

Caroline Cartellieri

Gabrielle Hase

BULLSEYE OR BAD THROW: CIRCULARITY AND THE COST OF LIVING



Introduction

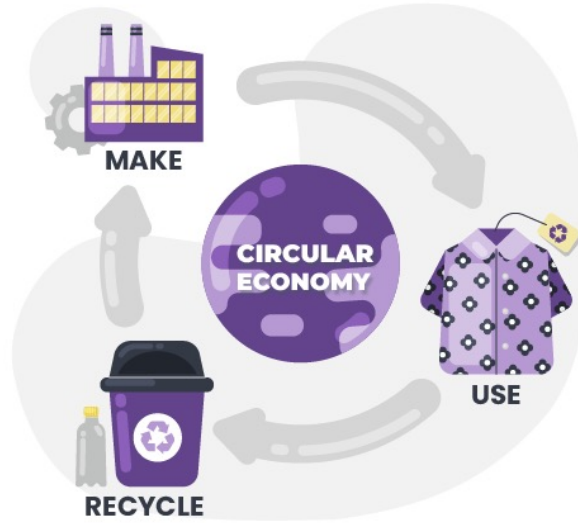
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Over the past year, the climate crisis has become more urgent than ever, driving brands and retailers to adopt more sustainable business practices in response. Together with recent economic factors that are putting intense pressure on the cost of living, Boards are grappling with questions of how to address both. Enter the Circular Economy, a new way of doing business that is increasingly seen as a potential response to both of these issues.

This white paper provides a primer that explains the options for joining the Circular Economy, why cost-of-living pressures are likely to increase the urgency to be part of it, how to tell if it is a worthwhile effort for your business, and what needs to be considered before committing to it.

What is the Circular Economy?



The Circular Economy is an evolution of the way the world produces and consumes both goods and services. It means moving away from the world's current – and enormously wasteful – economic model of 'take, make, throw away', in which resources are extracted, turned into products, used, and discarded. According to a 2021 Circularity Gap Report, the world economy is only 8.6% circular. The model redefines the economy around three principles:

- 1 Designing out waste and pollution
- 2 Keeping products and materials in circulation, at their highest value, for as long as possible
- 3 Helping nature to regenerate

Each principle encourages us to:

- Rethink and redesign the way things are made, used, and wasted
- Design and manufacture products to be more durable, reusable, repairable, and recyclable
- Protect our environment by reducing the environmental impact of how we live

Part 1:

Today's Landscape

The Cost-of-Living Crisis is Intensifying

According to the latest U.K. government statistics, 4.2 million people (6%) were living in food poverty in 2020 to 2021; this figure includes 9% of all children. With the cost-of-living crisis, the situation is only getting worse. Data from the Office for National Statistics (ONS) shows that almost half of UK adults are finding it difficult to afford their energy bills, rent, or mortgage payments.

Around 9.7 million adults live in households that experienced food insecurity in September 2022, including 4.6 million children, according to the Food Foundation. A record 320,000 people were forced to turn to Trussell Trust food banks between April and September 2022, with 1.3 million food parcels given out during this six-month period – more than ever before – and almost half a million of those going to children.

The Relationship Between Brands and Society Needs to Evolve

If it does not, brands and consumers alike will suffer. The Global Sustainability Study 2021 found that a third of consumers are willing to pay more for sustainability. Businesses must step up and demonstrate that they not only understand the struggles facing consumers, but are helping to alleviate those struggles, by promoting long-lasting products and services that lessen the strain.

While consumers struggle to pay their bills and feed their families, certain brands have “more money than they know what to do with”. There is an imbalance in the economy, and the circular economy is an ideal way for brands to strengthen their relationship with consumers while ensuring long-term resilience.

Numerous retailers have already introduced take-back schemes, leasing models, second-hand and repair workshops for their products. They are even offering the brand as a service to local communities through donations and grassroots initiatives such as Hubbub's community fridges, because they know that in these times, focusing solely on profitability is a short-term gain.

But this hasn't distracted us from the climate. Earlier this year, a YouGuv survey revealed that even during the cost-of-living crisis, consumers are still making conscious choices about buying sustainable products and services. It found that 54% still want the UK government to deliver strong policies to combat the climate crisis, with less than 30% saying it was unaffordable to implement such measures.

In the current cost-of-living crisis, businesses must step up and demonstrate that they not only understand the struggles facing consumers, but are helping to alleviate those struggles, by promoting long-lasting products and services that lessen the strain.



Reducing your company's ecological footprint creates a number of opportunities due to:

Shifted customer demand – Future demand for sustainable solutions will affect customer preferences and preparing for this shift will help your brand stand out against competitors.

