this time.

- ❖ **Terminate campaigns and place Credit Hold after final deadline has passed, if communication is not satisfactory or promise of payment is not received***

**Due to the sensitivities and uniqueness of business relationships, specific policies regarding action taken against delinquent customers will differ among publishers. Actions such as campaign termination or credit hold are often a last resort as they are usually harmful to client relationships.*

- ❖ **Notify agency that advertiser will be contacted directly**

If a campaign remains delinquent after all above steps have been taken, the advertiser may be contacted. According to the IAB/AAAA Terms & Conditions, the agency should be given notice 5 days in advance of contacting the advertiser.

- ❖ **Establish and update Bad Debt Reserves**

Collections should be responsible for establishing Bad Debt reserves consistent with company risk policies and process timing. Collections should review and evaluate potential bad debt on both a business/revenue-type level (General Reserve) as well as customer level (Specific Reserve). It is also recommended that these reserves be done at least on a quarterly basis.

Appendix: Workflow for the Revenue Cycle

- **RFP Received**
 - Credit review to determine terms and conditions for advertiser (Control exists with most companies to prevent campaigns from being sold without credit check)
 - T&Cs established prior to giving quote
 - Quote sent back to agency
- **Agency agrees on quote/Sends Purchase Order (IO)**
 - T&Cs checked to against IAB/AAAA Standard T&Cs (Companies recommend this, however most do not have a control in place to ensure that this happens with every IO)
 - Some companies send Agency IO to Legal/Finance Departments for approval
 - Sales Assistant/Sales Planner obtains billing contacts and any special billing info from agency (third party passwords, billed on actuals, installments, etc.)
 - Publisher creates IO, at which point inventory is reserved
 - Billing Method should be included in IO
- **IO sent to agency for signature**
 - Most companies ask that IOs be signed by agencies
 - Company policies in regard to Purchase Orders reviewed
 - IO information entered into agency's system by Sales Assistant/Planner, if necessary
- **Delivery of campaign begins**
 - Delivery monitored in some cases so that necessary make goods or optimizations can be offered
 - Payments and outstanding receivables are checked against credit limits
 - Credit & Collections should hold regular meetings with Sales
- **If Revision takes place**
 - Optimizations and end date changes do not require signatures
 - Value changes must usually be signed by both parties (some publishers accept email)
 - Credit check may be performed again if CPM, payment terms or value is altered
 - Some publishers ask agencies to submit revised IO reflecting change in their system
- **Invoicing**
 - Refer to Billing Methods Best Practices
 - Method of delivery may be elaborated on further
- **Collections**
 - Recognize that account complexity impacts collectability. For accounts with more complex billing requirements, higher touch may be required.
 - 5 days notice given to agency before contacting advertisers directly
 - Net 30 pay terms, with many assuming net 60 for agencies, but recognize that the agency must often re-bill and be paid by their customer before paying publisher.