

WHERE DOES USED EQUIPMENT SALES AND MANAGEMENT FIT IN THE CIRCULAR ECONOMY?

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“A circular economy is based on the principles of designing out waste and pollution, keeping products and materials in use, and regenerating natural systems.”

Ellen MacArthur Foundation

COP26 in Glasgow is promising to be the ultimate catalyst for addressing climate change; this is change that can no longer be achieved in isolation. It is not down to one country, one sector or one business to make a significant shift.

So where does capital asset management and used equipment sales fit into this?

What is a circular economy?

Capital asset management and sales have long been integral in creating what is becoming increasingly known as the circular economy. This is a framework of core principles, centered on eliminating waste and pollution, keeping products and materials in use and regenerating natural systems. It encompasses every aspect of business with the goal to ensure sustainability is achieved wherever possible by exploring the potential to re-use, re-purpose or re-cycle. Ultimately it seeks to de-couple the reliance on finite resources both at a consumer and business to business level.

Full understanding of assets is critical

Thinking this way has long been in the DNA of Hickman Shearer in what we do and how we do it. It is also becoming increasingly more important to many asset-rich organisations in building sustainable and resilient businesses. Bringing together digital technologies, a sustainable focused strategy in an asset-rich environment provides excellent opportunities for increased asset performance. One particular area is the extending of life or re-living capital assets.

Hidden advantages and benefits

In fact new evidence, published by the Ellen MacArthur Foundation, suggests that by adopting a circular economy strategy, businesses can in fact de-risk investments and drive superior risk-adjusted returns for investors and financial institutions.

To achieve this several of the core principles relate to what is being achieved in the capital asset management and used equipment sales environment. Take an example when an asset owner considers that an asset is no longer required for their operation. This simple action addresses one critical component of the circular economy highlighted by the Ellen MacArthur Foundation – ‘keep products and materials in use’. But this is really just passing it on - should a company also take the responsibility when buying an asset to acquire equipment that it can be re-lived and used again?



Why is adopting this thinking so important?

This route is already being demonstrated through more and more businesses adopting a circular economy thinking, which in turn is helping them reduce costs, increase revenues and manage risks.

Take the automotive sector, between 1949 and 2013 Renault have re-manufactured and re-lifed 25,370 engines, 15,930 gearboxes and 11,760 injection pumps at the Choisy-le-Roi plant near Paris. Or take Ivor Searle who actively promote and live to their statement of "Why buy re-conditioned when you can have re-manufactured?". Using their extensive expertise in this arena they reflect the ultimate form of recycling. With research showing that remanufacturing an engine can save 55kg of steel and 8.3kg of aluminium, plus reduce emissions of carbon dioxide by 565kg, carbon monoxide by 6.09kg, nitrogen dioxide by 1.01kg and sulphur dioxide by 3.985kg.*2

Remanufacturing an engine can save:

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8.3kg of aluminium

plus reduce emissions *2

How does used equipment sales fit this circular economy thinking?

This philosophy is reflected in the way we approach our used equipment sales for asset owners. Hickman Shearer's advice here is all about extending the life of assets through different channels and markets designed around maximising environmental and social metrics as well as financial goals. This aligns well with many asset-rich organisations where Corporate Social Responsibility policies often deliver extremely positive measurable results. Our methodology applies a series of 5 critical cascaded channels for each asset:

1. Transfer

Using our platform assets can be marketed across an organisation and transferred at market or book value maximizing its utility and life.

2. Refurbish and re-life

As assets reach end-of-life and reactive maintenance becomes more frequent and costly, capital assets can be re-built improving utility and extending life.

3. Sell

Represents an excellent opportunity to release cash back into a business from selling used assets.

Frequently a piece of equipment reaches the end of its usefulness for one operator, however through selling it either by negotiated sale or auction it provides an asset utility for another user. The result of which can mean that these become far more affordable for low-income buyers, especially for those in emerging countries.

4. Recycle

Rather than considering that when an asset is at end-of-life it is beyond its usefulness there are usually many elements that can be recycled. This could be all or some of the components, this deconstruction of an item is increasingly becoming appealing to many operators and recyclers.

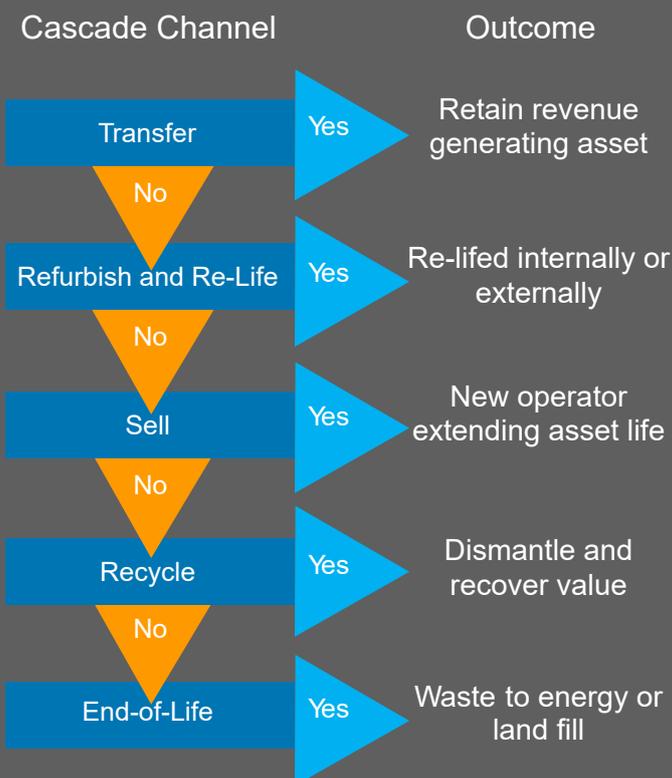
5. Landfill

The only end-of-life avenue left maybe landfill but ever-increasing waste-to-energy facilities are providing some benefit.

Adopting the circular economy supports organisations as they progress to improve both sustainability metrics and capital asset performance.



Circular Economy Methodology in Used Equipment Sales



Is it that simple?

One issue that deserves mentioning is asset obsolescence. Most capital assets will at some stage become obsolescent, as they are superseded by assets with improved performance either financial and/or physical. Some assets become obsolescent as a result of environmental performance that may be captured in regulation.

For example, consider older diesel generators or commercial ships – both burn fossil fuels and both are now affected by regulation in the UK by forcing operators to take practical steps – by installing exhaust scrubbing plant - to reduce emissions or face hefty emission based taxes. Hence, there is a strong argument that at mid-life these assets should be retrofitted to reduce emissions before considering any extension of life by asset transfer or sale.



"Capital asset sale and management services have a key role to play in enabling the circular economy, improving performance and reducing risk."

Tim Chapman

So where do you start?

No longer can any of this be ignored. The circular economy is important both financially and operationally to OEMs and asset owners if the manufacturing economy is to become resilient to climate change.

This is why the circular economy is at the heart of Hickman Shearer's DNA. In working with our clients, we maximise not only the financial return on used equipment, but also ensure environmental targets are met with action to measure and to deliver on environmental targets.



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SOURCES:

*1 <https://www.ellenmacarthurfoundation.org/news/circular-economy-risk-white-paper>

*2 <https://ivorsearle.co.uk/About/About-Ivor-Searle>

