Credit management operations

PricewaterhouseCoopers LLP review presented to the BBC Governors’ Audit Committee, March 2005, and a response to the review from the BBC
The BBC's credit management operations have been subject to a value for money study to assess whether the function is achieving best value for licence fee payers and making the optimal contribution to the organisation's overall effectiveness.

This study by PricewaterhouseCoopers LLP (PwC) is part of a programme commissioned by the Governors’ Audit Committee that is assessing value for money across the BBC. A key constituent of the overall programme is the appointment of external agencies to undertake independent reviews of selected topics.

PwC has evaluated the BBC’s in-house credit management operations, which are primarily responsible for the arrangements relating to the collection of the money that the BBC is owed. The study included an assessment of the BBC's capabilities benchmarked against external best practice, as well as the identification of opportunities for improvement in both the short and long term. PwC carried out the fieldwork for this study between August and November 2004.

The Board of Governors thanks PwC for undertaking this study and accepts the report's conclusions and recommendations.

The Board welcomes the conclusion that the BBC has demonstrated continuous improvement in credit management operations over the past two years. However, Governors recognise that there are savings and improvements which can be made to the credit management process.

Although the average amount of outstanding debt at any one time is a small proportion of total revenues for the BBC, Governors are aware that an efficient credit management operation is an essential component of robust financial management.

As PwC has stated in the report, the BBC’s core source of income is generated from the licence fee, which in 2003/2004 amounted to £2,798million. The Board of Governors has made a commitment to keep the financial burden on licence fee payers as low as possible and to ensure that all income is used efficiently and effectively. Governors are therefore pleased that BBC management's consideration of the report’s conclusions has found some scope for additional administrative efficiencies, which should ensure that credit management operations within the BBC are at least in line with industry best practice.

The Board has considered the changes to the credit management operations proposed by BBC management and has approved their implementation. We believe that the changes will help to achieve the BBC’s overall objective to increase the amount of money available to spend on its public services. Governors will assess the implementation of the changes through the Board's regular monitoring of value for money reforms.

The attached statement from BBC management outlines what actions are being taken to address the report’s recommendations and responds to the specific conclusions made by PwC.

Board of Governors
June 2005
Overall, the BBC recognises that there are savings and improvements which can be made to the credit management process and therefore welcomes PwC’s conclusions and recommendations.

For the period reviewed by PwC, the BBC’s in-house collection teams managed £77 million of debt and some 28% of this debt (£21 million) was overdue.

In the period under review, the non-commercial activities of the BBC (referred to in the report and this response as BBC public service) performed less effectively than the BBC’s commercial operations, running with overdue debts of 47%. However, as at March 2005, the public service operation had made significant progress in the collection of overdue debt, with an average overdue debt of 21%. This improvement has been achieved by the actions taken by the BBC since the PwC review.

Response to the report’s key findings

1. The BBC has clear standards in a significant part of its credit management operations but they are not consistent across the organisation.

The BBC recognises that the policies in its commercial operations are more developed than in its public service operations, where the value of external debt is far smaller. The BBC will ensure that these policies are reviewed and that a consistent standard is documented and published across all parts of the public service.

The differences in effectiveness noted by the PwC study between the credit management operations in the BBC’s commercial and public service operations, are recognised and accepted by the BBC. These differences should, however, be seen in the context of the overall scale of the individual operations, with the value of debt managed by the credit management teams across the commercial operations accounting for 92% of the total BBC debt. The variance in the scale of the operations and the differences in the operational requirements therefore drive the approach taken by the credit management teams within the BBC’s public service and commercial functions.

2. Current operations are reasonably effective. However, there are significant opportunities for the BBC to further enhance the value for money derived from its credit management operations.

The effectiveness of the BBC’s credit management function is included as part of the BBC’s internal efficiency reviews, which are looking to increase the value that the Corporation derives from this function.

3. The BBC has demonstrated continuous improvement over the past two years. However, this trend will be difficult to maintain without a step-change in working practices.

The BBC recognises that the improvements made over the past two years will only continue if a further review of the operations across the BBC is undertaken. New targets for cash collection and levels of outstanding debt are already being set for each division.

Continuing to improve the BBC’s credit management operations

As part of the BBC’s internal efficiency and value for money reviews – being undertaken throughout 2005 – the BBC is looking at the way in which it manages end-to-end sales and cash collection processes. The review aims to bring all processes in line with industry best practice and will focus on the policy approach to credit management as well as its implementation across the organisation. The BBC will use the recommendations set out in the PwC report to underpin this work.

Responding to the recommendations and conclusions

PwC has made valuable observations and recommendations within the report which the BBC is actively taking steps to address.

1. Structure and accountability

PwC has recommended that refocusing operational accountability on one individual and establishing central control of credit management would benefit the BBC. In advance of BBC Finance’s value for money programme, which aims to achieve significant savings by restructuring the finance community across the BBC, we have formalised the Credit Control Forum, which currently shares information on an informal basis. This forum includes representatives from each of the credit control departments across the BBC and is chaired by the Group Credit Control Manager. It meets monthly to ensure that issues and information are shared. A further purpose of the forum is to raise the profile of the credit control departments across the BBC.

2. Credit policy and use of technology

PwC has recommended that a master credit policy be produced. This is currently being produced and will be reviewed across the BBC before implementation in July 2005.

PwC has also recommended that the BBC review the technology levers available to it and consider the use of the credit control system currently in use in BBC Worldwide in addition to the BBC’s standard system, SAP. Once the credit policy has been produced, the technology for credit management will be subject to a cost
benefit analysis, to identify whether it would be efficient for the BBC to implement any further technology or system modules.

3. Knowledge sharing
The Credit Control Forum, as noted above, is now set up on a formal basis. This will encourage the sharing of good practice and credit intelligence across the BBC.

4. Performance monitoring and measurement
PwC highlights that there are opportunities to improve performance of the credit management functions. However, PwC does not think that this can be achieved unless the annual performance objectives (relating to business, teams and individuals) reflect this potential. PwC recommends that these objectives should include monthly cash collection and overdue debt targets.

The BBC is addressing this recommendation to improve reporting against key performance measures across the BBC, including the writing of additional reports within the current accounting systems. These will be in place for the second quarter of 2005/2006.

Specific performance measures and targets for levels of outstanding debtor days will be incorporated into the 2005/2006 annual objectives of the BBC’s divisional finance directors.
Review of the BBC Credit Management Operations

PricewaterhouseCoopers LLP review presented to the BBC Governors’ Audit Committee, March 2005
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Preface

This report is one of a series of studies that assess value for money across the British Broadcasting Corporation (BBC). The programme of reviews was selected by the BBC Governors’ Audit Committee in discussion with the Comptroller and Auditor General of the National Audit Office in the context of Parliament’s consideration of the Communications Bill.

This report was prepared by PricewaterhouseCoopers LLP ("PwC") for the Governors of the BBC. In the report we examine whether the BBC’s credit management operations are achieving best value for Licence Fee payers.

This report has been prepared for and only for the Governors of the BBC in accordance with the terms of our engagement letter dated 9 August 2004 and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing. Whilst we have consented to allow this report to be made public by presentation to Parliament as part of / an appendix to a report presented by the Governors of the BBC, we have not in so doing agreed to extend any liability or duty of care that we may have beyond that referred to above.

We have not carried out an audit of the BBC’s financial statements. Our work has been based primarily on internal management information, collated during August and September 2004, which we have not verified or corroborated.
Summary

The BBC’s primary function is public service broadcasting. In support of this activity, it sells goods and services to other organisations. As a result, the BBC extends credit to its customers and is owed money by them.

In this review we have evaluated the BBC’s credit management operations, which are primarily responsible for the arrangements relating to the management (i.e. collection) of the money that the BBC is owed. In line with this, the aim of this review was to:

- consider whether the BBC is achieving best value for Licence Fee payers from its credit management and debt collection process;
- benchmark the BBC’s capabilities with external best practice;
- identify and quantify opportunities for improvement; and
- identify means to ensure continuous improvement in the short and long term.

Credit management teams across the BBC provide advice on setting credit limits for new customers, review credit limits where required, pursue overdue debt, undertake query management, to the extent that it is undertaken, and escalate old debt to third party collection agencies. The teams are organised within BBC Worldwide, BBC Ventures (BBC Resources and BBC Broadcast) and BBC Public Service and comprise approximately 23.75 full time equivalent (FTE) staff across the BBC.

The amount of outstanding debt at any one time needs to be placed in the overall financial context for the BBC. The majority of the BBC’s income comes from the Licence Fee, which in 2003/04 generated £2,798 million of revenue for the corporation (See Figure 1).
The average amount of debt which the BBC was owed for the periods of June, July and August 2004 was £116 million, representing a small fraction of total revenues. Whilst, prima facie, this would make a review of credit management at the BBC different to one in a wholly commercial organisation, where the proportionate amount of trade debt to revenue is much higher, the need to enhance cash generation is still very much a priority for the BBC. This can be evidenced in the BBC Governors having a stated objective in the 2003/04 annual report to:

"Continue to increase the amount of money available to spend on the BBC's public services by enhancing the efficiency and effectiveness of the way the BBC operates."

