



The Potential of Leasing as a Product Stewardship Strategy



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Rachael Wilkinson

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Leasing is a common business practice whereby consumers acquire the use of an asset from a lessor for a period of time in exchange for a regular lease payment¹. However, the contribution of leasing to an overall product stewardship strategy is often overlooked. Drawing on examples from different sectors, in this practice note, we explore the economic potential of leasing as a product stewardship strategy.

Although leasing has been around for many years, it is playing an increasingly important role in our rapidly changing world. Technological innovations, including but not limited to those built upon new digital platforms, are driving contemporary thinking and practices around leasing. As we will see, leasing as a product stewardship strategy not only offers consumers new options to make the best use of their time, space, and money, but also helps to drive improved environmental lifecycle outcomes for the tangible products involved.

Product stewardship is a policy and business approach that acknowledges those involved in designing, manufacturing, and selling products have a responsibility to ensure those products or materials are managed in a way that reduces their environmental and human health impacts, throughout the life-cycle and across the supply chain.

Product stewardship is also closely linked to circular economy, which entails gradually decoupling economic activity from the consumption of finite resources and designing waste out of the system. Underpinned by a transition to renewable energy sources, the circular economy model builds economic, natural, and social capital. It is based on three principles – design out waste and pollution, keep products and materials in use and regenerate natural systems².

In a leasing arrangement, both the supplier and the consumer are incentivised to take care of the product. In turn, the value of the leased asset is maximised through the subsequent extension of its useful life³. The return of the product at the end of its time with the consumer also affords the supplier an opportunity to recover value through the re-use, refurbishment and recycling of components

¹ Quirke (1996) in Wei Qian Roger Burritt, (2011), "[Lease and service for product lifecycle management: an accounting perspective](#)", International Journal of Accounting & Information Management, Vol. 19 Issue 3, p. 214 - 230

² '[Circular Economy Introduction](#)', The Ellen MacArthur Foundation

³ Wei Qian Roger Burritt, (2011), "[Lease and service for product lifecycle management: an accounting perspective](#)", International Journal of Accounting & Information Management, Vol. 19 Issue 3, p. 214 - 230

of the product and promoting circularity through giving it a meaningful second life where it may have been sent directly to landfill or otherwise processed with less efficiency. It also gives suppliers the opportunity to learn valuable information about consumer use, preferences, and product life through the leasing relationship.

In addition to environmental benefits, an increase in recoverable material value can reduce the cost of leasing to the advantage of both lessor and lessee⁴. Leasing can also prolong relationships with customers, support competitive advantage for businesses, and promote innovation through introducing partnership opportunities that are rarely present in single-sale interactions.

Thus, leasing can be an integral part of a holistic, circular approach to product stewardship. While leasing can result in smart solutions that meet market demand while driving better environmental outcomes, it is also important to keep in mind that on its own, leasing is not a silver bullet to the achievement of our environmental goals. It is a strategy that better lends itself to higher value products, however, whole of life factors and economic imperatives may also undermine the benefits in some cases.

Moreover, leasing can be challenging when considering consumer behaviour and preferences. Outright ownership is oftentimes more economical—or indeed, perceived to be more economical—when compared to the long-term lease of product. Personal and/or societal motivations around the desire to own may still lead to a product purchase.

Despite these challenges, when combined with strong leasing strategies, a circular economy approach to product stewardship can deliver benefits to businesses and consumers alike. In the remainder of this practice note, we demonstrate leasing as a product stewardship strategy in action.

⁴ Ibid

Philips HealthTech Lease

In recent years, Philips Healthcare has introduced the [leasing of health technology](#) into its core business strategy. The Philips HealthTech Leasing program offer healthcare facilities the opportunity to lease equipment under flexible financing arrangements. The program offers a range of tailored leases to match the individual healthcare delivery needs and cashflow restraints of customers⁵. This provides customers with the flexibility to deal with capital constraints and rapid changes in the healthcare market. It also increases both the accessibility to and affordability of innovative healthcare equipment.

Moreover, engaging with leasing, provides Philips with the opportunity to establish strategic, long-term relationships with its customers. These relationships enable the sharing of data and ideas which Philips can then use when adapting equipment. Thus, we see how leasing can catalyse and facilitate a cycle of continuous improvement and innovation. This also creates a competitive advantage for the brand through creating a new revenue stream built upon selling customers the performance of assets, rather than just the assets themselves⁶.

