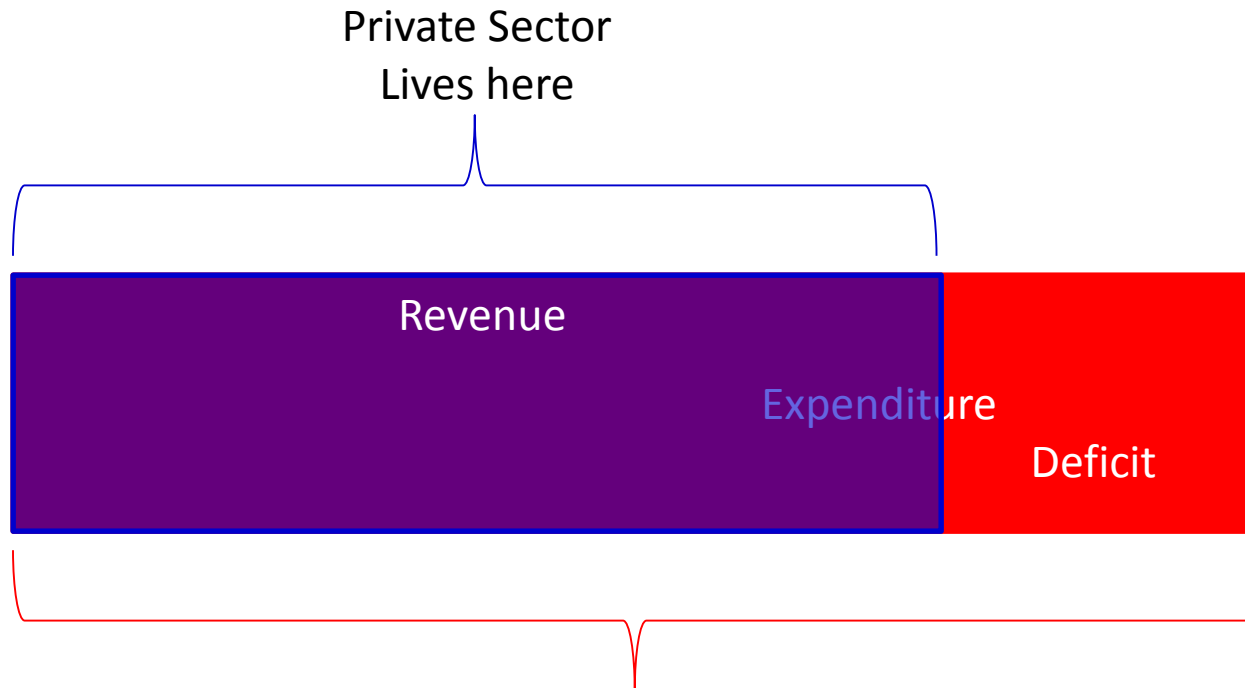


REVENUE & TREASURY MANAGEMENT FOR COMPETITIVE ADVANTAGE

CONFERENCE Plenary Sessions 3 & 5

Wohoro Ndohho

Managing the Treasury Function: Best Practice: Dilemma of the Public Purse



Deficit Financing for Service Delivery

Sustainable?

Liquidity Management definition

Managing the cash and near cash resources to:

- meet out financial obligations when they fall due
- optimize cash usage so that it is:
 - not idle or dormant
 - deployed its maximum advantage to stakeholders (internal or external)
 - not wasted.