In this context, we have assessed the BBC’s in-house credit management operations to see whether they make the optimal contribution to the BBC’s effectiveness overall. We have adopted the BBC Governors’ own definition of value for money which means they require the BBC’s credit management operations to:

- deliver services to clear standards (quality output);
- be the most effective, economic and efficient means available (cost effective); and
- demonstrate continuous improvement in the way in which functions are exercised.

## Conclusion

Against the above criteria, our review noted the follow key findings:

The BBC’s credit management operations have clear standards within the largest part of the organisation (i.e. BBC Worldwide), however they are not consistent across the corporation.

Indeed, the standards in some of the other businesses fell short of those employed within BBC Worldwide and when compared with external best practice.

Opportunities were identified for enhanced standards in terms of:

- clearer accountability and responsibility;
- documented policies and procedures which are aligned to overall BBC cash generation objectives;
- enhanced operational and management reporting including Key Performance Indicators;
- formal target setting; and
- enforcement of credit risk procedures.

A key theme identified was the diversity of standards (i.e. organisation structure, policies, practices, target setting and reporting) employed across all the different credit management teams within the businesses. Consistency in standards provides a platform for improved performance through sharing of practices and skills, internal benchmarking, and efficiencies derived from standardised processes.

The Governors’ requirement to deliver against clear and consistent standards is supported by one of the BBC’s core values:

"We are one BBC: great things happen when we work together."

The BBC’s credit management operations are reasonable in terms of cost, efficiency and effectiveness when compared with "average" UK Service sector benchmarks, however there are significant opportunities for further improvement.

Of the £116 million that the BBC is owed, £77 million is managed by in-house collection teams. The receivables relating to third party service providers have been deemed to be out of scope for the purposes of this review. Of the £77 million, £21 million, some 28% was overdue. 28% is below the median performance level for the UK Services sector. These benchmarks and our experience of working with world-class organisations indicate that the best organisations are running with overdue debts of 10% or less,
representing some scope for improvement for the corporation (see quantification in Section 5). Performance varies considerably amongst the BBC businesses with the commercial subsidiary, BBC Worldwide, both having the bulk of the debt and performing most effectively. BBC Public Service, on the other hand, performs less effectively, running with overdue debts of 47% (average for the periods June to August 2004).

We have compared the workload of the BBC’s credit management teams with recent staff workload benchmarks relating to a sample of large UK based Service organisations. These benchmarks indicate that, whilst the BBC is operating more economically than the sector median, it still has scope to reduce costs by increasing the number of accounts handled by each Credit Controller. Based on these benchmarks, we believe that a reduction in head count of between 3 to 4 staff is achievable by attaining a ratio in excess of 1 Credit Controller for every 350 accounts. This would equate to an annual cost saving of approximately £116,000 to £155,000.

The above improvements in effectiveness and efficiency will be crystallised through the implementation of some of the recommendations below, including: the standardisation of processes and the utilisation of technology, as currently employed by BBC Worldwide, across the organisation.

The BBC’s in-house credit management operations have demonstrated continuous improvement over the last two years; however, enhanced targets and practices will be required to maintain this trend.

We analysed the performance of the BBC’s in-house credit management operation, excluding BBC Americas, over the last two years and found that it has improved from over £43 million overdue in January 2003 to the £20 million outstanding at the time of our fieldwork. We have found evidence of management action to tackle overdue debt that has been effective. Lifting credit management performance to a level that compares with best practice could further reduce overdues to 10% of total accounts receivable. This represents an opportunity for the BBC to generate a potential one-off cash flow benefit of up to £15 million. However, we found that not all existing performance targets provide for continuous improvement. We also believe that new work practices, as noted below, in terms of standardisation and improved efficiency, based on best practice processes and technology as employed in BBC Worldwide, will be required to achieve further improvement.

Key Recommendations

The following key recommendations were made based on our review:

Structure and accountability

The BBC is most likely to realise the available benefits by refocusing operational accountability on one individual and establishing central control over its credit management functions. There are three principal options to consider:

• Appoint a Group Credit Manager and establish a centre of excellence to provide credit management services to all BBC businesses. Given the BBC’s devolved structure, we would envisage this operating along the lines of a shared service centre;

• Maintain a decentralised approach but establish reporting lines to a Group Credit Manager, with overall functional responsibility for credit management. This approach would be unlikely to deliver the full extent of potential cost savings as it would not maximise economies of scale; and

• Focus responsibility for credit management across the BBC on BBC Worldwide, the best performing business.
Summary

We understand that this would need to be conducted within the BBC’s Fair Trading guidelines and Fair Trading advice should be sought.

As an alternative, the BBC may wish to consider outsourcing the collection of further elements of its receivables to a specialist third party service provider. The potential benefits of this approach may combine improved performance (in line with service level targets) together with reductions in operating costs in the longer term. This would require a detailed cost benefit analysis to establish whether this approach is viable.

Credit policy

Whilst the BBC has credit policies at a business level, there is an opportunity to both extend their scope (to cover the broader sales-to-cash process) and publish a master credit policy, providing an overall credit framework and ensuring consistency with the BBC’s broader cash generation objectives.

Processes, work practices and technology

Implementing best practice credit management consistently across the BBC will help to maximise performance. The first step would be to define best practice as it relates to the BBC. Our experience has shown that, within an organisation as diverse as the BBC, processes may need to be adapted to the needs and dynamics of its various businesses.

A key element of standardising processes will involve an understanding of the extent to which technology can be best leveraged. The Credica system, currently used by BBC Worldwide, provides evidence that such technology can deliver tangible benefits. Accordingly, we consider that the BBC would derive considerable benefit from extending the use of such a system to BBC Public Service. Other future uses of technology could include the use of e-mail collection letters, automated credit risk score cards, uploading third party customer information to SAP, electronic invoice presentation and payment, and document imaging.

Sharing knowledge

We observed many good practices within the BBC and there is clearly a wealth of knowledge and experience within the credit management teams. These teams should be actively encouraged to share both their knowledge of good practice but also the credit intelligence that they gather on customers. We acknowledge that this would need to take place subject to the BBC’s Fair Trading Guidelines.

Performance monitoring and measurement

As outlined in this report, there is a considerable opportunity to improve performance. However, this is unlikely to be achieved unless the annual performance objectives (relating to businesses, teams and individuals) reflect this potential. These objectives should include monthly cash collection and overdue debt targets.

Implementing a consistent set of key performance indicators across the BBC would provide greater control and also enable comparison of performance across the businesses.
3.1 Background for this value for money study

The BBC’s Royal Charter states that ensuring value for money is a core responsibility of the BBC Governors and that, for the BBC, this means:

- delivering services to clear standards (quality outputs);
- doing this in the most effective, economic and efficient means available (cost effective); and
- with continuous improvement in the way in which functions are exercised.

In the context of the Communications Act 2003, the Government and the BBC agreed a development in the BBC Governors’ oversight of value for money studies to ensure that there is sufficient scrutiny over Licence Fee expenditure. A key component of the programme was the appointment of external agencies, to include the National Audit Office (“NAO”), to undertake certain topics identified for review. The key objectives of the studies are to review whether the BBC is achieving best value for its Licence Fee payers. PwC was appointed in August 2004 to undertake a review of the BBC’s credit management operations. Our fieldwork was carried out during August and September 2004.

The BBC has a strategic objective to improve its cash flow generation. This was evidenced by the BBC Governors’ stated objective in the 2003/04 annual report to:

"Continue to increase the amount of money available to spend on the BBC’s public services by enhancing the efficiency and effectiveness of the way the BBC operates."

In line with this, the aim of this review is to:

- evaluate whether the BBC is achieving best value for Licence Fee payers from its credit management and debt collection process;
- benchmark the BBC’s capabilities with external best practice;
- identify and scale opportunities for improvement; and
- identify means to ensure continuous improvement in the short and long term.

3.2 Placing credit management in the context of BBC’s overall operations

The majority of the BBC’s income comes from the Licence Fee, which in 2003/04 generated £2,798 million (see Figure 1 on page 2).

Whilst the Licence Fee represented 75% of total income, commercial activities, such as the sale of BBC programmes and publications and the leasing of production facilities, generated £908 million.

The BBC’s primary function is public service broadcasting. It operates around the world and has its main offices in White City and Central London. They are augmented by offices in other key locations, including New York for BBC Americas and regional capitals in the UK.

BBC Public Service fulfils the corporation’s primary purpose of public service broadcasting. In general, the BBC’s commercial activities are undertaken by wholly owned subsidiaries set up for this specific purpose, they include:

- BBC Worldwide ("BBC Worldwide");
- BBC World ("BBC World"); and
- BBC Ventures ("BBC Ventures (BBC Resources and BBC Broadcast)").

