

Aiming Towards Becoming an Identity That Will Serve as the Nucleus for a Circular Society and Lead the Future of Circular Economy

Shinichiro Fujisaki and Yasutora Watanabe



Trend of Circular Economy

Watanabe: In Japan, our main concern used to be about “3R” (reduce, reuse and recycle), and we valued the idea of how to reuse waste. However, the idea of the circular economy originally means designing circulatable products that do not generate waste from the beginning. According to a report by the Ellen MacArthur Foundation^{*1}, 55% of GHG emissions come from the energy conversion sector, including power generation. The remaining 45% comes from the industrial sector, with most of the emissions occurring during the production of items such as cement, steel, plastics, aluminum. The circular economy, which also takes into account the length of time a product can be used, is also directly linked to reducing GHG emissions. Attitudes towards the circular economy vary from country to country. A survey on how a company's sustainable initiatives affect product purchases showed that 50% of people in Japan answered that they “have an influence,” compared to 70% in France and Germany, and over 80% in China, Indonesia, and Thailand, showing clear differences in consumer awareness. Incidentally, in Europe, the EU (European Union) is leading the way in strengthening regulations, where various initiatives have been made such as the promotion of information sharing in the supply chain through the introduction of the Digital Product Passport^{**2}, and the Right to Repair^{**3}, which are starting to have impact on the manufacturing industry.

Fujisaki: Japan is left behind regarding the introduction of regulations, but I feel consumption patterns for clothing have changed considerably. We have been operating auctions of pre-owned luxury brand items since about ten years ago. In the past, products in good conditions sold well, but these days, the younger generations are more likely to look for vintage items. I think we are seeing new ways of finding value in things that are well-used and new styles of consumption.

Watanabe: Students often go to second-hand clothing stores to buy clothes. Second-hand clothes are cheaper than brand-new ones but not so inexpensive.

Fujisaki: Regarding the matching of used goods, it's been around for a while but as the market has grown, we feel a tailwind, and at the same time we feel that expectations from stakeholders are increasing. On the other hand, when thinking about the entire circular economy, I'm tempted to take one step further to launch more challenging businesses. The EV (electric vehicle) market is rapidly growing, but it is generally said batteries' charging function starts to deteriorate in about eight years. As there is currently no way to reuse those batteries, there is a movement to remove the batteries from the cars and use them as storage batteries for other purposes. As our company is involved in automobiles, we plan to design markets not only for used cars, but also for repurposing batteries. Furthermore, we believe that additional value will be required, so in the future, we would like to actively enter markets that assume circulation from the primary distribution stage.

*1 Ellen MacArthur Foundation: A charity organization to promote the circular economy founded by Ellen MacArthur (England). Its activities have attracted attention from around the world as having effective approaches to solving environmental problems.

**2 Digital Product Passport: A digital certificate in which various pieces of information are recorded to ensure traceability of a product along its lifecycle. This is being institutionalized mainly in the EU.

**3 Right to Repair: A new legal system being developed in various countries around the world which refers to the legal right of consumers to require parties such as manufacturers to repair their products.

Know-How and Reliability that Enable Social Implementation



Yasutora Watanabe

Professor at Graduate School of Economics, Faculty of Economics, and Graduate School of Public Policy, the University of Tokyo
Director of U Tokyo Economic Consulting Inc. (UTEcon)
Advisor for AUCNET INC.

Watanabe: Circular economy tends to focus on the technical direction of how to circulate, but from an economist's viewpoint, the most important thing is how economic incentives should be provided to implement this in the real world. It is difficult to complete a transaction if the quality or condition of the item is unknown. In economics, this is called “information asymmetry.” Although the forms of items may differ such as reuse, recycling, repurposing, refurbishment, they are not new and there are a variety of sellers, so a common important factor is how well buyers can assess quality. It would prevent the circular economy itself from operating if such information asymmetry cannot be eliminated or mitigated in the real world. So I think Aucnet, which has been working on the issue has an important role to play.

Fujisaki: Our mission is to connect values through market design. The circular economy is the ultimate goal, but the first step is to make connections. As our company name suggests, we run online auctions, but the most important thing is to convey accurate information about items and connect them to buyers who find value in them. Since our founding, we have been inspecting used cars and grading smartphones, and we believe that our greatest strength is our know-how in correctly evaluating each and every item.

Watanabe: After all, reliable information is valuable. In the case of reuse and recycling, if the price of a new product is 1 million yen, it is important to be able to judge whether it is 700,000 yen or 500,000 yen depending on the current quality level, so it is important to be able to convey information that is useful for judging the value to buyers in a reliable form. Even government documents say that information should be circulated as well, but who creates that reliable information? Information has value, so it should be created even if it costs money, and I believe that is what Aucnet is doing.

Fujisaki: In BtoB, we believe we have built trust through our brand value, including globally, so we will expand our area to BtoC in the future. I believe that the reliability of information accounts for more than half of the criteria for deciding whether to buy or sell, but emotional factors also determine whether or not someone actually buys. For example, when the popularity of SUVs increases within used cars, the popularity of sport type cars, in contrast, decreases. In the reuse sector, it is important to pay attention not only to the reliability of information, but also to emotional elements. When we first started auctioning pre-owned luxury brand items, it was still common to see the item in person before buying or selling, and information about defects or the reliability of the item's condition was not publicly available. At the time, one of our employees who was an automobile inspector was knowledgeable about pre-owned luxury brand items. When we asked him, what was important when buying and selling pre-owned luxury brand items, he mentioned not only authenticity, but also the degree of use such as wear and tear, and, surprisingly, the smell. In time, the inspection standards for pre-owned luxury brand items that the employees established became the standard for our company. From this experience, we believe that the key to developing the next market is to first research the desired elements that consist of reliable information.

