How a recycling business changed its focus to re-use, leading to benefits for the environment and their bottom line

THE BUSINESS
Environcom is the UK’s largest independent electrical re-use and recycling specialist of waste electronic and electrical equipment (WEEE). It has the capacity to receive, treat and process a huge range of waste equipment, from washing machines and fridges to televisions and IT equipment. It has a facility at Grantham in Lincolnshire and a re-use facility in North London. It processes over 100,000 tonnes of domestic and business electronic waste each year.

THE IDEA
As the company puts it on its website, it was ‘founded in 2003 and revolutionised in 2011’. Originally, it was a small IT recycling business in Scotland. But Environcom didn’t have the incentive to grow rapidly or change the nature of its business until legislation was enacted that meant companies had to ensure recycling of waste electronic and electrical equipment. At this point, a private equity fund and others invested in Environcom, but soon afterwards there was a major fire at the company’s main plant. Both events acted as catalysts. A new CEO was appointed in 2010 and a new CFO soon followed in 2011. The business model was changed; all waste coming into the company was to be seen as a valuable product and not, as before, simply as waste to be dealt with.

THE INNOVATION
‘The finance function had become divorced from the business’, says Jon Parsons, Environcom’s CFO. ‘So, amongst other steps, we set about introducing weekly performance reports’. Imposing financial rigour changed the way that the company and its strategy were understood. ‘It made us focus on two main drivers’, says Parsons. ‘We decided we were a re-use business and not primarily a recycling business. In the future, we would take in waste electrical equipment, repair it and sell it as re-used electrical products in the UK and elsewhere in the world. This business model is not only better for the environment, but also improved our bottom line. The company would still recycle when that was all that could be done, but by focussing on the idea of re-using materials, it would discover many more opportunities. ‘We developed a relationship with the British Heart Foundation’, says Parsons. ‘Now we supply 85% of their stores with re-used electrical equipment, like fridges, cookers and washing machines, for example’.

FINANCE FUNCTION LEADERSHIP
The finance function played a key role in the transformation and turnaround of the company. It brought financial rigour to the business and, off the back of that framework, started to build strategy and ideas into the process. The actions built confidence with the 30 or so shareholders, large and small, who had taken part in two rounds of funding rights issues and who converted their loans into shares to deleverage the balance sheet. Working capital and cash flows were optimised and costs were kept to a minimum.
The greater rigour and better financial understanding of what the company could do meant it had the confidence to work on new ideas. ‘The finance function modelled different scenarios and we trialled them in the workplace’, says Parsons. ‘In 2011, one of the components you couldn’t recycle was the foam in fridges’. The finance team, along with its private equity shareholder, identified an opportunity of reaching a 98% recycling rate for fridges by treating the foam insulation material and returning it to the manufacturing process. ‘By pioneering a way to re-use it’, says Parsons, ‘we made great financial and sustainability savings. It cost £120 per tonne to put the insulation into landfill. Putting it back into use meant we restored natural capital and in the process are saving £200,000 a year. This was about the finance function identifying opportunities’, says Parsons. ‘We could then offer it as a service to competitors and improve overall recovery rates in the recycling business.’ This professional approach stood them in good stead. ‘The way the industry traditionally works is that you are competing with scrap metal dealers. It is that difference in professionalism that has enabled us to grow at the rate we have’, says Parsons.

LESIONS FROM THE CASE STUDY
It is very important to take the workforce with you through the transformation of your business. ‘We constantly tried to maintain focus in a manually intensive work environment’, says Parsons. ‘We had a high dependency on labour and

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POSITIVE LONG-TERM IMPACT
The growth of the company has enabled growth in green jobs in the UK that, in turn, help the local communities where Environcom is based. Re-using electrical equipment provides access to high quality products like fridges and washing machines, which have been repaired and tested, in communities where people may struggle to afford to buy them new. And it has opened up new markets in less-developed countries for Environcom.

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you have got to take your employees with you. You have to provide a secure income month in, month out and a vision for the future. We had monthly briefings with them and that meant they could see the progress and join us on the turnaround’.

Jon Parsons also stressed the importance of keeping investors and funders informed, particularly during times when lenders are harder to find. ‘You do need the support of adequate finance lines’, he says. ‘Banks are still reluctant to lend to small companies and are still very risk averse to lend to companies with a “poor” history. You have got to keep them engaged with the process.’ And that goes for the wider group of stakeholders as well. ‘All other stakeholders, from shareholders to customers to local communities, need to be engaged with the business turnaround’.

And you should be ready for hard work and surprises. ‘On a personal level’, says Parsons, ‘this journey is not for the faint-hearted. There are a lot of tough decisions and hard work’, he says. ‘But it is hugely rewarding when you see the improvements come through. It is important to stay steadfast and stubborn’.

Environcom staff work on fixing washing machines