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Renting in Italy

A Key to SMEs Reboot, post Covid-19

MAKING AN IMPACT THAT MATTERS since 1845

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EXECUTIVE SUMMARY

Italy is the EU country with the largest gap between family income and assets (financial and non-financial) (Infodata, 2019). This is partially due to the income stagnation that has been taking place over the past 20 years, as well as to a cultural postwar heritage, which urged the average "baby-boomer" to save money and build property to grant his/her offspring a brighter future than the one he had.

This hunger for "asset-ization" is something we have been observing also on the corporate side, especially in the SMEs[1] world, which today makes up about 65% of the Italian added value (ISTAT, 2020) and which, after the '70s oil crisis, boomed in number and value.

Nonetheless, in the past few years the trend has reversed, showing a slight decrease in non-financial asset value owned by SMEs (-1,5% CAGR 2012-2019E), while GDP (and production) kept growing over the same period (1,4% CAGR 2012-2019), as well as SMEs overall ROA (from 3,1% in 2012 to 4,9% in 2019) (Cerved, 2014-17-19). We therefore observe a progressive increase of SMEs focus on minimizing tangible assets to best manage financial risk, as well as on increasing their ability to get improved financial returns on capital.

Given that the overall fixed investments in Italy surged too in the past few years, it is safe to say we are witnessing a progressive asset concentration process. Assets are accumulating in the hands of few, specialized owners and servicers, while the rest of the economy is shifting more and more towards a service oriented paradigm, the so-called "everything as-a-service (Xaas[2])" era. The shifting focus on experience rather than simple ownership generates opportunities for economies of scale and scope. What was primarily a technical process of overhauling legacy systems becomes a broader operational and business effort to create greater efficiencies and new ecosystems comprised of customers, employees, and business partners. Today, these ecosystems are possible thanks to the democratization of innovation, creating a fertile environment for platform-based businesses, such as asset-driven digital marketplaces. In such a context, (equipment) renting is becoming a key pillar of the servitization culture, allowing SMEs not only to minimize their financial needs and credit exposure and increase fiscal efficiency, but also (and especially) to rely on an end-to-end asset management service model, comprising its installation, maintenance, replacement, disposal, as well as additional value-added services.

While some might interpret this as a generalized set of choices aimed at avoiding entrepreneurial risk, through a deeper analysis, this process emerges as the natural response of the economic landscape to the increasing need for strategic flexibility and operating agility. By reducing the need to allocate financial debt

to short/medium-term asset investments, firms will be able to invest in strategic growth opportunities. This new economic model is finding fertile ground among Millennials and in general young entrepreneurs, who, with a new perspective on the concept of ownership, are reshaping the landscape. As a new generation of entrepreneurs embraces the servitization model, both manufacturers and financial institutions are starting to step up their position in this segment, with both incumbents (large banks and intermediaries) and challengers (tech company) on the move, launching dedicated business initiatives accelerated by partnerships and M&A.

In a world strongly hit by the economic crisis brought upon by COVID-19, equipment renting could prove vital for not only SMEs recovery and future growth planning, but also to foster a focus on "circular economy" and, more in general, ESG[3] within the Italian economic fabric.

[1] Companies with 1-250 employees

[2] Collective term that refers to the delivery of anything as a service. It recognizes the vast number of products, tools and technologies that vendors now deliver to users as a service over a network -- typically the internet -- rather than provide locally or on-site within an enterprise (Rouse, s.d.).

[3] Environmental, social and corporate governance

THE MACRO-ECONOMIC AND INDUSTRIAL LANDSCAPE IS DRIVING UP BUSINESS COMPLEXITY

- Globalization and sustainability through asset lifecycle optimization
- Covid-19 crisis catalyzing business model and fixed asset management re-thinking

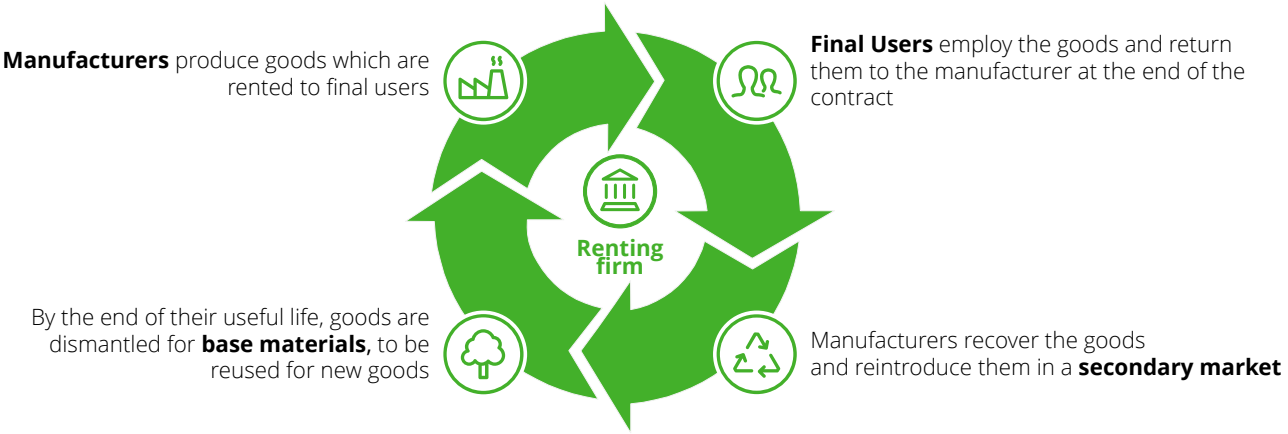
Globalization and sustainability through asset lifecycle optimization

Through international trade, markets have become increasingly interconnected. With value chains spanning across countries and continents, the public has been focusing on the environmental impact of products and services, with sustainability becoming a crucial topic in governments' agenda. Their role is about setting the right framework for markets to function in socially, economically and environmentally responsible ways. This is why many UN members have adopted the UN 2030 Agenda for Sustainable Development, including its 17 goals (SDGs), with the final commitment to eradicate poverty and achieve sustainable development by 2030 worldwide (United Nations, 2020). However, reducing society's impact on the environment is a complex task that requires the involvement of many stakeholders. Governments have been keen to incentivize and directly involve businesses in decision making over the years. Amidst an increasing urgency for action, however, the same companies are called upon to step up their carbon footprint reduction efforts.

With pressure from both the demand side and from legislators, firms across the globe have been undertaking a series of initiatives to reduce their impact on the environment while remaining profitable. Corporate responsibility and sustainability strategies may take different shapes around the world, but it is now clear that consumers are using their spending power to effect the change they want to see. Market research shows that 68% of EU citizens say it is very or extremely important that companies implement programs to improve the environment (Nielsen, 2018). Hence, having an environmentally sustainable supply chain management is becoming a competitive advantage for organizations, driving demand of new, more aware customer segments.

One of the strategies that companies are adopting to improve their footprint is the development of initiatives targeting products lifecycle extension, by leveraging on the power of secondary markets (Hristova, 2019). Some companies, instead of selling products to customers, have turned to renting[4] or leasing them instead. Within this type of "servitization" (selling goods utilization instead of the goods themselves), the renting firm effectively retains ownership over the goods throughout their life cycle, as customers must return the product to the sellers (Tse & al., 2016). The underlying idea is to create an ecosystem where used goods do not end their useful life when consumers discard them, but can have another life in secondary markets, for different customers or for different purposes. By recovering a good from a client, firms can either salvage components, recovering primary materials at lower costs, or enter a second-hand marketplace, allowing for new profitable revenue streams.

FIGURE 1
Circular lifecycle enabled by renting firms



The **circular lifecycle** of the **goods** is possible thanks to the **pivotal role** of **renting companies**, which, by **centralizing control over goods** from **multiple manufacturers**, guarantee the **correct functioning** of the **process** and enable **smaller manufacturers renting operations** through **financing**

[4] Renting is an agreement where a payment is made for the temporary use of a good, service or property owned by another.

FIGURE 2
Cos Resell's Business Model

The growth of second-hand marketplaces is having an impact on multiple industries. The fashion market is a good example of such phenomenon. In 2019, the Italian market for second hand goods has reached 24 Bln€ in value, growing 33% over the last 5 years (BVA Doxa, 2020). Online business is the primary driver of this growth, accounting for 45% of the total market value in 2019 (BVA Doxa, 2020). Following such trend, new business models are arising. H&M-owned brand "Cos" is launching its own resale business, a move that will allow customers to buy and sell used clothing. The new platform, "Cos Resell"[5], will enable peers to sell old favourites and shop new pieces from the brand's archive. The seller has to set the price, provide all the product information and manage posts, while Cos will take a 10% commission in order to cover the operational costs of resell (Cernasky, 2020).

The growth of secondary markets has also affected the manufacturing industry. Today, secondary market platforms for industrial equipment, construction machineries and medical appliances are increasing in volume, sustained by a better ease of access to international markets. Several B2B international platforms (e.g. Resale, Exapro, Aucto, Vendaxo, ...) have been launched in the past few years, aiming to support companies that plan to sell and buy second-hand goods and machinery.

The above-mentioned cases and examples are emblematic of a cultural transition towards a more sustainable, environmentally aware consumption.

Renting is not just a derivative of the trend, but a key actor, playing a catalyst role by contributing to build a new ecosystem of financial institutions, industrial players, and aware customers.

