

Circular Economy for Sales & Finance

strategy & profitability
calculations





Part I

Circular Economy (CE) basics

Why Circular Economy

Consumer trends

Legislation

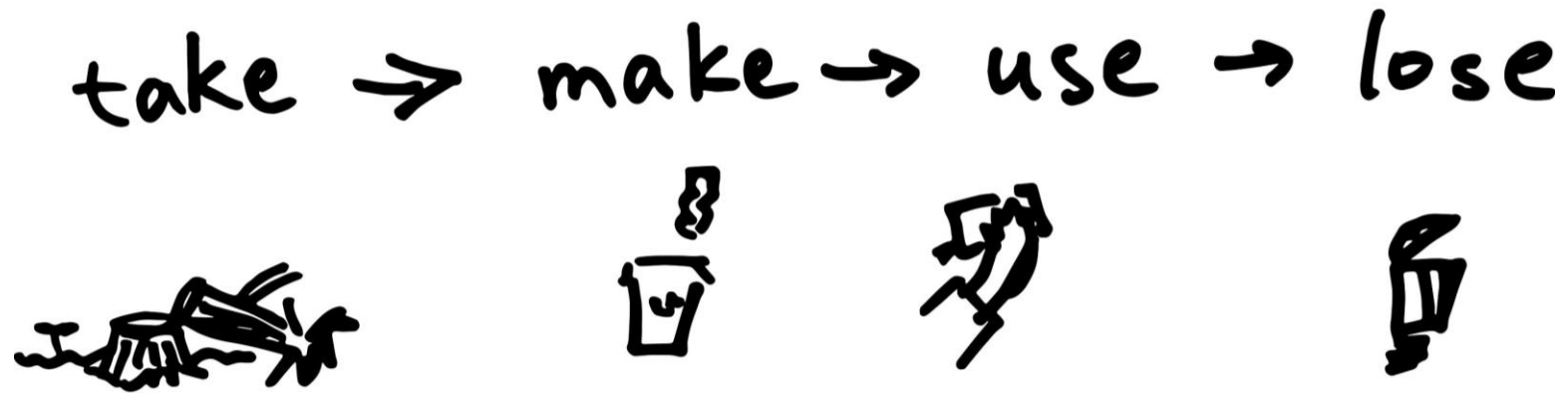
Ethical standpoint:
expectation from
investors, customers,
and supply chain

