

REBus Project

Summary of learnings

October 2017

There is a tendency to rush the pilot. Think a bit more openly about how you will implement your value proposition. What really needs to be established to show it's going to work?

For us, another important outcome of a service offering is alignment of interests at a system level, although often this isn't understood or appreciated. Think about how actors within the new value network will be incentivised and whether or not these conflict or work together.

Dr Stafford Lloyd, Systems and Sustainability Engineer, Riversimple

Make it easy for the client. Make it competitive and better than existing solutions. It has to be a client-driven service, not one driven by your capabilities and what you think you need to do.

Look at the benefits from all angles that the client sees. There may be advantages to models that you don't originally see. Clients may value the speed of a re-use service over environmental benefits or they may see social value as a better result than financial savings.

Ann Beavis, Marketing Consultant, Premier Workplace Services

REBus Project

In their own words ...

Explore different avenues and just do it! I would never have thought I would have opened another store, an online channel and be recognised through awards and ITV.

Alexandra Wood, Managing Director, Alexandra Wood Tailors

If you can demonstrate the value to the customer, you already have a compelling case for piloting. It needs to make commercial sense with the environmental credentials playing a supporting role. The expertise brought by WRAP was essential to support the business case within Argos.

Megan Kitchen, Environmental and Ethical Affairs Manager, Argos

In ten years' time, circular procurement will be the norm.

Sandra Koolsbergen, Buyer, Utrecht Province

Research the demand well and don't leave the job until traction. Double the amount of time allowed to generate payment, keep overheads low and, above all, remain strong mentally.

May Al-Karooni, Founder and Managing Director, Globechain

Speak with the market.

You can't get far without them. Market and government need each other to develop a more circular economy.

Maarten Rauws, Senior Legal Advisor, Utrecht Province

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Developing the business model:

**The most common
learning points**

Developing the business model: The most common learning points

Resource Efficient Business Models (REBMs) can:

- be more profitable than the linear alternative. Only if the business case is prioritised and well-resourced and focused at the most relevant audience;
- make best use of the experience economy, through moving away from ownership and towards utilisation, service and leasing models;
- extend the customer lifecycle through leasing and trade-in models; and
- incentivise either durability or design for disassembly, depending on the type of product and sector.

Above all else, the most important learning from the project is to:

- **Find a clear target market that acquires new customers, meets the needs of those new customers and aligns with the organisation's strategy.**

We saw the greatest successes where organisations achieved this fundamental aim.

SME common learnings

The most common learning points from all Small and Medium-Sized Enterprise (SME) projects were:

1. SMEs were able to implement more innovative business models than larger organisations and move quickly to pilot.
2. Medium sized organisations could influence the supply chain and were the most willing stakeholder to collaborate horizontally across the supply chain.
3. Very small organisations or start-ups focus was spread over such a diverse range of activities compared with larger organisations, and influenced, to a greater extent, by external factors. This led to a lack of resource or a complete set of skills to develop and implement new business models. The REBus team's support, expertise and experience proved essential for the REBMs to be piloted successfully.
4. Market data helps to prove (or refute) the existence and size of potential markets for the new business model. This can also result in focussing the REBM on a specific market, which given the lack of resource available for most SMEs greatly improves the likelihood of success.
5. High quality financial modelling provides organisations with the opportunity to explore the cash flow impact of alternative REBM propositions and focus effort where it is likely to be most fruitful. If the organisation needs to raise external finance then a robust

financial model will be required to help articulate the financial benefits to a potential investor.

6. SMEs must often identify and develop robust relationships with suppliers and service partners because they often lack the capability to deliver all the operations required by the new business model.