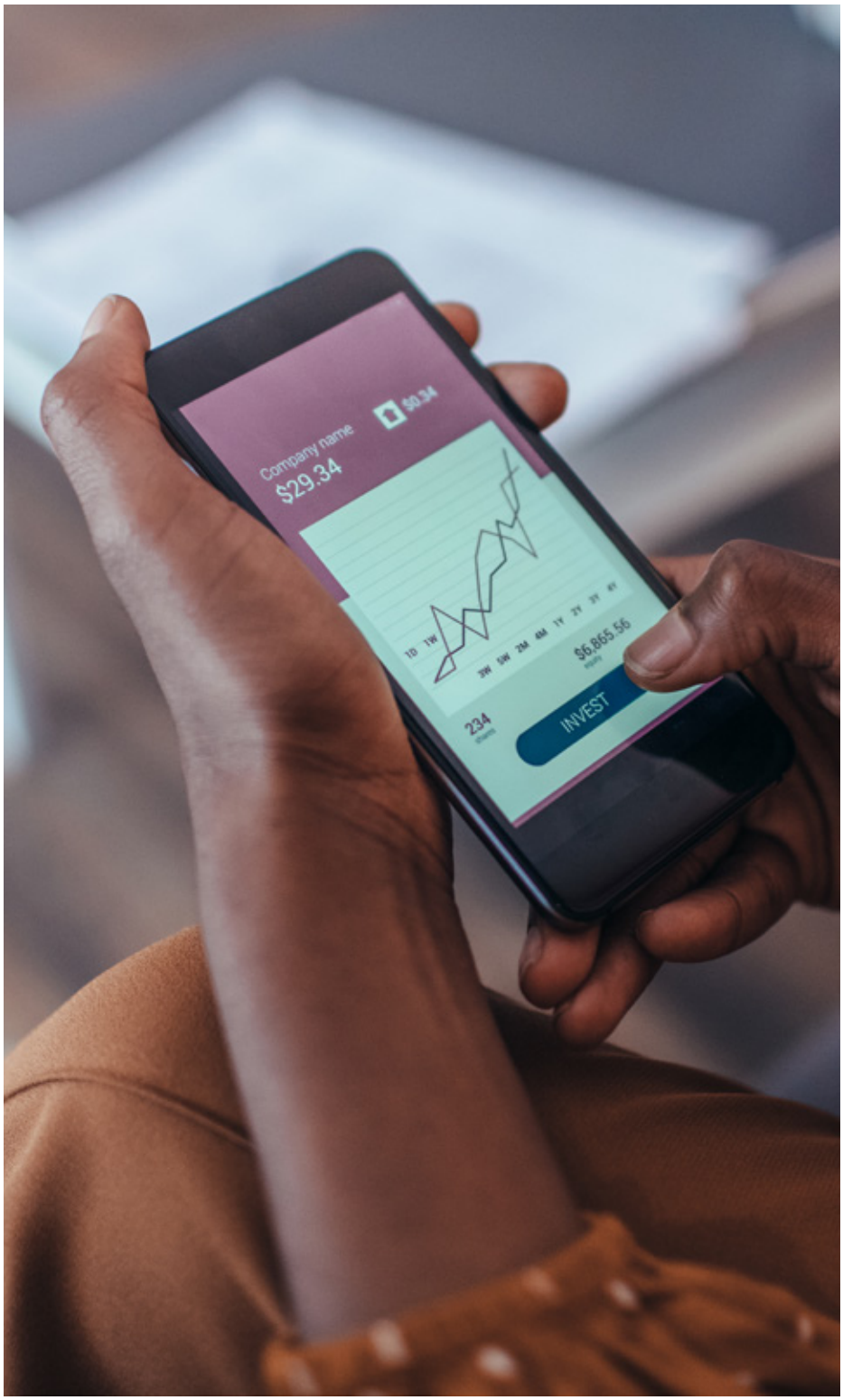
[5] https://www.cosresell.com/

Covid-19 crisis catalyzing business model and fixed asset management re-thinking

The Covid-19 pandemic has led to an unprecedented scenario, with dramatic consequences on a global scale. According to the last projection of the International Monetary Fund (IMF), Italy will close 2020 with -8,8% GDP growth (European Commission, 2021), 300 bps more than the European average (International Monetary Fund, 2020). This pandemic will be especially impactful for SMEs. During the first half of 2020, Italy has witnessed a reduction of 26% in new firms when compared to the same period of the previous year (Cerved, 2020). By considering the current "lockdown scenario", according to Cerved, more than 10% of Italian companies are in danger of bankruptcy (Cerved Rating Agency, 2020).

As revenues contract at a faster pace than cost reduction initiatives increase savings, many firms are now facing a cash shortage crisis. According to a recent survey made by Unioncamere, on a sample of 1,38 million companies, almost 60% expect to have liquidity issues in the next six months. In fact, despite a stronger liquidity position with respect to the 2008 crisis (Monitor Deloitte, 2020), many Italian SMEs fear that they will not be able to generate the cash flows necessary to ensure ordinary business operations (Unioncamere, 2020).

Both SMEs and large corporates are in need for stable cash flows to navigate the uncertainty of a post-Covid economy. In order to achieve such stability, organizations need to implement structural measures by adopting a long-term vision (Monitor Deloitte, 2020). Only companies that are able to grasp this change will survive, by exploiting the opportunities of business model innovation offered or accelerated by the crisis.



SHIFTS IN CULTURAL BELIEFS AND CUSTOMER HABITS ARE RESHAPING THE UNDERLYING DEMAND

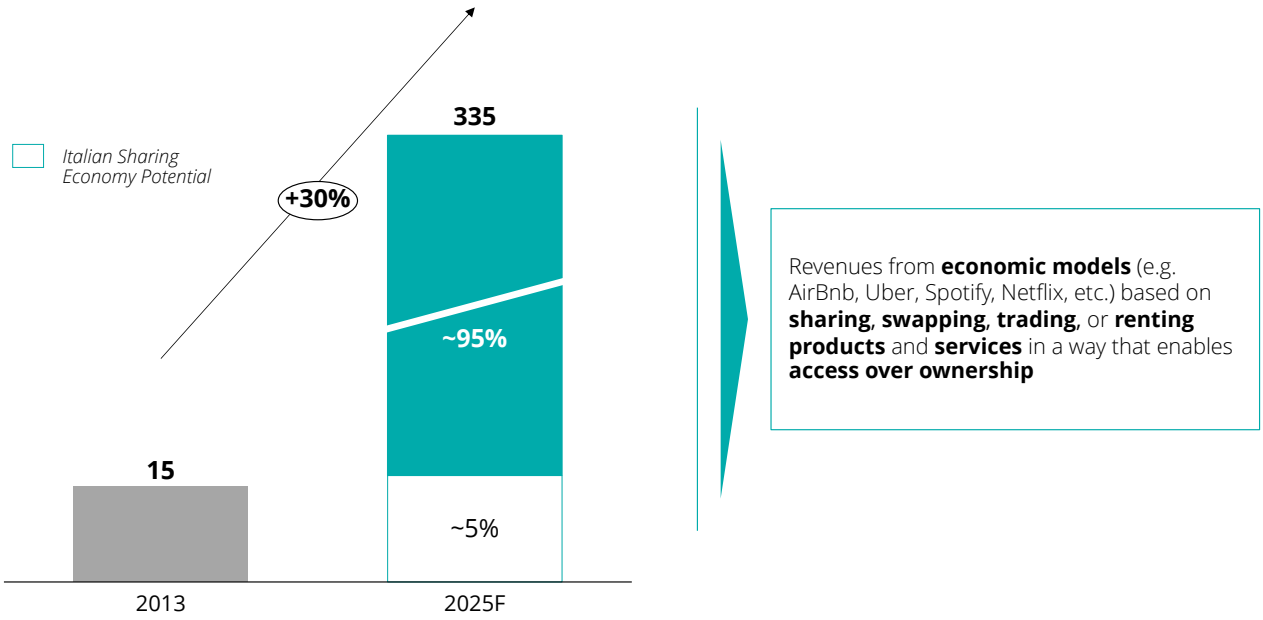
- De-ownership: the rise of the “no asset” generation
- Servitization driving asset perception by the new customers

De-ownership: the rise of the "no asset" generation

Generational differences often drive today's political, social and economic discourse. The approach to personal- and work-life often changes from one cohort to another. These generational discrepancies are based on a different set of aspirations and values, which drive people's (un)perceived needs and decision-making processes. As younger generations become more and more prominent within the economic fabric of a country, cultural differences with previous generations set the basis for a significant shift in demand for products and services. In 2020, approximately 1,8 billion people worldwide, or 23% of the global population, are Millennials – a cohort that spans the births from the early 1980s to the mid-1990s (MSCI, 2020). Millennials' generation is, in size, larger than any other adult cohort. In Italy people born in this time frame account for about 10 Mln individuals (ISTAT, 2020), and their presence in the workforce is rapidly increasing. People from this generation show significant behavioral differences from previous generations, especially with regard to housing habits, mobility and digital savviness. These differences are even sharper if we consider Generation Z, which comprises people born between 1995-2010, (9 Mln in Italy, ISTAT, 2020) and which is dramatically reshaping generational ambitions and life paradigms with disillusionment. Indeed Generation Z not only will keep the financial burdens already carried by the Millennial population, but will be also facing an even more complex reality, dealing with information overflow, looking for new ways to quickly solve problems, disrupting "common" values prioritization.

One of the primary indicators that define the discrepancies with previous generations is the value allocated to home ownership. As reported by Deloitte in its Global Millennial Survey 2019, "Having children, buying homes, and other traditional signals of adulthood "success markers" do not top [Millennials'] list of ambitions". Within the pool of interviewed Millennials, 57% of respondents stated "Seeing/travelling the world" as their priority, with less than half (49%) stating "Buying homes of their own" as a primary ambition (Deloitte, 2019). This phenomenon is particularly relevant for the Italian residential property market. As more Millennials leave their parental homes and start working, the number of rental agreements registered in Italy from 2011 to 2019 has increased by 23%, with an average yearly growth rate of 3% (Agenzia delle Entrate; Associazione bancaria italiana, 2020). As renting becomes a valid housing solution, the concept of paying exclusively for the specific use of an item rather than for its ownership is rapidly permeating this generation's (and GenZ too) mindset, with a trickle effect on its daily habits.

