As Advertisers Pull Back Spending, Agencies and Their Partners Feel the Pain

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Key insights:

- The impact of COVID-19 has production partners waiting longer than usual to receive payments from brands.
- Budget cuts are forcing agencies to reevaluate payment terms with clients.

Agencies have long dealt with clients that are happy to push the limits when it comes to paying the bills.

The issue came to the forefront once again this year when a survey of more than 100 marketers conducted by the Association of National Advertisers found that agencies wait an average of 58 days for payment, up from 45 days in 2013. In March, the Association of Independent Commercial Producers revealed that brands owe over $200 million in late payments to production partners.

It appears as though the spread of COVID-19 and the uncertainty that came with it is only exacerbating the issue. John Harris, president and CEO of Worldwide Partners, a network of over 70 independent agencies, said that some clients are requesting an additional 60 days to their current term, meaning shops must wait even longer than usual to receive the money they desperately need.

“We are notoriously bad at asking for money in fear that we might rock the boat and lose a client,” Harris said. “But given the current state of the market, agencies have permission—and an obligation—to propose new payment terms to

protect their employees and businesses as well as those of their media and production partners.”

Open communication

Some marketers have proactively addressed the problem. For instance, Unilever recently said it will provide early payment to its “most vulnerable small and medium-size suppliers” to help them with financial liquidity, although it did not specify which ones qualify.

Marla Kaplowitz, president and CEO of 4A’s, commended the company’s decision.

“I truly hope that other companies follow suit or at least recognize that agencies are businesses, too, and they have people they have to pay,” she said. “They’re not banks, and they have to address their own cash flow needs.”

Agencies are also dealing with this in a similar way.

The CEO of an independent agency, who requested anonymity due to client confidentiality, said a client recently tried to enact a “force majeure clause,” a contract provision that excuses a party from fulfilling obligations due to unforeseen circumstances, such as the current COVID-19 pandemic, to delay production payments and agency compensation.

This proved to be an issue since the agency had already advanced payment to production partners. He said the agency had to “politely point out” the lack of force majeure clause in its contract to ensure it would be paid. However, it agreed to extend payment terms for agency compensation.

“In the scheme of things, challenging payment terms hardly seem like the greatest challenge any of us are facing,” he said. “That said, we are facing budget cuts across virtually all of our clients, and sometimes this includes shifting payment terms or the terms of our client-agency relationship.”

Caught in the middle

Agencies that specialize in media planning and buying have found themselves caught between brands that are trying to cancel or postpone ad spend and media companies that rely on that cash flow.

“Media agencies are in a quite unique situation at the moment in that they’re very important to clients,” Dan Jeffries, founder of marketing procurement firm Jeffries Consulting, said. “Clients are using their media agencies to negotiate with media owners to ask for some level of forgiveness against [prior] commitments.”

This gives media agencies more leverage than creative agencies, particularly when it comes to getting fees in a timely manner. It also leaves media owners in a precarious position as they try to work out deals with brands that suddenly want to halt their advertising plans.

Scott Harkey, co-founder and managing partner of full-service agency OH Partners, said he’s been in constant communication with his shop’s top media vendors, especially since some of the agency’s clients in the hospitality and travel space have been hit especially hard.

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