Larger organisations learnings

The most common learning points from all larger organisations' projects were:

1. Organisations need clear and compelling external market data and case studies to prove the customer market demand and scale of appetite for the new model.
2. In order to embed change within a large organisation, it is critical to engage with the right level of influence, both in terms of who is accountable for that change and ensuring that the budget holder also has buy-in and sign off for the business case.
3. An internal champion is required to take the initial steps to help align business opportunity and commercial interest and should be duly rewarded to successfully replicate the project with other REBMs.
4. The business model must align with the organisation's business strategy. Many colleagues must be persuaded to support the project and strategic alignment can help with this task.
5. Financial modelling is critical to demonstrate the new business model's profitability is significantly better than the existing business models. Large organisations, used to evaluating traditional product sales models with relatively quick pay-back periods, need to understand the potential increased long term attractiveness of REBMs in order to stimulate willingness to think differently.
6. Large organisations often have the necessary skills, expertise and capabilities to develop a new business model themselves, but lack the prioritisation to attempt this process without an external stimulus. The culture within a large organisation can often produce employees who are incentivised at doing their day-to-day job, but not incentivised to try undertaking business activities in a different way.
7. Once an organisation or procurement team have piloted a specific REBM it is essential to embed the learning into senior management decision making, strategy development and organisational processes to replicate innovative REBMs internally within the organisation.
8. Some organisations looked beyond solely the financial element of the business model to include social and/or environmental KPIs into the trial. This demonstrated the alignment of circular business models into sustainability or social responsibility strategy.



Introduction

Introduction

This report summarises learnings developed from the EU LIFE+ funded REBus project (REBus). WRAP led the REBus project team with the following partners: Aldersgate Group, Rijkswaterstaat, University of Northampton and KTN.

REBus delivered “resource efficient business models” (REBMs) with a range of companies and organisations in the UK, primarily in the Clothing and Electrical and Electronic Equipment (EEE) sectors. Our focus was to actively test and pilot a range of business models.

“The support that IKEA received from WRAP with our Textiles Take Back Pilot was invaluable. Their commitment from initial contact, at the workshop stage and through to the launch of the pilot was both professional and insightful.

Through the REBus pilot we have been able to facilitate the return of textiles to our stores and are looking to the future to take product back into the supply chain with the aim to make these into new products, thereby supporting our aspirations to create a circular economy.”