Staying ahead of legislation – Waste management policies will affect companies and how they can treat material flows. By transitioning to circular solutions, companies can be prepared for upcoming laws and avoid unnecessary fines.

Enhanced brand perception – Those businesses operating under the B Corp certification are perceived to be operating within an “elevated” community.



Part 2:

Options to Consider

Different Routes to Take

Some of the more common options we are starting to see emerge – from least to most complex – are as follows:

1. Sell imperfect products at a lower price rather than destroying them

In the UK alone, over 3 million tonnes of fruit & veg are wasted before they even leave the farm: they're either "too" big, "too" dinky, "too" misshapen or just "too" many.

Smart brands are cottoning onto clever ways to tackle this. Oddbox, for example, works directly with farmers to deliver thousands of boxes of fresh, fantastic and 'funny-looking' fruit and vegetables to people every week. Tesco and Morrison's offer their own ranges of aesthetically challenged produce, through their Perfectly Imperfect and Naturally Wonky brands. Hotel Chocolat has gotten in on the act through its Ugly But Good line of products. Since these ranges are typically cheaper than their more perfect counterparts, they are a good way for brands to serve a more price-conscious customer instead of losing them altogether.

2. Take back your packaging at the point of purchase

Legislation is driving the agenda by aligning incentives to recycle. Germany enacted the Packaging Act (VerpackG) on 1 January 2019 in an effort to bring about a significant increase in recycling rates for waste packaging materials. The Act affects all manufacturers and retailers that sell packaged goods to consumers in Germany – and it applies to companies shipping internationally, too.

Slovakia became the 11th European country to launch a deposit return scheme (DRS) on the 1st of January 2022, and Scotland will also shortly launch a mandatory plastic bottle return scheme – and make history as the first part of the UK to do so.

3. Offer a repair service

Some brands have been offering this kind of service for a long time without calling special attention to it. But we are seeing more brands investing in this service and publicizing the benefit. For example, UNIQLO knows that simple repairs such as replacing a lost button, or patching a hole, can be done at home, but these tasks can seem a little intimidating. UNIQLO has created a series of repair videos that guide customers through common repairs to help them extend the life of their favourite items. Its UNIQLO Repair Studio at its flagship stores will also handle repairs such as a rip in a pair of jeans.

4. Take back your old products for recycling

The High Street has widely embraced this service for customers to encourage recycling in a more considered way. While the mechanics vary – John Lewis, M&S (through its Schwopping scheme) and TK Maxx (through its Give Up Clothes for Good campaign) take back clothing and housewares from any retailer, while Sweaty Betty's Take Back program takes back its own products – the point is the same: recycle responsibly. Brands like Farfetch and The White Company are partnering with Thrift+ to offer consumers credit in their stores when they donate their clothes to the online sales platform.



5. Use recycled products in the supply chain

While more difficult to implement, we are seeing more brands developing ranges – or indeed their entire catalogue – using recycled products. Brands like SirPlus, Re/Done Jeans and Planks Clothing all use fabrics and yarns that are either surplus, recycled or upcycled.

Other industries are getting in on the act as well. For example, Dulux paint and Veolia UK, providers of waste, water and energy management, are collaborating on a partially recycled paint product, extracted from leftover paint destined for landfill.

6. Offer a rental option

The rental business model has been around forever (think books, cars and apartments), but what's new is the way other sectors are adopting it. There are a number of fashion, art and furniture rental services that are becoming an increasingly popular way to enjoy the latest looks and trends while keeping things sustainable and affordable.

Consider Selfridges, which launched a rental service in collaboration with HURR in 2021, and HURR itself, the UK's first peer-to-peer clothing rental service. The cost of renting a designer dress is a fraction of what it would be to own. In light of cost-of-living pressures, the fashion rental model is a way for consumers to try something new on a lower budget.



Part 3:

The Impact of Each Option

Assessing Different Options

Looking more closely at the options outlined above, we consider how they impact various measures, from the consumer perspective to the ultimate return on investment.