Watanabe: Conversely, if there is too much information, it can be costly to make decisions, so it is important that the content is just enough to be useful for buying and selling. I think this is a point that other companies cannot imitate. In order to establish the circular economy, it is also important to consider what geographical area we should define. The reliability of information for trading needs to be tailored to each geographical area, and with the trend toward tougher regulations like those in the EU, it will be extremely important to consider whether the credibility of the information source is sufficient only in Japan, or whether it needs to be globally recognized. This kind of reliability is not something that can be established overnight. What I find very impressive about Aucnet is that you are creating new markets based on the trust you have built as a market maker, in fields where synergistic effects are expected. From an economist's perspective, it is extremely difficult to establish a market. It's a question of demand and supply, and the quality of the intermediaries at the center of the market is overwhelmingly important. What's essentially important is how reliable the information from the intermediaries is, and whether that quality can be guaranteed. Aucnet has experience of fulfilling its function to establish a market in various markets and this is a source of trust, which I think is an asset. This is perhaps the greatest advantage.

Fujisaki: For about the past ten years, when I talk to young entrepreneurs these days, they think that if they simply set up a platform with interesting gimmicks, this will naturally attract goods and people and activate distribution. In fact, I think many of them fail at this. Creating a place where everyone can gather with peace of mind requires creating rules, and I've learned that gathering people together is not easy. And while providing reliable information is a prerequisite, to establish a market, it takes more than just one or two buyers. It takes a large number of buyers to compete with each other. It isn't possible to expand this not only in one region, but also on a global scale overnight. This is also our core competency, which we have built up over about 40 years. Connecting values is our mission, and I think our secondary distribution support service, Selloop^{**4}, which we launched in 2021, has also been allowing us to fulfill our expectations and responsibilities. In the past, we have been expanding our business in the secondary distribution area, but from now on, we want to further collaborate with primary distribution companies and expand our business to a variety of products and areas while making use of existing capabilities.

Watanabe: In the flow of the circular economy, this is a major business opportunity in the sense that the same business model can be used in a variety of situations, and I think Aucnet will play an increasingly important social role.

**4 Selloop: A service that supports primary distributors in setting up and operating secondary distribution mechanisms.
<https://selloop.jp/>

Exhibiting Competitive Advantage by Market Formation Ability

Shinichiro Fujisaki
President & CEO



Potential to Change the GCV Market, Our Proprietary Indicator

Fujisaki: It's great how our company's social role will grow from now on. Using second-hand goods extends the life cycle of the items themselves, and therefore contributes to reducing environmental impact. If these benefits and sense of satisfaction increase in the future, we hope that reuse will spread and the line of the circular economy cycle will become thicker. As a result, we have established a gross circulation value (GCV)^{**5}, numerical indicator as a management indicator of our company, and it shows the degree of contribution to the reduction of environmental impacts. With this indicator, I think our stakeholders will understand that we are seeking to increase economic impact and curb environmental impact at the same time. Just like inspection standards for used cars, I think if GCV can be shared in the entire reuse industry in the future, it will lead to revitalization of the market, and we would like to play such a role.

Watanabe: GCV numerically shows how goods circulate and how much GHG emissions are reduced in detail. Furthermore, since it allows various cases to be represented by means of numerical values that are so clear and easy to understand for consumers and business partners, I expect GCV will be shared by the entire market. If we set indicators like this just for our own benefit, they will not work after all. This reliability principle applies not only to GCV, but also extends to the inspection standards you have just mentioned.

Fujisaki: You are absolutely right. It's possible that people who find value in how much environmental impact is reduced will purchase our products on the basis of GCV, so I expect our effort will produce various positive effects.

**5 Gross circulation value (GCV): Aucnet's proprietary indicator showing in monetary terms the impact of business activities on the economy and the environment
<https://www.aucnet.co.jp/en/sustainability/GCV/>

Aiming Towards Further Increasing Our Presence

Watanabe: I feel that consumer awareness of the circular economy has changed significantly compared to five years ago. Regulatory trends in Europe in particular have had a major impact, and what had previously been viewed as a slogan in the BtoB industry has suddenly changed perception to the point where depending on how it is handled, it can become both a risk and a business opportunity. Tightening regulatory environments are a tough situation for many companies, but for Aucnet, it actually increases its corporate value, so perhaps we can view today's changes in the external environment in a positive light.

Fujisaki: When there is movement toward tougher regulations, primary distribution businesses first think about responding on their own. However, there are many difficult aspects to secondary distribution, which are difficult to solve on your own. Due to this background, we are seeing an increasing number of cases where people are contacting us, as we have experience and know-how. Companies trying to comply with regulations quickly would rather entrust their work to a reliable secondary distribution company than make a profit by selling reused goods at a high price, so we are very grateful that they have chosen our company.

Watanabe: One of Aucnet's strengths is that it has a solid foundation for leading the circular economy of the future. I used to teach business ventures in the United States, and when the topic of corporate growth and new business ventures came up, my students would immediately want new ideas. However, fundamentally there is a core competitive advantage for a company, and the key is how to make the most of it. Aucnet has a business model that is based on the experience and trust it has gained in establishing markets for reused goods and other items, and it is seeking to expand this into related fields. I truly think this is the way to go.

Fujisaki: We believe that we have ample ability to connect in the reuse field. Going forward, we will focus on increasing our presence as a connecting force in the circular economy in areas such as recycling, repurposing, and refurbishment. We would also like to expand our business fields and scale, for example, by teaming up with companies that already have experience and knowledge through M&A. In addition, we don't just pursue conventional business approaches, but we also help employees bring their innovative business ideas to life. These can lead to new outposts and new areas of growth, so I think it's important to keep challenging ourselves in everything we do, through trial and error.