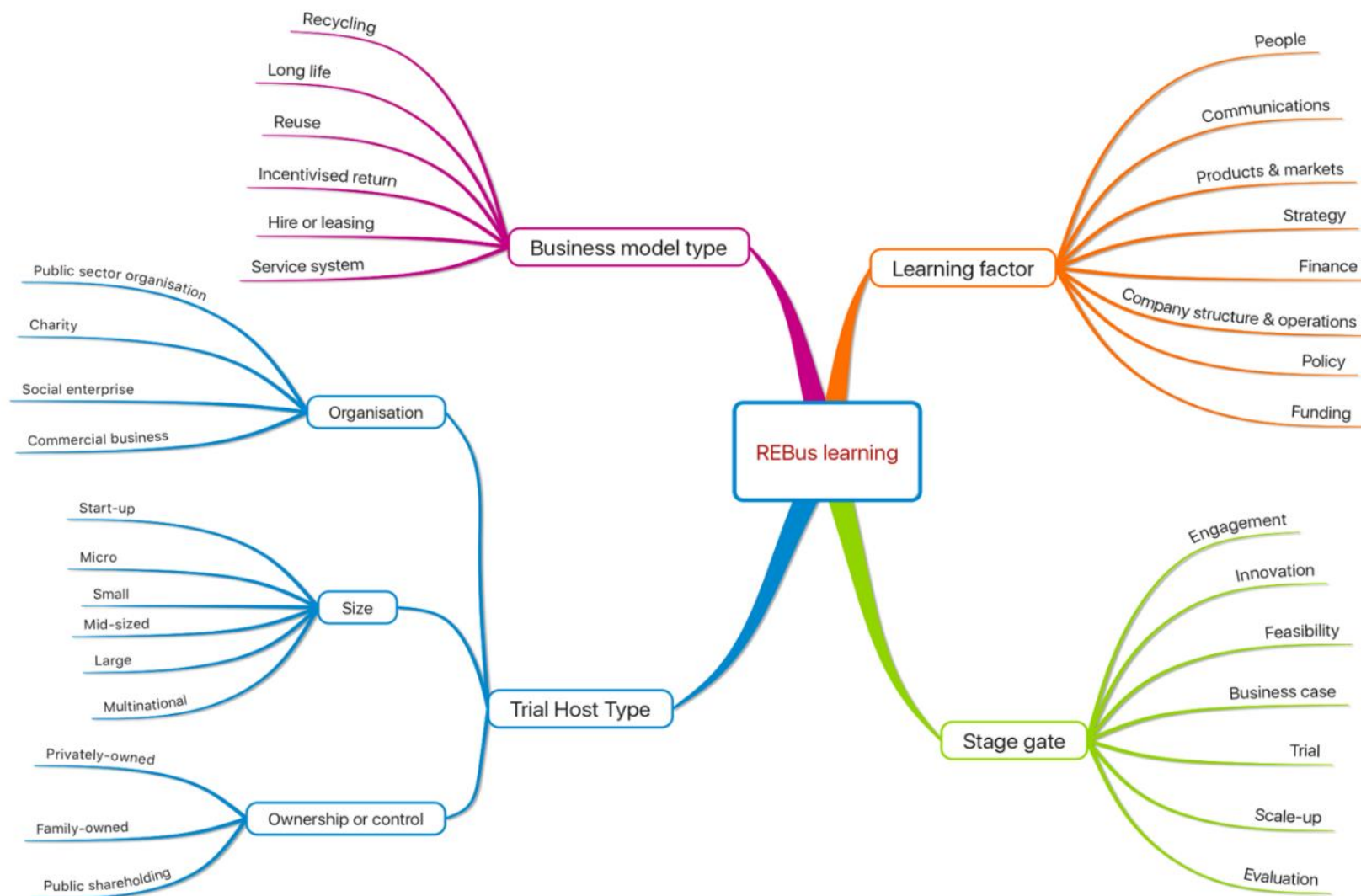
Lynn Maxwell, Sustainability Developer, IKEA Ltd

The Life+ REBus project worked across a portfolio of organisations, products and business model type. (See figure 1 overleaf)

The project successfully engaged and developed REBM business model concepts with 35 organisations, leading 19 of those organisations to trial the model (as of June 2017). This report refers to all these organisations as “Trial Hosts”, although not all Trial Hosts were able to progress to a physical trial of their business model within the timescale of this work.

REBus ran a “pipeline and funnel” process to engage with companies and persuade them to embark on a business model development project. This means that some Trial Hosts naturally dropped out of the project as it progressed. There are a variety of reasons for this. Either the business model was determined to be unviable or other constraints prevented the trial from progressing (for example, lack of resource or finance to undertake a trial).

Figure 1: Range of categories against which learning was recorded



Trial Hosts were guided through a structured “Stage Gate” process by REBus experts, as described in the diagram below:

