Unit Economics Working Group Meeting

PAYGO PERFORM

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September 4, 2019
Today’s Agenda

• Open Items on Firm Level and Unit Level KPIs
• Next Steps and Timeline
Unit Economics KPIs – Overview

**Firm Level KPIs**
- Total Cashflow from Customers
- Total Receivables Generated
- Total Contribution Margin
- Total Cashflow as % of Total Revenue
- Total O/H Cost as % of Total Cashflow from Customer
- EBT Margin

**Unit Level KPIs**
- Unit Customer Deposit
- Unit Follow On Payments
- Unit Total Payments
- Unit Credit Cost
- Unit Device Cost
- Unit Sales & Distribution Cost
- Unit Servicing & Maintenance Cost

**LEGEND**
- Orange: Revenue-related KPIs
- Green: Profitability-related KPIs
- Gray: Cost-related KPIs
### Summary of Feedback Survey Results by Type of KPI

#### Firm Level KPIs

<table>
<thead>
<tr>
<th>Proposed KPI</th>
<th>% in Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Cashflow from Customers</td>
<td>90%</td>
</tr>
<tr>
<td>Total Cashflow as % of Total Revenue</td>
<td>64%</td>
</tr>
<tr>
<td>Total Receivables Generated</td>
<td>93%</td>
</tr>
<tr>
<td>Total Overhead Cost as % of Total Cashflow from Customers</td>
<td>85%</td>
</tr>
<tr>
<td>Total Contribution Margin</td>
<td>75%</td>
</tr>
<tr>
<td>EBT Margin</td>
<td>89%</td>
</tr>
</tbody>
</table>

#### Unit Level KPIs

<table>
<thead>
<tr>
<th>Proposed KPI</th>
<th>% in Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit Follow On Payments</td>
<td>92%</td>
</tr>
<tr>
<td>Unit Customer Deposits</td>
<td>81%</td>
</tr>
<tr>
<td>Unit Device Cost</td>
<td>100%</td>
</tr>
<tr>
<td>Unit Credit Cost</td>
<td>92%</td>
</tr>
<tr>
<td>Unit Sales &amp; Distribution Cost</td>
<td>96%</td>
</tr>
<tr>
<td>Unit Servicing &amp; Maintenance Cost</td>
<td>96%</td>
</tr>
<tr>
<td>Unit Contribution Margin</td>
<td>96%</td>
</tr>
</tbody>
</table>

#### Key Issues with Firm Level KPIs

**Total Contribution Margin**
- 7 out of 28 respondents do not agree with this KPI
- Key reasons: Issues with the definition and the fact that it is too complicated to get something comparable

**Total Cashflow as % of Total Revenue**
- 10 out of 28 respondents do not agree with this KPI
- Key reasons: too complex to grasp, accounting policies will lead to a lot of variety, does not provide any additional info

#### Key Calculation Issues with Unit Level KPIs

**Unit Customer Deposit**
- Most do not agree with having two ways of defining the KPI since it is confusing, and should keep it simple

**Unit Credit Cost**
- Some respondents have issues with using Write Off Ratio to calculate this KPI, since Write Off Ratio is over a time period

**Unit Servicing & Maintenance Cost**
- Some responders believe the formula to calculate this KPI is too complicated; questions on why include Effective Credit Period
## Firm Level KPIs – Key Issues

<table>
<thead>
<tr>
<th></th>
<th>Total Contribution Margin</th>
<th>EBIT Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Definition</strong></td>
<td>Provides a view of a PAYGo firm’s profitability when taking into account ONLY the variable costs</td>
<td>Represents the overall profitability of a PAYGo firm when taking into account ALL costs (variable and fixed)</td>
</tr>
</tbody>
</table>
| **Calculation – Current** | \[
\frac{\text{Total Revenue} - \text{Total Variable Costs}}{\text{Total Revenue}}
\] | \[
\frac{\text{Total Revenue} - \text{Total Variable Cost} - \text{Total Fixed Cost}}{\text{Total Revenue}}
\] |
| **Key Issues with Calculation** | • Due to the different accounting policies used by PAYGo firms, Revenue may be different and thus will not be able to compare across firms  
• Need to be clear what is considered as “variable” costs and “fixed” costs | |
| **Calculation – Proposed** | \[
\frac{\text{Total Cashflow from Customers} - \text{Total Variable Costs}}{\text{Total Cashflow from Customers}}
\] | \[
\frac{\text{Total Cashflow from Customers} - \text{Total Variable Costs} - \text{Total Fixed Costs}}{\text{Total Cashflow from Customers}}
\] |
Unit Level KPIs – Key Issues

Unit Customer Deposits

• Two approaches were proposed: (1) Show as % of total payments; (2) Show as per Units Sold
• Confusing to have two approaches – select one

Unit Credit Cost

• The calculation uses Write off Ratio KPI from PQ WG
• However, Write off Ratio from PQ WG is calculated over a specified time period, while Credit Cost is over the lifetime of the unit

Unit Servicing & Maintenance Cost

• It was suggested that the calculation of this KPI should not use the Effective Credit Period – instead to use the Warranty Period

Proposed Approach

• Select Calculation approach #2 – based on Units Sold
• Use Write off Ratio from PQ WG as much as possible; average over longer time period if there are concerns
• Warranty Period should not be used; Servicing & maintenance cost is not always related to warranty
**What's Next for PERFORM – Timeline**

**Kick off Q4 2019**

- **October 2019**
- **KPIs 2.0 (beta)**
  - Based upon the feedback from the working groups, consultative group and steering group, we will finalize the beta version of KPIs 2.0

**Piloting Phase**
- Together with companies, we will test the KPIs 2.0 (beta) over Q1 and Q2 2020. Based upon the testing, we can make some final alterations to improve the KPI framework.

**Needs Assessment**
- Define which party will collect the PAYGo PERFORM data
- Assess what else is needed to perform the data piloting

**Launch Final Set of KPIs**
- Final iteration and agreement by the CG and SG

**2020**
Piloting Phase: Testing the KPI Framework with Real Time Data

• The pilot will kick off Q4 2019 and will be testing the KPI framework over a period of 6 months.
• The Steering Group Coordinators will provide Technical Assistance.
• Already some peers have signed up and we invite you to also participate in the piloting phase by sending an email to paygoperform@gogla.org.
Thank You!

To learn more, please visit

https://www.findevgateway.org/organization/paygo-perform