

# THE CIRCULAR FACADE

## TAKEAWAYS



### Building a sustainable financial reality with Facades-as-a-Service

- 1 Our linear glasses get in the way.
- 2 Balance sheet extension as the holy grail instead of a liability
- 3 'Residual value' is a term from the traditional take-make-waste society; change the term and you change the thinking
- 4 Legal structures as transition accelerators.
- 5 Adapt current regulation standards to overcome the catch 22 of financiers

A white paper of Coalition Circular Accounting

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# TAKEAWAYS

## 1 OUR LINEAR GLASSES GET IN THE WAY

We tend to view circular business models from a traditional perspective. Product-as-a-Service (PaaS) is characterised by access to the product, the performance of the product, and the services around the product. With Product-as-a-Service, the value for the consumer does not lie in owning the product but in the option to use a service, thereby unburdening the consumer from the responsibility for maintenance and repairs.

## 2 BALANCE SHEET EXTENSION AS THE HOLY GRAIL INSTEAD OF A LIABILITY

A Product-as-a-Service company is often asset-heavy. Namely, ownership shifts from the consumer to the service provider. Therefore, one cannot simply compare PaaS companies with traditional companies. PaaS companies keep control of their assets which is reflected in a growing balance sheet. Where a growing balance nowadays is still interpreted as risky, in the circular economy this will signal that companies are taking long term responsibility for their products.

## 3 'RESIDUAL VALUE' IS A TERM FROM THE TRADITIONAL TAKE-MAKE-WASTE SOCIETY; CHANGE THE TERM AND YOU CHANGE THE THINKING

A fundamental principle of the circular economy is the infinite use of raw materials. Assigning a value to these resources is essential, wherever they are. The term residual value (the estimated value of an asset at the end of its useful life) detracts from this circular idea. That is why we prefer to talk about harvest value. Harvest value is not only important in principle, it can also be the decisive factor for the success of a circular business model since it creates new business opportunities by for example serving as security for financing.

## 4 LEGAL STRUCTURES AS TRANSITION ACCELERATORS

In the transition to a circular economy, we regularly run into laws and regulations that are obstructive or lacking. In the circular economy - as is the case with Product-as-a-Service - it may be opportune to shift ownership from a consumer to a service

provider. In the built environment, this leads to problems because building components that are offered as a service legally become part of the building (otherwise known as accession). That is why new legal structures are created that make Product-as-a-Service in the building sector easier to implement.

## 5 ADAPT CURRENT REGULATION STANDARDS TO OVERCOME THE CATCH 22 OF FINANCIERS

Financiers are attempting to translate new circular business models into appropriate financing structures. Pre-financing assets are at the core of the Product-as-a-Service business model. The underlying security of Product-as-a-Service is a combination of the cash flows and harvest value of the assets. Because the Product-as-a-Service model is still not commonly used and financiers have to operate within the current standards of the regulators, the market is still reluctant to finance these types of business models. The interpretation of financial ratios and underlying securities must be adapted to circular thinking.

## WANT TO KNOW MORE?

Together we face the challenge to experiment and learn by doing in the circular economy. These insights come from the Facades-as-a-Service case study of the Coalition Circular Accounting.

The full report can be found here →