	Option			
	Selling imperfect products	Take back packaging	Offer a repair service	Take back old products for recycling
Consumer Impact (what is the potential savings impact for the customer?)	Small	Small	Small	Small to medium - depends if the brand offers a discount or loyalty points for bringing products back
Sales Impact (what is the impact on the brand's top line?)	Small	Small but could be considered a differentiator	Small	Small, although it can be incentivised by giving a voucher towards the next purchase
Margin Impact	Small but positive impact on waste (and therefore COGS)	Small to medium - depending on additional costs incurred	Small - could be cost neutral or marginally positive if consumer is charged	
Brand Impact	Small	Small to medium	Small to medium	Medium - this offers another customer touchpoint; can be used to incentivise new purchase.. Keeps customers loyal
Operational impact (how hard is this to do?)	Small - only requires different packaging and pricing	Medium to large - depending on what outsourced options there are.	Small - can be treated as any other service, and easily outsourced	Small to medium – there are outsourced options like Thrift+ which reduce complexity
Notes	Far from detracting from the brand, this could have a positive impact by demonstrating authenticity (hey we don't always get it right) and offer a less expensive option for consumers	This is still not commonplace but packaging is a criterion that consumers are more often considering when buying	This won't be a significant revenue line but could be seen to demonstrate brand values and commitment to sustainability	Helps brands manage the 'aftermarket' - setting prices and offsetting brand dilution

Part 4:

Who Is Doing What



There are a number of well-respected brands leading the way in the Circular Economy, and we can learn a lot from them, but like anything, it's never totally smooth sailing. Here are a few examples of what different brands are doing:

THOUSAND FELL and its recycling incentives

The brand has made a name for itself as an environmentally conscious manufacturer, producing **shoes made from sustainable materials such as sugar cane, coconut husks and recycled plastic bottles**. Its partnership with TerraCycle and UPS resulted in the launch of a new recycling incentive, encouraging customers to return old pairs of Thousand Fell shoes in return for \$2, that can be used toward a new pair. So far, they have recycled almost 118,000 PET bottles..



and its second-hand goods

Nestled in the Swedish town of Eskilstuna, IKEA's first ever second-hand store features gently used IKEA furniture as part of the brand's efforts to reach its 2030 climate targets and help customers prolong the life of their products.

It also recently **started a large-scale "Buy Back" scheme for customers across 27 countries**, exchanging unwanted furniture and other items for store vouchers that offer up to 50% of an item's original price. IKEA has confirmed that any items not resold are recycled or donated to local community projects.



and its reusable packaging

In 2022, selected UK-based Burger King **customers trialed a new range of reusable and returnable packaging** for its burgers, drinks and sides across four UK restaurants in collaboration with global re-use platform Loop.

If successful, the chain plans to roll out the packaging nationwide on a permanent basis in a bid to reduce its carbon emissions, with a target of a 41% reduction in value chain emissions per restaurant by 2030. The trial has just completed, so it's too soon to tell whether Burger King has judged it a success or not, but we commend the intention!



and its self-employed plastic pickers

Following in the "social plastic" footsteps of other major brands like HP and Timberland, Puma's 2020 **Spring collection was developed in partnership with the First Mile Coalition**, a network of self-employed refuse collectors in Taiwan, Honduras and Haiti, who remove plastic waste from ecosystems and sell it to make their living.



and its reuse and repair efforts

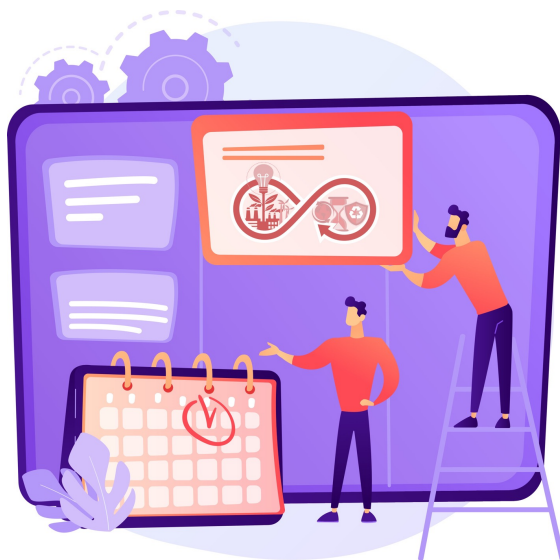
A longstanding advocate of recycling and sustainable consumption, **Patagonia started selling gently used outdoor gear via its online Worn Wear shop** back in 2017, making it the first company to give customers an easy way to purchase a used alternative when shopping for new products. Shortly after, Patagonia released the ReCrafted Collection, all made from recycled products deemed too damaged (or "well-loved") to be sold in the second-hand store. In 2020, Patagonia took a dive into the Circular Economy by creating repair guides in partnership with iFixit, to help customers repair their own gear.



and its in-house residency for circular design

Back in 2018, the North Face was setting the bar with its re-commerce platform, The North Face Renewed Collection, including refurbished clothing available at low prices. **The brand has diverted over 200,000 pounds of used clothing from landfills** and expanded the Renewed program to include an in-house design residency. Rotating groups of the brand's designers attend bi-annual sessions at the company's Oregon-based Renewal Workshop, to learn more about the principles of circularity and create custom auction pieces from garments previously thought to be irreparable.