BBC Ventures consists of four businesses, BBC Resources ("BBC Resources"), BBC Broadcast ("BBC Broadcast"), BBC Technology and BBC Vecta. At the time of the fieldwork for this review, the latter two were in the process of being sold and, consequently, were not covered by this review.
BBC Worldwide is the main commercial arm of the BBC and, as such, it is responsible for selling a large proportion of the BBC’s products in the UK and around the world. BBC Worldwide is assisted in this in the UK by an outsourced credit management service provider which is responsible for magazine sales, distribution and associated credit management activities and an outsourced distributor that produces and distributes audio and visual media (e.g. CDs and DVDs). BBC Worldwide also has a significant business, BBC Worldwide Americas (“BBC Americas”) based in New York, covering sales in North America, Canada and South America. It is supported by a credit management service provider that undertakes collections, in addition to advertising and affiliate sales, and an outsourced distributor that undertakes the manufacture and sale of videos and DVDs.

BBC Worldwide has a further 12 FTE in Accounts Receivable. The Accounts Receivable function for the other divisions is provided by a third party service provider. BBC Americas, part of BBC Worldwide, has its own credit management team responsible for the USA, Canada and Latin America. BBC Ventures (BBC Resources and BBC Broadcast) has a credit management department of two, whilst BBC Public Service has a central credit management team of two and part of an FTE in both Scotland and the Sport International Unit.

BBC World Service is, effectively, independent of the other businesses from a credit management perspective, as a result of its unique funding structure and remit. It does not have a credit management department and uses other staff to undertake any such work.

3.3 Credit management organisation within the BBC

Credit management teams across the BBC provide advice on setting credit limits for new customers, review credit limits where required, pursue overdue debt, undertake query management, to the extent that it is undertaken, and escalate old debt to third party collection agencies. All of the credit teams produce reports for review by management. The teams are organised within BBC Worldwide (including BBC World), BBC Americas, BBC Ventures (BBC Resources and BBC Broadcast) and BBC Public Service and comprise 23.75 full time equivalent (FTE) staff including 17 in BBC Worldwide (excluding BBC Americas).
The combined BBC accounts receivable ledger was an average of £116 million for the periods of June, July and August 2004.

The commercial divisions have the highest share of total debt, due to the fact that their income is predominantly from credit sales. BBC Public Service debt only makes up a small element, 8%, of total BBC receivables, its prime source of funding being the Licence Fee. The difference in funding between BBC Public Service and the commercial divisions influences their approach to credit management.

**Use of third party service providers**

BBC Public Service and BBC Ventures (BBC Resources and BBC Broadcast) have engaged an outsourced service provider to obtain credit risk reports from third party credit reference agencies, maintain customer master data, undertake cash application and despatch invoices, statements and dunning letters. BBC Worldwide undertakes these tasks in-house.

Approximately 16% of BBC Worldwide's receivables relate either to an outsourced distributor or credit management service provider. Both are subject to formal distribution / service levels agreements and are managed directly by the business. As they do not involve the BBC's credit management teams, they have been excluded from the scope of this review.

A similar situation exists for BBC Americas where 66% of its receivables relate to outsourced service providers. We have, however, undertaken a desktop review of recent performance of the credit management service providers.
3.4 Scope of review

As agreed with the BBC, the scope of this review covered the following business areas:

- Central credit management for BBC Public Service - this included separate teams within 2 areas of BBC Public Service:
  - Sport International Unit; and
  - BBC Scotland;
- BBC World Service;
- Outsourced provider supporting credit management processes only;
- BBC Worldwide (including BBC Americas);
- BBC World; and
- BBC Ventures: BBC Broadcast and BBC Resources (excluding BBC Technology and BBC Vecta).

It was agreed with BBC Management that the external service providers within BBC Worldwide and BBC Americas would not be subject to review. In addition, the sales order management and cash allocation processes were deemed to be out of scope. The operational scope of the review is illustrated in Figure 4.

In summary, the following areas were specifically not included within the scope of this review:

- collection of the Licence Fee;
- outsourced distributors and credit management service providers (other than a desktop review of recent performance of the latter);
- transactions between BBC Divisions and the commercial subsidiaries;
- the sales order management; and
- cash allocation process.

Scope of credit management process reviewed

Figure 4
This part of the review examines the standards in place at the BBC in relation to credit management. In particular, it covers:

- the nature and level of the standards in place; and
- the consistency with which the standards are applied.

4.1 A significant element of the BBC delivers credit management services to clear and consistent policies

4.1.1 BBC Worldwide and BBC Resources have well developed credit policies and documented processes

BBC Worldwide represents over 50% of the BBC’s accounts receivable and has a significant focus on credit management.

Our review established that both BBC Worldwide and BBC Resources operate to clear, visible and robust credit management standards. They have published credit policies comprising the areas that we would expect to see. They also have documented credit and collection processes, which complement the credit policies. We have not found any evidence to suggest that the staff in BBC Worldwide or BBC Resources do not work within the parameters set out in their policies and process documentation.

4.1.2 Other businesses have an opportunity to better articulate their credit policy and work practices. This will make them more clearly aligned with the BBC’s broader objective of improving cash flow generation

BBC Broadcast does not have the same level of sophistication as BBC Worldwide and BBC Resources, relying on a much smaller scale of operation and the experience of its Credit Managers, rather than a published credit policy and set of processes.

BBC Public Service has published a very brief credit policy document, lacking the detail of that prepared by BBC Worldwide. Furthermore, whilst it has a set of documented credit and collection processes, these are not in wide circulation and do not tend to reflect day-to-day working practices.

Currently, there are no credit policies or documented processes in place for BBC Broadcast or BBC World. However, management in both organisations did articulate a clear vision of what a credit policy should comprise.

4.1.3 The BBC does not have a consistent credit management policy framework across all of its businesses

We noted from our review that no overall credit management policy framework exists across the organisation. Our experience has shown that, even in the most diverse of organisations, there is a need for a master corporate credit policy from which divisional variations can be derived. The result is a series of interlinked polices that have shared values and objectives and, consequently, are able to sustain a greater profile and consistency within the organisation.

We would recommend that the BBC develops a common policy framework upon which divisional variations can be developed, whilst sharing a common strategy and objectives.

4.1.4 Service level agreements are in place with the BBC’s principal outsourced distributors and credit management service providers

The BBC has service level agreements in place with its main third party distributors and credit management service providers. We found that the service level agreements make provision for the services in question and the BBC regularly monitors performance against agreed standards.
4.2 Accountability and responsibility for credit management differs from business to business

4.2.1 The BBC has a devolved, decentralised approach to credit management

Responsibility for credit management is devolved to each of the main businesses. Whilst a decentralised approach can be effective, it often means (as is the case with the BBC) that no one Credit Manager has overall responsibility for the BBC’s credit and collections performance, organisation, policy, process or reporting. Our experience has shown that some measure of central coordination and accountability helps world-class organisations to improve performance, provide greater visibility of key issues, share knowledge, establish uniform policies and work practices, provide economies of scale and reduce costs. We recommend the BBC considers the following options:

- Appoint a Group Credit Manager and establish a centre of excellence to provide credit management services to all BBC businesses. Given the BBC’s devolved structure, we would envisage this operating along the lines of a shared service centre;
- Maintain a decentralised approach but establish reporting lines to a Group Credit Manager, with overall functional responsibility for credit management. This approach would, however, be unlikely to deliver the full extent of potential cost savings, as it would not maximise economies of scale; and
- Given the relative performance of the different businesses, the BBC may wish to consider the potential benefits of placing responsibility for all receivables with BBC Worldwide.

We understand that this would need to be conducted within the BBC’s Fair Trading guidelines and Fair Trading advice should be sought.

As an alternative, the BBC may wish to consider outsourcing the collection of further elements of its receivables to a specialist third party service provider. The potential benefits of this approach may combine improved performance (in line with service level targets) together with reductions in operating costs in the longer term. This would require a detailed cost benefit analysis to establish whether this approach is viable.

In order to engender cooperation and assistance from each of the divisions in support of implementing good credit management practice, we recommend that the BBC also considers levying an internal cost of capital charge proportionate to the level of receivables outstanding.

4.2.2 BBC Worldwide (including BBC Americas and BBC World), BBC Resources and BBC Broadcast have well defined organisational structures for credit management

The credit management operations in BBC Worldwide, including BBC Americas, are driven by commercial imperative and strong local management. Receivables performance has, therefore, a high priority. There is a clear understanding of the importance of prompt payment, reinforced by published procedures, targets and management review of performance. Credit management has a key role to play in BBC Worldwide’s sales-to-cash process and this was clearly understood by those interviewed. This is particularly important given the relative size of the organisation.

BBC Worldwide has a formal structure for its credit management team comprising 17 staff (excluding Accounts Receivable), with clearly defined responsibilities supported by a sophisticated performance measurement process (see section 4.5.1). Each member of staff has a set of personal objectives and is subject to a regular performance appraisal process.
Although BBC Worldwide’s Finance Director is ultimately accountable for credit management, day-to-day responsibility is delegated to an experienced Credit Manager. The Credit Manager, in turn, reports to the Head of Financial Accounting Services.

