Revenue & Treasury Management Conference

Expenditure Controls: The Invisible Revenues

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Presentation Outline

- Describe expenditure control
- A Case Study
- Some concluding thoughts

The Dilemma: What happens when you get a "Real Hit" on your revenues??

"I CONTROL COSTS BY IMPOSING A FIVE PERCENT SALARY REDUCTION ON EVERY EMPLOYEE WHO WALKS AWAY WITH MY PEN."

Expenditure controls

- The true description of expenditure control means " offering the same if not better value" to your customers at the same price and at lower cost on the part of the organization

- Tragically, most of the corporate and public expenditure control programs are made hastily and without thinking further down the road

- The end result is that we end up "cutting the value proposition to our customers", bill them at the same rate if not more, and our costs remain the same or increase in the medium and long term!!

Modern Control

- Sustainable expenditure controls are build around the concept of **"Creative Destruction"**
- Creative destruction focus of demolishing and/or restructuring institutions, processes and procedures that do not create value in favour of those that enhance productivity and value in the medium and long term
- Good example:
  - The industrial revolution
  - The digital revolution
  - The knowledge revolution

Imagine you've been appointed the CEO of this Company

- This is an industrial Company that has been a market leader for over 100 years!
- In the recent past, the company got into a turbulent season in its life cycle? In response,
  - ✓ It merged with two other companies, but the cultures never got to be integrated
  - ✓ It inherited huge liabilities (running into billions of dollars) related to environmental pollution in addition to its own liabilities
  - ✓ Despite this, the company has continuously missed its revenue targets and over the past 5 years has done write-offs of bad debts of US$ 8 billion
- Upon your appointment, you've instituted key changes in the business model, including:

Case cont...

- Streamlined book-keeping and addressed the environmental liabilities
- You've created new products and services, and expanded abroad
- You've reviewed recruitment policy for top management – about 90% of top vacancies are now filled internally compared to 50% previously
- You've succeeded to create a new business culture build on:
  - ✓ Good business acumen
  - ✓ Listening to your customers
  - ✓ Doing what you say you are going to do
- In return, the market has rewarded your efforts and there are real dollars to show for it????

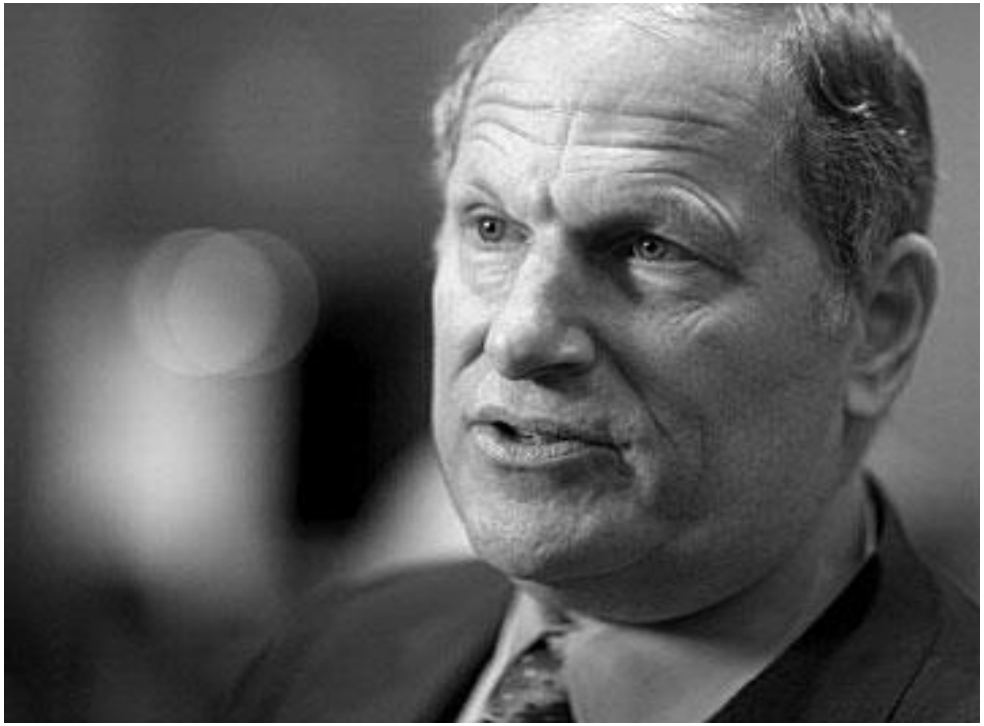
Case cont...

- Your revenues from foreign markets now account for 54% up from 41% previously
- Your investors and lenders have come back and re-established their credibility with you
- Your share price have doubled in the stock market and you've earned your seat in the S&P top 500 companies in the world!
- Then trouble strikes again, the world enters into the "worst" recession ever in history, your country is hardest hit…..and customers order lines have suddenly gone silent and some existing ones cancelled!!
- In your industry, there are two main costs:
  - ✓ Raw materials (direct costs)
  - ✓ People costs (account for between 30% -40% of total costs)

Case cont..