"Although many hospitals are still focused on owning new equipment, we are seeing a growing interest in leasing equipment, refurbished equipment and in service-based models."

- Nestor Coronado Palma, Philips Program Manager Circular Economy⁷

The Philips leasing model also leads to better stewardship outcomes for products. By retaining ownership of product, Philips gain greater control over life-cycle management. Products such as the AlluraClarity X-ray and EPIQ ultrasound platforms were designed so they could be sited as different value propositions throughout the life-cycle – this includes new, upgrade, and refurbished versions⁸. This is an expansion of thinking beyond the initial lifetime of a system to how it can move through different lifetimes for different markets and customers⁹ and is clear example of circular economy thinking in practice. Ultimately, keeping these products and materials in use longer can help to keep reduce landfill, maximise the lifespan of the materials used, and hopefully ultimately results in less new components needing to be made overall.

Although environmental and social benefits are a significant component of circular economy, it also represents a systemic shift that ultimately builds long-term resilience and generates business and economic opportunities. Philips have demonstrated this, using leasing to promote better life-cycle management and stewardship of product, while benefiting from new opportunities for innovation, partnership, resilience building and business development.

"For a sustainable world, the transition from a linear to a circular economy is essential" - Frans van Houten, Philips CEO and Chairman¹⁰

⁵ ['Healthtech Leases,' Philips](#)

⁶ ['Using the circular economy to improve the lives of 3 billion people,' DLL Group](#)

⁷ Ibid

⁸ Ibid

⁹ Ibid

¹⁰ ['Rethinking the future - Our transition towards a circular economy,' Philips](#)

Rolls-Royce Aircraft Engines

Rolls-Royce are one of the largest manufacturers of aircraft engines in the world. In 1989, they established Rolls-Royce & Partners Finance (RRPF) as a separate business, specialising in providing spare engines for aircraft on long-term operating leases¹¹. Initially, their purpose was to support airline customers purchasing Rolls-Royce spare engines with lease finance services, but they have since diversified to also include sale and leaseback finance for CFM, Pratt & Whitney and GE spare engines¹².

Rolls-Royce note that airlines lease aircrafts and engines for three core reasons. The first is that some big carriers look to replace their fleet every 12-15 years and therefore prefer to own half of their fleet and lease the other half to give them greater flexibility. This enables them to adjust lease duration and return aircraft and engines to lessors to compliment introduction of new replacement aircrafts and engines¹³. Secondly, leasing helps airlines to reduce the amount of capital in assets by providing them with a source of funding to finance their fleet while leaving their general bank facilities and overdrafts to fund day to day business¹⁴. Thirdly, airlines lease a proportion of their fleet to mitigate the risk of depreciation¹⁵.

Engines, in particular ,need special financing attention because they are the most technical part of the aircraft and represent the biggest dollar investment once the aircraft has been purchased¹⁶. As such, even specialist leasing companies tend not to look at engines as their core activity and will keep a low number of spare engines against the number of aircraft on their books¹⁷. Rolls-Royce on the other hand, see spare engines as core business, with around 400 on their books¹⁸. They note that an airline will need a spare engine for every five aircraft so that it can continue to fly during periods in which other engines are being overhauled¹⁹.

The RRPF leasing option can be integrated with Rolls-Royce *TotalCare ®*, a circular business model that aims to reduce waste and optimise resource efficiency, while enabling customers to maximise the flying potential of their engines²⁰. This provides Rolls-Royce with a means to close the loop on material usage – reducing waste, increasing efficiency, and enhancing the robustness of their supply chain²¹.

An interesting feature of this offering is that it is charged on a fixed dollar rate per flying hour. This means that Rolls Royce are only rewarded for engines that perform²². This focus on reliability is especially valuable in the aviation industry but could be successfully employed in other industries.