Smooth out cash inflows to better align with expected expenditure patterns

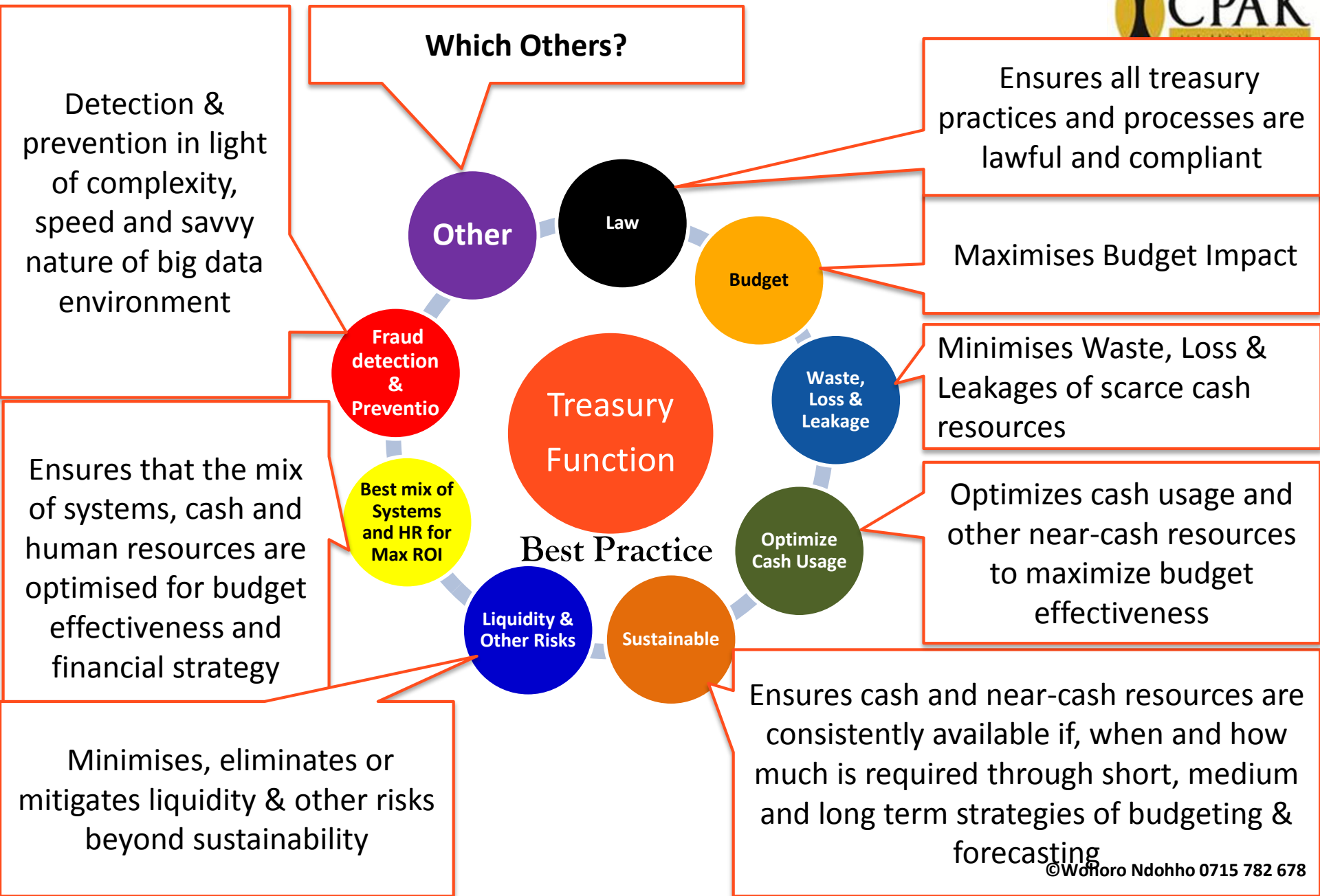
i.e. Budget Tool

Competitive Advantage of a Strong Liquidity Management Capability

- Improves budget effectiveness by increasing absorption rates through its close, continuous and real time scrutiny of cash.
- Improves resources use & strong case for justifying allocations
- For Govts as monopsonies, very effective budget implementation tool => to trigger economic growth => from strategic use of budgets. Financial Markets, supplier payments
 - Boost natural advantage by better targeting budget to where it yields greatest return
 - Stewardship dividend: Attracts more investors and donor funding
 - Imposes discipline on finance team to stay focused on strategic financial objectives

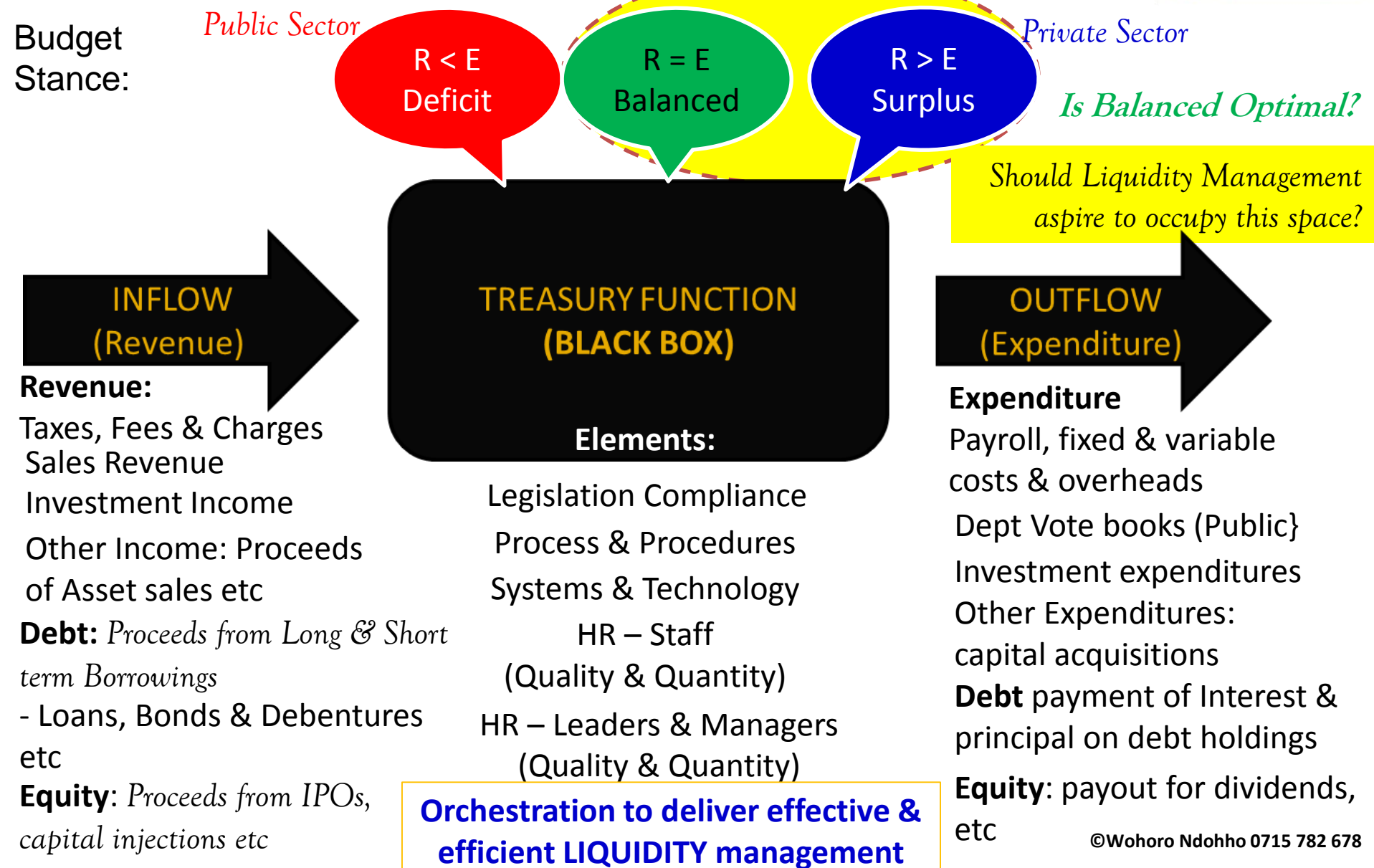
Public vs Private Sector: are they different?