FIGURE 3
Expected sharing economy revenues
Bln€, Worldwide, CAGR, 2013-2025F



When presented with 20 challenges facing society that most concern Millennials on a personal level, climate change and environmental protection emerged as the primary societal challenge for the near future (Deloitte, 2019). This is even truer for Generation Z. This significant concern for the environment, paired with an increased relevance of pay-per-use mechanics among millennial and GenZ consumers' pricing choice has resulted in significant challenges for the mobility industry. Younger generations need for a cost efficient, environmentally friendly way of transportation has sparked the rise of a number of short-term car rental services (or car sharing) and other mobility services (e.g. bikes, motor and push scooters) across the globe (Monitor Deloitte, 2019). Europe largest cities have been witnessing a significant growth of this segment, with Milan more than doubling its number of short-term car rental members over 4 years (from 320.000 in 2015, to 850.000 in 2018) and Rome almost tripling theirs (from 220.000 in 2015, to 600.000 in 2018) (ANIASA, 2019). This trend is also present in the segment of car and commercial vehicles rentals. As reported by Assilea in its yearly reports, automotive rentals have increased in value by 37% between 2017 and 2019. While bike sharing fleets have rapidly expanded (x3 betweeen 2015-2019), sharing services for push scooters in Italy have witnessed a dramatic increase during the first 9 months of 2020, surging to 27,8 thousand units in September 2020 from 4,7 thousand units in December 2019 (x6) (Osservatorio Nazionale Sharing Mobility, 2020).

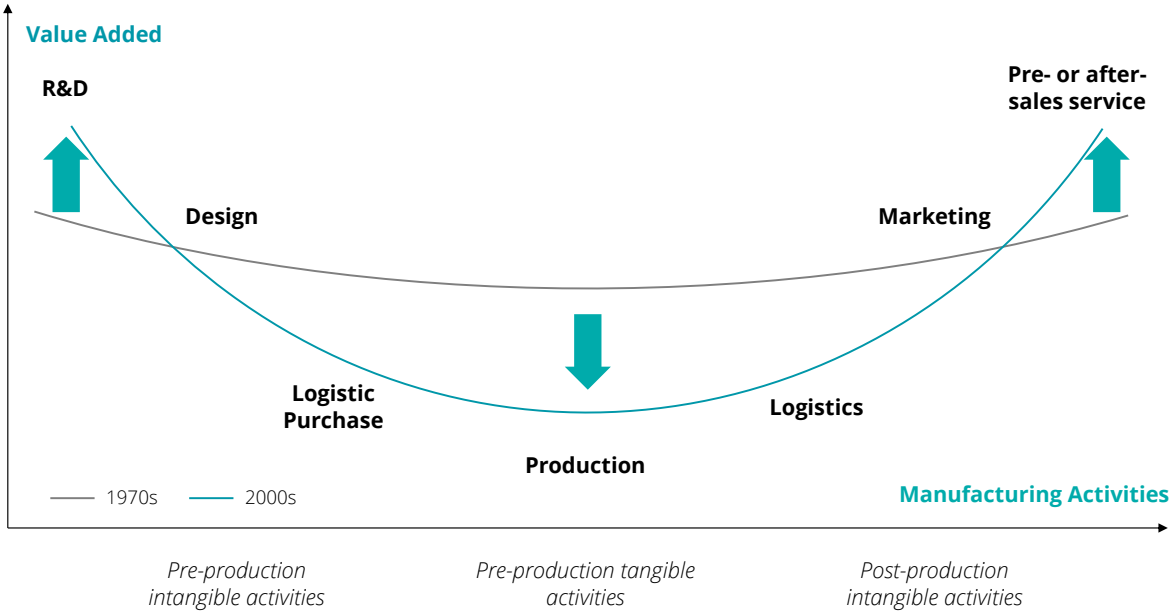
As the world's first digitally native generations, Millennials' and GenZ's tech-saturated upbringing has made the group distinct from older ones. These cohorts in fact, grew up in close proximity with digital devices and the internet, integrating technology in their daily habits more easily than older generations. As reported from a recent study, 71% of Millennials state that "they could not live without their smartphones" and 80% of them that "technology gives them more freedom of mobility" (Vocalink, 2016). This behavior is reflected by similar figures across Europe and has a significant impact on how firms interact with this generation. Over the last few years, the number and value of digital payments have been surging, with the number of fintech payment users forecasted to reach 40,3 Mln by 2024 (Statista, 2020). As new technologies appear and younger generations assimilate them into their daily lives, firms also need to evolve and provide digitally integrated services.

The digital service economy not only embraces the renting paradigm as the concretization of the "from product to service" step, but also evolves it into a tech-friendly, no-stress, pragmatic mean to do business and to benefit from any asset.

Servitization driving asset perception by the new customers

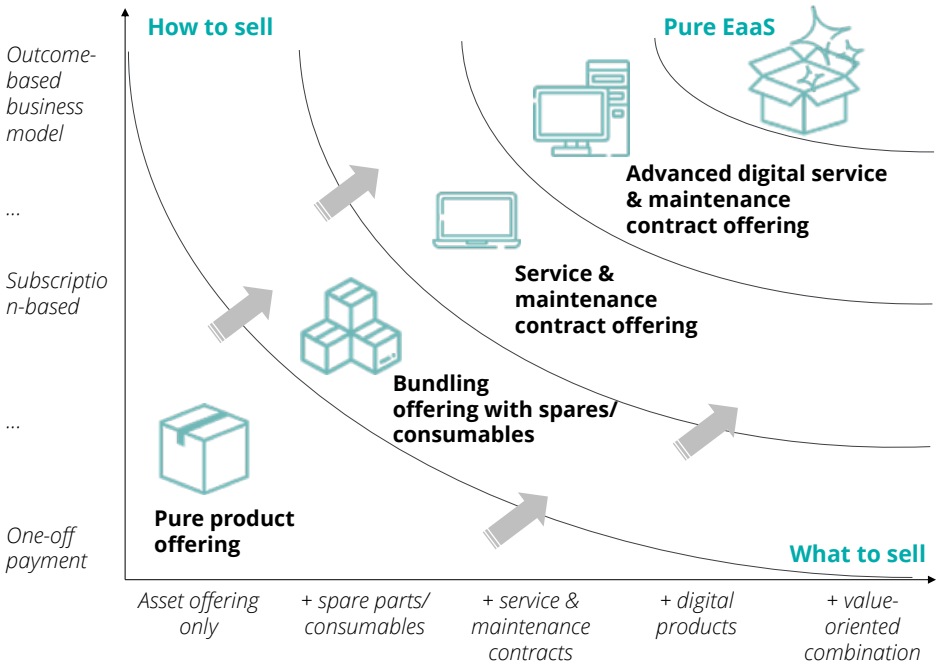
Younger Generations are redefining the demand for products and services, by shifting preferences from goods accumulation towards "experience" and "utility". A longtime ongoing process on the supply side is meeting the shift in demand that we are witnessing today. As firms started moving manufacturing processes to emerging economies during the '70s and '80s, the value added across the value chain has been shifting towards R&D and Pre- or After- Sales services (Veugelers, 2013).

FIGURE 4
Shift in value creation across the value chain



Products remain the primary focus of the end consumer; however, since the 2000s, many manufacturing firms have been shifting their business models towards a more service-oriented philosophy. More specifically, they started adding services to core product offerings to create additional customer value. This process is often described as "servitization". Servitization is the transformation of a firm from adopting a product-centric to adopting a service-centric approach (Raddats & al., 2019). This concept provides major benefits both for the providing company and for the profiting customer, since the former has access to alternative, more stable revenue streams as well as ways to retain previous clients and the latter can enjoy the final product to its full value over a longer period. This model has evolved sharply over the years, shifting from a series of services linked to a product to a more holistic approach to satisfying client needs and becoming, as we know it today, "everything-as-a-Service" (Xaas).

FIGURE 5
Definition of Equipment-as-a-Service



Today, firms that have been building their success on this model are facing a new opportunity to further evolve and fully capitalize on their products' potential and to address the rising demand for pay-per-use solutions. In 2014, a team of Caterpillar innovators framed a tough challenge: significantly grow the Work Tools aftermarket. The team followed the Caterpillar Innovation Methodology, conducting over sixty ethnographic rounds of interviews, which helped the team understand customers' aspirations and unmet needs. Thanks to this acquired knowledge, the team conceived a new business platform: ShareX – the go-to-market place for everything customers need on a jobsite. ShareX allows customers and dealers to share equipment, materials, attachments and labor with each other by facilitating transactions.

SHAREX: A DIGITAL MARKET PLACE TO EMPOWER CUSTOMERS TO SHARE MACHINES, ATTACHMENTS, LABOR AND OTHER VALUE-ADDED SERVICES

Deloitte helped Caterpillar activating "ShareX", a holistic, general-purpose sharing platform. The team followed the Caterpillar Innovation Methodology, conducting over sixty ethnographic interviews at mining sites, construction sites, and dealers on four continents around the world. This experience helped the team understand our customer's aspirations and unmet needs.

ShareX concept is built around hosting transaction fees on the platform:

- Whether involving Caterpillar equipment or not
- Including also membership and listing fees, as well as projected bumps in financing revenue and primary machine sales

Once the concept was defined, Deloitte Digital team built out a cloud-based, micro services architecture platform with an API layer that can be the foundation for front-end web and native app solutions.