Conclusion



As the cost-of-living crisis worsens and consumer behaviour and purchasing decisions evolve, at the same time as people become more conscious and anxious about their impact on the environment, our current business model of using resources to make products and then throwing them away is no longer viable.

The Circular Economy is a new way of thinking, designing, manufacturing, and creating value that benefits business, society, and the environment and secures a sustainable future. Organisations and their Boards must carefully consider the options available, and where relevant, adjust their business models to integrate circular principles across their entire supply chains, to ensure the maximum value and life from recyclable products.

The Circular Economy: Is it Actually Possible?

As well as environmental benefits, the Circular Economy has the potential to create long-term financial advantages for its proponents, such as reduced production and stronger, more sustainable relationships with customers. However, a transition to a Circular Economy doesn't happen overnight, and requires proper consideration.

Steps Your Business Can Take

While systemic thinking and collaboration are key to accelerating the transition to a Circular Economy, every organisation and its Board need to carefully consider the wide variety of circular economy initiatives that they can adopt in light of their specific requirements.

- ✓ **Invest in knowledge** – Do you have the right people around the table to provide the analysis you need and the right information to inform the decisions you'll need to take? This doesn't need to be a costly exercise, just a thoroughly thought out one.
- ✓ **Be open to disruptive innovation** – Rather than wait for your competitors or new entrants to your market to disrupt your way of business, think about how you can be the disruptive innovator yourself. Luxury brands provide a good example – many would have never considered providing a rental option for their products, but brands like Stella McCartney and Richemont have embraced it. Be open to new ideas and solutions, and always investigate and assess before dismissing them.
- ✓ **Cooperate with other companies** – Share knowledge. Educate peers. Ensure transparency throughout your entire supply chain. Cooperation and trust are often referred to as crucial components of a Circular Economy.

The Way Forward

If understanding how your business will approach the Circular Economy isn't on the Board agenda, it should be. Both today's consumers and the future of the planet demand that brands understand the impact they have and take steps to operate in a more supportive and ultimately profitable way.

Not every brand will have the same options or take the same path, but by rigorously scrutinizing every business practice you are engaging in today, the right options will become clear. We have outlined only some of the ways a brand can step into the Circular Economy, and we encourage you to discover what might work best for you.



Retail Rental: Deep Dive

Fast fashion has been a long-standing problem in retail. Countless tonnes of clothes are dumped into landfill as soon as the trend cycles change, and the speed of producing these clothes has led to uncontrollable environmental pollution. Each year, the fashion industry is responsible for 10% of annual carbon emissions and emits more carbon dioxide than all international flights and maritime shipping combined.

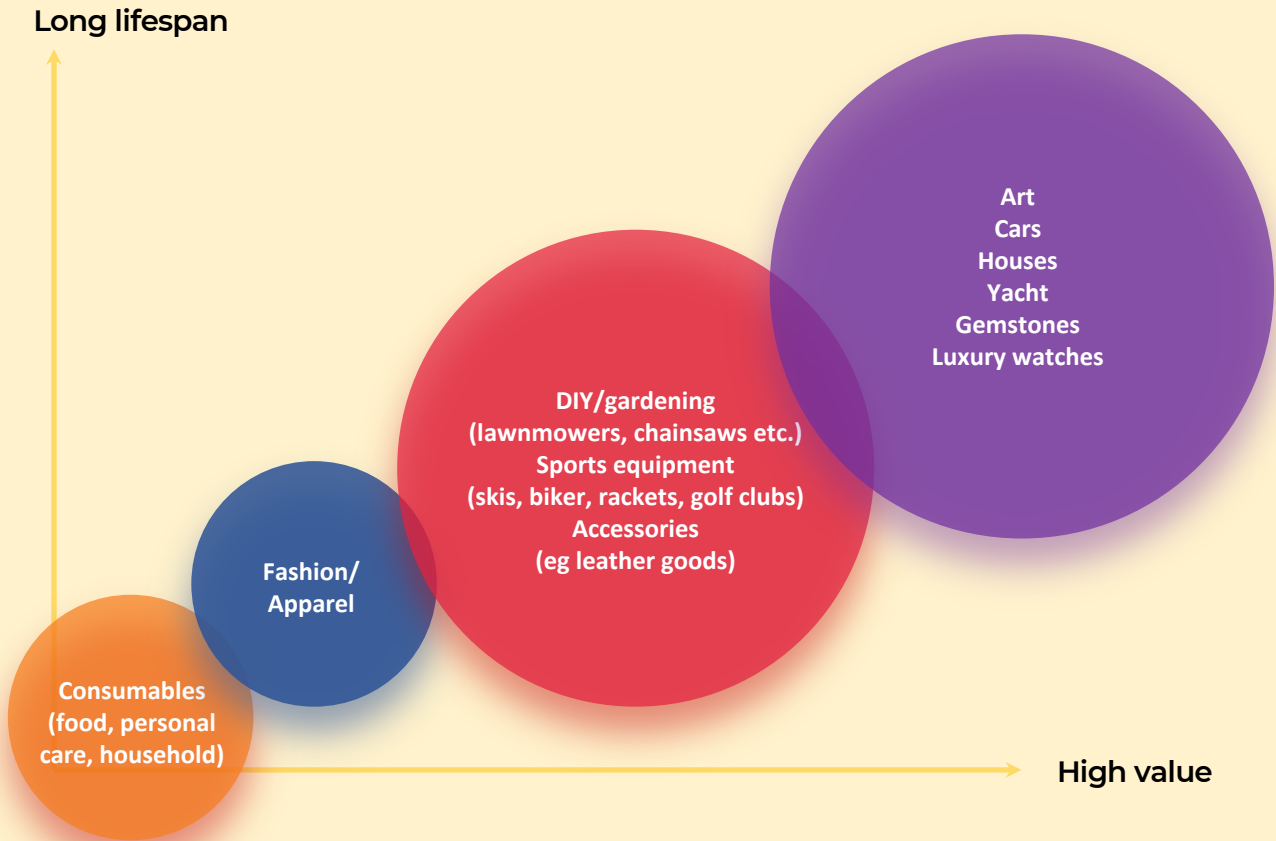
According to McKinsey, there are several factors driving the growth of the retail rental market, including the younger

