

## Unit Economics Working Group call – Summary Notes

**Date: September 4, 2019**

The objective of this call was to discuss the outcomes of the PAYGo PERFORM call with the 3 working groups (“3 WG Call”) – see presentation [here](#) and summary notes [here](#). In addition, we wanted to collect final feedback on key outstanding issues regarding the Firm Level and Unit Level KPIs before finalizing the KPIs 2.0 (beta).

### Firm Level KPIs

The pre-pilot survey and 3 WG call confirmed that most agree with the definitions and calculations. The KPIs that still have some issues are:

#### 1. Contribution Margin

The KPI might be too complicated and it is based upon revenue. As companies have different revenue recognition (accounting) policies, this KPI might therefore not be comparable across different PAYGo companies. The main other question is what we consider to be variable cost. Proposed to replace ‘Revenue’ with ‘Total Cashflow from Customers’ in calculation.

#### 2. EBT Margin

Similar issue as with Contribution Margin as you also consider variable costs, fixed costs, and total revenue for this calculation. Proposed to also replace ‘Revenue’ with ‘Total Cashflow from Customers’.

### Comments from WG:

- *Most working group members agreed that using cashflow from customers gives you a better overview, also because it will give you a better sense of profitability.*
- *The Total Cashflow from Customers needs to be defined better. Is this the total cashflow expected from customers over the payment plan? Or a different period? Same is true for the variable and fixed costs, since it is unclear whether you also consider upfront costs.*
- *If you shift to Total Cashflow from Customers, then this number is likely to be smaller relative to cost. Therefore, the EBT margin is more likely to have a negative output. This can influence the analysis of investors when they compare PAYGo companies to different asset classes.*
- *Some costs will be recognized differently across different PAYG companies, this might bring some distortion.*
- *Conceptually, we should therefore decide whether we will do everything accounting or cash based and be consistent.*

### Conclusion:

We will need to test in the pilot whether a cash basis approach would be better than based on accounting policies. Furthermore, we must make sure that all building blocks are cash based if we decide to go forward with this approach.

## Unit Level KPIs

The pre-pilot survey and 3 WG call confirmed that most agree with the definitions and calculations. The KPIs that still have some issues are:

### 1. Unit Customer Deposit

The feedback was that it is too confusing to have two approaches and we must select one. However, the opinions were divided on which one to choose. It is proposed to select option 2 (show as per Units Sold/absolute value) to allow for continuing to use the unified framework.

*Comments from WG:*

- *Absolute value would be easier for PAYGo companies with a leasing model.*
- *Ultimately, we might want to add customer deposit as a percentage of ownership as well, however, for now we only adopt the absolute value.*

#### Conclusion

Adopting calculation approach #2 – based on Units Sold for now.

### 2. Unit Credit Cost

The write-off ratio specified by the PQ Working Group is over a specific time period whereas Unit Economics Working Group might want to look over the lifetime of the product.

*Comments from WG:*

- *The advantage of aligning it with PQ Working Group is to be able to see whether there is a correlation between PQ and UE KPIs.*
- *Assuming PQ will take a longer period of time (likely to become in the range of 180 days), this KPI would be appropriate to use for Unit Credit Cost even though this might introduce some volatility over time.*
- *An alternative coming from the PQ WG that might be of use to the UE WG is the collection rate.*

#### Conclusion:

Wherever possible, we should use the same definitions that cross over the different KPIs to make sure that the KPIs can talk to each other. Therefore, there is a strong preference to align this KPI with the PQ WG. However, we would need to wait and test it in the data collection pilot.

### 3. Unit Servicing & Maintenance Cost

It was suggested that the calculation of this KPI should not use the Effective Credit Period, but instead use the Warranty Period. Yet, the Warranty Period might not be equal to the Effective Credit Period and you might still be servicing customers after the Warranty Period. Therefore, it is proposed to still use the Effective Credit Period (this KPI is also part of the PQ Working Group).

*Comments from WG:*

- *We should use whichever one (Effective Credit Period or Warranty Period) is the longest.*
- *Is this the total cost or monthly costs that incur? We should make sure that this metric considers cost per time for this KPI e.g. repair cost/ certain period of time = average*

*maintenance costs. If you would like to dive deeper, you can do it per product type or look at which specific costs are included.*

#### Conclusion:

For lease to own models, multiplying this metric with the Effective Credit Period might be the best solution (with the timeframe being the entire time of the contract). However, we might need a modified calculation for perpetual lease models. Can be discussed further offline with some individual WG members.

#### Timeline & Next steps

1. Expectation is to have a list of pre-pilot KPIs 2.0 (beta) finalized by this October. **Important to note that these are not the final KPIs.** However, these KPIs have been fairly agreed upon and are ready to test in a Data Collection Pilot.
2. In between finalizing the KPIs and starting the Data Collection Pilot, we still need to define which party will collect the PAYG PERFORM data and assess what else is needed to perform the data piloting. We are therefore hoping to speak to some of you about what systems you have available and which data you are roughly collecting today. If you are interested to participate, please send an email to us/Miguel individually or to [paygoperform@gogla.org](mailto:paygoperform@gogla.org). For the ones that don't have the time to participate in such an interview, we will also be designing a survey.
3. We will kick off the Data Collection Pilot in Q1 2020 and will be testing the KPIs 2.0 (beta) over Q1 and Q2 2020 together with a handful of companies. If you would like to participate to the data collection pilot, please send an email to [paygoperform@gogla.org](mailto:paygoperform@gogla.org).
4. The final set of KPIs will be launched in 2020 after making final iterations based upon the Data Collection Pilot.