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Minutes from the European Resources Forum 2016

Minutes by:

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DAY 1 – Wednesday, 9 November 2016

Plenary session: Transforming businesses – new business models

- **Tuuli Kaskinen** Director Demos Helsinki, Finland
- **Cornelis T. van der Lugt** Senior Associate, BSD Consulting, Switzerland; Senior Research Fellow, Stellenbosch University Business School, South Africa
- **Jocelyn Bleriot** Executive Officer, Ellen MacArthur Foundation, United Kingdom
- **Prof. Dr. Jan J. Jonker** Chair of Corporate Sustainability, Nijmegen School of Management, Radboud University, Netherlands
- **Chair: Dr. Martin Vogt** Managing Director, VDI Centre for Resource Efficiency, Germany

Tuuli Kaskinen, Director of DEMOS, focused on business models that may help solving resource crises. She pointed out that while the world's largest companies in terms of earnings in 2015 are not heroes as regards resource efficiency, there are many, in particular small and medium-sized enterprises (SMEs) which are active in resource efficiency and offer resource efficient products and services (some of them even producing near to zero carbon emissions).

The case of UBER shows that new companies active in a circular economy and in resource efficiency are achieving great valuation (this companies are so-called unicorns). However, it is still debated whether their car-sharing business model really is sustainable or whether it produces additional car traffic. Sharing economy business models are potentially relevant business models for start ups, as is evident by companies such as UBER, Airbnb, BlaBlaCar, sharetribe. In order to support start-ups and SMEs in successfully establishing themselves on circular economy and resource efficiency business models, it is important to put people with start-up ideas together with people having support option ideas, whether on funding or on relevant framework conditions. Regulation is very much needed to achieve our goals because new business models do not guarantee sustainability.

Focusing on the concept of the Circular Economy, **Jocelyn Bleriot, Executive Officer at Ellen MacArthur Foundation**, highlighted that the rationale for a Circular Economy encompasses reducing import dependencies, achieving input cost savings and obtaining new markets, as well as reducing resource use and environmental impacts. For many people, a Circular Economy seems narrowly defined as the downstream part in relation to waste management practices. But a Circular Economy only truly functions if we think smarter in terms of what we put on the market before we think about how best to manage wastes generated.

Economic analyses done on the economic potential of a Circular Economy shows significant opportunities – without any regulatory intervention, net material savings could amount to 630 billion US-Dollar savings for Europe in an advanced scenario. So why do business not do more of this? Policy and businesses and supply chains have been hard-wired to the linear business model. When you sell volume in a throughput economy, then how to solve the cash-flow issue of obtaining cash-flow over a longer time-frame in a circular economy, but not selling assets and hence not getting quicker return on investments/cash-flows? EU resource policy is not yet addressing such issues and remains oriented around end-of-pipe technology mostly.

Cornelis van der Lugt, Stellenbosch University South Africa, presented a massive open online course called "The Resource Revolution Trainer", which is targeting business managers by coupling going beyond issues of quality management (perceived among businesses to lead to incremental change) towards excellence for step change (perceived among businesses to mean transformation). To this end, the online course offers company case examples and questions to discuss among colleagues within a company. The online course shall help businesses to foster decoupling at business level through moving from purely technological innovation to new business models, including management models, and through bringing in key intermediaries (e.g. technical advisors, financial institutions).

One relevant barrier to transforming business models relates to shortcomings of annual financial accounting systems – here, Mr van der Lugt suggested that businesses should publish annually a joint financial and sustainability reporting and thus internally connect both financial and so-called sustainability accountants. This could also be done via using the business model canvas, aimed to help businesses identifying and adapting their business models. Often, managers find it difficult to describe what their business model really is – in this context, the canvas is helpful because it lists key components of business models and may thus be used to think through what a radical business model innovation could look like and what would need to be done to achieve this. This can help overcoming barriers to business case buy-in, such as lacking awareness of the business case; lacking belief in a business case ("too good to be true"); prevailing mental models of risk-aversion; operation in an organisational culture of silos. Business managers hence need to be more adequately educated – and the Resource Revolution Trainer serves just this purpose.