Managing the Treasury Function: Best Practice



Managing the Treasury Function: Best Practice

Cash Usage Optimization. Elements



Managing the Treasury Function: Best Practice: Liquidity Exercise:



REVENUE	Billion	EXPENDITURE	Billion	Cash Scenarios		
				Worst	Most Likely	Best
Average Daily Collection = Kshs	3.0	Average Daily Expenditure = Kshs	4.0	-2.8	-1.00	0.8
Average Daily variation +/- i.e. Min= Ksh 2.1bn Max=3.9bn	0.9	Average Daily variation +/- = Kshs 900m. i.e. Min= Ksh 3.1bn Max=Kshs 4.9bn	0.9	(1.80)	-	0.9
Add one negative seasonal variation per year = (1.2 bn) (ie. In July one day revenue falls to 1.8bn	(1.2)	Add one negative seasonal variation per year = (1.2 bn) (ie. In July one day expenditure spikes to 5.2bn	1.2	-2.4	0	1
July Revenues	1.8	July Expenditures	5.2	-3.4	-1.00	1.2
Budget Deficit for 11 months (21 day month (Billions)			231	-646.8	-231	184.8

Managing the Treasury Function: Best Practice: Liquidity Exercise:



**Budget Deficit for 11 months
(21 day month (Billions))**

231

-646.8

-231

184.8

LIQUIDITY MANAGEMENT OF THE KSHS 646.8 BILLION:

1. Long vs Short term horizon. (Long is dearer than short, more constrained etc)
2. Terms & Conditions (incl Interest rates etc)
3. Revenue Performance & projections
4. Type of Budget Deficit: recurrent vs capital expenditure
5. Purpose/ Outcomes & Impact: Profit vs social benefit
6. Policy & Legislation e.g. PFMA restrictions on County Borrowing, CBK & CMA rules
7. Capacity & sophistication of Treasury function. E.g Use of technology to raise, monitor, manage and optimize cash and other near cash holdings.

8. Cash holdings &

9. Opportunity cost of alternatives incl foreign ones

10. Ease of capital flows (efficiency of money markets)

SOURCE:

Debt

- Corporate Bonds, Treasury Bonds, Euro Bonds (Money Markets)
- Loans Commercial & concessional (Banks & Multi-lateral orgs eg WB, IMF etc)

Equity

- Reserves or capital injection
- Asset sale or surrender
- Debt **for** Equity swaps

END
Plenary Session 3
Managing the Treasury Function: Best Practice:

PLENARY SESSION 5

Tools for Analysis of Revenue Management Revenue Management Techniques

Tools for Analysis of Revenue Management

Revenue Management Techniques



Beyond common liquidity ratios in Accounting

In Profit & Loss statement

Quick Ratio

$$\text{Quick Ratio} = \frac{\text{Cash} + \text{Cash Equivalents} + \text{Short Term Investments} + \text{Current Receivables}}{\text{Current Liabilities}}$$

Current Ratio

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

...also the working capital ratio

$$\text{Acid-Test Ratio} = \frac{\text{Cash \& Cash Equivalents} + \text{Marketable Securities} + \text{Accounts Receivables}}{\text{Current Liabilities}}$$