Planet resources
pressure & limited
resources

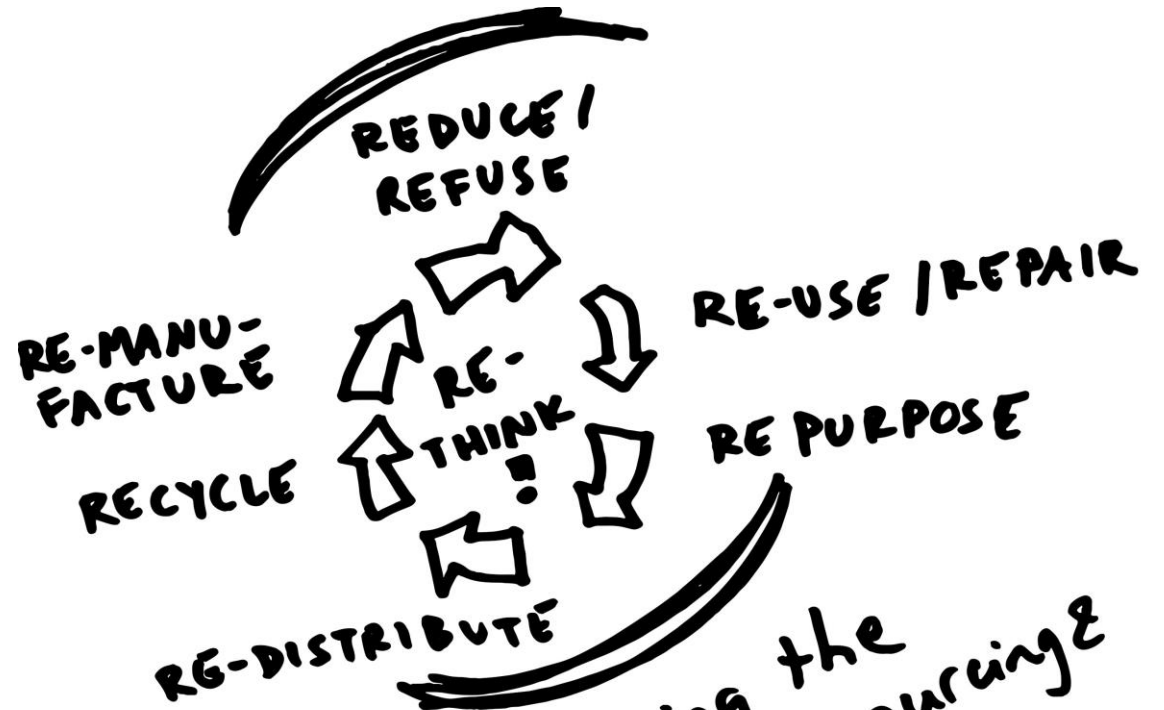
Financial benefit

Circular Economy (CE) basics

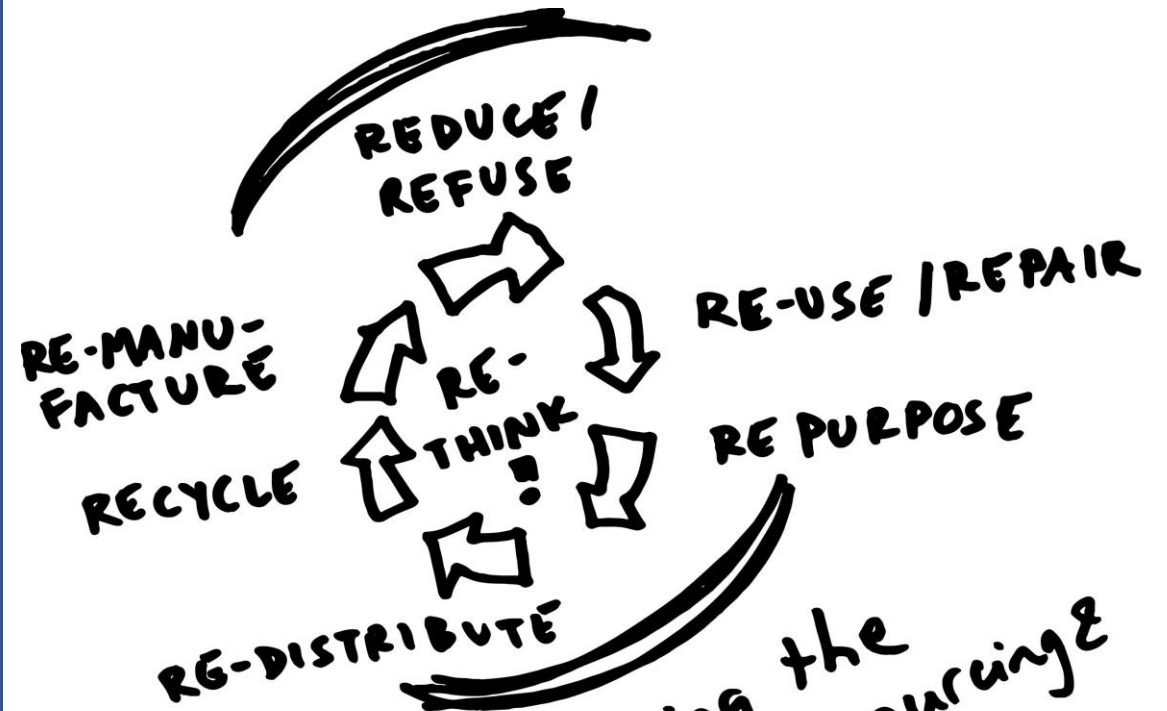
- How is CE different from Linear Economy?



take → make → use → lose



Blurring the line of resourcing & consuming



Blurring the
line of resourcing &
consuming

Circular Economy (CE) basics

- Routes from linear to circular
 1. Adding a new CE product
 2. Replacing a linear product with CE product/service
 3. Service-only organisations in CE: modifications

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Example: Services to help with
product life extension

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Whilst the services industry will increase its share of the market in a circular economy →