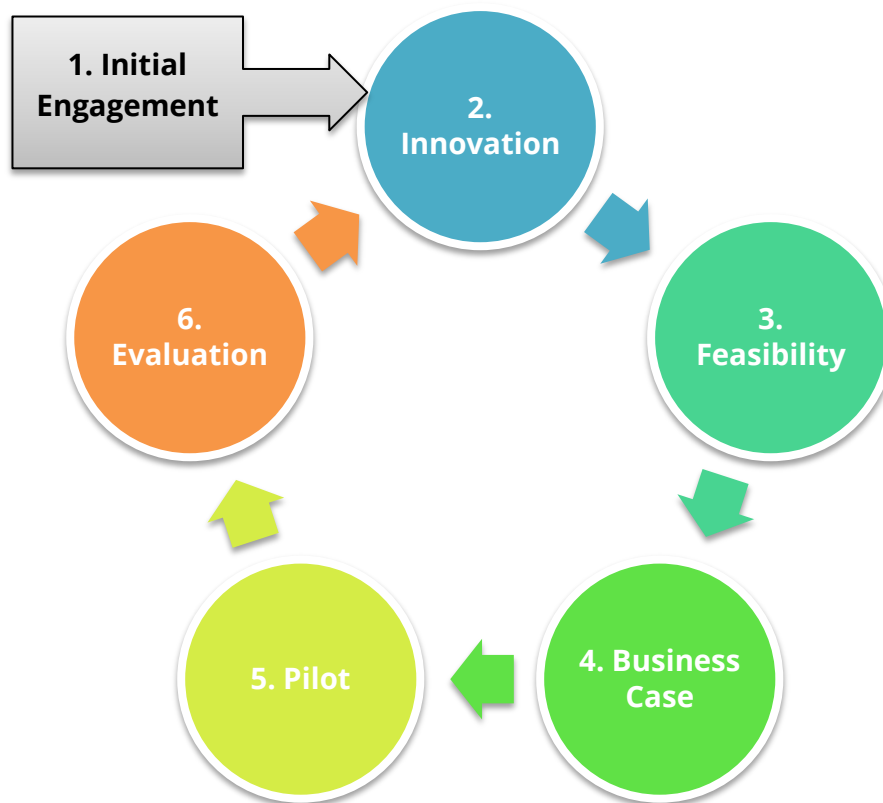


Figure 2: Stage-gates in the REBus project used for each Trial Host

The background of the slide is a solid blue color. It features two large, light blue curved arrows. One arrow starts from the left edge, curves upwards and to the right, pointing towards the top right corner. The other arrow starts from the bottom left edge, curves upwards and to the right, pointing towards the bottom right corner. These arrows frame the central text.

Initial engagement

Stage objective:

- Identify a champion and sponsor and gain commitment to the project

Initial Engagement

Developing the pitch for investigating REBMs

Many organisations were interested in the concept of “circular economy” and resource efficiency, having heard about it from industry leaders (see quotes below). However, most organisations were often unsure where to start, what these terms meant to them personally and as an organisation or whether developing a new business model was a realistic idea.

¹

“We’re losing sales because people don’t want to buy more stuff.”

Lord Howard, NEXT

In order to quickly engage relevant stakeholders, we sought to define REBMs within the context of the business and its environment. This was undertaken through using a raft of examples (e.g. Existing REBus case studies; Bandvulc, Uber and CEX) and highlighting the fit with current trends like the experience economy.

²

“In the West we have probably hit peak stuff.”

Steven Howard, IKEA

Most organisations cited that transformational projects had a 12-18month lead-in time to identify:

- available resource to dedicate to projects;
- required expertise to develop, assess and deliver new business models;
- market information to prove appetite for a new business model; and
- capabilities to implement the operating model that a new business model would need.

The quote below highlights how the REBus pitch needed to be undertaken at the right time for an organisation. Ideally when the existing strategy or overarching business plan is being reviewed for the coming years, REBus would be able to feed into the organisation’s strategic direction.

“The frustration was that we were ready to go with support from the REBus team, but we required an initial business case to prioritise the project over existing commitments.”

Champion, large retailer

¹ <https://www.standard.co.uk/business/business-news/next-boss-we-re-losing-sales-because-people-don-t-want-to-buy-more-stuff-a3497441.html>

² <https://www.theguardian.com/business/2016/jan/18/weve-hit-peak-home-furnishings-says-ikea-boss-consumerism>

Identifying champions and sponsors

From the outset, we focused on identifying two key people in each project: a 'champion' and a 'sponsor'. The champion and sponsor were sometimes the same person, especially in smaller organisations.

The champion is someone who will ensure that the project is driven to completion within the organisation. They typically have a personal commitment or interest in the project. The champion will network within organisations to identify and secure support and resource for the project. The REBus team often worked closely with the champion to gain buy-in from across the organisation and identify a sponsor.