Balance Sheet

Quick Ratio

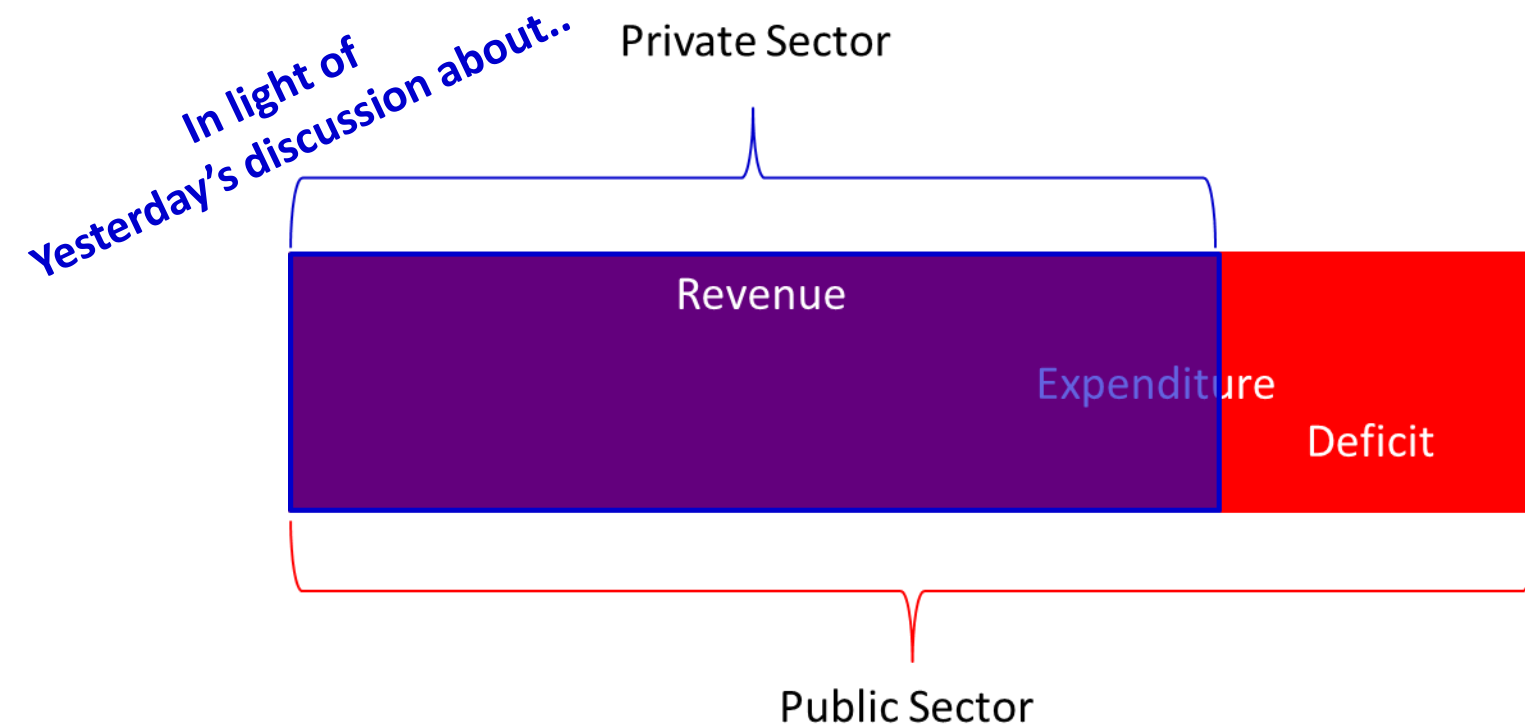
$$\text{Quick Ratio} = \frac{\text{Total Current Assets} - \text{Inventory} - \text{Prepaid Expenses}}{\text{Current Liabilities}}$$

Tools for Analysis of Revenue Management

Revenue Management Techniques



Today we drill down to Revenue (where the Customer lives)



...and the Theory of Constraints...