This concept is worth potentially $1-4B of new annual revenue for Caterpillar based primarily from charging a transaction fee for exchanges made on the ShareX platform.

The technology work also delivered backlogs and service blueprints, with clickable prototypes to map out the path forward. We are now in the midst of deciding the best way to build the first pilot application of ShareX and considering how to leverage YardClub, which Caterpillar invested in as a result of this work.

"We were able to help the client not only think beyond traditional products, but reimagine the future of their customers' industries, creating actionable, disruptive businesses and internal structures to help moving from an asset based business to a sharing platform"

Francesco Fazio
Principal at Doblin (www.doblin.com), the Innovation Strategy Arm of Monitor Deloitte

ShareX concept was patented by Caterpillar to protect and preserve its strategic value.

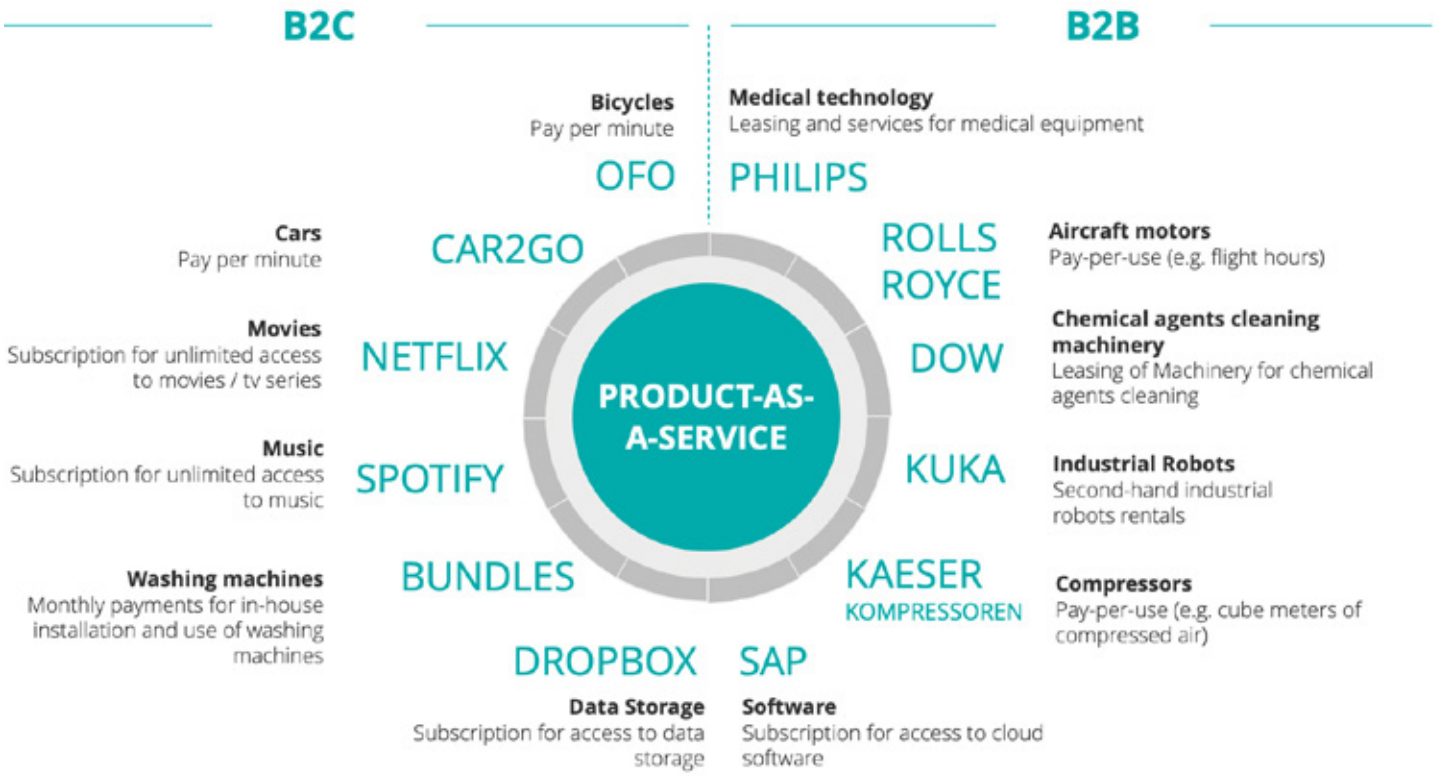
In 2015, NVIDIA, a graphic cards manufacturer, launched the beta version of Geforce Now, a cloud gaming platform that allows players to share NVIDIA's computing power. As of May 2020, the platform counts more than 2 million users (Kan, 2020). Following the 2014 divestment in the lighting business, Phillips decided to focus exclusively on the healthcare sector. The idea was to leverage the firm's deep clinical and consumer knowledge to offer more integrated, connected, and customer-focused solutions. This strategic objective has translated into the development of a new subscription model by Gil Adato, Vice President of Digital Health at Philips, who sees "products as means to outcomes" and "opportunities for subscriptions in almost every arena at Philips" (Li, 2019).

"We have a 128-year history of selling customer-centric products; however, customer expectations have changed, and as a result, the definition of customer centricity has changed. Customers have higher expectations and different preferences.

It's **no longer** about the **physical products**; it's about the **experience** and **outcomes**. **Products** are just **mean to an end**, so customers care about **access more than ownership**."

Gil Adato
Vice President of Digital Health at Philips

FIGURE 6
Examples of servitization models



Innovation acceleration with XaaS is emerging as an essential part of many companies' strategic playbooks, particularly for the C-suite. A key factor contributing to this acceleration is the "democratization of innovation", making new technologies and tools more broadly and easily accessible, getting them into the hands of more diverse users across organizations, and fostering experimentation. In our survey, 7 in 10 companies report that XaaS reduces their cost of entry for adopting products/services; an equal number say that flexible consumption allows them to access a product or solution that otherwise would be too expensive. XaaS also enables companies to deploy new technologies without hiring specialized internal IT talent. Indeed, 8 in 10 companies report that XaaS gives them quicker access to the latest technologies and innovative capabilities (Deloitte, 2018).

FIGURE 7
Servitization strategic shift

PRODUCTS → **«NEXT-GEN» SERVICES**

SERVITIZATION ALONG THE PRODUCT-SERVICE CONTINUUM

Ownership transferred from seller to buyer	The definition of products and services has **traditionally been drawn along the lines of tangibility**. However, we see it as a **continuum** with **several features** that allow **both** traditional product and services companies **to continue** to servitize their offerings	Transactions **less relationship-based** as product quality is more discernible
Efficient, low cost high volume production with **standardized** output; little or no variability		**Co-creation** with customers; designed and **customized** according to customer preferences and experiences; highly targeted
One-off **transaction**; up-front payment		**Outcome-based pricing**; usually **subscription-based** or **pay-per-use**, with multiple add-ons
Typically use and dispose; product manufacturer **less plugged into** customers' business or consumers' life		**High level integration** into customers' businesses or consumers' personal life; usually customer touchpoints
Transactions **less relationship-based** as product quality is more discernible		Stronger buyer-seller relationships required, with greater **customer care & support**

It is critical for firms to **reinvent** and **make** the **right moves** to **stay relevant** in the future Services battlefield
- Manufacturers should seek to **increase** the **service components** of their products
- Conventional Services players should move away from commoditized offerings to provide **«Next-Gen», tailored solutions/ experiences**

The increased ease-of-access to technology is one of the elements fostering the spread of business-oriented ecosystems: manufacturers, financial institutions and customers interconnected by digital platforms, which facilitate communication and access to products and services, even from a distance.

FIGURE 8
Key factors enabling servitization

DEMAND CATALYSTS

Customer mindset shift from ownership to access
Increasing propensity to share, make micro-transactions and purchase experiences, thereby promoting asset optimization

Business emphasis on scalability and flexibility
Constrained buying power and declining return on assets affecting willingness to pay upfront

Customer desire for personalization and empowerment
From accepting standardized to expecting customized co-creation, amid choice and information overload

SUPPLY CATALYSTS

Need for a differentiation beyond price and product
To arrest declining profit margins in the face of globalization and price transparency

Increased prevalence of aggregation platforms
Lowering barriers to entry for individuals/ SMEs and allowing direct access to customers

Formation of ecosystems
Allowing for collaboration and partnerships, spurning innovation

ENABLING TECHNOLOGY

Exponentially-improving infrastructure
Richer connectivity and increasing access to more sophisticated tools of production and delivery

Ubiquity of customer data capture and real time analytics
Advancements in sensor technology and processing power makes the invisible visible

ENABLING TECHNOLOGY

Regulatory architecture
Regulatory and legislative structures adopting an experimental approach that fuels innovation and new business models

Zuora and the "Subscription Economy": Designing and Operationalizing Trust and Sustainability in Ecosystems

Subscription Resilience in a Storm

In 2007-2008 a big storm hit Europe and most of the western world's business ecosystems were put under extreme pressure. A perfect storm, we know today as the "subprime crisis", hit corporate America and Europe harder than China was hit[6].

The manufacturing industry suffered greatly – including a company in the material handling business designing, building and selling forklifts. Back then most manufacturing companies were meant to build the perfect product, train the perfect sales team, and hire the perfect dealer in order to launch a hit product.