The sponsor is the senior manager who supports the aims of the work. They ensure that the project satisfies organisation aims and strategy, prioritises the project and secures resource for supporting it.


"Make sure you sell the vision at all levels in the business – not just at senior management level. Everyone has both operational and departmental objectives to meet, so buy-in is critical in order to support an additional project. Also, use the REBus expertise for the areas in which you don't already have knowledge."

Charles Symonds, Business Improvement Manager, Stannah



Innovation

Stage objectives:

- A summary of the proposed business models, with justification for selection or elimination of ideas.
 - An innovation workshop with relevant roles to identify up to three business models for specific products/services.
 - An initial “proposition” document, explaining the proposed business model as clearly as initial information allows.
- 

Innovation

The workshop

The innovation stage focused around an innovation workshop attended by a range of people and functions from across the organisation. Attendees ranged from 5 to 22 individuals. Some organisations chose to bring supply chain partners into the workshop.

What is the right business model?

Innovation should be an open process and consider a healthy range of alternative options. We used a business model “map” to describe a range of model types with case studies, so Trial Hosts could work out which steps made sense and which were currently unrealistic. Organisations generally highlighted at least 3 models to take forward, and staggered the business model process to undertake learnings from the REBus team and then replicate the process for a second business model. Some large organisations chose 3 models; a transformational model, an intermediate model and a model closer to existing business.



Figure 1: Business model map used with Trial Hosts to explore options

We had greater success where Trial Hosts were able to narrow the scope of business models to consider, for example; key products, key segments, risk mitigation, an overview of what projects were already underway and relevant data.

“I had always been keen on the idea of a hire wear offering a complementary service. We had lots of enquiries but nowhere offered hire wear to match the quality of their suit. WRAP introduced me to the idea of longevity, which made me think about a complementary service as a bespoke business model.”

Alexandra Wood, Managing Director, Alexandra Wood Tailors

The first assessment of innovation ideas is usually subjective and intuitive. Organisations complete a rapid review of each model against their existing functional capabilities to identify which “fit” best with existing strengths. For example, manufacturers were often able to quickly develop repair, refurbishment and remanufacturing capacity in their companies. Retailers therefore identified a gap that must be filled in later stages of the project.

Some manufacturers needed to create a “channel” to their new market. For example, they had some experience in working with a distributor or retailer, but wanted to access a new market that either needed a direct approach or a new distribution arrangement.

Project management and structure

With larger organisations, the innovation stage often found many new opportunities and possibilities. These would have implications for many departments across the company but were likely to be highly beneficial. Where capacity could cope, these organisations implemented several business models in parallel or as a staggered/phased approach, taking the learning from REBus in the first instance to develop capability.

What evidence is there for this business model working?

Research external sources to find evidence of the model you’re developing. Many of the REBus Trial Hosts saw the replicability of REBMs in other sectors (e.g. Bandvulc). Champions found that by citing other organisations and charities working in this area, proved a key driver to gaining support from senior management.

WRAP generated strong evidence on consumer market appetite for certain business models (such as an incentivised trade-in) and the value of products. This helped to persuade Trial Hosts that a large and willing market was real.



Feasibility

Stage objectives:

- A decision to focus on one business model as the most promising candidate.
- If required, undertake market, consumer, and product research to highlight the feasibility of the proposed model.
- An updated and agreed proposition for a business model, with customer journey, operating model, research findings and outline financial case included.
- A project plan (agreed with the sponsor) for the business case assessment phase including;
 - list of stakeholders and suppliers who will participate in the study, and the expectations of what they will provide;
 - timescales for the business case stage; and
 - criteria by which the business case will be assessed (e.g. investment criteria).

Feasibility

Gathering market data

“REBus assistance with market research was invaluable. The financials were really useful to enable me to understand costs, utilisation rate and the feasibility of taking on the new shop.”