Prof. Jan Jonker, Radboud University, talked about the transition in Value Creation needed for new business models. He stressed that while we are underway towards a transition of business models, the transition mostly relates to implementing new technologies and we are not yet achieving the scale of diffusion and roll-out needed. Hence, we need to rethink our economy, for which he sees seven emerging trends that shape a different organisational playing field: Circular Economy; Functional Economy; Bio-Economy; Collaborative Economy; Sharing Economy; Self-Production (3D-economy); and Internet of Things/Services. These trends show that we are currently transitioning to Dematerialisation and servitisation, to Prosumers (co-production); to blended-value(s) drivers as well as towards a quest for new business models that will be able to create multiple values.

In Prof. Jonker's view, still conventional business models largely prevail and dominate the markets. These conventional business models are organisation-centric and in the end purely financially driven. Furthermore, they can only function because they are allowed to externalise many ecological and social costs. Aiming to change those will provoke fierce resistance. But changing and transforming business models is needed, and this will not mean to simply strive for a form of accelerated recycling 3.0. Rather, it implies that the production of goods will decrease and that our demand for resources, semi-finished goods, and finalised goods needs to re-evaluated in the context of new values for the social and community to create new employment in organising and populating different forms of high and low value cycles. Such business model transformation will only flourish as an organisational assignment between organisations and other parties (companies, citizens, and government). When organising new business models, we need to stimulate exchangeability and reparability as well as deeply engrain modular design and design for upgrading/refurbishment (both of soft- and hardware). Eventually, we need to normalise new business models through standardization, focus on function rather than ownership of products and ensure fiscal and legal 'friendliness'.

During the **discussion** of the presentations the plastics economy was identified a one key material flow in need of new business models. Changing the design and functions of plastics is essential because globally we are looking at 70 million tons of plastic packaging, of which only 14% are collected and there are too many polymers, additives, colours, which only allows downcycling of plastics. New plastics design should also phase out the use of hazardous materials in plastics.

Furthermore, discussants raised the need to combine service-based companies with companies producing hard technologies and products, without which no services could be offered. One interesting sector is the automotive sector because here software and hardware meet and the big companies will need to adapt their business models to stay around on the market.

The current shareholding-based economy was seen to limit circular economy business models because new kinds of business models do not yet get the financial stability they need. Therefore, it is important to get financial people (e.g. banks) on board when developing circular economy business models and support strategies through public policy. When a company works with a balance sheet, it will always have to list assets and liabilities; so, commercially driven enterprises always need to work with finance so that we need to get financial experts to help businesses to get beyond market short-termism. Here, it is a question of making the link between different communities of expertise and increase the time-frame to get beyond short-termism

In many countries platforms exist that help business to start, even financially supported. This eases the emergence of more and more circular business models. A very good example of circular economy firm is Interface for carpet tile leasing or DSM which developed a take-back for chemicals. While there is reason to believe that entrepreneurs will help bringing about change, but large companies should also be taken seriously for their true efforts to change. DANONE and Unilever are interesting in this respect because both have committed to and already show impressing progress towards decoupling – big companies have the potential of economies of scale. As an SME you need support to scale and here we need to look at the right case study and then help it scale up with a business case – there has to be something in it for businesses to encourage others to follow suit. In Europe we need public sector support for SMEs working in a circular economy to get them working; we need both carbon and material taxes to support circular economy business model transformation. These are fields where legislation should be opened – sharing economy solutions are restricted in European countries quite heavily and therefore blocking regulation should be lifted. But importantly, also the business case needs to pay for circular economy changes – here we should be aware that consumers do not always want the cheapest product, but functionality can be so excellent and convincing so that consumers are willing to pay more.