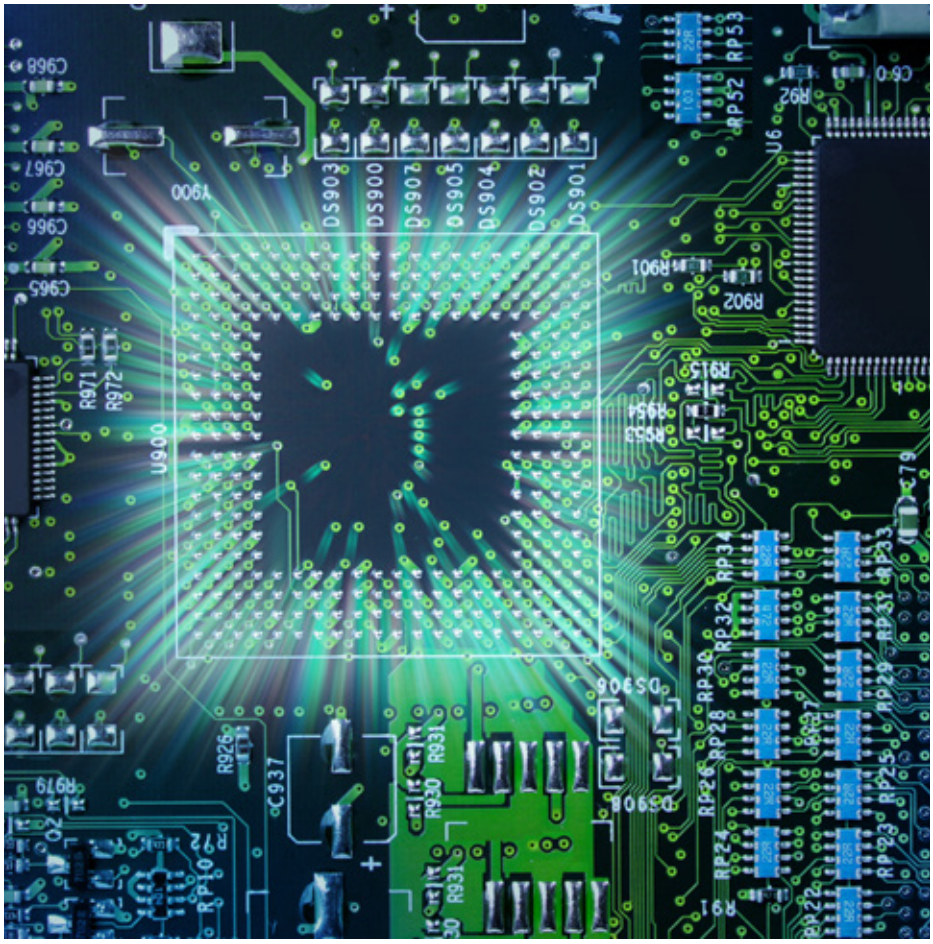
This was the "product economy" mentality and companies generally did not bundle services with their physical products. Companies that did bundle up to 20% recurring maintenance were recognized as industry leaders and their valuation would be no less than 10 times their EBITDA.

Subprime or Covid-19, a storm is a storm when your business model is product-first and you have no safety net - no recurring revenues and no recurring relationships with your customers. When units and revenue are down, there is little you can do but cut costs while suppliers and dealers suffer.

The forklift company, though, took a different approach to weathering the storm. They thought about the entire ecosystem. With respect for their people, trust for the customers, and dedication to environmental sustainability, the forklift company identified the need for a new business model.

First, the company started to think differently about customer value, second they wanted to help their dealers, and third they needed to gather an army of service partners to be able to make the shift into the Subscription Economy.

> "Zuora has the ambition to re-shape the subscription value chain in order to harmonize operations between different stakeholders, from OEM, to insurers, to lenders, enabling companies with holistic subscription revenue models"
>
> **Marco Cesare**
> **Zuora, South Europe Region**



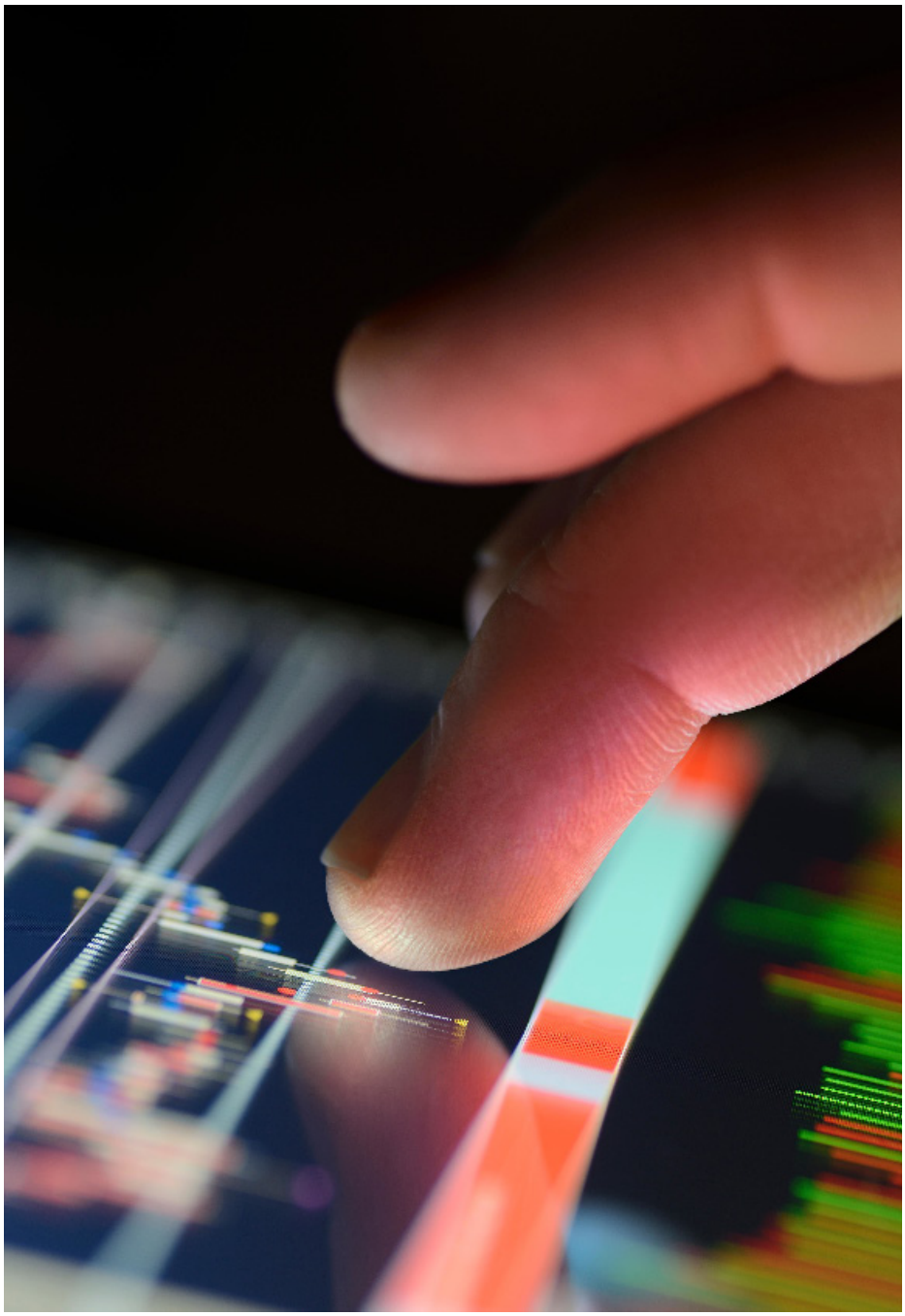
[6] "The Great Crash, 2008: A Geopolitical Setback for the West," Roger Altman, US Deputy Treasury Secreatary in 1993- 1994.

The New B2B2B Value Chain

In such a storm with a B2B2B value chain, dealers could not sell forklifts, just as customers could not afford them. With the pressure to evolve quickly, the forklift company's executive team created a services-shifting plan that served both the customer and the dealer. First, they selected a bank, an insurer (i.e. two hyper trust entities) and a renting partner (i.e. operating lease). Next, this company evaluated software platforms to find one whose roots were deep into service design and orchestration in order to bundle a core product with renting model, insurance and adjacent services.

This was a major shift in strategy. A forklift is a piece of bare metal and back then, thinking of insurance as an additional revenue stream for sharing vital extra margin between the OEM and the dealers, while arming the customer-relationship with an extra protection, was a huge challenge to overcome. No such thing would be possible without a technology software partner to enable the renting mechanism.

Zuora provided the forklift company with a next-gen relationship management platform, a "subscription-aware" tech-platform, where subscription is a contract changing dynamically to handle an ever-shifting-customer-journey sophistication (upsell, cross-sell, service bundling, multiple partners offerings, market-geography, payment methods, taxation rules, ...). As a result, forklifts were "rented" as hours of service, and just-in-time dropship and pick-up became value added subscription services, while demand-based dynamic pricing was built into the value chain and operations.



This is a story of an OEM, which understood the need to transform the entire company and the ecosystem of suppliers and partners leveraging a hyper scale tech platform. The solution enabled the company to easily bundle OEM products and services, together with third party product and services, powered by dynamic pricing, rating, billing, payment, dunning, collection, accounting, revenue automation and analytics engine. In order to cover such a wide order-to-cash-to-revenue functions in a legacy scenario, companies might need to integrate more than 10 different systems, increasing unnecessary risk, cost, process and organizational complexity. The forklift company and its ecosystem were able to implement a flexible products-and-services monetization strategy, where the solution made it easy to collect orders from the agents CRM, dealers portals, customers apps, enabling a multitude of B2B2ANY sales scenarios.