Alexandra Wood, Managing Director, Alexandra Wood Tailors

“One of the main drivers was increasing our engagement with existing and then new customers, being a one stop shop for their commercial needs and adding to our existing portfolio. The more services of this nature we develop the greater the value we have as a service supplier to our clients. It keeps Premier unique in the market place.”

Ann Beavis, Marketing Consultant, Premier Workplace Services

Thorough market research should identify the potential opportunity for the business. In particular, it will identify where the proposed concept is weak or where there is already an existing marketplace that the Trial Host had not previously spotted. Either of these cases can result in radical change for the project. If the market data shows the model is unattractive to customers, the host should consider returning to other ideas developed during the innovation stage. If there is an existing vibrant market, the host must consider whether and how to enter it.

Identifying potential partnerships

Some business models created a need for a service or capability that the Trial Host didn't supply or have, for example, the ability to repair or refurbish products. The Trial Host has three choices in these cases:

1. Abandon the idea.
2. Create internal capability and capacity.
3. Source a partner to provide the capability and capacity.

Most projects identified suppliers of services that the Trial Host could use. Some Trial Hosts carried out procurement competitions. Several chose a supplier with whom they developed a clear dialogue and good relationship.

The relationship with the service supplier is critical. Together, the service supplier and Trial Host can successfully deliver the new business model to market. Limited options for suppliers increase the risk of slowing or stopping the project.



Business case

Business Case

The business case phase regularly highlighted financial, consumer and wider benefits beyond the initial forecast. Either the REBus team or champion tended to present updates and overviews regularly to senior management teams in large organisations.

Keeping momentum

"It was great to have a fresh pair of eyes to help with the business model, market research and financials. I would recommend companies talking to WRAP as experts and also talk to your customers."

Patrick O'Connell. Managing Director, Bandvulc

The business case requires data input from a wide variety of sources to develop a tool that can be used for future business model development. The champion is ideally placed to maintain interest and momentum on the project, as well as source data for the business case.

"The WRAP team have been fantastic. Without WRAP it would have been much harder to develop such a comprehensive case for the trial. It is possible that we may not even have reached the roll out phase."

Megan Kitchen, Environment and Ethical Affairs Manager, Argos

A common issue is that the project is not considered a main priority compared to "business as usual" activities. In these cases, the champion must ensure that colleagues understand the alignment with core business strategy and may need support from the sponsor to secure internal resource and effort.

Managing scope creep

Some organisations and individuals (especially entrepreneurs) can start to stretch the scope of the project beyond the initial business model.

Some changes to the project are beneficial, for example if the original proposition needs improving to target a specific market. However, other changes can become a distraction and can jeopardise the main project.

Create a detailed financial model for the proposition

A financial model should include all elements of the proposed business model, including:

- Costs, including:
 - Investment costs for new equipment (and any debt costs).
 - Fixed costs that will apply to the new opportunity.
 - Variable costs:
 - that the new model will create; and
 - that will apply to the new model due to regular operations.
 - Service charges from internal departments or supply partners.
 - Marketing the new offer.
- Income streams, which are usually payments from customers for the new product or service.
- Value adjustment – for example some items may have a lower value than anticipated or may be lost. The model should accommodate this issue and have good estimates for value loss.

The model should cover two elements; the financial model for the trial and the financial model for a scaled-up business model (over a region or nation as appropriate).

Certain costs will differ on a trial scale and income expectations will naturally be lower for an initial trial. However, the value in modelling the trial stage is to provide comfort in the assumptions and estimates that will then be applied to the full-scale model.

The full-scale model should plan for a gradual increase in business to ensure expectations are realistic.

Some small organisations progressed to trial stage without a financial model. This is possible in certain cases where the material costs of products is low compared with the proposed charges to customers and the risks of a trial are low (for example, where products could easily be sold through an existing traditional channel if the trial is unsuccessful.)

We recommend creating a financial model, even if it is simple and provides only a break-even analysis.