- Discuss your response to this new crisis – be sure to give the merits and demerits of your decisions

All those facts: were realities for Honeywells Company in the US between 1999 to 2007/08 Financial Crisis (David Cote)



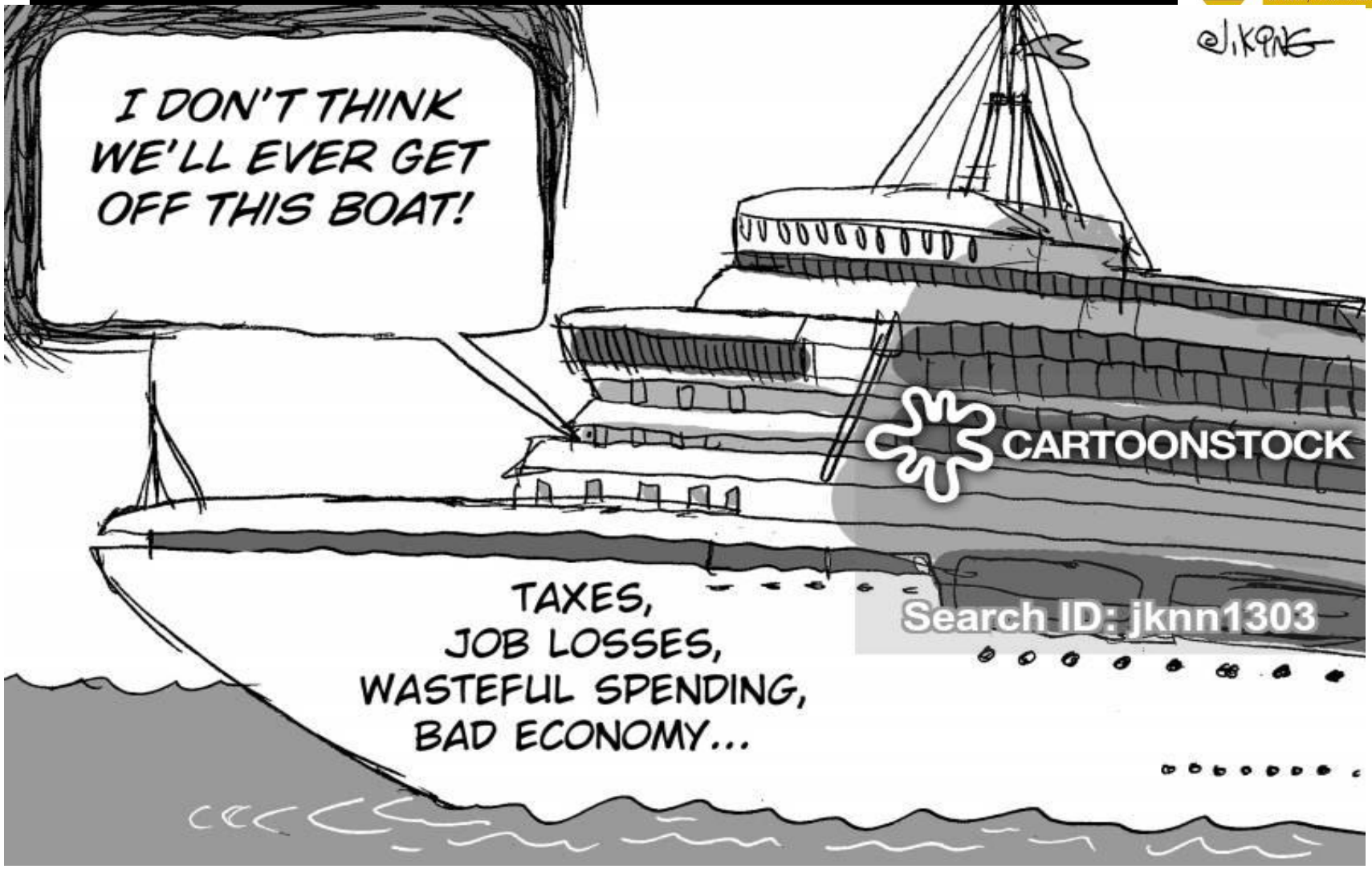
Troubling Statements!!

- On budget day, the US Ambassador in Kenya said, an estimated Ksh. 800 billions goes to waste, and that's enough the fully implement the "BIG 4" Agenda

- Raila Odinga last week repeated the exact statement on national TV???

- On one of his last public addresses as the PS, National treasury, current head of public service was quoted saying "about 45% of the budget allocations goes to wasteful spendings"!!!

Could we have resigned to fate???



And Finally……