# Financing Circular Business Models

**NMC event - Dutch Embassy**

**16-05-2019**

# RISE – Sweden's research & innovation partner

- Across Sweden – and more
- 2,700 employees, of whom 30% are PhD researchers
- Turnover 2018 – 3 billion SEK
- Wide range of research fields
- Runs over 100 test and demonstration facilities, open to companies and universities

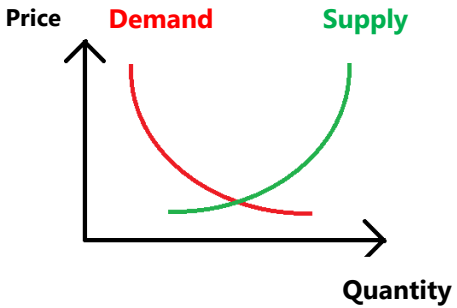
**Emanuela Vanacore**

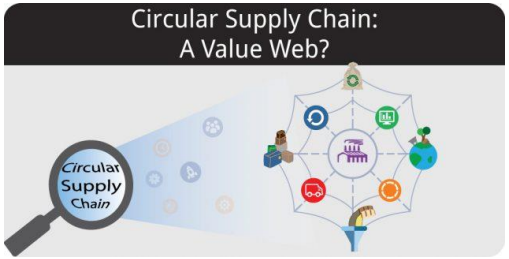
- Since April 2019 – Researcher at RISE – Sustainable Business Team
- Focus areas: CE, Business Model Innovation and Management Systems

Background

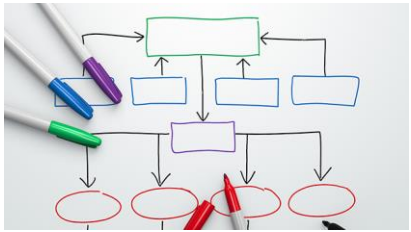
- Business Coach Consultant – Project Manager – European Affairs Adviser in UK, BE and IT
- MBA in Circular Economy, Innovation & Enterprise
- MSc Environmental Management
- MSc Economics & Management

# Circular business models - Challenges



- Demand
- Design
- Value chains & business ecosystems are fundamentally changing
- Logistics and traceability
- Pricing on resources and work
- Organisation
- Financing



# Project: Financing Circular Business Models

**Background**

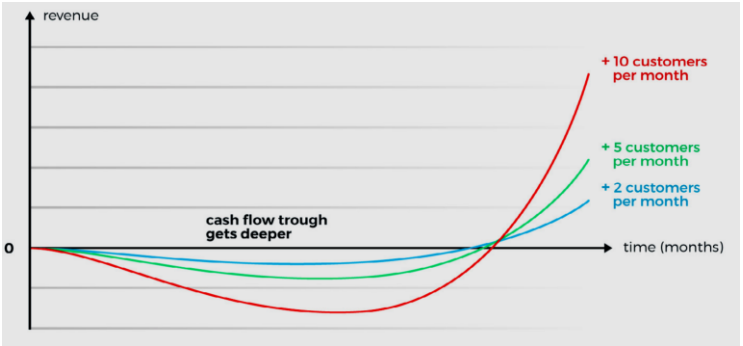
Achieving radically higher resource productivity through longer lifespan on products, upgrading, maintenance and repair is one of the basic ideas of circular business models. The incentives for this model are believed to be significantly strengthened if **the ownership of the product** stops at the manufacturer, so that the customer rents or buys the function of the product instead of buying the product itself.

**Goals**

To simplify the shift to a radically more circular economy by mapping and eliminating perceived obstacles in the form of available financing of new business models based on **functional sales / PaaS.**

**Hypotheses**

- The new BM means that the manufacturing company will retain ownership of the product, i.e. the asset side of the balance sheet will grow.
- Cash flow will deteriorate in the short term, but will remain stable long term.
- The problem is greatest for SMEs, without the possibility of self-financing.
- For the financial sector, there is a potential for good long-term business that today is missed due to existing risk models and views on collateral.



# Project partners

- Research partner:

- Funding:

- Manufacturing companies:

- Financial actors:

- Reference group:

Thomas Polesie & Susanne Olofsson (School of Business, Economics and Law at the University of Gothenburg) have participated as consultants.