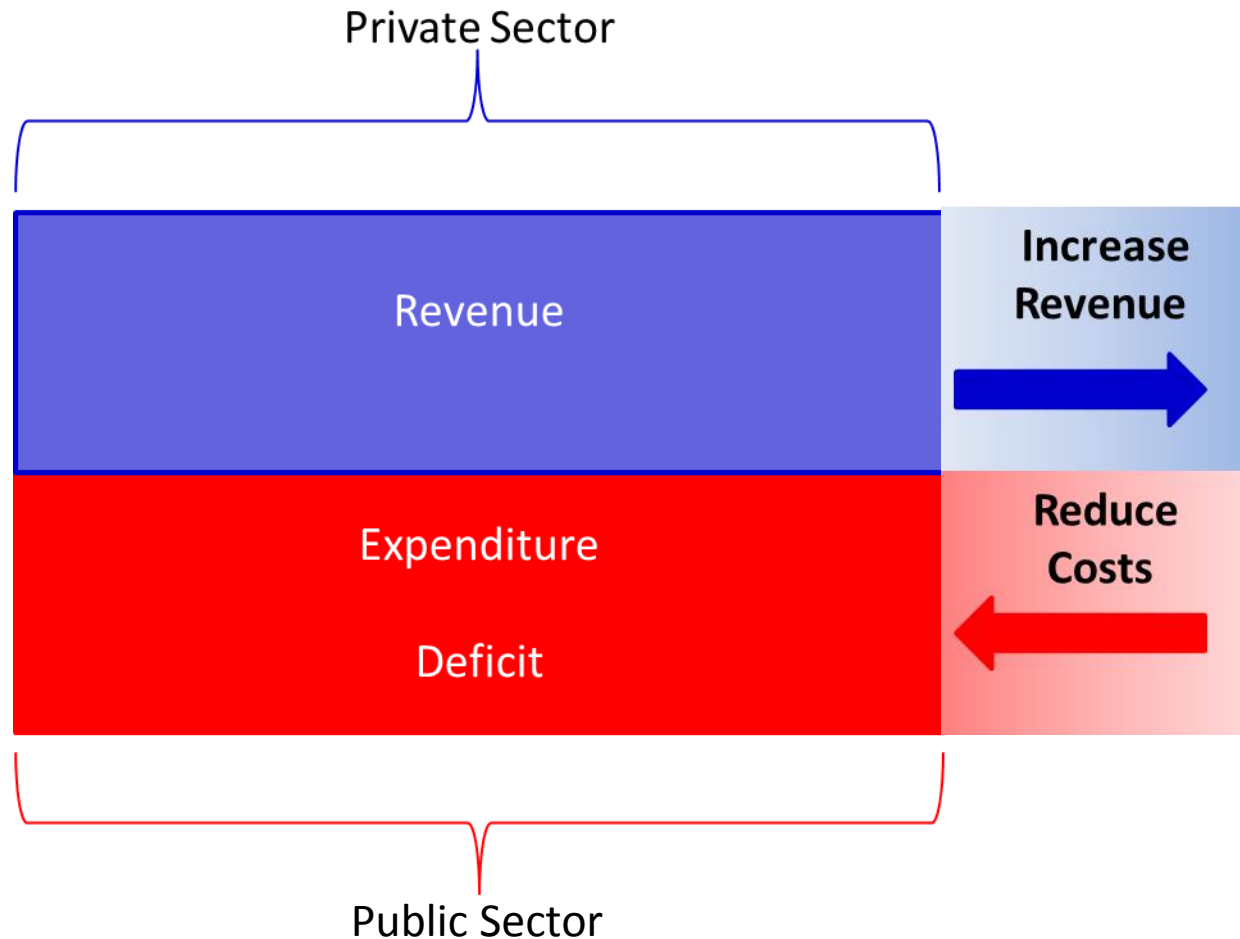
That states that...

Tools for Analysis of Revenue Management

Revenue Management Techniques.



...any system contains a choke point, inherent limiter or constraint that prevents it from maximizing profit or achieving its goals



...even when it has achieved operational efficiency ©Wohoro Ndohho 0715 782 678

Tools for Analysis of Revenue Management

Revenue Management Techniques



Theory of Constraints

Goes Beyond Operational Optimization to Profit or Social Benefit Maximization.

that is, from maximizing operational efficiency to maximizing Profit and/or Social Benefit

Example 1

Huduma Service Centre efficient staff level = **24 staff** → achieved maximum service for its Kshs 30 million budget by → minimizing the public's waiting period to **3 minutes**

Staff size beyond 24 **does not** reduce waiting period below the 3 minutes, it **increases** it by **0.5 mins!**

However:

The Boss...You!

Have found out that your nemesis in Dagoretti operates with **22 Staff** for same budget, identical service centre facility and Equipment!

CLASS EXERCISE I - DISCUSSION:

Why & How do you go about investigating & changing your operation?

Tools for Analysis of Revenue Management

Revenue Management Techniques



Examples of Constraints

Context / market condition variations

Cost structure &/or management

You?!

Personal leadership style?

Your management team

SoPs (Standard Operating Procedures)

A particular department

Major Constraint in Kenya (Africa):

Imperfect Information & Recall Capability

The ability and capacity to collect, store and retrieve information for analysis to support decision making immensely helps to minimize or eliminate constraints even when you are operating at maximum efficiency.

The Biggest Businesses on Earth today are Data Businesses!

GOOGLE, FACEBOOK, MICROSOFT

Tools for Analysis of Revenue Management

Revenue Management Techniques



Revenue Management Techniques

Revenue
Management
Strategy

Your masterplan to sell the right product or service to the right customer at the right time for the right price to maximize revenue

Revenue
Management Tools

What implements, devices and constructs used to effect the strategy that maximizes revenue (while minimizing costs). Includes data gathering, storage, retrieval and processing to convert data into information for analysis.