RENTING AS THE KEY DRIVER FOR CONTINGENT REBOOT AND FUTURE GROWTH

- The rise of renting in Italy: building a new recovery platform
- Intesa Sanpaolo Rent Foryou: Intesa Sanpaolo's answer to the market
- Renting to serve the new wave of entrepreneurialism
- Never Buy: the first digital marketplace dedicated to B2B Renting

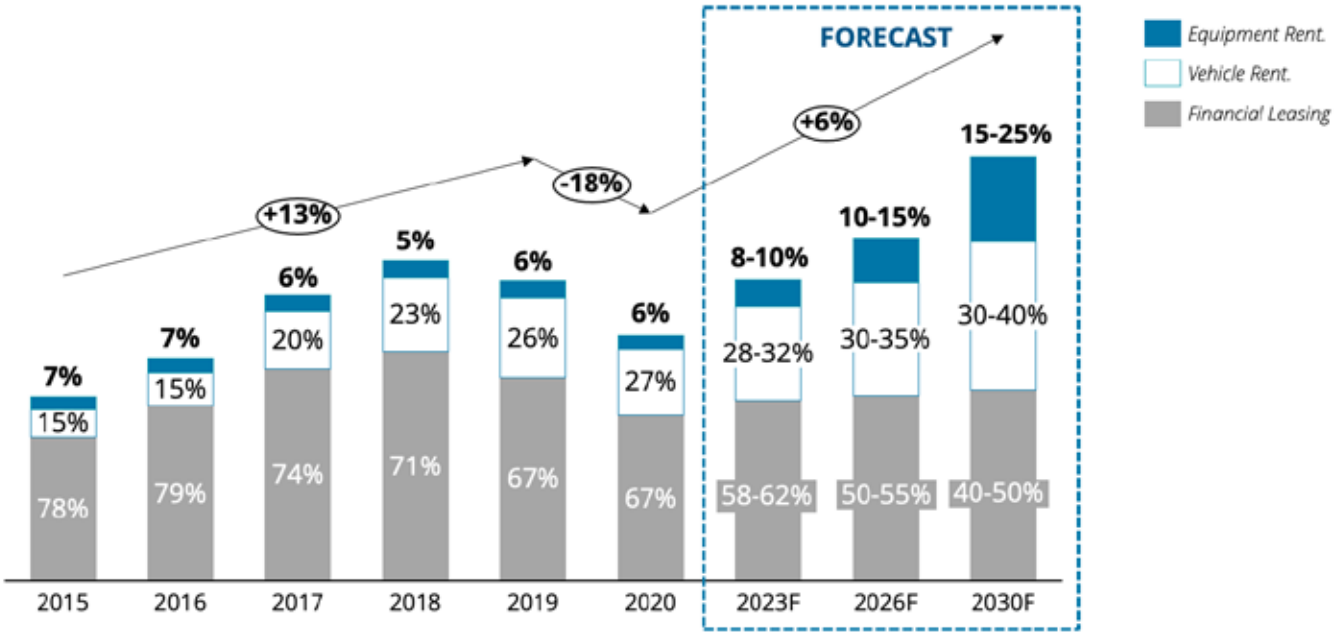
The rise of renting in Italy: building a new recovery platform

The European debt crisis at the beginning of the decade, which followed the 2008-09 financial crisis, has set in motion many of the changes that we are witnessing in the Italian market and across Europe

During the first half of the 2010s, the limited access to funding due to lending relationships with banks affected by the European sovereign debt crisis has caused negative real effects on borrowing firms (Acharya, 2018). As financial regulation tightened and banks generally adopted a more cautious approach to credit, firms have started to look for commercial solutions to their financial problems and needs. Renting offered these firms a valid alternative to many of the debt forms that crushed many of their competitors during the previous crisis.

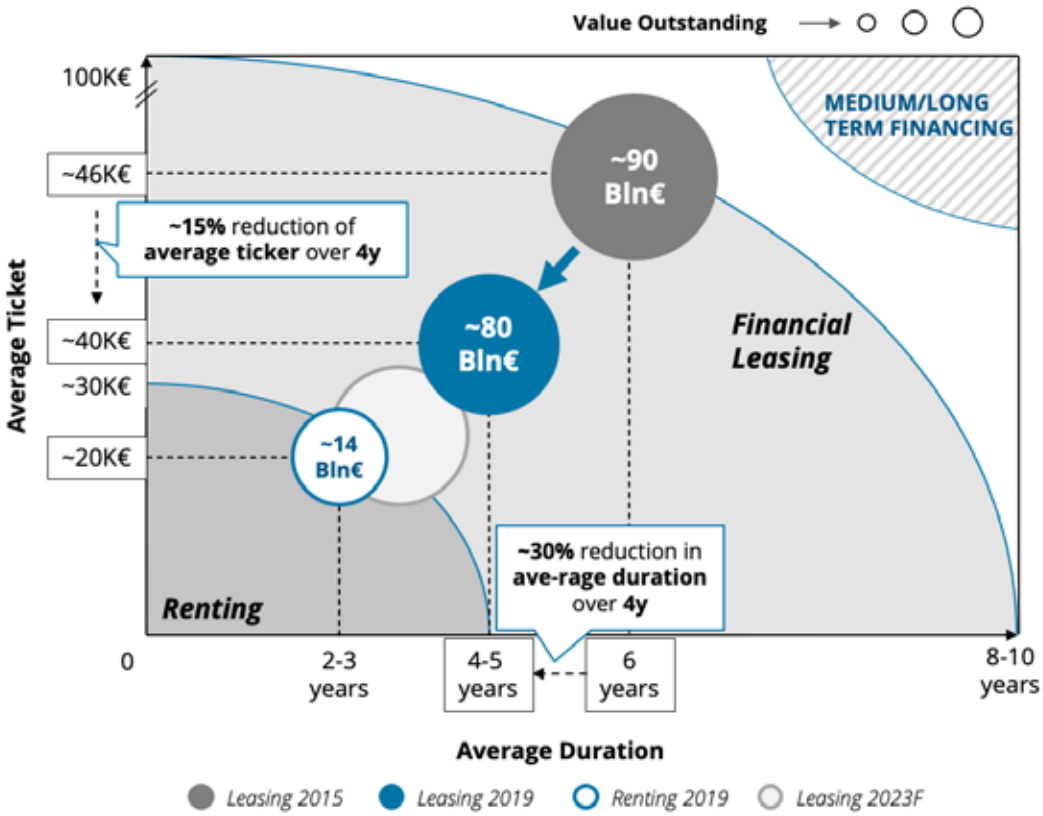
Over the last 5 years, the renting segment has been increasing in relevance within the leasing market. Between the years 2015 and 2019, new production of financial leasing and rental products has witnessed a yearly increase of 14,9%, with long term rentals for commercial vehicles driving most of the growth (29,1% CAGR2015-2019), followed by financial leasing (12,2% CAGR2015-2019) and renting (7,4% CAGR2015-2019). Following an expected 18% drop in production during 2020, Monitor Deloitte believes that the leasing industry will witness again a significant wave of positive years, with its mix shifting from financial leasing to equipment and vehicle renting.

FIGURE 9
Leasing production mix by segment
Bln€, %, CAGR, Italy, 2015-2030F



Because of its characteristics, financial leasing has occupied an intermediate position between long term financing and renting in terms of average ticket and duration. However, we have been witnessing a constant decrease of both length and magnitude of the average financial leasing operation. Between 2015 and 2018, the average ticket has decreased by 15% (from 46k€ to 40k€) and the average duration by 30% (from more than 6 years to about 4,5 years). During the same period, because of this phenomenon, the total outstanding value of financial leasing has dropped from ~90 Bln€ to ~80 Bln€ (ASSILEA, 2015-20).

FIGURE 10
Evolution of contract size and duration
Bln€, 2015-2019



The events taking place in the leasing market are the result of the cultural shift happening across the Italian economy and, more specifically, within SMEs. Today, SMEs are the primary users of leasing products, accounting for about 75% of the entire market. As business complexity increases, managers of smaller firms require the support of products and services that streamline their operations and recover their "mental capacity". In comparison to financial leasing, renting offers a more comprehensive solution to the need for operational equipment: installation, maintenance, substitution or disposal as well as administrative and regulatory support.

These and many other services are included in a single fee, on which entrepreneurs can rely to stabilize future cash flows, facilitate planning, and realize better fiscal synergies.

The renting market is ripe for a wave of investments. As changes in demand start reshaping the role of leasing products, regulators are starting to bring some clarity in the sector. By fully recognizing renting as a "non-bank" debt (Banca d'Italia, 2020), regulators and supervisors are increasing the transparency and clarifying the rules of the game for both intermediating and accessing the "product". Through this communication, Bank of Italy ultimately reduces companies' exposure to bank debt, opening new opportunities for financial investments. These regulatory changes are taking place in an environment that is starting to see significant financial institutions entering the market with more vehemence than ever before. Intesa Sanpaolo, for instance, has recently launched Intesa Sanpaolo Rent ForYou, born from the acquisition of Euroconsult RD Spa (Intesa Sanpaolo, 2020), a top Italian renting company, following a commercial partnership within Intesa Sanpaolo Forvalue, the entity dedicated to develop and market (non-financial) services for SMEs.

Intesa Sanpaolo Rent Foryou: Intesa Sanpaolo's answer to the market

As trends in demand and supply reshape financial market dynamics, banks and financial institutions are called upon to adapt to the shifting environment. Intesa Sanpaolo is one of the first movers in this direction. Following the acquisition of Euroconsult, the bank has developed a new long-term rental solution, which will further increase Intesa Sanpaolo Forvalue's rich offering dedicated to (mainly small and medium) enterprises. In an interview with Monitor Deloitte, Intesa Sanpaolo Forvalue top management has shared a view on the role of renting in a post-pandemic economy, as well as their company's short-term and long-term strategies.