"Airline customers used to think it was important to own the equipment themselves, but now they see the wider benefits of leasing key equipment"

- Bobby Janagan, Rolls-Royce & Partners Finance General Manager²³

¹¹ 'About RRPF,' Rolls-Royce & Partners Finance

¹² Ibid

¹³ 'Rolls-Royce & Partners Finance,' Bobby Janagan, General Manager RRPF

¹⁴ Ibid

¹⁵ 'About RRPF,' Rolls-Royce & Partners Finance

¹⁶ Ibid

¹⁷ Ibid

¹⁸ Ibid

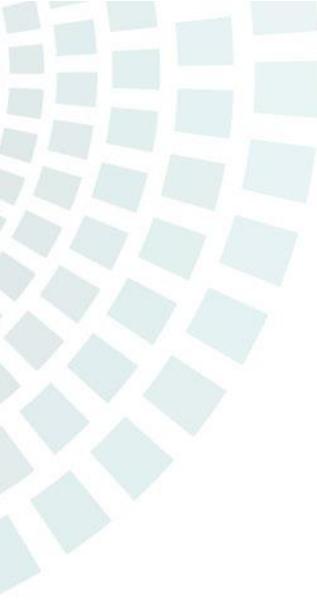
¹⁹ Ibid

²⁰ 'Power by the hour,' Rolls Royce

²¹ Ibid

²² Ibid

²³ 'Rolls-Royce & Partners Finance,' Bobby Janagan, General Manager RRPF



As in the Philips example, maintaining ownership of their equipment and the associated maintenance responsibilities means Rolls Royce can gather large amounts of data on their performance²⁴. This helps them to provide better service to customers through proactive maintenance, as well as support innovation through easy access to information.

Rolls Royce report that through TotalCare, they extend the service intervals between engine overhauls by around 25%²⁵. Moreover, by keeping engines flying for longer, there is less demand for new products and components that require complex materials that are expensive and resource intensive to manufacture²⁶. In addition to extending service intervals, Rolls Royce have been increasing the repairability of their individual engine components which further reduces the need to manufacture new and spare parts while also speeding up repairs²⁷.

These long-term service agreements give Rolls-Royce continued access to products and components that can be recycled when they reach the end of their serviceable life. They report that up to 95% of a used engine can be recovered and recycled, with around half of the materials recovered being of sufficient quality to safely remanufacture for use as new components, reducing the need to procure new raw materials²⁸.

Once again, we see how the circular economy in practice can help a business achieve both the economic and environmental sustainability goals. Rolls Royce benefit from the long-term business resilience and economic opportunities a circular leasing program delivers, while also improving environmental outcomes through better life-cycle management.

Given the strategic importance of leasing to financial and fleet risk management, the ongoing impact of the Covid-19 pandemic on the aviation industry is an area to watch with interest. While leasing may help some players to better manage (post-)pandemic investment risk, lessors such as Rolls-Royce may be challenged by an increasingly risky operating environment. The silver lining, however, is that in keeping their options flexible through leasing solutions and the ability to sell outright, Rolls-Royce are well placed to remain resilient in what is expected to be a challenging time.

²⁴ ['Power by the hour,' Rolls Royce](#)

²⁵ Ibid

²⁶ Ibid

²⁷ Ibid

²⁸ Ibid

Interface EverGreen Lease

Carpets are a key source of textile waste, which is an issue of growing environmental and policy issue around the world. Traditionally, carpets have had only two end of life options: landfill, or incineration. In the case of incineration, many have expressed concern about the emission of toxic air pollutants, particularly unregulated fine particulates and nanomaterials, and greenhouse gases when carpets are incinerated in waste to energy mass burn incinerators, cement kilns, or are otherwise used as fuel²⁹. In landfill, they create hazards through the impact of the breakdown of synthetic materials, which can leach chemicals into the environment.

As one way to address the environmental challenges facing the industry, US-based, global carpet company Interface introduced their [EverGreen Lease](#) program, which provides Australian schools with financial leasing options to upgrade to recyclable, Australian-made carpet tile flooring through a program which eliminates initial capital outlay and embraces responsible environmental stewardship³⁰. In addition to this Australian example, Interface is well-known internationally for their sustainable carpet tiles and programs.

Interface is an early adopter of circular thinking, with the founder having what he refers to as a “spear in the chest” moment in 1994, which changed his perspective on business and sustainability. This led to a commitment to aim to make Interface ‘the world’s first environmentally sustainable—and, ultimately, restorative—company³¹.

Since then, Interface have reported that through their programs, they have prevented 5.6 million kgs of post-consumer carpet from going into landfill around the world³². Interface create social and environmental value from used carpets through both reuse (using flooring again) and recycling (separating component materials to be used in new flooring)³³. Through embracing circularity and increasing the life-cycle of their product, Interface is working to reduce their environmental impacts. As a further demonstration of their commitments the brand has become carbon neutral, an accomplishment that has been verified by a third-party [accreditation process](#)³⁴.