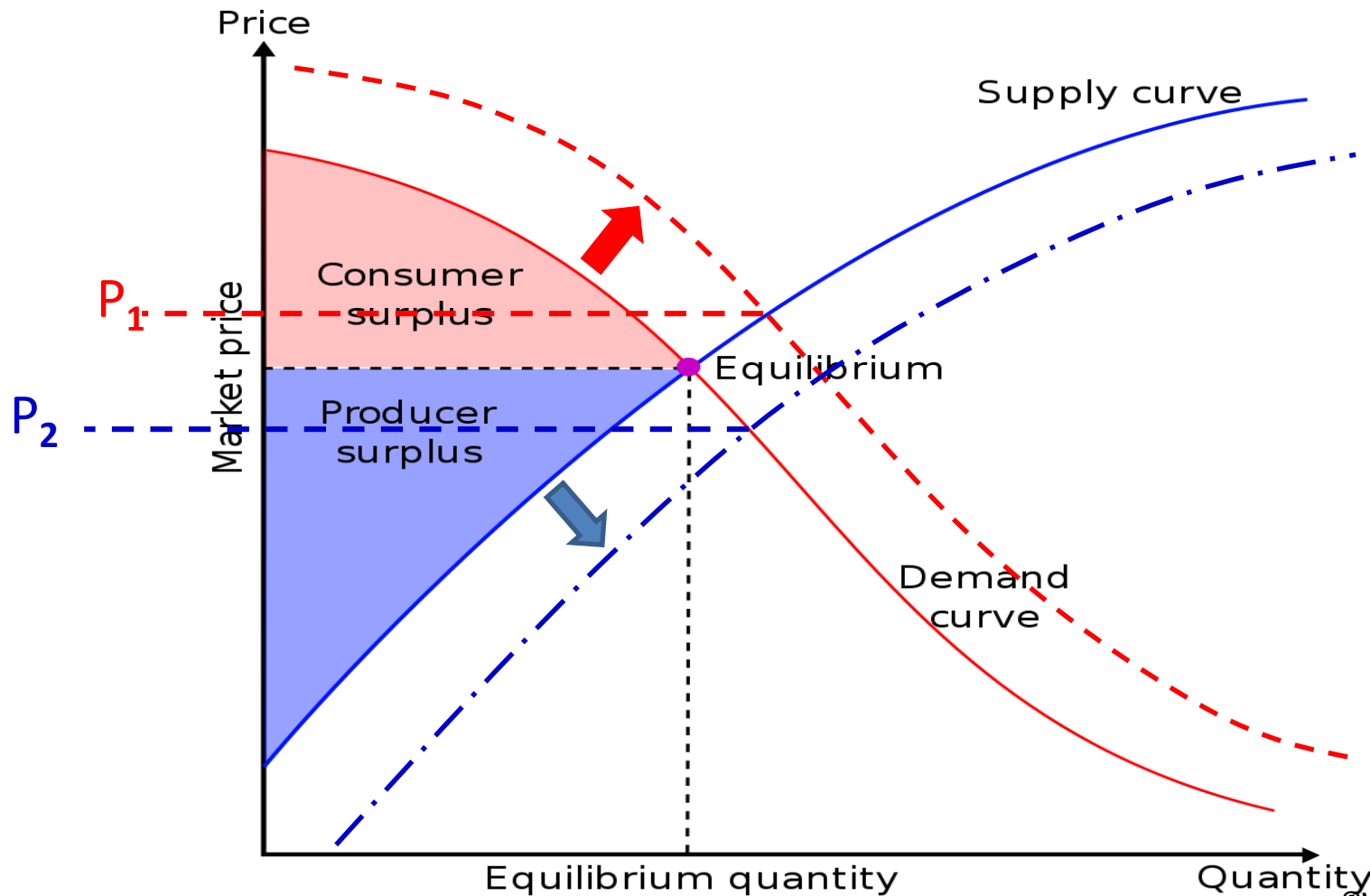
Revenue Management Analysis

Examination and modelling of revenue data and information to draw lessons and inferences about revenue behavior to inform liquidity decision making

Tools for Analysis of Revenue Management

Revenue Management Techniques

Revenue Management Strategy's Objective: **Maximize Demand at minimum cost**



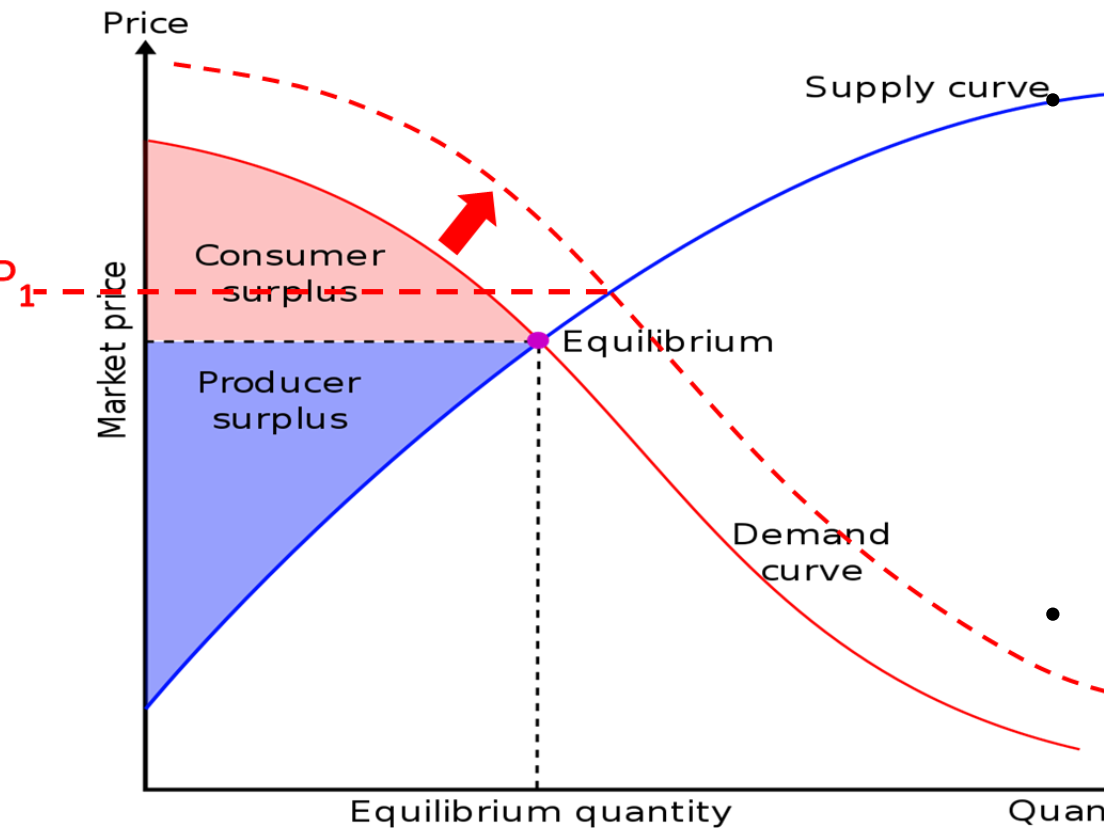
Tools for Analysis of Revenue Management