> "Intesa Sanpaolo Forvalue was conceived by listening to entrepreneurs, wishing for their bank to support them beyond their financial needs, with tools and services capable of bolstering their growth"
>
> **Massimo Klun**
> CEO of Intesa Sanpaolo Forvalue

Even "healthy" suppliers, who, in recent years, have been providing renting solutions autonomously, put a strain on their cash balance, especially during last year. In order to help firms' recovery, Intesa Sanpaolo Forvalue is working to increase its network of suppliers, providing them with Intesa Sanpaolo Rent Foryou, a flexible product to support them during this period and in their transition to a circular business model. Renting solutions could indeed drive up producers' sales, as they enable clients to free up their net financial position for further investments, helping them moving a step forward towards scaling up more efficiently (Intesa Sanpaolo Forvalue, 2020).

Digitalization, of course, plays a key role in providing a seamless experience to the final client. In the short term, Intesa Sanpaolo Forvalue plans to leverage on its parent company's technology and expertise to streamline processes and create a digital end-to-end customer journey. "The objective is to create a process similar to personal loans for Retail Banking. Automated solutions for small ticket rentals will be live soon" (Intesa Sanpaolo Forvalue, 2020). Intesa Sanpaolo Forvalue plans to go a step further in their digitalization efforts, by integrating their renting products in e-commerce solutions developed for their clients.

In the long term, "Intesa Sanpaolo Rent Foryou will work to strengthen the link between suppliers and buyers, shifting from a price-based mindset to a relationship-based approach that focuses on services" (Intesa Sanpaolo Forvalue, 2020). By leveraging on ISP's network and by providing renting solutions for multiple asset classes, as well as a diverse portfolio of value added services, Intesa Sanpaolo Rent Foryou aims to move from today's market share 3,5-4% (inherited by Euroconsult) to a primary role in the Italian renting market.

> "During the lock-down period, many firms have witnessed their sales plummeting, but renting could represent an immediate response to the crisis for many firms."
>
> **Gabriele Ronco**
> CEO of Intesa Sanpaolo Rent Foryou

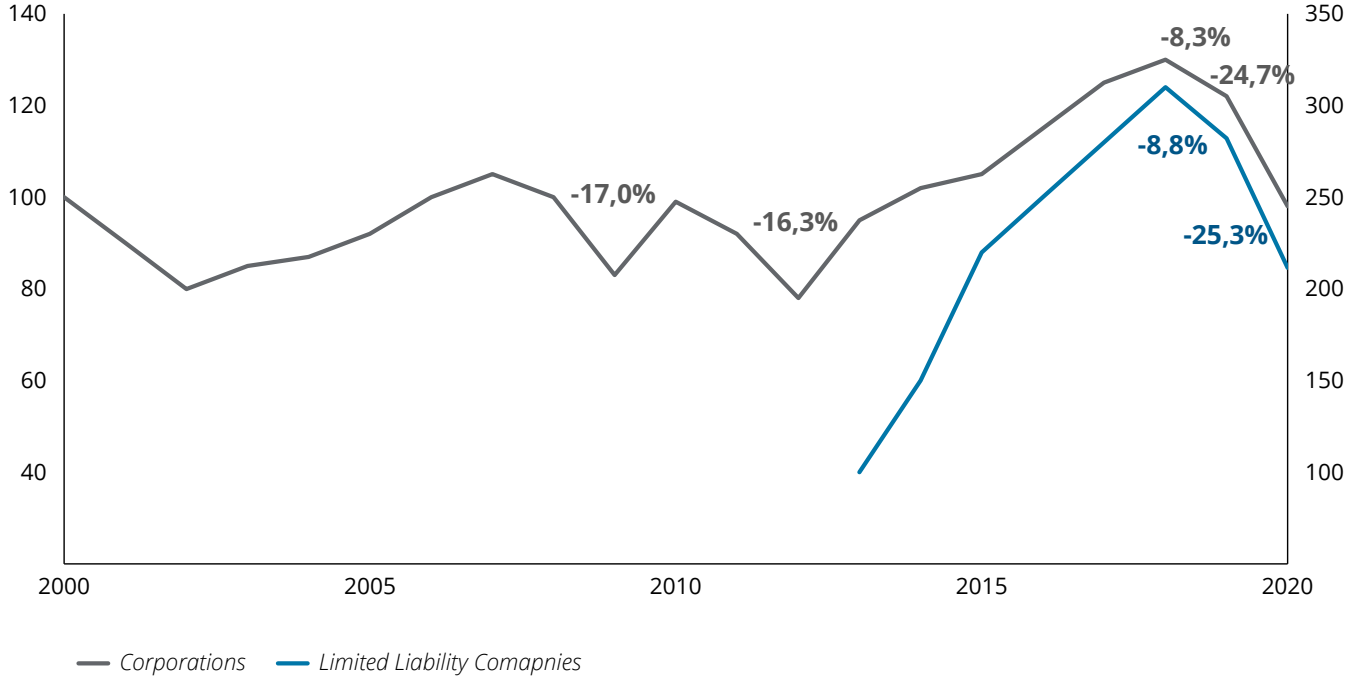
Renting to serve the new wave of entrepreneurialism

Covid-19 crisis is posing a relevant challenge to businesses in Italy, especially to SMEs. Compared to H1 2019, the first half of 2020 showed not only a natural drop in their performance (-11,6% of revenues) but also a clear mistrust from entrepreneurs, with a decrease in new business birth rate of -24,7%, way more relevant than the one recorded during past crises (-17% in 2007 vs 2006; -16,3% in 2012 vs 2011).

FIGURE 11

Evolution of newborn firms

Indexed to 100, Italy, 2000-2020 H1



Additionally, since the beginning of lockdown in late March (March 22, 2020, ed.), many firms have had difficulties keeping up with payments, with 58 thousand SMEs recurring to public support for a total value of 32,5 Bln€ as of July 2020. There is, however, a significant difference between larger and smaller enterprises. By looking at the ratio between financial debt and equity, we are able to notice that large firms have an 81,5% ratio, which is about 20 pp higher than smaller firms' 60,9% ratio, highlighting smaller firms' increased difficulty to access financing. Under such circumstances, the economic strain on SMEs is much stronger and the following recovery might prove more difficult to achieve.

FIGURE 12

Country-Level SMEs Bankruptcy Rates

%, 2020

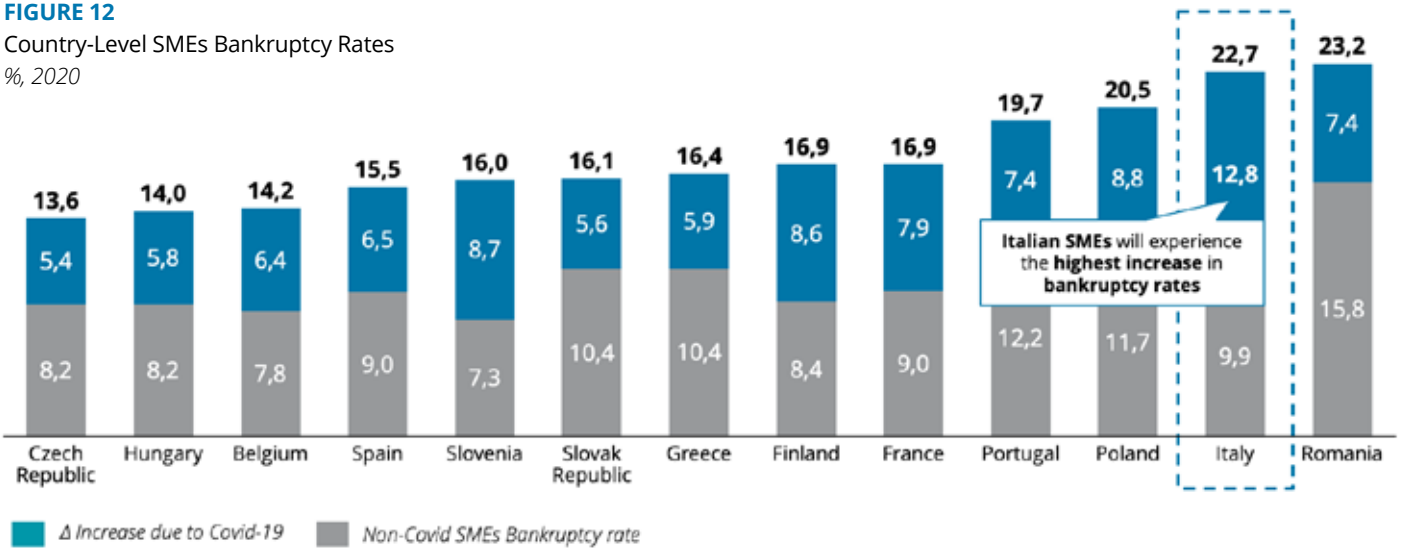


FIGURE 13

Drivers of recovery and growth from SMES in a post-pandemic economy

I bisogni delle PMI per la ripresa post Covid (Monitor Deloitte with Intesa Sanpaolo and Confindustria, 2020)

1

ABILITY TO INNOVATE

Evolve a firm's **value proposition** by reshaping **core business elements** (products, clients and distribution channels), and by adapting the **operating model** in accordance to the needs defined by the ***new-normal*** (e.g. remote-working, digital channels, ...)