# Data collection

- Annual reports and key figures
- Interviews product companies: 16
- Interviews owner product company: 3
- Interviews financial actors: 15
- 3 interviews with related organisations (Tax Committee of the Parliament, Association for authorised Auditors-FAR, ACCA)
- 2 project workshops
- Attended two conferences at Stockholm School of Economics / Swedish House of Finance, on the subject of Sustainable Finance
- Statistics from Retriever.se and the EU (https://ec.europa.eu/growth/access-to-finance/data-surveys_en)

Manufacturing companies:

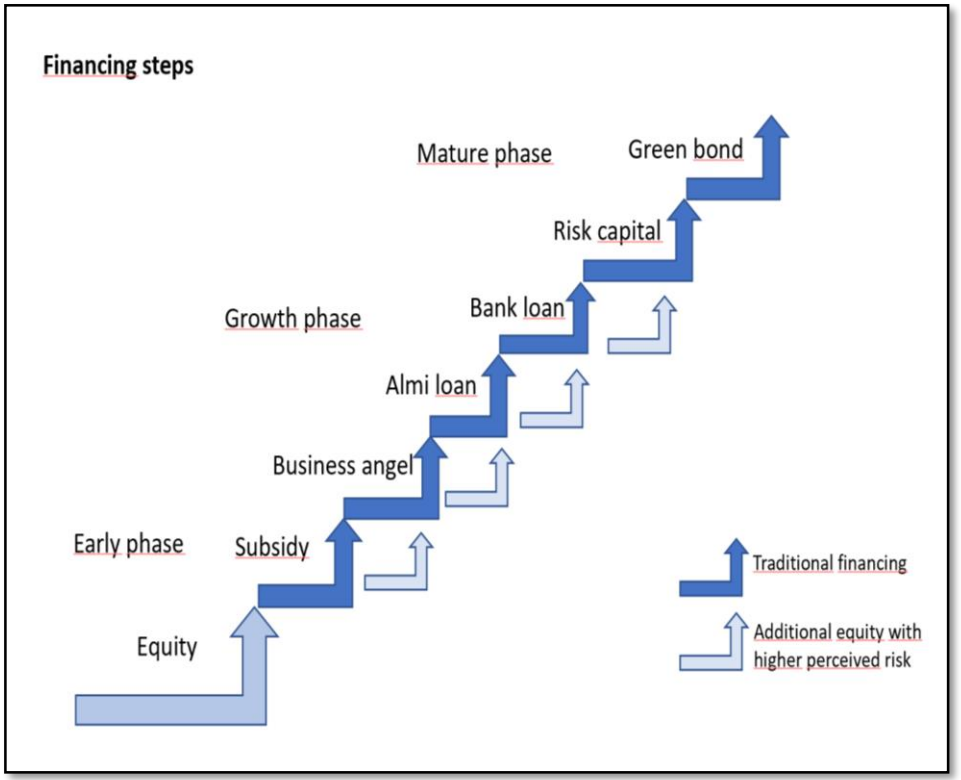
- Selecta
- ABB
- 2p1
- Hr Björkman
- RP
- Hako
- Taiga

Financial actors:

- Danske bank
- Volvo Finans bank
- Swedbank finans
- Circularity Capital
- ING bank
- ABN Amro
- Rabobank

# Results – manufacturing companies

- Funding is not the first problem that arises when product companies want to switch to selling service, but flexible access to loans and capital is necessary for expansion of PaaS models
- The problem is most pronounced for companies that cannot be financed within a larger group
- Expansion requires co-risk taking and co-financing between owners and financiers / lenders
- Valuation of fixed assets changes, which affects key ratios and - by extension, the organisation



# Results – financial actors

- The finance sector is a key player to scale up PaaS models
- Deep knowledge of the customer's business model and long-term business is necessary
- It might be worth to take that higher risk at the start to be able to build knowledge
- Government funding (e.g. targeted transition loans) could speed up the shift

# Financial sector

## Challenges

- The perceived **risk** increases
  - **The repayment period** in the business is extended
  - New business models in new sectors mean that there are no **benchmarks** for simple comparisons
  - The view of **collateral** needs to be reviewed when **the stock** is no longer traded quickly and **second-hand markets** do not exist
- **Internal processes and methods** around risk assessment, credit rating and collateral need to be reviewed

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## Opportunities

- At some point the risk of moving to the new model becomes less than **the risk of staying in the old one**
- A deeper knowledge and understanding of the **customer's business** (products and services), including the customer's customers, is necessary
- Evolution towards business development and becoming a **strategic partner**
- The bank as part of the customer's **business ecosystem**

# “Short-term capital is a problem”

Carl Bennet, Owner Lifco

# “From retrospective banking to future banking”

Rabobank

# THANKS!

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