EaaS

VIRTUAL DIALOG SERIES 02

Servitisation for a green transition: Practitioners' perspective on circular economy

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Questions from participants

Moderators:

- Arno Nijrolder, Business Analyst Sustainable Energy at **EIT InnoEnergy**
- Dimitris Karamitsos, Senior Energy Efficient Business Developer at **BASE**
- Mira Tayah, Expert Circular Economy at **AGORIA**

Speakers:

- Manuel Braun, Project Director at **Systemiq**
- Alberto González-Salas, Partner Energy & Resources at **Deloitte**
- Jonas Hildebrandt, Business Development Director at **Danfoss**
- Dominiek Plancke, CEO of **ETAP Lighting**

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Questions for Manuel Braun:

1

One of the biggest challenges we have heard from manufacturers when adopting XaaS is that their financial performance is measured on how many products they sell. The sales teams are incentivised to sell products. Without changing the way financial performance is measured, XaaS seems very difficult to implement. How do businesses you have worked with measure their performance?

The difficulty here for many organisations is that is it not only about what kind of metrics to optimise for in a normal operating mode, but it's about entire organisational changes. Internal performance management systems in sales are often structured based entirely on volume. What we have observed is that:

- Companies who are able to build XaaS models successfully often take a mid to long term horizon perspective. XaaS models are quite revolutionary and are not build from one day to the next.
- It is a strategic decision: the XaaS may not necessarily be set to fully replace the current business model in the short term. It may first be developed for a specific growth segment / customer group to win in that customer segment. If successful, XaaS may mid to long term take a bigger part of the organisation.
- Many pioneers of these business models are family owned businesses as they often take a longer term perspective.
- Successfully implementing XaaS requires strong leadership.

The question about KPIs is in a way linked to how do you measure the circular economy. Categorising products between circular and non-circular products and setting up KPI targets for the sales department on circular products can help to bring them on board.

2

If companies go into a Circular Model, they start with designing their products in a eco-design mode. But how can they assure that their products come back to them, to make sure that the resources used in the original product can be used ageing. Or to make sure to refurbish the product?

Direct-to-Customer companies have an advantage as well es companies that have an "end product". If you are not selling to customer directly it will help to build a digital channel of communication. Plus, potentially a deposit model or buy-back scheme. If you are a component manufacturer, then you will likely integrate into partnerships.

3

What are your thoughts on the hybrid service business models in the furniture industry, which allow customers to lease products with the option to buy within a certain period? Do you believe is effective as a circular business model?

In practice a "buy-back-and-resale" model can be easier to build initially vs. an as-a-service model. I have also seen interesting models that combine XaaS with resale. In furniture, I see some developments in B2B particularly (platforms but also OEMs). And of course, especially for the high-quality products some really interesting resale model (e.g. USM haller).

Questions for Alberto González-Salas:

1

How does the EU plan to do significant water savings?

Water is critical not only in terms of circular economy. The European Parliament issues a rule in 2020 establishing the measures that Member States need to take in relation to the use of water. A differentiation is made with regards to household, agricultural and industrial use of water. As the situation related to water differs a lot from one country to another, the EU has not set restricted rules towards Member States on the use of water but has rather established guidelines and recommendations for Members States to develop their own rules. Essentially, water management strategies will be done by each individual Member State. There is also a lot of discussion at EU level around hydrogen technology, being perceived as the future of energy and essential for the transformation of many industrial processes. Hydrogen production requires water, and there is a difficulty with regards to aligning the reuse of water and the needs related with energy. This is still an ongoing debate.

2

Will EU impose their regulations to non-European producers? If you take SCIP DB, non-European producers of chips for example don't fill their obligations of transparency regarding critical raw material and as European customer of them, we have to fill their obligation.

EU product related regulations apply to all products that are on the EU market regardless of their origin. For products that are imported from outside the EU, the obligations of compliance must be fulfilled by the organisation that imports the products in the EU. The EU cannot impose its regulations outside of its borders to organisations that do not directly import products, material or component inside the EU market. It is up to the importer to make sure that the producer fulfils certain obligations.

Questions for Jonas Hildebrandt:

1

In Product take backs, what is your strategy around "reverse logistics"? are you building a parallel fulfilment network with refurbishment factory lines or partnering with authorized partners?

There are different approaches to this depending on the business we talk about. One could be building the network you mention (e.g. for mass products like radiator thermostats) WITH PARTNERS - while for others it might be easier as we speak about valuable component of smaller quantities and are able to afford a less standardized setup.

2

How does Danfoss consider the risks related to customer default as well as energy price risk vs pricing the product right to make it attractive for the customers?

For Danfoss this is about setting up the business model and the partner network/ecosystem right: customer default is a financial risk --> we work with finance experts | energy price --> we work with energy providers (securing energy prices long-term if needed).

3

Have you seen also customers working out a renting solution (in combination with financial partners), to make sure that the assets cannot be sold by the customers?

In our offering the equipment is not owned by our customer, so they are also not allowed to sell anything – I'd like to emphasize that "XaaS" goes far beyond leasing/renting as it includes value added services & performance guarantees.

4

How did you manage the financing part? Was this financed via balance sheet of Danfoss, or did you partner with external funders?

There are dozens of different models out there one can deploy (check out for example the EaaS guidelines / handbooks). Danfoss has so far been working with different external funders but remain flexible and open for other models as the servitization progresses.

5

Is your RaaS Solution offered only for supermarkets or are other buildings such as offices / schools/households potential customers too? Is RaaS available only in DK or other countries in EU?

Danfoss is active in different markets and evaluating where we are the right ones to offer "as a service" models - we have started with supermarkets but have other types of equipment in the pipeline. We are active in the EU Nordic Countries so far.

6

Aren't you stepping on your traditional installations partners?

Our traditional partners remain an as crucial partner in this model as before as we do not install ourselves and they perform a highly critical element of the offering

7

Is XaaS a territory for startups or corporates?

Yes, both. In the end the ecosystem (and the orchestration of it) provides the value, there is definitely space for start-ups to contribute and at the same time experienced industrial equipment providers have a role to play. Each business model needs to be assessed individually on who contributes what and why.

Questions for Dominiek Plancke:

1

How does the Dutch Road Authority accept refurbished solution? In the past, refurbished solutions were not allowed, only new products were!

ETAP focuses in interior lighting only, I cannot answer your specific question. However, in general we see that governmental authorities still adopt a public tendering approach that is not yet adapted to the circular economy. There's a desperate need for more "walk the talk" leadership.

2

Aren't you stepping on your traditional installations partners?

I fully recognize the issue you are addressing. For a lot of electrical installers this is a fundamental shift. They were typically the customers of a product supplier and now becoming a supplier of a (part) of a complete service. They are therefore fearing the loss of control. However, when you engage with them with a partnership mindset, more and more installers recognize the benefits for them.

3

Could you please clarify whether your market target is limited to Europe or if you have a global market in mind?

We offer our C-LaaS only to European customers.