PAYGo PERFORM WG call with 3 WGs

Date: August 14

The objective of this call was to discuss the results from the Feedback Survey for PAYGo PERFORM Indicators which was distributed to the Consultative Group about 1 month ago, the overall coherency of the complete set of KPIs, gather final feedback on all of the KPIs, and explain the next steps for the PAYGo PERFORM initiative including data piloting of KPIs. Please note that the decisions that we came to are still not set in stone. If anyone feels strongly about any of the recommendations, please reach out to us (individually or to paygoperform@gogla.org) and we'd be happy to discuss/consider your thoughts.

Overall Survey
We had great participation for the survey with 51 respondents and a good representation of different type of industry players (44% of respondents were PAYGo Company, 40% were Investors or DFIs, and 16% were Other, which included consultancy firms). Not everyone provided answers to all of the questions and therefore there was a range of respondents per section (UE/PQ/KPI WG) ranging from 23 to 51.

Unit Economics
For Unit Economics, 6 firm level KPIs (1 cost-related, 3 revenue-related and 2 profitability-related), and 9 unit level KPIs were proposed.

Firm level KPIs
Cost-related KPIs
Total Overhead Cost as % of Total Cashflow from Customers
a. 85% of responders agreed to have this KPI; therefore, the decision has been made to keep/adopt.
b. Some of the respondents struggled with the distinction between variable and fixed cost and the definition should be made clearer.
c. Some respondents would also prefer to measure this metric in % of revenue instead of % of cashflow. However, due to the differences in accounting policies to recognize revenue, the recommendation is to keep the metric as is.

Revenue-related KPIs
1. Total Cashflow from Customers: 90% of responders agreed to have this KPI - we will keep/adopt this KPI.
2. Total Cashflow as a % of Total Revenue
   a. Respondents found this KPI to be too complex to understand. Furthermore, this metric might be distorted as there are different ways of recognizing revenue, making this metric less comparable across companies.
   b. This KPI might not be as key/critical as the other firm level KPIs and can be removed. The WGs agreed.
3. Total Receivables Generated: gives a perspective of the growth of the firm. However, it is a complex metric to calculate and there may be issues around sensitivity.
   a. The recommendation was to remove this KPI but the WGs don’t agree; total receivables generated is not more sensitive than total cashflows from customers or any of the other KPIs. We will adopt this firm level KPI.

Profitability-related KPIs

1. Total Contribution Margin
   a. Questions around whether we are using the right numerator and denominator.
   b. We can maybe use Cashflow from Customers instead of Revenue.
       Comments
       i. We can take the weighted average of various unit contribution margins on a product level (cash-based). This will give you the ‘real’ margin and can differ from the traditional gross margin number.
   c. The definition of this KPI needs to be discussed further within the UE WG. Ultimately, we want the profitability KPIs to appropriately reflect the company’s profitability on a cash basis.

2. EBT margin
   a. Some respondents prefer EBITDA. However, EBT is more comprehensive since it captures interest expense. Therefore, this metric will remain to be the EBT margin.
       Comments
       i. Very standardized metric, do we want this to be a PAYGo KPI as it is already a standard metric that we must report?
       ii. Normally it is reported on an accrual basis and therefore this cash component (profitability) won’t be there. When companies are not reporting this on a cash basis (which is most), then they would not make this KPI available.
   b. Similar to Contribution Margin, the definition of this KPI needs to be discussed further within the UE WG.

Unit level KPIs

Overall, there is broad agreement on how we define the KPIs. The challenges are still around a few areas which are related to the calculations that were discussed in the different UE WG meetings.

Revenue-related KPIs

1. Unit Customer Deposit
   a. There are two approaches, based on (1) deposit as % cashflow received and (2) deposit as a proportion of total units that were sold. Respondents would like to have 1 definition. An equal number of respondents favored one approach. As we are expressing most KPIs per units sold, approach 2 might be the best way to go.
   b. No further comments from the WGs, therefore approach 2 adopted.

2. Unit Follow On Payments
   a. 100% of respondents agree with the gross basis approach for calculating this KPI. When this approach is chosen, the investor can choose appropriate discount rate per venture or the company can provide one. However, it could mean that the companies have to provide the follow on payments and payment schedules.
Comments:

i. Initial thought was to have one gross number for PV calculation. The follow-on payments and payment schedules would be provided under NDA to investors, if requested.

ii. The discount rate that companies take can take is very different and this would make companies less comparable with PV calc. Gross basis would be more comparable across companies and easier to understand.

b. Conclusion: Recommend taking the gross amount of the follow-on payments as one total number. If payments are more or less smooth over the effective credit period then, along with average frequency of payments, the cash flow stream can be approximated. Important to consider the effective credit period as we are looking at this KPI.