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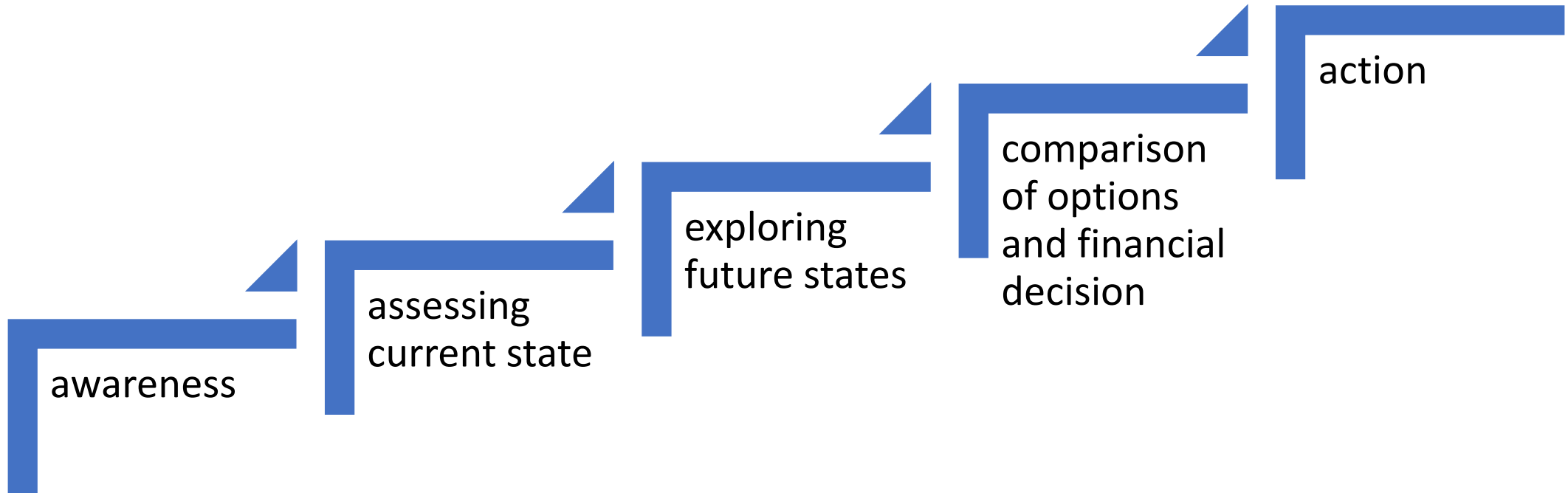
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Example: Services to help with product life extension

Whilst the services industry will increase its share of the market in a circular economy →

... a lot of focus will be on product-based organisations due to their direct impact on the environment

Your CE roadmap





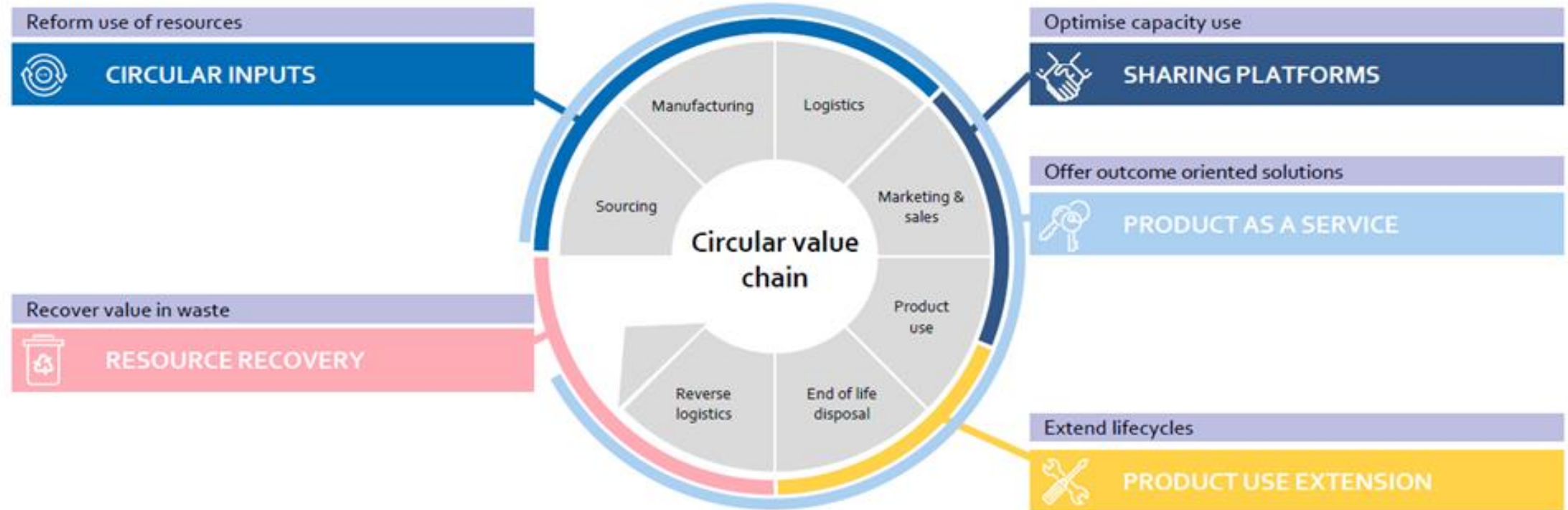
How to decide if,
when, how to
change?