Revenue Management Techniques



A Revenue Management Strategy's Objective to...

...Maximize Demand (and thus revenue) at minimum cost must be based on:



- Understanding as much about the customer as possible and storing this data for easy retrieval

A thorough knowledge of the marginal cost of acquiring and keeping a customer.

(Customer is NOT always right, he/she as a economic value beyond which they add to the cost of business)

- Identifying the point at which the marginal cost of acquiring the customer equals the marginal revenue then stopping there.

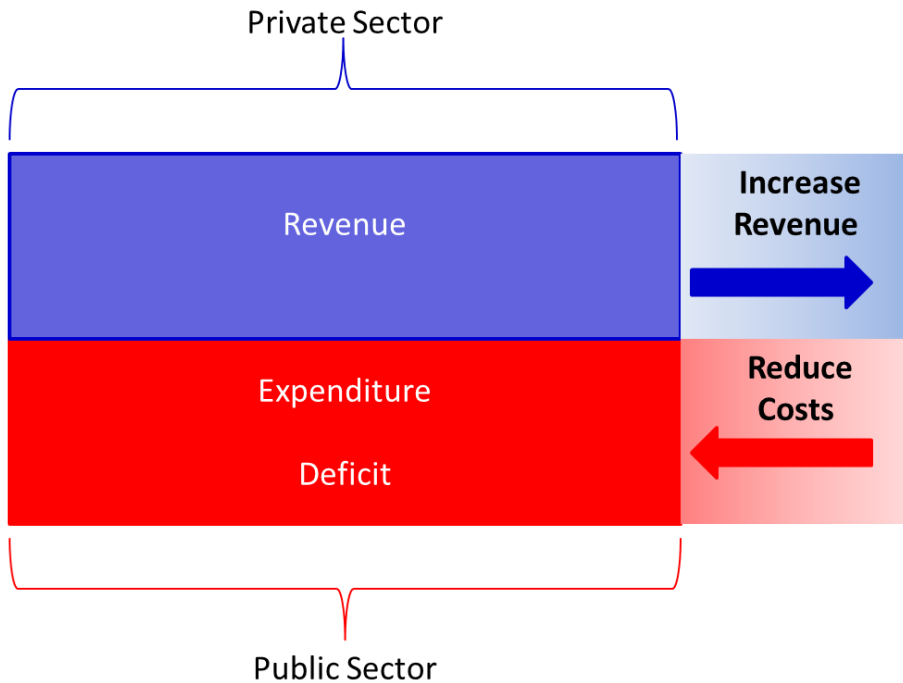
Tools for Analysis of Revenue Management

Revenue Management Techniques



CLASS EXERCISE II

Lets Drill Down to Profit or Social Benefit



Theory of Constraints

Maximizing Profit or Social Benefit

Discussion Groups - ToC

ToC Examples from your work place:

1. Define Your Organization's TOC
2. List Actions to Take to Address it

Remember:

its about Profit or Social Benefit Maximization

and...

Assume you are already operating at maximum operational efficiency

Tools for Analysis of Revenue Management

Revenue Management Techniques



Interestingly...

The Further You drill Down into the Organization
the Closer the ToC Definition Approaches the Traditional Definition of
Operational Efficiency

...and that is Alright!