In BBC Americas, the Vice President Finance is accountable for credit management and has a dedicated team of three staff.

BBC Ventures (BBC Resources and BBC Broadcast) has a small team of two experienced Credit Controllers, with clear accountability, reporting to the Head of Purchasing for BBC Resources.

4.2.3 The credit management structure in BBC Public Service is more complex and not as clear

Currently, BBC Public Service has a decentralised approach to credit management with different lines of accountability.

For historical reasons only, Sport International Unit and BBC Scotland each have staff with part-time responsibility for credit management. We do not consider that there is benefit in maintaining a decentralised approach within BBC Public Service and recommend that the BBC focuses responsibility on one central team.

For the remainder of BBC Public Service a small dedicated team, comprising a Credit Manager and Credit Controller, was appointed approximately two years ago. Our review highlighted that the role of this team is not yet fully understood by all of its divisional Financial Controllers, as a number noted that they still undertook some collections activities themselves because they were not aware that a central credit management team had this responsibility.

The Credit Manager is in the process of staging a series of “road shows” for individual divisions to introduce them to the principles of good credit management and reinforce the availability of specialist resource. At the time of our review, a number of the Financial Controllers continued to take an active role in day-to-day credit and collection activities. We consider that there is an opportunity for these divisions to delegate responsibility to the specialist credit management team.

4.3 Credit risk management processes are in place in each business but in certain instances are not being enforced

4.3.1 Credit management teams across the BBC understand the need for credit risk management

Processes for managing credit risk are in place across the BBC, although the extent to which these are fully documented is variable.

Credit management staff in BBC Worldwide have been trained to assess the information provided to them from recognised third party credit reference agencies and evaluate the level of credit risk. BBC Americas staff are also trained to assess information provided via third party agencies. In line with best practice, other information (including trade references) is also used by these teams to determine customer credit limits. Other areas of the BBC obtain similar third party reports on potential new customers but tend to use the credit limits recommended by the credit reference agency. This may lead to the adoption of inappropriately high or low limits and could either restrict sales unnecessarily or expose the BBC to a high credit risk.

4.3.2 There is scope to improve credit risk management in BBC Public Service

We found that the BBC Public Service divisions do not often follow their documented credit risk process until after they have provided goods or services to the customer. It is only at this point that the credit management team receives a request.
to undertake the normal credit risk procedure, thereby significantly devaluing its purpose.

From our interviews, we understand that there are instances where BBC Public Service divisions raise both sales orders and invoices at period end after the customer’s payment has been received. Furthermore, we found that BBC Public Service has no means of establishing the value of the services performed but not yet invoiced. We understand that un invoiced amounts of this nature could be substantial, resulting in delays in cash collection. Whilst we have not found evidence of this risk materialising, the BBC should consider undertaking a review to quantify the impact of this and the need for changes in operating procedures.

4.3.3 There is currently no mechanism to aggregate credit limits across the BBC

The BBC currently runs two separate SAP accounting systems, one for BBC Worldwide and another for BBC Public Service, BBC World Service and BBC Ventures (BBC Resources and BBC Broadcast). Accordingly, customer credit limits can only be aggregated for different accounts relating to the same customer if they are held on the same SAP system. In effect this means that cross-BBC credit risk management is difficult to achieve and, as a result, the BBC does not currently set limits or monitor total customer credit exposure for the whole corporation. Similarly there is no efficient means of sharing information relating to customer payment problems.

This may leave the BBC open to bad debt losses. However, we encountered no evidence that such losses have occurred to date.

4.3.4 In BBC Public Service, BBC World Service and BBC Ventures (BBC Resources and BBC Broadcast), the ‘credit hold’ feature within SAP does not automatically stop orders if a credit limit has been exceeded

Some BBC Public Service, BBC World Service and BBC Ventures (BBC Resources and BBC Broadcast) customers are classified as "key" accounts within the SAP accounting system, whereas the remainder are flagged as "standard", or non-key accounts. SAP treats the two classes differently when applying credit limits. If a key customer exceeds its credit limit, the system provides only a warning and will allow the order to progress regardless. Alternatively, where credit limits are breached on standard accounts, the Credit Manager must specifically ‘release’ the order for it to progress. Whilst this is a standard feature of the SAP sales order processing module, it effectively places responsibility for credit risk management with the business rather than the credit management team. We recommend that all breaches of credit limits should be referred to the Credit Management function.

4.4 Target setting practices are inconsistent across the BBC

BBC Worldwide applies good practice and sets monthly cash collection targets for each team and, until recently, set targets for each individual. The use of individual targets has now been suspended to engender a more team focussed approach. Whilst we would normally expect targets to be set at individual level, the effectiveness of the team based targeting, as now adopted, should be evaluated over a period of time. BBC Worldwide also sets annual overdue debt targets for teams, and each individual is set objectives to improve the aged debt profile for which they are responsible.
The BBC has clear standards in a significant part of its credit management operations but they are not consistent across the organisation.

4.5 Whilst there is good credit management reporting in place in some businesses, there is no BBC-wide consolidation or overview.

4.5.1 BBC Worldwide (including BBC World) and BBC Resources publish good quality management reports.

Each month BBC Worldwide and BBC Resources publish clear, one-page summary reports in respect of the previous period’s performance. These reports comprise a number of meaningful key performance indicators and are supported by more detailed analysis. BBC Worldwide’s reporting capability is enhanced through its use of Credica, a specialist credit management workflow and reporting application. This system provides a good level of operational reporting, enabling the Credit Manager to monitor credit management activity and make adjustments to daily priorities.

4.5.2 Reports prepared by other businesses are not as comprehensive.

In contrast, the BBC Public Service report is not as comprehensive and does not provide a trend analysis or detailed set of performance measurements. Certain divisions publish their own reports, typically monitoring the overdue debt profile and setting out details of the largest slow payers. Similarly, reports published by BBC Americas do not provide a full analysis of overdue receivables (distinguishing only between debts under and over 90 days past due), thus limiting the value of the information provided. In its one-page report, issued monthly to BBC Worldwide, it lists the top 12 debts and provides an aged ledger summary for the remainder. However, the lack of monitoring of the profile of debt less than 90 days overdue presents an opportunity for improvement.

We recommend that management reports prepared by the businesses should include reference to at least the following key performance indicators:

- Percentages of each overdue age band in relation to total accounts receivable;
- Percentage overdue, with historic trends;
- Debtor Days, also known as Days Sales Outstanding (“DSO”) and Best Possible DSO, with historic trends;
- Value and percentage of accounts receivable in dispute, with historic trends;
- Value and percentage of disputes by dispute type;
- Cash collected against cash target; and
- Value of unbilled revenue.
The BBC has clear standards in a significant part of its credit management operations but they are not consistent across the organisation

4.5.3 The BBC businesses use different key performance indicators and the calculations underpinning some of these in certain businesses are inconsistent and inaccurate

Each business uses a different set of key performance indicators. Furthermore, the source data used for calculating BBC Worldwide’s DSO measurement is inconsistent (with the other BBC businesses and external best practice), as accounts receivable figures include VAT, whilst sales figures do not. This results in DSO being generally overstated and subject to anomalous fluctuations in response to significant changes in the proportion of export sales. In addition, BBC Worldwide’s calculation routinely overstates DSO by 30 days. Whilst this does not prevent internal trend analysis, it does preclude a valid comparison with external benchmarks. We understand that BBC Worldwide has since changed its method of calculating DSO in line with best practice. We also found that BBC Ventures (BBC Resources and BBC Broadcast) bases its DSO calculation on calendar days, whereas the source data relates to days within a BBC accounting period. Whilst the effect of this will vary, the consequence is that the data is inaccurately reported.

4.5.4 BBC Public Service reports include receivables for which the BBC is not responsible and others that are not true trade receivables

BBC Public Service receivables information, as reported via the Executive Committee report, includes non-trade receivables in the form of property transactions. The report also includes data in relation to the BBC World Service Trust. These receivables are the responsibility of the Trust, which is not part of the BBC. The value of Trust receivables accounted for approximately 24% of the total BBC Public Service ledger, distorting its performance. For purposes of comparison in this report, we have adjusted the data provided to us by the BBC to remove receivables relating to either property transactions or the Trust.

4.5.5 The BBC does not publish an overview report providing a consolidated picture of credit management performance across its different businesses

We found that there is no consolidated reporting of receivables performance across the various BBC businesses, leading to a lack of visibility at top management level. In order to provide sufficient oversight of credit management issues across all the BBC’s businesses, we recommend that a top-level management report is prepared and circulated to senior management on a monthly basis.
Current operations are reasonably effective however there are significant opportunities for the BBC to further enhance the value for money derived from its credit management operations.

This section of the report examines whether credit management at the BBC is undertaken in the most efficient, effective and economic manner. It covers:

- Whether its credit and collection performance is effective;
- How the BBC’s credit management operations compare with external best practice; and
- How the economies of the credit management function compare with other world-class organisations.