Interface have proven themselves to be a market leader, signaling a shift in the paradigm from ‘*Take, Make and Waste*’ to ‘*Make, Use and Return*,’ closing the loop through taking more responsibility for the stewardship of their products.³⁵ Though some challenges remain, they have developed their own opportunities to be better product stewards, rather than accepting the status quo of a linear life-cycle for their product. Their Australian leasing option is flexible and economically attractive for school customers and represents a growing circular philosophy that may offer a brighter environmental future to the young people in the schools using the product.

These examples represent valuable progress toward more sustainability in a traditionally challenging product class. Given that carpet tiles are often downcycled or stockpiled and have a relatively short life (10 years)³⁶, Interface is a good example of an earlier point: leasing is not a silver bullet to the achievement of our environmental goals. However, product stewardship does not have to be perfect in order to be valuable. Even businesses in the toughest product classes can promote better environmental and social outcomes by striving to be better product stewards.

²⁹ ‘[The CAREless Carpet Industry: A Critique of the California Carpet Stewardship Program's Reliance on Incineration](#),’ The Global Alliance for Incinerator Alternatives (GAIA) and Changing Markets, April 2017, p.7

³⁰ ‘[EverGreen Lease](#),’ Interface

³¹ ‘[The Interface Story](#),’ Interface

³² ‘[ReEntry, ReUse and ReCycle](#),’ Interface

³³ Ibid

³⁴ ‘[Carbon Neutral Floors™](#),’ Interface

³⁵ ‘[ReEntry, ReUse and ReCycle](#),’ Interface

³⁶ ‘[Pave the Way to Sustainable Carpets: Designing alternatives to increase the sustainability of the Dutch carpet industry](#),’ Kleinendorst, Jay Jay (TU Delft Technology, Policy and Management), 2020

The Fashion Industry

The fashion industry is one of the biggest polluting industries in the world.³⁷ It is said to produce 10% of all humanity's carbon emissions while being the second-largest consumer of the world's water supply³⁸. Many of these issues have been exacerbated by fast fashion. Fast fashion is characterised by low-costs and highly globalized supply chains to produce garments that copy the latest catwalk styles and get driven quickly through stores to capitalize on current trends³⁹.

As a consequence of these developments, textile waste is a critical and growing sustainability issue facing the industry. To put the sheer volume of waste in perspective: The World Economic Forum report that up to 85% of textiles go into landfills each year, which is enough to fill Sydney Harbor annually⁴⁰. In addition to the environmental costs associated with this model of production, social costs are also high, with modern slavery, low wages and safety standards in supply chains causing concern to consumers and the industry more broadly.

"The drive for sustainability is pushing many to rethink business models and move towards more responsible business practices" - McKinsey and Company, The State of Fashion 2020

Fashion, and fast fashion in particular, can be challenging to apply a leasing model to for a few reasons. Firstly, in the case of fast fashion, the items are cheap to produce and buy to begin with, meaning the economics of leasing are unlikely to benefit the lessor or the lessee. Secondly, neither the quality nor fashionableness of these garments are built to last. Thirdly, unlike the above examples, cotton and other fabrics currently do not have significant material value which further limits end of life options, including cost recovery and opportunities for re-use/recycling.

As such, in the current environment, it is usually more profitable to be in the business of selling low or moderately priced fashion, rather than leasing it. That said, not all fast fashion retailers have given up on better stewardship of their products. Retail giant [H&M](#) recently launched a second-hand marketplace in Canada, which they will roll out more broadly if successful⁴¹. This move is sensible, given the secondhand clothing business is expected to double in sales (\$36bn to \$77bn) by 2025, which is 11 times faster than the broader clothing sector⁴². This shows that even when one type of stewardship (leasing) may not be suitable, other opportunities, like embracing the second-hand market, can provide alternative possibilities.

Moving to another key industry segment, luxury fashion, we can identify a number of opportunities to would-be lessors. A recent McKinsey & Company report on the state of fashion in 2020 noted that while the sustainability-related theme, "End of Ownership," may not yet have reached critical mass, it will continue to rise in importance⁴³. The report notes that players in the fashion space are experimenting with opportunities to prolong the lifespan of clothes and their success will likely lead others to follow suit, though challenges remain. These challenges can include a fear of consumer perception of leasing devaluing luxury products or brands, and skepticism and hesitancy about the economic opportunity of leasing more broadly.