Channel to market: have courage

Businesses can become hesitant when a new business model proposes a new channel to market because they are naturally comfortable with the routes they already use. Changing market channel may require market knowledge that does not exist in the organisation.

In certain cases, this nervousness about market channel meant companies stuck with trying the new business model in an existing or low-risk channel when market and/or consumer information suggested greater benefits in trialling new channels.

In our experience, better business models can only grow from better and more intimate relationships with the customer. It can be challenging to access the new target channels. A way

around this is to trial the new model in certain sections of the business, run a “white label” operation (where a 3rd party operates the model on your behalf) or run through indirect routes to the target channel.

Assumptions for the business case

We experienced overambitious assumptions from some trial hosts. The detailed financial model helped to critique those assumptions (“what’s the basis for that assumption?”) and scope research required to assess the likely success of a trial or scaled-up model.

Keeping focus on resource efficiency

It’s important to engage with commercial teams but also essential to maintain the focus on the resource efficient element of the business model. Remember that many commercial teams have a personal financial incentive to sell more (physical) product, and therefore have a motivation to use a new model to increase product sales.

It may also happen that the model being developed is not highly resource-efficient. Incentivised return is an example of this: the business model saves resource only when the reused product displaces the purchase of a new one. It is essential to monitor displacement through customer surveys.

Value creation is vital

We observed a wide range of understanding when it came to value creation. Some companies instantly understood the concept – and how it’s vital to the new business model – where others struggled to work out how to create new value then access it.

Specific issues arose with social enterprises, where they perceived a social benefit value that other people did not (especially customers). There are cases where all members of the supply chain are aligned in their view of social value. Where they are not, financial value is the priority to demonstrating the case for a new business model.

Secondary market value of products underpins many financial business cases. We experienced examples where there was a misunderstanding of real used product values:

1. Cases where real values were lower than expected, meaning there was not enough value to make the model profitable at any scale.
2. Cases where the real values were higher than expected, meaning the model may be much more successful than expected but that customers would want a share of that value.
3. Cases where the supplier was a manufacturer who could generate more value (e.g. from components) than the market could from whole products.

We observed examples where recaptured product value created significantly more profit and were resilient to competitors' attempts to undercut pricing with temporary marketing promotions.

Be clear on what a trial will demonstrate and how you will measure trial performance.

The purpose of the trial is not to generate a profit for the organisation. It is to prove certain concepts and test certain parameters for the proposed business model. This information, in turn, informs a more accurate financial model to be developed to assess the profitability of a scaled-up business model.

It is easy for commercial teams to lose sight of this principle and therefore trial hosts were asked to develop Key Performance Indicators (KPIs) by which the trial would be assessed. Agreeing these KPIs with the project sponsor and communicating these KPIs to the wider team is important.

Do not limit KPIs to simple measures, such as increase in sales, reduction in costs or increase in profit. The new business model may support wider business growth aims, access new customer markets that were previously out of reach, and differentiate your offer by improving relationships with customers.

It is useful to access independent experts to advise on suitable KPIs and how to measure softer benefits in any trial.



Pilot

Pilot

Trialling the model in a real-world context is the only way to gather meaningful data, test assumptions in the business case, consumer communications and test supply partnerships. If there are delays in launching the whole model trial, see where you can test elements of the system independently to make sure they are going to work.

For example, one reverse-logistics trial was tested using empty envelopes instead of test product. This helped to identify where products may go missing, get lost or whether all envelopes were successfully received at their destination.

Some trial hosts waited to deliver the “perfect trial”. Our experience of projects showed that most trials produce beneficial information. Stakeholders must be kept aware of the purpose of each trial to make sure they do not mistakenly expect other outputs from it.

Measuring trial KPIs and gathering learning

Measuring performance needs a positive and proactive effort on the part of the trial host. Using independent experts can facilitate this process, since they are not perceived to have vested interests in the outcome of the work.