5.1 Whilst the BBC’s collections performance is broadly in line with the median for the UK Services sector, there is still scope for improvement.

5.1.1 Of the £77 million of accounts receivable managed internally, £21 million was overdue.

For the purposes of our review we have focused only on trade receivables generated from the BBC’s core broadcasting and commercial activities. We have, therefore, excluded balances relating to the BBC World Service Trust and property transactions.

Accordingly, the BBC’s average trade receivables balance (excluding the BBC World Service Trust and property related transactions) over the three months to August 2004 totalled £116 million.

We have also excluded balances relating to outsourced service providers (which have been deemed out of scope) giving an adjusted total ledger balance of £77 million, of which, £21 million (or 28%) was overdue, with £5 million (or 7%) greater than 90 days past due.

![Chart showing breakdown of debt managed by in-house collection team and others.](Figure 5: Source BBC)
Current operations are reasonably effective however there are significant opportunities for the BBC to further enhance the value for money derived from its credit management operations.

We have compared the BBC’s performance with recently collated external benchmarks. The data provided to us related to a sample of large UK based organisations operating in the Services sector, including media, broadcasting and publishing businesses.

With overdues of 28% and over 90 day past dues at 7%, the BBC’s performance ranks between the sector median and the lower quartile. In our experience, world-class credit management teams (with a significant element of overseas debt in their portfolio) maintain overdues at below 10% of total accounts receivable.

<table>
<thead>
<tr>
<th>Overdue as a % of total accounts receivable</th>
<th>Upper quartile</th>
<th>Median</th>
<th>Lower quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over 90 day overdues as a % of total accounts receivable</td>
<td>13.0</td>
<td>22.0</td>
<td>38.7</td>
</tr>
</tbody>
</table>

Figure 6: Source Credit Management Research Centre

BBC Worldwide has the highest level of receivables but the lowest percentage overdue. The chart below shows the overdue performance of the BBC businesses that we reviewed.

Note 1: Data provided by the Credit Management Research Centre at Leeds University Business School
Current operations are reasonably effective however there are significant opportunities for the BBC to further enhance the value for money derived from its credit management operations

BBC Worldwide is the most significant business in terms of annual sales and total accounts receivable. Furthermore, a material element of its receivables relates to overseas customers. In our experience, not only are payment terms for overseas accounts longer, but also payment is generally slower. Relative to total receivables of £58 million, overdues of £14 million accounted for 24% and balances greater than 90 day past dues represented 6%.

The aged debtor information provided by the BBC in relation to the outsourced credit management service provider’s collection performance does not allow a meaningful analysis of overdues. The average overdue figure for June 2004 to August 2004 was a credit balance and has been distorted by the following factors:

- The aged debt reports do not correctly classify invoices that fall due on the last day of the month as overdue; and
- The ledger comprises a significant value of credit notes raised as a result of billing errors or returned stock. Credit notes are classified as overdue with immediate effect and if left unmatched, significantly distort the overall aged profile.

**BBC Resources overdues have been distorted by a £400,000 doubtful debt**

On face value, 39% of the BBC Resources ledger was overdue, with 28% more than 90 days past due. However, these figures were distorted by a large doubtful debt of £400,000. We understand an agreement has been reached with this customer for the debt to be paid in instalments. If the balance were removed, BBC Resources overdues would represent 27% of its total accounts receivable.

**BBC Broadcast overdues have also been distorted**

BBC Broadcast’s absolute level of overdues is relatively low at £934,000, of which 82% is overdue. On closer analysis, we found that BBC Broadcast often invoices its customers up to 50% of the contract value in advance. These invoices are due immediately and are, therefore, classified as overdue as soon as they are raised. In practice, customers take at least seven days to make payment. This, in turn, impacts the BBC Broadcast overdue position, which in recent months has averaged 82% of total accounts receivable. In this respect, although BBC Broadcast ledger is relatively small, the BBC may wish to consider applying more realistic payment terms to these invoices.

**BBC Public Service has made good progress in reducing overdue balances, but still has significant scope for improving its collections performance**

Since early 2003, BBC Public Service has made progress in reducing its overdue balance. However, with overdues now averaging 47% of its total accounts receivable (and over 90 day past dues at 9%), there is still considerable scope for improvement when compared to industry sector average.
Current operations are reasonably effective however there are significant opportunities for the BBC to further enhance the value for money derived from its credit management operations.

BBC Americas’ recent collection performance is broadly in line with that of BBC Worldwide.

BBC Americas’ recent overdues have averaged £1 million, representing 18% of its accounts receivable balance, with over 90 day past dues at 7%.

The outsourced credit management service provider for BBC Americas shows an average overdue debt position of £4 million (57%).

Note 1: At the time of our review, a full aged debt profile was not available for BBC Americas. As a result, its consolidated figures are shown above.
Current operations are reasonably effective however there are significant opportunities for the BBC to further enhance the value for money derived from its credit management operations

The BBC may wish to consider insourcing and outsourcing options

Given that BBC Worldwide performs better than the other businesses, the BBC may wish to consider giving it responsibility for all of the BBC’s receivables.

We understand that this would need to be conducted within the BBC’s Fair Trading guidelines and Fair Trading advice should be sought.

Furthermore, the BBC should also consider outsourcing the collection of further elements of its receivables to a third party service provider specialising in this area. This would require a detailed cost-benefit analysis to determine whether this approach is viable.

5.1.2 Collections Effectiveness Index suggests an opportunity to improve

The BBC’s Collections Effectiveness Index (CEI), across all its businesses, for the 3 months to August 2004 has averaged 74%. Essentially, CEI assesses the proportion of accounts receivable collected in any one period as a percentage of the receivables available for collection (i.e. due for payment). The closer the CEI score is to 100% the better.

Comparing the BBC’s CEI score with benchmarks for the UK Services sector demonstrates that all businesses are operating above the median level but below the upper quartile (See Figures 9 and 10).

BBC Public Service and BBC Broadcast have higher than expected CEI values when considered in conjunction with their overdue debt. This suggests that a high value of debt is collected prior to due date. This is due to prepayments for BBC Broadcast and invoices being raised when cash is received, as part of normal trading, for elements of BBC Public Service.

<table>
<thead>
<tr>
<th>Collections Effectiveness Index</th>
<th>Upper quartile</th>
<th>Median</th>
<th>Lower quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>93.4</td>
<td>70.8</td>
<td>49.1</td>
</tr>
</tbody>
</table>

Figure 9: Source Credit Management Research Centre

Collections Effectiveness Index by business
Average for the period June to August 2004

Figure 10: Source BBC
5.1.3 The combined bad debt position across all BBC businesses represented a net write back of £0.9 million

During the financial year 2003/04, the BBC wrote back £0.9 million against bad debts incurred. This included a sum of £3.4 million recovered by BBC Worldwide in relation to debts previously provided for. Excluding this recovery, consolidated bad debts for the year totalled £2.7 million, representing 0.6% of sales and recharged costs (both including VAT). Given the scale of the BBC Worldwide write back, we do not consider that a comparison with the UK Service Sector benchmarks is meaningful in relation to the BBC as a whole. However, BBC Public Service incurred write-offs exceeding 0.6% of sales and recharged costs (both including VAT) which is well in excess of the sector median of 0.1%. This raises concerns in relation to the robustness of its credit risk processes.
Current operations are reasonably effective however there are significant opportunities for the BBC to further enhance the value for money derived from its credit management operations

5.2 There is an opportunity to improve overdue debt performance in the range of £7 million to £15 million

If the BBC was to implement the recommendations set out in this report, it would be well placed to realise a significant opportunity to improve collections effectiveness. If overdues were reduced to the equivalent of 20% of total accounts receivable (2 percentage points better than the sector median), the BBC would generate approximately £7 million of additional cash receipts. Moreover, if overdues were to be reduced to 10% (in line with best practice), some £15 million could be released. This is explained more fully in section 6.2.

5.3 Central control of credit management would further improve performance and could help to reduce the overall cost of the service

The BBC has four main dedicated credit management teams with a combined operating budget for Financial Year 2004-5 of £920,000. This represents approximately 0.18% of the value of sales invoices handled by these teams. This falls between the median and the best performers in the UK services sector.

Of the total budget, salary related costs account for 90%, the remainder comprising general office costs and a contribution to central overheads.

<table>
<thead>
<tr>
<th>£'000</th>
<th>BBC Public Service</th>
<th>BBC Worldwide &amp; BBC World</th>
<th>BBC Americas</th>
<th>BBC Ventures (BBC Resources and BBC World)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary costs</td>
<td>89.6</td>
<td>588.2</td>
<td>86.3</td>
<td>65.5</td>
<td>829.6</td>
</tr>
<tr>
<td>Office costs</td>
<td>15.1</td>
<td>43.2</td>
<td>22.3</td>
<td>9.7</td>
<td>90.3</td>
</tr>
<tr>
<td>Total budget</td>
<td>104.7</td>
<td>631.4</td>
<td>108.6</td>
<td>75.2</td>
<td>919.9</td>
</tr>
</tbody>
</table>

The credit management teams collectively employ a total of 23.75 FTEs managing approximately 7,000 active customer accounts. This represents a ratio of 1 Credit Controller for every 294 accounts.