At the forefront of fashion leasing are businesses such as '[Rent the Runway](#)' and '[StockX](#)', who received billion-dollar valuations in 2020. These businesses generate better life-cycle outcomes for garments and accessories. Rent the Runway use a monthly subscription structure and StockX provide buy and sell options for second-hand luxury items. Consumer interest in this model represents a shift from focus on generating value for shareholders to companies becoming purpose-led more broadly⁴⁴.

³⁷ ['Fast fashion quick to cause environmental havoc.'](#), University of Queensland, 2018

³⁸ ['These facts show how unsustainable the fashion industry is.'](#), World Economic Forum, 2020

³⁹ ['Fast fashion quick to cause environmental havoc.'](#), University of Queensland, 2018

⁴⁰ Ibid

⁴¹ ['Why Big Retailers Are Finally Taking Resale Seriously.'](#), BoF Professional, August 2021

⁴² ThreadUp and Global Data in '[Now could be the best time to visit your nearest secondhand clothing store](#)', Fortune (2021)

⁴³ ['The State of Fashion 2020.'](#), McKinsey & Company

⁴⁴ Ibid

Given this success, it is not surprising that The Guardian reported that clothing rental platforms were the fashion industry's success story for 2020⁴⁵.

Closer to home, the '[Outdress App](#)' connects renters with local lenders (peer-to-peer) to hire luxury brands, designer dresses and suits, '[GlamCorner](#)' and '[The Volte](#)' rent designer dresses and '[Style Theory](#)' operates from a boutique in Melbourne, leasing formal wear. Meanwhile, Forbes report that designer handbags are now a better investment than art (with some going up 83% in the last decade)⁴⁶ therefore it is no surprise than you can now rent a Classic Chanel handbag from '[Designer Bag Hire](#)' for around \$400 (RRP of the bag is \$8,270)⁴⁷.

Despite early successes, the COVID-19 pandemic has undoubtedly negatively impacted fashion leasing options and rental platforms in particular. Demand disappeared seemingly overnight as events were cancelled and many people began working from home⁴⁸. However, the leasing strategy employed by platforms such as Rent the Runway, who responded by pivoting their rental offerings, including removing 'unlimited swaps' helped them remain resilient. This is because the wealth of consumer data afforded by the leasing model armed these businesses with the up-to-the-minute information required to pivot, tweaking their businesses to meet changing consumer demands, while staying relevant and managing costs.

A common theme across these examples is that prominent players in the fashion leasing space are profiting by renting designer clothing and accessories. This gives consumers greater choice in terms of accessing things they could not afford to buy outright, or in leasing rather than buying pieces they only want to use or wear a few times.

When a lessor is done renting a product and has sold it on to a consumer, donated or otherwise disposed of it, its end-of-life options may still be ambiguous, and this illustrates that leasing in the fashion industry is not a 'magical' solution to improve environmental outcomes. It does, however, offer real opportunities in terms of extracting maximum value from the right products and in extending their meaningful life, which is a positive.

The fashion industry will likely need to invest in improving sustainability in raw material production, innovation, and product stewardship options to better manage their products going forward. Nonetheless, leasing is an important piece of the puzzle in supporting the fashion industry to become more circular, and the success of some of the businesses operating in the fashion leasing space demonstrates that it is a viable business opportunity.

These opportunities are an area of particular focus for the Product Stewardship Centre of Excellence, given the challenges associated with textile waste (Australia is the second highest consumer of textiles per person in the world⁴⁹). More work in this area is underway by the Centre, including the provision of case studies to better support businesses in textiles looking for product stewardship solutions.

⁴⁵ '[The rise of fashion rental](#)', Scarlett Conlon, The Guardian, September 2020

⁴⁶ '[Designer Handbags Are Now A Better Investment Than Art](#)', Forbes

⁴⁷ '[Chanel Classic Handbag Black](#)', Designer Bag Hire, price at 11 June 2021

⁴⁸ '[Platforms and the pandemic: A case study of fashion rental platforms during COVID-19](#)', Bridges et al. (2020)

⁴⁹ '[Agreed Communiqué, National Clothing Textile Waste Roundtable](#)', Department of Agriculture, Water and Environment (26 May 2021)

UBCO Motor Bikes

In New Zealand, [Carbn Group](#) and [UBCO](#) (with some financial support from government) have partnered to provide a new subscription-based model to support the widespread adoption of its utility electric bikes across domestic farms, businesses, and households⁵⁰. As in previous examples, leasing this equipment is economically attractive to customers, who can use the service to minimise upfront costs and reduce unplanned servicing and maintenance payments.