...because

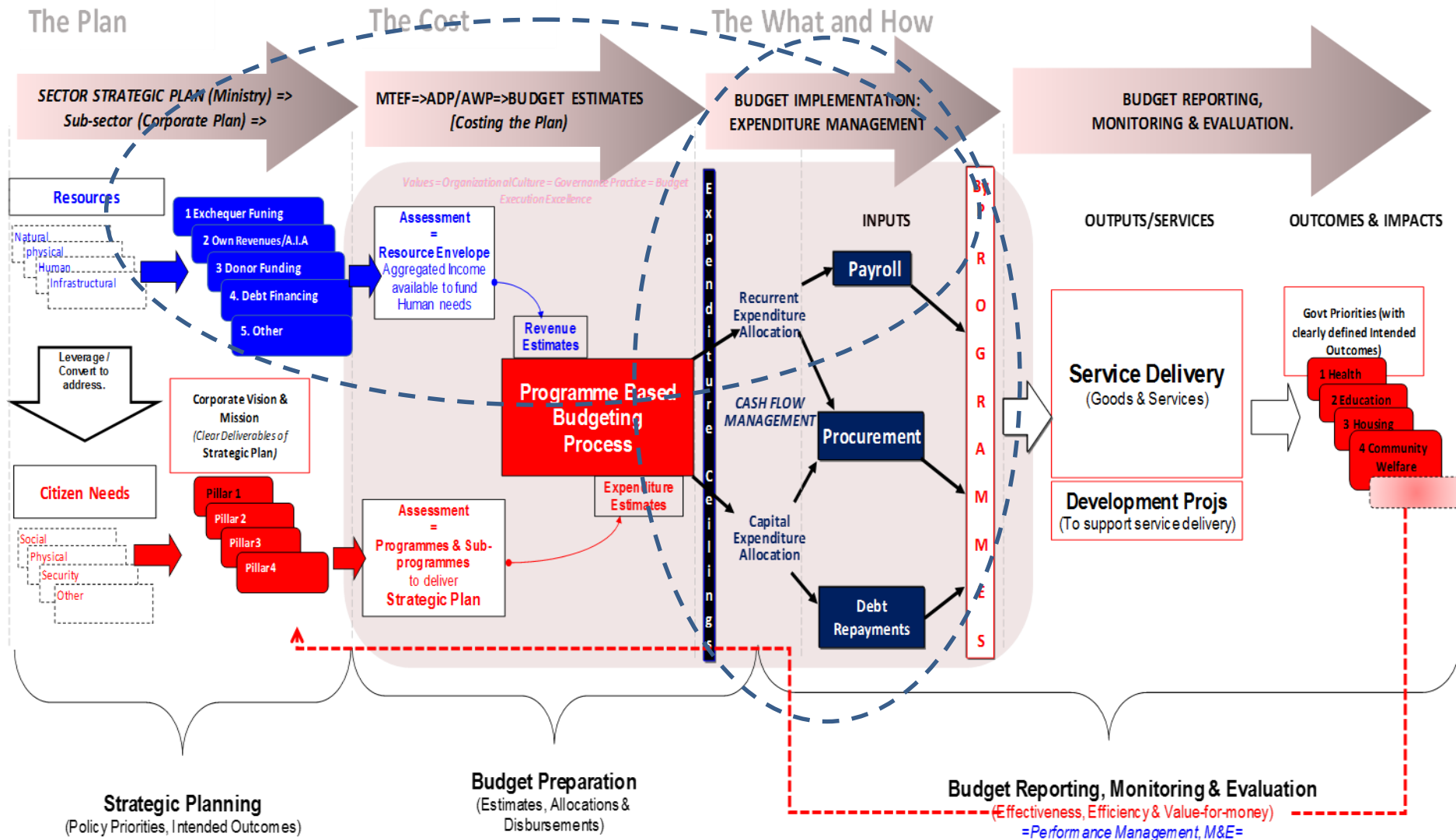
The purpose of this Exercise is:

To Help You Think Your Boss' Thoughts After Him
at the Executive Level

For example...

Complexity of the Govt Budget Process – What the CEO's Perspective Means...

Budget Full Cycle - A Bird's Eyeview



...be effective by applying ToC where you are!

Tools for Analysis of Revenue Management

Revenue Management Techniques



Revenue Management Tools

Used to gather, store, retrieve and process data into information for analysis and decision making.

- ERP system (Enterprise Resource Planning)
- CRM system (Customer Relationship Management)
- Market & Industry Data Suppliers
- Historical Data database
- National & International Statistical Data
- Tax Data
- Internet databases Google Analytics (including social data)

Tools for Analysis of Revenue Management

Revenue Management Techniques



Revenue Management Techniques & Analysis:

The separation between Tools and Analysis Techniques has blurred with the evolution of integrated systems that perform both roles.

Analysis is the examination and modelling of revenue (or any) data and information to draw lessons and inferences about customer behavior and revenue patterns to best maximize revenue generation and inform decision making in Liquidity management. The game changer has been...

Big Data & Algorithmic Modelling:

The growth of data warehousing (Big Data) and wide deployment of algorithmic systems has led to:

- the development of Artificial Intelligence is a natural consequence of this evolution.
- real time analysis at the *data collection point*.
- *decreased need for subsequent analysis*.
- *the continued diminution of human intervention in analysis*.

Tools for Analysis of Revenue Management

Revenue Management Techniques



The growth of Big Data and wide deployment of algorithmic systems has also led to:

- real time revenue management due to its integration into electronic money systems thus greatly increasing agile revenue management for those organizations, firms and governments that have invested in such systems.
- greater possibilities for obtaining critical revenue and other financial data or devising operational options in real time including:
 - Lifetime revenue & cost of a customer
 - Marginal Revenue per Customer
 - Marginal cost of a customer
 - Revenue collection modelling
 - Know your Customer (KYC) intelligence for forecasting purposes
 - Alignment or testing revenue performance against industry best practice
 - Integrating CRM and electronic money systems
 - Accessing international best practice cost effectively

END

Plenary Session 5

Tools for Analysis of Revenue Management
Revenue Management Techniques