An analysis of active accounts per FTE within each of the main credit management teams is set out below:

![Accounts per Credit Controller](image_url)

At August 2004
Figure 13: Source BBC
We have compared the workload of the BBC’s credit management teams with recent benchmarks relating to a sample of large UK based Service organisations. These indicate that, whilst the BBC is operating more economically than the sector median, it still has scope to improve.

For example, the benchmarking study highlights that the credit management teams of the top 25% of respondents handle over 350 active accounts per FTE. This represents some 19% more than BBC Credit Controllers.

An analysis of the different credit management teams shows that BBC Worldwide are operating closest to the upper quartile (i.e. the best performers), while BBC Ventures (BBC Resources and BBC Broadcast) are operating nearer to the Sector median of 175 accounts per Credit Controller.

BBC Worldwide Credit Controllers each handle an average of 324 accounts with an annual throughput of over 3,300 invoices. We consider that this team’s workload is significantly enhanced through the use of the Credica workflow system. This application is designed to prioritise collection and query management activity and, therefore, assist to maximise staff productivity. In implementing the system, BBC Worldwide has already managed to release 1 FTE and increase the number of accounts that receive regular telephone contact.

The BBC Ventures (BBC Resources and BBC Broadcast) Credit Controllers each manage 180 accounts and an annual volume of approximately 1,700 invoices. The credit management cost per sales invoice at £22 is over twice that in BBC Worldwide. Of the total number of customer accounts managed by BBC Ventures (BBC Resources and BBC Broadcast), 165 relate to BBC Technology and BBC Vecta. These businesses were in the process of being sold, leaving the 2 Credit Controllers with only 195 accounts; a ratio of 1 Credit Controller to 98 accounts.

Whilst we recognise that the number and complexity of transactions handled by each Credit Controller are also important factors in assessing overall workload, in the long term, we consider that a reduction in head count of between 3 to 4 staff is achievable by attaining a ratio in excess of 1 Credit Controller for every 350 accounts. This would equate to an annual cost saving of approximately £116,000 to £155,000 (based upon an average staff cost of £38,700 per annum). However, we believe that reducing headcount prematurely would compromise the BBC’s ability to deliver the potential performance improvements, noted in section 5.2. However, the benchmarks suggest that the BBC should give strong consideration to structural change in order to improve both the effectiveness and economy of its credit management operations.

Again, we understand that any proposed approach for refocusing operational accountability for credit management would need to be conducted within the BBC’s Fair Trading guidelines and Fair Trading advice should be sought.
Current operations are reasonably effective however there are significant opportunities for the BBC to further enhance the value for money derived from its credit management operations

5.4 Whilst good in parts of the BBC, there remain opportunities to improve existing credit policies

The existing credit policies in certain businesses, BBC Worldwide and BBC Resources in particular, are clear and relatively comprehensive. However, the policies we reviewed are restricted to the process elements that are directly related to credit management. Our experience has shown that a credit policy should encompass all areas within the revenue management process. We would expect a comprehensive credit policy to address a broad range of areas as set out in Figure 14. This table not only highlights the specific areas we would expect to see, but also summarises the extent to which the BBC has embraced each one.

<table>
<thead>
<tr>
<th>Subject</th>
<th>Covered</th>
<th>Comment in relation to the BBC</th>
</tr>
</thead>
<tbody>
<tr>
<td>New account set up</td>
<td></td>
<td>Largely compatible; not specifying data to be captured</td>
</tr>
<tr>
<td>Terms and conditions of sale/contracts</td>
<td></td>
<td>Existed in Resources policy but did not cover payment terms</td>
</tr>
<tr>
<td>Credit assessment</td>
<td></td>
<td>Present in each existing policy</td>
</tr>
<tr>
<td>Credit lines and ongoing risk management</td>
<td></td>
<td>Present in each existing policy</td>
</tr>
<tr>
<td>Billing triggers</td>
<td></td>
<td>Not specified in credit policy</td>
</tr>
<tr>
<td>Billing responsibilities and standards</td>
<td></td>
<td>Not specified in credit policy</td>
</tr>
<tr>
<td>Customer classification</td>
<td></td>
<td>Resources classify key accounts</td>
</tr>
<tr>
<td>Collection approach/strategy</td>
<td></td>
<td>Not specified in credit policy</td>
</tr>
<tr>
<td>Query management including credit notes</td>
<td></td>
<td>Credit notes are covered but not Query management</td>
</tr>
<tr>
<td>Debt escalation, including sanctions and litigation</td>
<td></td>
<td>Largely in place; requires clarity by category of debt (debt is not currently categorised)</td>
</tr>
<tr>
<td>Cash posting and matching</td>
<td></td>
<td>Not specified in credit policy</td>
</tr>
<tr>
<td>Unidentified and unmatched cash</td>
<td></td>
<td>Not specified in credit policy</td>
</tr>
<tr>
<td>Debt write off</td>
<td></td>
<td>Included in Resources policy to a degree</td>
</tr>
<tr>
<td>Management reporting/review</td>
<td></td>
<td>Partially covered in all policies</td>
</tr>
</tbody>
</table>

Figure 14: Source PricewaterhouseCoopers LLP
5.5 Standardising processes based on best practice, demonstrated in part by BBC Worldwide, will help to drive performance improvement across the corporation

The BBC’s credit management structure is devolved and, therefore, processes vary from business to business. Whilst the businesses are different in nature, it does not follow that they could not adopt a standard “BBC best practice” set of credit processes. There will, undoubtedly, be a need for some low level variation but this should only be by exception. This will provide two major benefits:

- those processes that are inconsistent with best practice will be improved; and
- common processes will open up the potential for more shared working, making a transition to one shared centre of excellence easier, if desired.

We understand that care would need to be taken (and Fair Trading advice sought) with regard to the sharing of best practice and credit information or data from the public service to the subsidiaries.

5.5.1 Customer information could be put to better use

Customer data could be shared more effectively across the BBC, subject to working within the BBC’s Fair Trading guidelines. We found a risk that, where one business might experience difficulties with a particular customer, the remainder of the BBC could be unaware of the issue. Better communication and developing joint strategies to deal with difficult or high-risk customers should reduce the risk in granting credit and increase the effectiveness of collections.

In addition, improved communications between Payables and Receivables functions would facilitate more effective ‘netting’ between a customer and supplier account relating to the same legal entity. We understand that this may not be possible in some cases for contractual reasons.

In our review of BBC Public Service, we encountered instances of account information being held in spreadsheets and not in SAP. This information is not visible to the remainder of BBC Public Service (or other parts of the BBC) and will be more vulnerable to loss.

5.5.2 A significant proportion of BBC debt is managed in line with good practices which should be shared with the remainder of the organisation

The BBC demonstrates good practice in process management in BBC Worldwide (including BBC World), where the processes are well documented and followed by staff. Although BBC Ventures (BBC Resources and BBC Broadcast) employs knowledgeable Credit Managers who have comparatively small workloads, its processes are not documented. This presents less of a practical issue, given their experience and the scale of the business. BBC Public Service does not benefit from its staff following well documented processes and this presents a notable opportunity for improvement. The complexity of its structure combined with the absence of a single approach to credit management, provides BBC Public Service with a real opportunity to improve performance. To this end, it should consider which of the good practices already exhibited in BBC Worldwide it might seek to adopt.

Current operations are reasonably effective however there are significant opportunities for the BBC to further enhance the value for money derived from its credit management operations
Current operations are reasonably effective however there are significant opportunities for the BBC to further enhance the value for money derived from its credit management operations.

In accordance with best practice, both BBC Worldwide and BBC Ventures (BBC Resources and BBC Broadcast) telephone major value customers before invoices fall due to ensure that there are no disputes and that payments will be processed on time (see Figure 15). In contrast, BBC Americas does not follow the same practice but does contact customers in the first overdue month, whereas BBC Public Service tends to call customers once invoices have become overdue with the focus on collecting the oldest debt first.

5.5.3 Developing a common community of credit management staff would help share good practice

Bringing together the credit management practitioners across the BBC would promote knowledge exchange and could be used to identify better ways of working to improve collections effectiveness. Currently, only the BBC Worldwide team holds regular meetings with members of the sales organisation.

We did not find evidence of regular contact between the credit teams in the different businesses. Bringing the credit teams together will allow the sharing of specific customer information, discussions around improving working practices and any relevant changes in legislation. It could also smooth the integration of shared standards and working practices across the BBC.

Again, we understand that care would need to be taken (and Fair Trading advice sought) with regard to the sharing of best practice and credit information/data from the public service to the subsidiaries.
Current operations are reasonably effective however there are significant opportunities for the BBC to further enhance the value for money derived from its credit management operations

5.6 BBC Worldwide demonstrates good practice by using a purpose built workflow management system to ensure that collections and query management adhere to predefined standards

5.6.1 BBC Worldwide uses specialist credit management software to make processes more efficient, similar technology could be utilised in other parts of the BBC

BBC Worldwide is assisted in adhering to best practice by their use of a specialist credit management workflow application, Credica. This application provides an automated workflow for credit management teams. It produces diarised call lists and allows the storage of key information such as payment plans and other collection notes.