Culture in the trial host influences the way a trial is started, operated and measured. Some organisations had a culture that “failure is not an option.” This puts extreme pressure on the team implementing the trial and can influence decisions to focus on short-term gain rather than bigger-picture benefits. Learning tended to be edited to focus on successful points rather than areas where problems or failures occurred.

Improving the trial in incremental steps

Trials can be improved as they are delivered. Changes to improve efficiency, communication, operations and quality of service to the customer can be identified and implemented quickly. We observed positive outcomes where trial hosts were flexible and adapted their trials.

Be prepared to flex the pricing of the offer to measure how customer interest changes with price. Some trial hosts did not experiment with pricing and therefore severely limited their understanding of the potential market. Remember, the trial should not focus exclusively on making a profit.



Evaluation

Evaluation

Organisations should continue to evaluate the performance of the business model. This assessment is likely to broadly follow the criteria and KPIs set for the original pilot but will now also include more company-wide metrics.

We recommend that organisations accurately and separately analyse the profitability of the business model. The reasons for this are:

- To continue to justify the operation in performance terms against conventional promotions and business models – both from within the company and from competitors.
- To demonstrate the level of profitability that circular business models deliver – to support the case for developing further opportunities and models with even greater circularity.

By this stage in a project, it is likely that many of the original stakeholders engaged in the innovation, feasibility and even trial stages have progressed to other roles in the company. There are two priorities to manage in this case:

1. Ensuring that new colleagues understand the basis for the business model and continue to support it.
2. To report success to the original team to stimulate similar circular developments in their new teams.



Conclusion

Conclusion

Going through business model change can be rewarding to both the organisation and to the individuals involved.

The Institute for Manufacturing at Cambridge University have highlighted that only 20% of transformational projects are successful. The REBus methodology has demonstrated that it is possible to double that success rate.

“This project undertook new business development in its original definition, before the recession, as long-term strategy development and change management. These skills are essential to our business, but are being forgotten in place of shorter-term thinking and new product development.”

Operations Manager

Businesses continually highlighted the benefits of longer term thinking and development of business models based around customer needs. We can already start to see organisations looking to develop the next business model, using the skills developed through the REBus project.

Our partners Rijkswaterstaat have shown how cities and procurers are also embracing circular procurement and creating route maps to a circular economy³. The next step for WRAP is to bring together key elements of supply and demand side models with technical expertise around closing the material loop. We will continue to work both 1-2-1 and collaboratively through our voluntary agreements such as the [Electrical Sustainability Action Plan \(esap 2025\)](#) and the [Sustainable](#) and [European Clothing Action Plans](#) (SCAP, ECAP) to develop a circular economy.

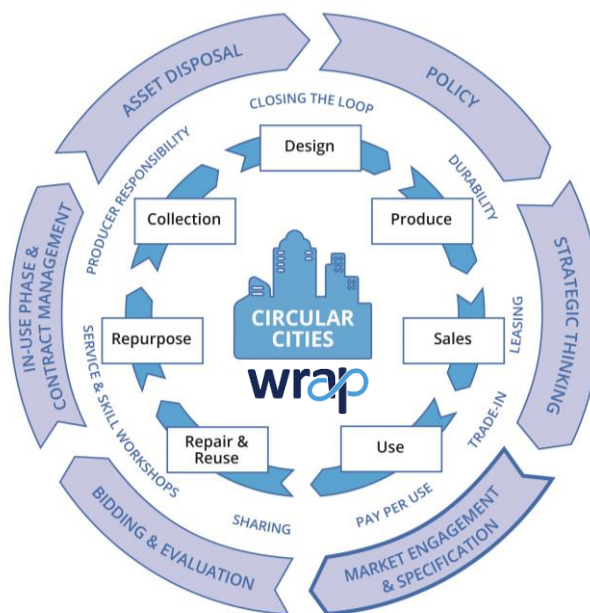


Figure 4: WRAP's Future Business Model strategy

³ <http://www.lwarb.gov.uk/what-we-do/circular-london/>



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