3. Unit Total Payments: no further comments: no critical issues outstanding; therefore it should be adopted.

Cost-related KPIs

1. Unit Credit Cost
   a. The initial thought was to use the PQ Write-off Ratio in the calculation of this KPI. However, this is based on a timeframe and this write-off ratio should be over the lifetime of the unit.
   b. Conclusion: We should not use the Write-off Ratio KPI as defined in PQ WG; we must come up with our own. This should be discussed in another WG call.
   d. Unit Device Cost: no critical issues outstanding and adopted as is.
   e. Unit Sales Distribution Cost: no critical issues outstanding and adopted as is.
   f. Unit Servicing & Maintenance Cost: we will explore the way this KPI is calculated. One of the respondents suggested to use the warranty period instead of the effective credit period.

Overall opinion UE KPIs

1. The majority of respondents believe that the list of Firm Level and Unit Level KPIs is comprehensive and there are no additional KPIs that we should consider.
2. Some respondents think that the list of KPIs is quite invasive; there is a tremendous amount of data that we are asking for.
3. Some respondents disagree on summarizing/narrowing the list of unit level KPIs. However, we need to make sure that companies will be able to manage reporting on all KPIs. The final consideration is that these KPIs should be easy to calculate and this should be kept in mind when evaluating these KPI during the pilot.

Portfolio Quality

Collection Rate

1. Inclusion agreed and some calls for clarification on some of the key terms such as payments due (e.g. with early payments) and active units. Currently active units is defined as "not written off". Please send an email if you have an idea to clarify this.
2. Importance of looking at these KPIs not just by itself but in conjunction with other KPIs (e.g. collection rate should be looked at together with the write-off ratio) as high write-offs can make the collection rate look higher.
3. Some respondent call for vintage and cohort reporting. This is ideal and seen as the next iteration. For now, we are focusing on headline KPIs. 

*No further comments*

**Write-off Ratio**

1. **Broad agreement on inclusion.** However, the denominator should be specified more (remaining receivables outstanding vs. average of beg. and end). The metric should be looked at from the beginning of the period to get a sense of what is written off.
2. **Plurality agreed that this should be period of 180 days should be tested in the pilot.**
   
   *Comments:*
   
   a. When we were answering this question, we were thinking about seasonality, you want to smooth it out or highlight it. Write-off ratio can be higher due to seasonal issues. This potentially gives information, but the risk is that if you are reporting one number and not the trend, then you need to be careful which month or period you are reporting, because it can vary a lot. Agreed that the pilot will be used to flush this out.
3. **No clear preference whether to have a cut-off for the write off ratio.** Some believe we can cap it at 120 or 180 days.
4. No clear view around netting out the remaining value of the repossessed systems. Some comments around it being too subjective and too messy. The recommendation is not to net out the remaining value of the repossessed systems. If a company is very efficient in their repositioning and redeployment relative to another with the same repossession characteristics, then it will show through UE KPIs. We might adjust this later if we see that this is a big issue during or after the pilot phase. 

*No further comments*

**Repossession Ratio**

1. This metric will remain unit-based for now.

   *Comments:*
   
   i. Denominator should be total installed units over period X and take out average.
   
   ii. Not all repossessed will be redeployed, so it is very subjective if you are taking redeployed. If you want to capture how many systems redeployed from the repossessed, then you should capture this separately.
   
   iii. Repossession ratio as a standalone doesn’t tell you much but the idea would be to have something in comparison to the write-off ratio. How much value are you losing really? How bad is the write-off ratio really is?
   
   iv. You need both. Some units are repossessed before written-off and sometimes you might have a unit that is repossessed and is partially redeployed. Adjust this KPI to only reposessed.
   
   v. Still, you need to know how customers are leaving the portfolio (1) repossessed (still remaining value of asset) and (2) write-off customer account and unit.

2. It is unclear whether companies (and investors) are consistent in their perspective of what a “write-off” is; that is, are you writing-off the customer/receivable or the unit? We take this offline and refine this KPI.
3. We will track in the pilot whether we want to include a ratio of units repossessed relative to units repossessed, written-off, lost, or abandoned. However, this is probably not a critical KPI for KPIs 2.0 to include.