The system allows bespoke collections strategies to be adopted, provides automated workflow, prioritised collector work queues, standard reports and robust query management. In using the system, BBC Worldwide provides a working environment within which Credit Controllers are:

- guided through standard processes very efficiently; and
- able to record information for use in specific management reports.

BBC Americas, which is part of BBC Worldwide, had not implemented Credica at the time of our review, but plans to do so in 2005. Other parts of the BBC do not currently have the benefit of automated workflow, placing greater reliance on individuals following published processes.

5.6.2 BBC Worldwide is the only element of the BBC to have a clear query management process

By adopting Credica, BBC Worldwide has a system driven process for the efficient management of queries. BBC Ventures (BBC Resources and BBC Broadcast) has very few queries, making the introduction of a formal process less relevant. Whilst BBC Public Service started to flag queries within SAP in July 2004, this only allows visibility of invoices in dispute at the point of reporting. Once queries are resolved, the query flag is removed, resulting in an inability to identify invoices that were in query at any point in the past. In addition to this, BBC Public Service does not have the ability to classify queries within SAP and has no other system based means of doing so. As a result, we understand that it cannot report on the underlying causes of invoice disputes.

5.6.3 The BBC’s credit management operation would benefit from better leveraging technology

Other than extending the implementation of the Credica system, there are further opportunities for the BBC to use technology to enhance the effectiveness and efficiency of their credit and collection processes. Whilst cost justification will be necessary, the BBC should consider the following:

- automated data uploads of customer information from credit reference agencies;
- adopting a scorecard system for credit risk management;
- electronic invoicing and payment systems; and
- use of e-mail dunning.
The BBC has demonstrated continuous improvement over the past two years, however this trend will be difficult to maintain without a step change in working practices and targets.

This part of the review examines the extent to which credit management performance at the BBC has improved over time and the prospect for continued improvement in the future. It covers:

- an analysis of performance over time and emerging trends; and
- capacity for improvement and the BBC’s plans in this respect.

**6.1 The BBC has made significant reductions in overdue debt since July 2002**

We have reviewed the trend in overdues for each of the businesses. The graph below illustrates the combined performance since July 2002 of all the businesses, except BBC Americas. As BBC Americas was only able to provide meaningful data from February 2004, we have analysed this separately.

As a general trend, overdue debt (excluding BBC Americas) has been reduced by approximately £15 million since July 2002, representing a 48% improvement.

Notwithstanding this, Figure 16 shows that overdue debt peaked at over £43 million in January 2003 and represented 48% of total debt. 12% was more than 90 days past due.

Since then, performance has steadily improved to the £17 million achieved in August 2004. Of this, 8% was more than 90 days past due. This was a direct result of the BBC having established specialist credit management operations in all the businesses, however, we consider that there is still further opportunity to improve by achieving best practice performance levels in all areas.

Figure 16 also shows that although there has been a general trend of improvement, performance during 2004 has been inconsistent, with significant peaks in overdue debt in January and May 2004. Performance has tended to be best around the financial year-end. These movements are more clearly explained by examining the performance of each division.
The BBC has demonstrated continuous improvement over the past two years, however this trend will be difficult to maintain without a step change in working practices and targets.

BBC Worldwide has the most significant impact on the consolidated aged debt profile given its relative size. As can be seen from Figure 17, its aged debt profile is very close to that of the consolidated position and an overall trend of continuous improvement has been evident over the last two years.

The peaks in January and May coincided with trade fairs that resulted in high values of sales and invoice queries. The period of improved performance between February and April 2004 reflected a focus on year-end cash collection.

The BBC has demonstrated continuous improvement over the past two years, however this trend will be difficult to maintain without a step change in working practices and targets.
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On face value, the profile for BBC Resources shows a deteriorating trend over the last two years (see Figure 19). However, this position has been significantly distorted by two sizeable doubtful debts (totalling £0.6 million). These balances have accounted for most of the over 90 day past dues since the middle of 2003. Taking this into account, the underlying trend demonstrates an improvement in overdues.

The BBC Americas’ data provided to us for earlier months was incomplete, resulting in significant credit balances, therefore we have excluded all data prior to February 2004. During the remainder of 2004, BBC Americas has reduced overdue debt from £2.1m (27%) to £0.3m (4%), an 87% improvement.
The BBC has demonstrated continuous improvement over the past two years, however this trend will be difficult to maintain without a step change in working practices and targets.

BBC Broadcast is a relatively new commercial business. Consequently, overdues have increased as revenue has risen. As detailed in Section 5 of this report, BBC Broadcast often invoices for substantial advance payments on immediate payment terms. Given that these invoices become due immediately, overdues are distorted accordingly.

![BBC Broadcast overdue debt profile](image)

**BBC Broadcast overdue debt profile**

*June 2002 to August 2004*

Figure 21: Source BBC
The BBC has demonstrated continuous improvement over the past two years, however this trend will be difficult to maintain without a step change in working practices and targets.

6.2 Continuing to improve BBC performance in credit management to levels in line with the best commercial organisations could reduce overdue debt by a further £7 million to £15 million.

External benchmarks demonstrate that the UK Services sector median for overdue debt as a percentage of total accounts receivable is 22%. Our own experience of working with world-class organisations has found that the best performing organisations operate at 10% or below. If the BBC was to reduce its overdues to 20%, it would release cash of approximately £7 million.

Figure 23 shows the relative contribution that each part of the BBC could make towards the realisation of this opportunity. To achieve an overdue debt position of 20% across the BBC, BBC Public Service presents the single largest opportunity. This is due to its relative size and the extent of its existing overdue position.

Despite BBC Worldwide’s relatively good performance, achieving the 10% objective would be highly dependent upon it achieving further improvement. Furthermore, the contribution from BBC Public Service and BBC Americas will also be important.
6.3 Continued performance improvement will require the BBC to set significantly more ambitious targets

BBC Worldwide’s performance target implies a planned increase in overdue debt (excluding BBC World) from £5.3 million (achieved at year-end 2003/04) to £6 million at the end of this financial year. Last year’s performance equated to 9% of total BBC Worldwide debt and was considered to be exceptional. No targets have been set for BBC World.

BBC Public Service and BBC Resources targets have been designed to maintain the performance achieved last year. For BBC Resources this is a DSO target of 50 days and is approximately equivalent to an overdue debt level of 40%. Given a significant distortion caused by a doubtful debt, basing a target on the year-end position would effectively represent a planned deterioration in performance.

In summary, based on current performance targets, the overall position will deteriorate.

The BBC has demonstrated continuous improvement over the past two years, however this trend will be difficult to maintain without a step change in working practices and targets.
7.1 Structure and accountability

The BBC is most likely to realise the available benefits by refocusing operational accountability on one individual and establishing central control over its credit management functions. There are three principal options to consider:

• Appoint a Group Credit Manager and establish a centre of excellence to provide credit management services to all BBC businesses. Given the BBC’s devolved structure, we would envisage this operating along the lines of a shared service centre;

• Maintain a decentralised approach but establish reporting lines to a Group Credit Manager, with overall functional responsibility for credit management. This approach would, however, be unlikely to deliver the full extent of potential cost savings, as it would not maximise economies of scale; and

• Given the relative performance of the different businesses, the BBC may wish to consider the potential benefits of placing responsibility for all receivables with BBC Worldwide.

As mentioned, we understand that this would need to be conducted within the BBC’s Fair Trading guidelines and Fair Trading advice should be sought.

As an alternative, the BBC may wish to consider outsourcing some or all of its receivables to specialist third party service providers. The potential benefits of this approach may combine improved performance (in line with service level targets) together with reductions in operating costs in the longer term. This would require a detailed cost benefit analysis to establish whether this approach is viable.

In order to engender cooperation and assistance from each of the divisions in support of implementing good credit management practice, we recommend that the BBC considers levying an internal cost of capital charge proportionate to the level of receivables outstanding.

7.2 Credit policy

Whilst the BBC has credit policies at a business level, there is an opportunity to both extend their scope (to cover the broader sales-to-cash process) and publish a master credit policy, providing an overall credit framework and ensuring consistency with the BBC’s broader cash management objectives.

7.3 Processes, work practices and technology

Implementing best practice credit management consistently across the BBC will help to maximise performance. The first step would be to define best practice as it relates to the BBC. Our experience has shown that, within an organisation as diverse as the BBC, processes may need to be adapted to the needs and dynamics of its various businesses.

