Revenue
Quality of Earnings

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Key Takeaways

- Understanding Revenue
- What Customer needs
- The Unholy Trinity
- Quality Of Earnings

Purpose of running a company

- Convert IDEAS into value proposition ($$$)
- We sell a product to generate REVENUE.

Revenue

- Total amount of income generated by the sale.
- Also known as Gross Income
- Revenue $\asymp$ Income $\not\asymp$ Profit
- Profits = Revenue - Expenses
- Profit is net income

Types of revenue

Three crucial questions:

1) Who is our Kustomer?
2) What does a Kustomer want?
3) How can we add value to the Kustomer?

What Kustomer wants

- Quality (value for money)
- Cost (cheaper)
- Availability (time)

… BETTER, CHEAPER, FASTER!!!

But difficult to manage them together (unholy trinity)

Quality of Earnings(QoE)

- Quantity is not enough
- Quality of revenue matters as well
- The QoE refers to income generated from the core operations (operating) and doesn’t include the non-operating revenues.

Features of Quality of Earning

1. Sustainability
2. Reliability
3. Bankability
4. Diversified Kustomers

Why there is a need to check the Quality of Earnings?

Necessity to check

- It is seen that net income does not represent the true financial picture of a company.
- It may happen that a company reports a massive net income but we can’t say the company is financially sound just by this.

Factors Affecting Quality of Earnings

How the company is earning?

- Conversion of sales to cash (faster) = High quality of earnings
- By linked to outside sources = Low quality of earnings.

The degree to which earnings are cash or noncash

Quality of Kustomers

Sustainability

- What % of Kustomers repeat?
- Repeated Kustomers indicate stable flow of revenue

Reliability

- What products are sold to Fortune 500 companies as they are more reliable than small buyers
- Results in High Quality Earning

Bankability

- How soon sales convert in cash?
- Sales tied up in accounts receivable, not yet been realized.
- Generating revenue but not cash = not profitable

Diversification of Earnings

- Suppose two companies selling same product but with different quantity of customers (say 50 and 5)
- How do Investors distinguish between them :
  - Quantity
  - Stability of Revenue
    - Company with more customers is not heavily dependent on single customer

Export Earning

- Korea, Germany : Heavily Dependent on exports
- India, China : Less Dependent on exports

Conclusion

We achieve Greater Endorsement of the product’s quality.

QOE-Reliability

Case Study:

The US Pentagon has awarded Microsoft a $10bn cloud computing contract, beating out favourite Amazon, whose competitive bid drew criticism from US President Donald Trump.

References

To visit:

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To avoid:

- https://www.quora.com/What-three-factors-affect-the-quality-of-earnings

Dedicated to

Future Kustomers