Part II

**Demonstration of a circular
economy project financials**

Circular business models address inefficiencies and waste streams and turn them into opportunities

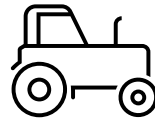
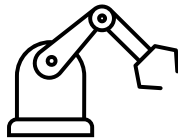


Case study: Equipment rental

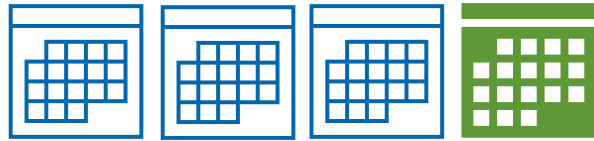
Circular Business model:

Product Use Extension

- by repairing and maintaining with the IoT software



Summary of the case



Business driver

Product Life extension

From 3 to 4 years

and increased performance

Maintain, Repair, Upgrade

Investment requirement

CapEx:
IoT
software



Impact on Revenue:

- 1 year extra revenue
- Decreased downtime during all life
- On the other hand: Decreased availability due to scheduled maintenance



Decreased costs

- Repair costs
- Agreement penalties

3 simple steps for preparing a financial feasibility study

01

BASICS:

Define the timeframe for the calculation

What is the required rate of return?

For the long term projects use the discounted free cash flow methodology to calculate the profitability.

02

Estimate the investment needs

03

Define the financial impacts of an idea on incomes and costs, also working capital

HOW? HINT:
Make 2 scenarios:
before and after

Then create a margin calculation

Review profitability



Profitability Analysis according to DFCF methodology – indicators:

- $NPV > 0$
- $IRR > \text{the discount rate}$
- $MIRR > \text{the discount rate}$
- Payback – the shorter the better
- Profitability index > 1

Sensitivity Analysis – what if a parameter is changing +/- 10%, 20% etc.

Review Financial statements

→ **How to finance**

Profitability comparison – *before* (the investment), *after* and *the marginal effect*

PROFITABILITY COMPARISON						
Figures	1 000 USD	1 000 USD	1 000 USD			
Project description	Equipment rental 3 y	Equipment rental 4 y	Marginal effect calculation			
Nominal value of all investments	2 500	3 000	500			
Required rate of return	10,00%	10,00%	10,00%			
Calculation term (years)	3,0	4,0	4,0			
Calculation term	1/2021 - 12/2023	1/2021 - 12/2024	1/2021 - 12/2024			
Calculation point	1/2021	1/2021	1/2021			
Interval length (months)	12	12	12			
PV of operative cash flow	3 233	4 254	1 022			
PV of residual value	0	0	0			
Present value of business cash flows	3 233	4 254	1 022			
Present value of reinvestments	0	0	0			
Total Present Value (PV)	3 233	4 254	1 022			
Proposed investments in assets	-2 500	-3 000	-500			
Investment subventions	0	0	0			
Investment proposal	-2 500	-3 000	-500			
Net Present Value (NPV)	733	1 254	522			
NPV as a monthly annuity	23	32	13			
Internal Rate of Return (IRR)	25,94 %	28,43 %	34,66 %			
Modified Internal Rate of Return (MIRR)	19,84 %	20,04 %	31,51 %			
Profitability Index (PI)	1,29	1,42	2,04			
Payback time, years	2,3	2,6	3,4			
Return on net assets (RONA), %	72,79 %	37,15 %	-50,02 %			
Value Added (VA)	342	475	218			
Discounted Value Added (DCVA)	836	1 378	542			
Internal Rate of Return based on DCVA (IRRd)			-			
Modified Internal Rate of Return based on DCVA (MIRRd)			-			
Payback time, years, based on DCVA	0,0	0,0	3,3			