~60% *SMEs that plan on improve their **business** and **operating model***

2

INTERNATIONALIZATION AND DIVERSIFICATION

Target **international markets** to increase **geographical coverage**, initiating a process to **enter high potential countries** to fully seize the **opportunities** represented by the **recovery** that will **take place overseas**

~50% *SMEs that **target international markets** to increase **profitability***

3

SCALE AND CAPITAL STABILITY

Reinforce **capital stability**, re-balancing the firm's positions **towards third parties** leveraging on **non-financial solutions** (e.g. renting), but also through **extraordinary operations**, that will allow for **economies of scale** and increased **competitivity**

~90% *SMEs that **recognize** the **need** to **improve** their **capital position***

While 2020 is seeing firms suffering from a bold, generalized economic shock, 2021 is going to focus on planning and executing the recovery (Monitor Deloitte with Intesa Sanpaolo and Confindustria, 2020). Renting configures as a key tool to support firms in their recovery process, helping them to:

- **Re-boot, optimizing initial investments**
- **Optimize capital and financial structure & risk**
- **Evolve business models and activate synergies**

OECD estimates suggest a 12,8 pp increase in SME Bankruptcy Rates, from today's 9,9%. Previous crises shown the SMEs population naturally surging after a 4 years cycle from the "shock" year (+4,1% in 2012 with respect to 2008 financial crisis; +6,4% in 2016 with respect to the 2012 debt crisis) (ISTAT, 2007-2018).

We expect renting to play a key role by not only softening capital entry barriers, but also giving SMEs the opportunity to re-think their business models and capital allocation. Renting will give entrepreneurs the opportunity to re-build their companies towards a service paradigm, allowing access to once "out-of-financial-reach" assets, as well as simplifying the administrative burden, handled by renting firms. Additionally, the adoption of renting will be leaving greater headroom for financial leverage (since it accounts for an operating cost and not a financial debt), giving firms better credit access opportunities "by design". Lower capital structures, nonetheless, will be enabling SMEs to carry lower default risk burdens, thus fostering entrepreneurs will to "play" again.

Additionally, firms will benefit from relevant fiscal synergies, being able to fully deduct renting costs from their tax burden (this is pure economic advantage with respect to a regular debt interest partial deductibility), as well as preventing the renting firm from reporting a firm's financial position to the Credit bureau. In general, entrepreneurs will be able to better translate their ideas into success, by accessing a multitude of possible asset combinations and uses, outsourcing their configuration and deployment to sector experts, and just benefitting from their startup advice, cost efficiency, post-sales support, disposal support, administrative compliance and last but not least: mental capacity recovery.

FIGURE 14
Key advantages of renting

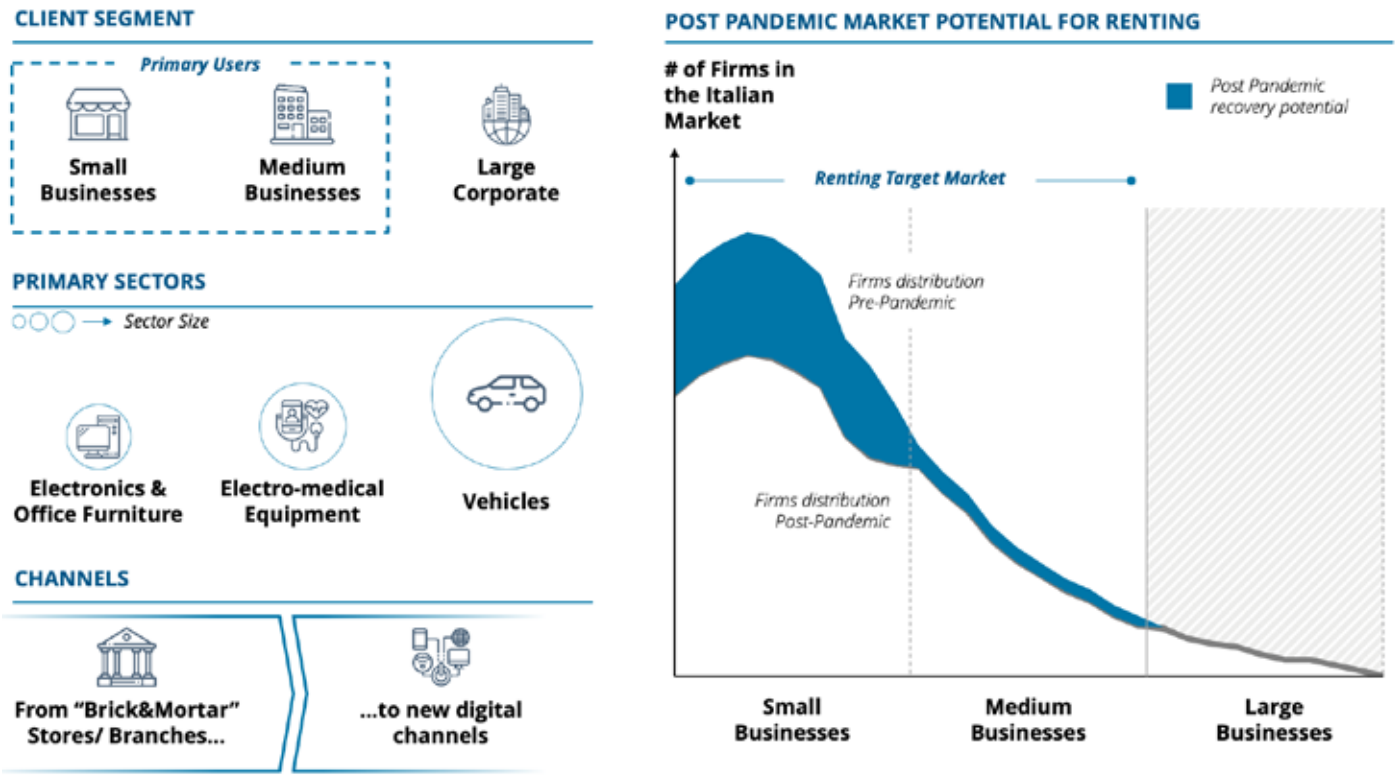
REDUCED BARRIERS TO ENTRY
Entrepreneurs will be able to start-up their business ideas with reduced initial capital investments.

INNOVATION OF BUSINESS MODELS
Reduced reliance on fixed capital will provide businesses with increased flexibility to rethink their business model.

IMPROVED RESOURCE ALLOCATION
Renting solutions' flexibility will allow to easily reallocate resources when needed and facilitate cash flow planning.

INCREASED FINANCING OPPORTUNITIES
The non-financial nature of renting will improve firms credit score and increase chances of receiving funding.

FIGURE 15
Key Take-aways



Never Buy: the first digital marketplace dedicated to B2B Renting

Many firms are now rising to address the trends presented in this paper, offering solutions that further facilitate consumer access to renting options. Among these firms, Never Buy has been able to adapt existing business mechanics to the renting industry and create its own "blue ocean" in this growing industry. Its unique single proposition is to be the only fully digital marketplace dedicated to all forms of rentals, with a specific target: small and medium-sized enterprises (Never Buy, 2020).

> "Renting, due to the inclusion of maintenance and service throughout the contract, is a highly technical non-financial product. At Never Buy our long-term challenge is to deliver the easiest way to rent goods, directly through your phone. What happens behind the scenes is pure technological innovation. We believe this is both a new physical distribution model mixed with a fintech platform"
>
> **Alessandro Malgioglio**
> Founder & CEO

Never Buy aims to become the go-to solution for all SMEs that want to rent products to support their businesses, in a simple and smart way. Thanks to Never Buy, professionals or small business owners can rent the goods they need to start a business or renovate their existing one, through a single point-of-contact. Consequently, firms can stay up to date and competitive, without high and often problematic initial investments. Renting with Never Buy enables customers to operate on the market with a strongly reduced time to market. (Never Buy, 2020).

The marketplace is a cross-asset platform that allows customers to interact with a single entity offering either computers, furniture or professional equipment. Being rentals pay-per-use products, the fees presented to clients include installation, assistance and maintenance throughout the duration of the contract. Furthermore, Never Buy integrates new customers and vendors into its community, with the aim of providing them with a more comprehensive experience. Never Buy's community members are entitled to services and benefits ranging from discounts on gas and electricity to free online training (Never Buy, 2020).

At the center of Never Buy's platform are large producer brands, as well as distributors and selected retailers. These players (vendors), can promote their goods and services on the marketplace, with Never Buy providing support for their communication and marketing strategies. Vendors can also access Never Buy's network of rental and renting companies, selected to guarantee a fair competition on the marketplace with specialized rental solutions (Never Buy, 2020).

Never Buy fully reflects the changes taking place in our economy. It promotes a product that enables clients to grow their businesses without incurring in debt or large initial investments. It simplifies companies' operations by integrating products and services in a single solution. It fosters a sense of community and network among funders, vendors and clients. Furthermore, its marketplace will facilitate access to rental solutions in a post-Covid19 economy and, possibly, help boost our country's recovery.

"We believe renting and product-as-a-service models will be the future, not only for B2B customers but also for the B2C segment, as a new mindset awakens in our country. However, renting is still an unknown alternative to many. This is why Never Buy integrates renting education as a primary goal. Working with the top brands in many industries will also deliver the sense of security needed when a product is servitized for 2+ years"

Mike Scalera
Co-founder

CONCLUSIONS

As the country faces its second wave of one of the most impactful pandemics in history, both small and large companies are paying the economic price for the significant drop in demand. Covid-19 is proving especially damaging for Italian SMEs, which are now facing the second largest bankruptcy rate in Europe.

Italian SMEs enter this crisis with lower cash stability than many of their European counterparts and their situation is further complicated by increased difficulties in accessing credit from banks and other institutions. These circumstances underline the need for SMEs to rethink both their long- and short-term investment strategies.

Only by fully embracing the macro economic trends we have been witnessing in the market, companies will be able to find the necessary flexibility needed to navigate this crisis. "De-ownership" and "Servitization" represent valuable opportunities for those companies that are in need to plan for the recovery and to bolster their growth. Renting fully embodies these trends by offering a pay-per-use and green solution that enables SMEs to plan their future, while reducing the risk of today's investments.

Renting is the expression of a new philosophy and mindset, brought upon by a new generation of Millennial and Generation Z entrepreneurs.

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