

Using Growth Capital to Break Through High Up-Front Costs in Environmental Services



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Introduction

The environmental services sector is experiencing a period of upheaval as sustainability initiatives, increased consumption and new technologies come together to change how society manages waste. As a result, businesses in the sector have an opportunity to expand their service offerings and increase profitability.

While the potential for revenue increases is high in environmental services, organizations face numerous challenges in advancing their operational initiatives. Among these are:

- High costs of technology investments to overhaul operational and customer-facing systems.
- Expensive fleet and facility upgrades that are necessary to support IT strategies and handle more sustainable waste processing practices.
- Demand for new training and hiring as work roles shift and employees adjust to operational disruption.

All of these issues compound in environmental services and waste management operations, as businesses must contend with large-scale operations and extremely tight profit margins. Strategic growth capital funding can be critical in empowering organizations to address the upfront costs that come with today's emerging demands. The need for such funding is becoming acute as pressure rises across the sector.



The state of environmental services and waste management

In a broad sense, the waste management industry and related environmental services sectors are growing. The situation is fairly simple. As the global population increases, more goods are consumed and more must be done to handle related waste. On top of this, macroeconomic trends, including a global move toward urbanization and rising awareness of environmental concerns, are leading to changes in waste management strategies that further enhance business opportunities. This is evident in three key parts of the industry:

1. Solid waste management

This segment is expected to grow over the next few years, with the sector to eventually be valued at \$340 billion globally by 2024, Global Market Insights® found. Additionally, urbanization represents one of the most prolific challenges facing solid waste management operations and organizations operating in the U.S. face mounting pressure from industry regulations, including the Land Disposal Program Flexibility Act of 1996. This is pushing many to embrace waste treatment processes and reduce dependence on landfills.

In many ways, the overarching trends impacting solid waste management are a signpost for what's happening in the rest of the industry, but it isn't the only sector experiencing new challenges and opportunities.



2. Plastic Waste Management

The emphasis on recycling is leading to expansion opportunities in how organizations manage plastic materials. Market Future Research® predicted the market for plastic waste management will rise at a compound annual growth rate of 3 percent for the 2017 to 2023 period.

While such issues as urbanization and global industrialization are pushing the plastic waste management sector forward, this segment also creates key opportunities. Plastics can be extremely valuable on the commodities market, making investments in more flexible waste management profitable.

3. Food Waste Management

The growing population puts incredible strain on food production, leading to significant waste both in terms of the detritus of food processing and trash caused by consumption. Food waste alone is expected to increase at a CAGR of 5.1 percent from 2017 to 2027, Future Market Insights® found. This is leading to market growth at a 6.8 percent CAGR. Tonnage of food consumption waste will also increase from 2017 to 2024, creating growth in the sector at a CAGR of 6.0 percent.



Responding to New Demand

While market growth is on the horizon, environmental services firms must be prepared to meet the needs of an increasingly urban-dwelling, environmentally conscious customer base. Handling the increased volume and variety of waste management processes requires operational change, and emerging technologies are poised to make new strategies possible.



Innovation opportunities shaping environmental services

The demand for new operational models is pushing waste management businesses to invest in growth strategies, particularly data-driven technologies that empower them to operate more efficiently. Smart solutions are central in this shift as environmental services organizations embrace digitization.

Smart Cities and Intelligent Waste Management

Many municipalities are embracing smart city technologies. These are Internet of Things-enabled

solutions that track everything from traffic patterns to service usage, allowing for better day-to-day operations. This trend is extending out into waste management, where smart waste collection solutions, IoT-enabled fleet management solutions and cloud-based applications are positioning organizations to adopt new strategies to serve customers better, a Frost & Sullivan™ study explained. Smart waste management could prove transformative in key areas of operations, including waste collection and sorting, and Technavio predicted the market

will grow at an 18 percent CAGR from 2018 to 2022.

Automation

Whether organizations implement self-sorting receptacles or autonomous vehicles, the potential gains offered by automation are significant. A U.S. Department of Commerce study of autonomous vehicles found that the technology could have a powerful impact on job roles for a variety of worker types, including what the agency termed “on the job drivers.”



This group included waste management professionals, and the research indicated that autonomous vehicles can enable them to get the job done more productively and experience better work conditions.

Autonomous vehicles represent a huge opportunity, as the study found that the total value of motor vehicle equipment in the U.S. administrative and waste management services sector was \$20,572 million, equating to 16.6 percent of the industry's equipment capital stock.

The potential gains are considerable, but the costs associated with fleet modernization are significant.



Growth capital for environmental services

The combination of rapid growth, smart technologies and automation opportunities is putting immense pressure on waste management businesses. Growth capital loans can alleviate this strain, providing the critical funding needed to launch new projects and take advantage of emerging opportunities.

The challenge, when it comes to growth capital, is ensuring businesses end up with a loan that aligns well with their goals. At Comerica Bank, we emphasize advisory services as part of the lending model, positioning businesses to take advantage of market opportunities that require

specialized funding. Learn more about our [business solutions for environmental services](#) today.



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¹Comerica ranks first nationally among the top 25 U.S. financial holding companies, based on commercial and industrial loans outstanding as a percentage of assets, as of June 30, 2018. Data provided by S&P Global Market Intelligence.

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