*No further comments*
Receivables at Risk (RAR)

1. The metric is renamed to RAR to avoid comparison with the MFI industry.
2. Two approaches to identify the risky receivable streams (1) Consecutive days of nonpayment, and (2) Low collection rate (cumulative days of nonpayment). **No clear majority, so we will use the pilot to indicate which is a better leading indicator for write-offs.**
3. Is there an inconsistency of the investor and company interest for this metric? **Comments:**
   a. *Operationally, you might want to see as a company which streams you would like to nudge a bit whereas the investor would like to see the overall portfolio quality. There would therefore be different thresholds, but the definition should be the same.*
   b. *Threshold 90/120/180 gives good indication for write-offs but 30/60/90 only gives a good overview portfolio quality.*

Effective Credit Period

This is a derivative KPI and roughly tells you the average amount of time for customers to pay off a system (as this can differ from the contractual period). It doesn't give you anything specifically about the portfolio quality but is useful to place other metrics (PQ and UE) in context. **No comments**

Receivables Portfolio Growth Rate

Not clear from the survey responses whether the definition is wrong or if this metric is not relevant at all. **Recommended to have this metric** as it is important to have a growth metric (and specifically related to receivables portfolio in case the company has significant cash sales) to put other KPIs in context as growth can mask some red flags. **No comments**

Overall

1. Right set of KPIs.
2. Some calls for a loss given default, so perhaps it is worth to have a metric that measures the cost of a unit that has not been paid back at write-off. Worth having or too confusing? **No comments**

Company Indicators

Sales Model

1. **General agreement of the definition.** Few suggestions that we will incorporate, specifically perpetual lease model.
2. There is a consensus on the calculation of the KPI. **However, the recognition of revenue between cash and PAYGo can be different. This should be tested in the pilot.** Same for ‘Sales Distribution Model’, and ‘Geographical Area’. **No comments**

Sales Distribution Model

**General agreement of the definition.** B2G and sales to UN/NGO will be added. **No comments**
Geographical area

1. We will add central and north Africa as well as Central Asia.
2. We can also distinguish in individual countries. This is something we investigate incorporating as we don’t have a standard definition where east Africa starts and stops etc. No comments

Total Net Sales

We should streamline the timeframe for companies and therefore we will incorporate using calendar year instead of annual financial year. No comments

Operational Performance Indicators

Average selling price

1. Modest agreement definition. We should look at this one on a product basis.
2. On the calculation side, the majority said that we should have both outputs.
3. Should be refined further with a WG call.
   No comments
4. Product categorizations: we should change the name and also potentially add more 'tiers'
   Comments
   a. When we look at the SE4all/World bank definitions → we have to check
   b. We should conform it with the GOLGA standards.

Sales per distribution channel

Adding more channels and investigate whether it should be both or revenue-based

Sales Point Rate

1. Biggest question was about the 90 days and the difficulty of measuring this KPI.
2. Purpose for companies to measure the active distribution channels and to track the distribution channels that are active and coming from those channels (also has an effect on customer experience).
   Comments:
   a. Why this is such a useful KPI and what we expect to see out of this? This is a very operational KPI and not sure what the insights you are getting out of this
   b. On the individual agent, it will be hard to measure this, and it will therefore difficult to compare across companies.
3. We will have a conversation with the KPI WG whether this KPI needs to stay.

Net Promoter Score (NPS)

1. The majority of responders agreed that it should be included as a KPI. However, the metric is hard to measure, and companies cannot do the NPS themselves.
2. We will keep this KPI and when going into pilot, we should check how to measure this.
FX Exposure

Slight majority agreement to take out this KPI, however some strong thoughts to still include the FX Exposure. **This should be discussed one more time in the KPI WG.**

Opinion of the Full Set of KPIs

- We are going in the right direction with 62% of responders indicated that they really like them and 38% moderately like them. We still have some key challenges that must be resolved.
- For the reporting, only 6% indicated that it would be very difficult for them.
- Most respondents said that they would like to do quarterly reporting.
- Majority indicated that they would prefer anonymized reporting.

Next steps:

1. Finalize the KPIs 2.0 (beta) by October 2019.
2. Needs assessment to determine which party will collect the PAYGo PERFORM data.
3. Piloting prep phase will kick off Q4 2019 and we will test KPIs 2.0 (beta) together with a handful of companies over Q1 and Q2 2020.

Please send specific comments or additional feedback to either paygoperform@gogla.org, or otherwise reach out to WG coordinators individually.