A key element of standardising processes will involve an understanding of the extent to which technology can be best leveraged. The Credica system, currently used by BBC Worldwide, provides evidence that such technology can deliver tangible benefits. Accordingly, we consider that the BBC would derive considerable benefit from extending the use of such a system to BBC Public Service. Other future uses of technology would include the use of e-mail collection letters, automated credit risk score cards, uploading 3rd party customer information to SAP, electronic invoice presentation and payment, and document imaging.
Credit risk assessment should be undertaken (and credit limits established) before customer accounts are opened and sales completed. Where new sales orders are received from customers with overdue accounts, these should be referred to credit management prior to release. In this way payment can be obtained before further credit is extended. Where customers have accounts with more than one of the BBC’s businesses, credit limits should be set and monitored on an aggregated basis. In addition to this, all breaches of existing credit limits should be referred to the credit management function.

The good practice within BBC Worldwide and BBC Ventures (BBC Resources and BBC Broadcast) of contacting major value accounts by telephone before the invoice due date should be adopted across the BBC. Customers should be contacted approximately two weeks prior to the due date in order to establish that invoices have been received, authorised and allocated to a payment run before the due date.

Robust query management processes are necessary in all the BBC’s business to ensure that invoice disputes are addressed promptly and that their underlying causes are identified and eliminated. Use of a credit management workflow system across the BBC, such as Credica, would also provide the control and reporting mechanism required to manage this process effectively.

7.4 Sharing knowledge

We observed many good practices within the BBC and there is clearly a wealth of knowledge and experience within the credit management teams. These teams should be actively encouraged to share both their knowledge of good practice but also the credit intelligence that they gather on customers. We acknowledge that this would need to take place within the prevailing guidelines and policies in relation to Fair Trading.

7.5 Performance monitoring and measurement

As outlined in this report, there is a considerable opportunity to improve performance. However, this is unlikely to be achieved unless the annual performance objectives (relating to business, teams and individuals) reflect this potential. These objectives should include monthly cash collection and overdue debt targets.

Implementing a consistent set of key performance indicators across the BBC would provide greater control and also enable comparison of performance across the businesses. A core set of key performance indicators could include the following:

- Days Sales Outstanding against Best Possible Days Sales Outstanding;
- Percentage of debt that is overdue for payment;
- Percentage of debt that is more than 90 days overdue for payment;
- Number and value of queries raised, resolved and outstanding; and
- Cash collections achieved against target.

Similarly, period-end reports prepared by each business could be standardised around a core set of performance measurements. Furthermore, a BBC-wide report could be published, providing an overview of performance and key issues to top-level management.
METHODOLOGY

- We designed this study to answer three questions about credit management services at the BBC. Are those services delivered:
  - to clear standards (quality output);
  - by the most effective, economic and efficient means available; and
  - with a demonstration of continuous improvement?

Private sector practices

- PricewaterhouseCoopers LLP’s Receivables Management Group (RMG) conducted the fieldwork and analysis for this report. RMG are one of the UK’s largest credit management practices and they compared BBC performance with:
  - benchmarking data sourced from the Credit Management Research Centre, University of Leeds (www.cmrc.co.uk); and
  - selected private sector clients.

Collection of information, data analysis and comparison

- To assess the performance of various credit management services we collected data from a range of BBC staff and systems. This data included:
  - documentation of service standards/policies;
  - process and performance management documentation;
  - agreements with third party service providers;
  - financial data regarding debt management; and
  - structural data about the organisation of credit management within the BBC.

- We reviewed the credit management strategy in line with our understanding of the BBC’s overall cash generation objectives to identify any gaps and determine the impact on credit management and the business as a whole.

- Process and performance management documentation was supplemented with our fieldwork visits, see below. We used this information to assess management of credit risk, robustness of the performance management regime and the efficiency of BBC credit management. This included consideration of how the BBC uses technology to support credit management services.

- To assess financial performance we analysed trends in volume and value of debt and the age of debts. Relative performance was assessed by comparison with a sample of UK service companies.

- We used structural information provided by the BBC to determine the cost of credit management services and make comparisons about their relative efficiency. We also assessed attitudes to credit management across parts of the BBC and their possible impact upon credit performance.
Fieldwork visits

• We visited credit management staff, and in some cases divisional Financial Controllers, across the following:

  • BBC Worldwide including BBC Americas and BBC Canada;
  • BBC World;
  • BBC Ventures (BBC Resources and BBC Broadcast);
  • BBC Public Service areas, including BBC World Service, Sport International Unit, BBC Scotland, BBC World Service, Property, Rights and Business Affairs and Radio and Music. We conducted telephone interviews with BBC Nations and Regions, BBC Wales; and
  • The credit management processes of the outsourced provider providing the BBC with certain financial accounting, administrative and information services.

Stakeholder consultation, validation of best practices and emerging findings

• We took meeting notes and validated them;

• We sent feedback questionnaires to Financial Controllers across the BBC asking for their comments on the provision of credit management services. The information gathered was used in the preparation of this report;

• At the mid-point of this review in September 2004 we held a workshop with representatives from across the BBC to consider:

  • our definitions of best practices in credit management;
  • emerging findings from our fieldwork; and
  • Following the above workshop, we met individuals and validated facts and findings.
GLOSSARY

Account (or customer account)
A tabulation of transactions relating to sales (including invoices, credit notes and cash receipts) made to a specific customer.

Accounts receivable
Amounts owed to an organisation. Also referred to as receivables or debts.

Accounts receivable ledger
A set of accounts keeping track of debts due from customers. Also known as sales ledger.

Collection Effectiveness Index (CEI)
Expresses the effectiveness of an organisation’s collection efforts over time. It effectively measures the cash collected as a percentage of the debt that is due and available for payment. The closer the sum is to 100%, the more effective the collection effort.

Best practices
Business processes and work methods typical of those adopted by the most effective, efficient and economic organisations in relation to credit management.

Credica
An electronic application, designed and distributed by Credica Limited, to manage and monitor certain credit management processes.

Credit Controller
A relatively junior member of staff with responsibility for analysing credit risk, collecting cash from customers, investigating invoice queries and/or other administrative duties in relation to credit management.

Credit limit
The maximum value of outstanding debt an organisation is willing to extend to a customer at any one time.

Credit Manager
A manager with day-to-day responsibility for credit management.

Credit management
The management of trade receivables and the credit extended to an organisation’s customers.

Credit management service providers
External organisations providing credit management services to the BBC, in addition to sales and distribution.

Credit policy
A statement outlining an organisation’s credit management objectives together with the actions to be taken in relation to credit risk management, invoicing, collections, query management, accounts receivable maintenance and management reporting.

Days Sales Outstanding (DSO)
A calculation that expresses, in days, the value of outstanding accounts receivable in terms of the most recent days’ sales. It is an indication of the average number of days it takes an organisation to obtain payment from its customers. Also known as debtor days.

Debt
Amounts owed to an organisation. Also referred to as receivables or accounts receivable.

Debtor days
A calculation that expresses, in days, the value of outstanding accounts receivable in terms of the most recent days’ sales. It is an indication of the average number of days it takes an organisation to obtain payment from its customers. Also known as Days Sales Outstanding or DSO.
Dunning letter
A letter reminding a customer that their debt is overdue and should be paid immediately. Dunning letters are normally issued as part of a series of letters of escalating severity, typically ending with a letter threatening legal action.

Fair Trading
The BBC’s Fair Trading Guidelines (formerly known as the BBC’s Commercial Policy Guidelines) provide a detailed operational framework which build on the BBC’s Fair Trading Commitment. The Guidelines are designed to ensure that the BBC’s commercial activities support its public purpose, that it trades fairly and lives up to high standards. The Fair Trading Commitment refers to the Governors’ undertaking that the BBC’s commercial activities must have the values of quality and integrity, which characterise its wider work.

Key performance indicators
Quantifiable measurements that are used to assess an organisation’s performance.

Overdues
Amounts owed by customers that are overdue for payment.

Old debt
Debt owed to an organisation by its customers that has been overdue for several months.

Overdue percentage (%)
The proportion of (trade) receivables that are overdue for payment. The closer the sum is to zero, the more effective the collection effort.

Netting
The process of setting customer debts against payments owed to them as suppliers, by agreement.

Outsourced distributors
External organisations providing distribution channels for the BBC, buying goods from the BBC and reselling them.

Query management
The investigation and resolution of queries and disputes in relation to its sales invoices, as raised by an organisation’s customers.

Receivables
Amounts owed to an organisation. Also referred to as accounts receivable or debts.

Sales ledger
A set of accounts keeping track of debts due from customers. Also known as accounts receivable ledger.

Sales to cash
A term applied to the process encompassing setting up a new customer and credit risk, through order capture and fulfilment to invoicing and cash collection.

SAP
A financial ledger and management information system (sometimes known as an Enterprise Resource Planning or ERP system) designed by SAP AG of Germany.

Trade receivables
Amounts owed to an organisation by its customers in relation to the sales of goods and services.

Workflow
Information technology that uses electronic systems to manage and monitor business processes. It allows the flow of work between individuals and/or departments to be defined and tracked.
Credit management operations

PricewaterhouseCoopers LLP review presented to the BBC Governors’ Audit Committee, March 2005, and a response to the review from the BBC