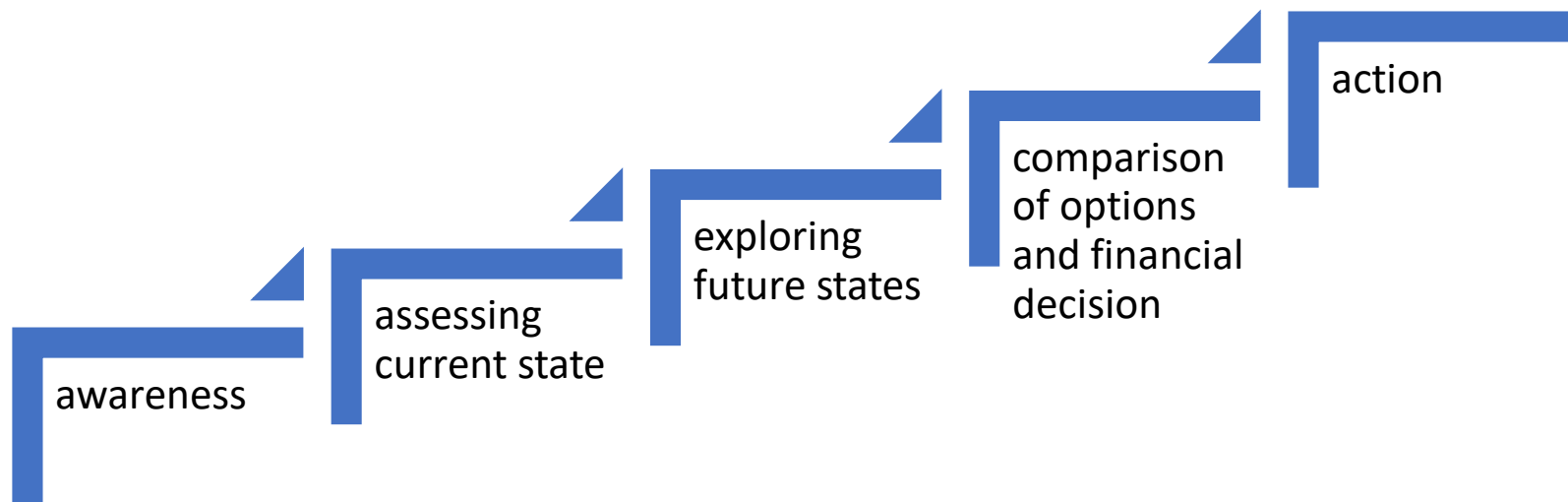
It is the marginal effect that we look for, in this type of calculations.



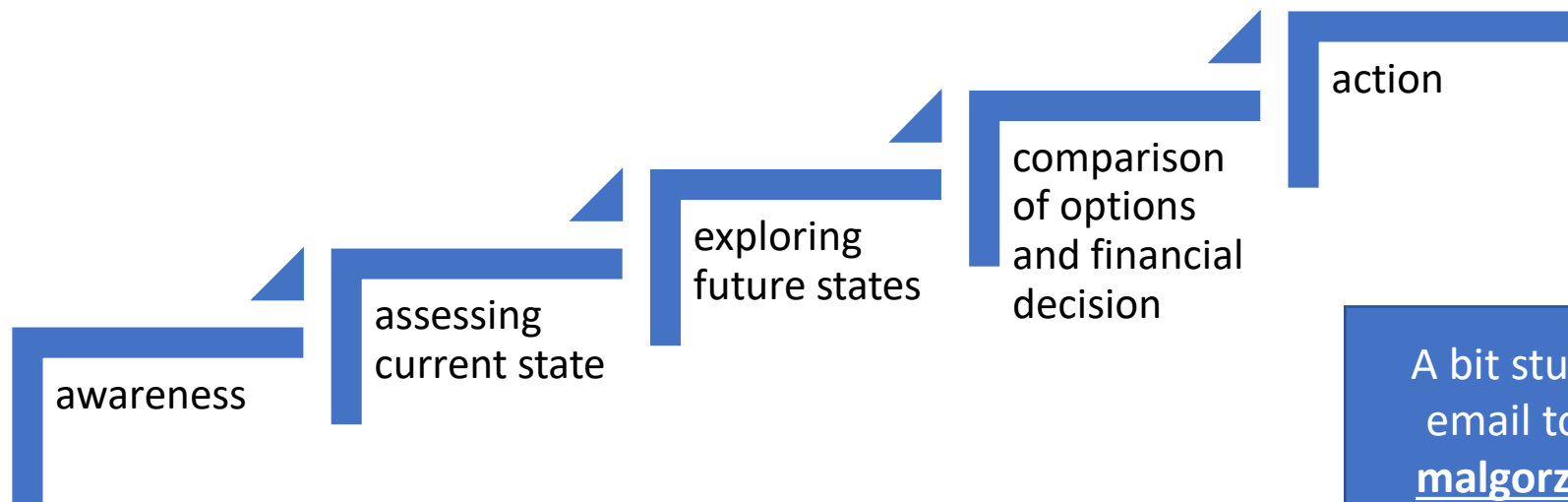
Part III

What should I do next?

Your next actions



Your next actions



A bit stuck where to start? Send us an email to tuuli.bell@tuulibell.com or malgorzata.jargan@datapartner.fi to receive 10% OFF our 3 hour executive circularity workshop

Thank you!

Circular Economy for Sales & Finance

Brought to you by Tuuli Bell Ltd
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