The goal of the partnership is to have an UBCO electric utility vehicle on every farm in the country, which would represent a \$1.4 billion per year opportunity⁵¹. Financial support for this subscription-based model, which includes fixed monthly fees covering bike, battery and servicing, is based on a commitment to a transition away from carbon fuels⁵², a core element in wider circular economy transition. The goal is to support large-scale farming operations to reduce carbon emissions and lead the way in sustainable practice⁵³.

The UBCO Motorbike subscription-based model is new, and as it unfolds, we will likely learn more about the successes and limitations of the program. What we do see here already is a growing interest by businesses and investors in leasing as a product stewardship strategy to help advance circular goals while meeting economic objectives.

Round up: Potential benefits of leasing as a product stewardship strategy

As explored in these examples, key benefits of leasing as a product stewardship strategy available for businesses to unlock can include:

- ✓ Extracting the maximum value from products while also extending their meaningful life
- ✓ Building durable, ongoing relationships with consumers
- ✓ Better access to information about consumers and product use patterns
- ✓ New business opportunities through thoughtful financial models for leasing
- ✓ Better control of end-of-life management through re-use, re-purposing, and recycling
- ✓ Resilience to scarcity of high value raw materials
- ✓ Reputational benefits and attractiveness to consumers who are increasingly sustainability minded

As discussed throughout the examples in this practice note, product stewardship and leasing strategies are not immune to global disruption. The COVID-19 pandemic has introduced new uncertainties, disrupted consumer behaviour, and otherwise challenged many established business models. However, if harnessed effectively, engaging with leasing and other Product Stewardship models can unlock advantages that promote resilience in the face of this and future uncertainties, including the very real sustainability challenges industry is faced with.

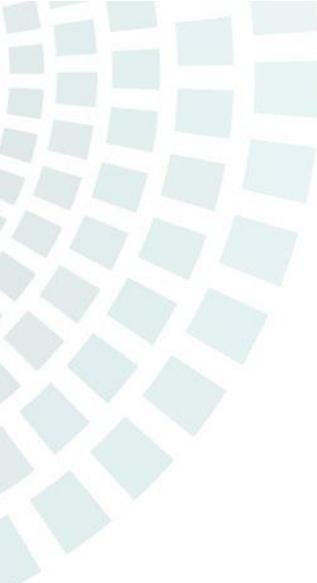
Learning from these and other examples of product stewardship strategies can provide businesses an opportunity to innovate, diversify and future proof.

⁵⁰ [‘Green light: UBCO partners with Carbn Group to expand vehicle subscription model,’ Idealog](#)

⁵¹ Ibid

⁵² Ibid

⁵³ Ibid



Where do we go from here?

Leasing as a product stewardship strategy can provide great economic advantages for businesses, while also helping to reduce some of the negative environmental, social and health impacts of products. Leasing can help to empower consumers to make informed choices while giving them access to a wider range of products or services than they may have been able to attain otherwise.

Well-designed leasing strategies on products can deliver long term benefits to businesses that go beyond the environmental. They offer businesses the opportunity to be more resilient and less vulnerable to material scarcity into the future, to be more innovative in their processes, to maximize the information they can collect from customers, to build and maintain long-term relationships and to connect to a new generation of consumer, one who is increasingly interested in sustainability.

In our rapidly changing world, the notion of ownership is increasingly challenged, and while it is unlikely personal ownership of property will cease, it is likely that new technological developments that underpin leasing in a modern sense offers consumers, businesses and society as a whole more options than ever – options that can help us make better use of our time, our space, our money and ultimately, lead to better life-cycle outcomes for the tangible products we make and use.

A more holistic, circular approach to product stewardship can result in smarter solutions that both meet market demand and address environmental priorities. It can be a new frontier that offers business the challenge to think bigger and do better in capitalising on the opportunities it brings, much like the businesses profiled in this practice note have done in their leasing strategies.

Resources

- More on Australian Government Product Stewardship Scheme Accreditation [here](#)

Are you a business looking to expand your company level product stewardship scheme or process? The Centre of Excellence may be able to assist you, our details are:

- Web: <https://stewardshipexcellence.com.au>
- Email: info@stewardshipexcellence.com
- Twitter: @stewardshipAU