generation's 'hunger for newness' while also placing a premium on sustainability and the rising cost of fashion, particularly as inflation has taken hold. Recent years have seen strong new fashion rental players enter and test the market, but potential revenue growth is hindered due to low consumer awareness of rental brands, as well as concerns around hygiene and the quality of items. Brands must therefore focus on educating consumers around the rental process and ensuring the quality of items dispels apprehensions.

Which type of business is best suited to each option and what are the key deciding factors?

Obviously, not every business is structurally fit to benefit from rental revenue. Consumables, low-value goods and personalised products don't make the grade. However, products that are expensive and infrequently used (think of a chainsaw, or a set of golf clubs) make sense for an ever-growing sector of the population.

Lifespan vs Product Value: suitability for rental model



Who is Doing it Now?



H&M's revamped Regent Street store will feature clothing rental and a beauty bar in two UK firsts, giving customers the option of renting outfits for both men and women, including suits, dresses, shoes and accessories. They will be able to view the rental range online and book appointments to try on items in-store with hire prices ranging from £12.99 to £49.99.

JOHN LEWIS & PARTNERS

Following a successful 2020 trial period, its furniture rental service with Fat Llama, the world's largest product rental marketplace, now offers customers to try before they buy and find the perfect piece for their space at a more affordable price, with prices starting from just £6 per month. The longer customers commit to renting, the lower the rental price. When the scheme first launched, almost the entire collection was snapped up within the first 48 hours of launch, indicating the attractiveness of not having to layout a big sum of money on a one-off purchase.



STYLE THEORY

Chief Operating Officer Raena Lim wants to help promote a more sustainable fashion industry, and established her brand to provide consumers with an “infinite wardrobe stored in the cloud”, where they can rent over 30,000 items, including apparel and accessories.

ARMOIRE

This fashion rental site uses an AI-powered recommendation engine to learn the unique style of each customer and help them save time on shopping. It builds a closet that suits each customer's preferences by analysing images of outfits the user usually wears and asking them direct questions on their fashion style. Customers then receive a curated collection of designer outfits which they can rent, as well as being able to rent looks created for and shared by other site members.

Some other pioneering examples include plus-size clothing rental services such as Nuuly, Gwynnie Bee and Fashion to Figure Closet, as well as Loanhood, which has branded itself as gender-inclusive to empower people across the gender spectrum.

It Can Be Tricky to Get Right...

Rental platforms, whether they are peer-to-peer or more traditional models, can still be complex and costly to operate. Consider these examples:



RENT THE RUNWAY

Once valued at \$1 billion, Rent the Runway is arguably the most high-profile fashion rental business out there. It has massively scaled the fashion rental model but has seen its lustre dimmed, losing 90% of its value since its IPO in 2021, in part because the market no longer likes unprofitable businesses. While the model itself is smart – subscription tiers, data-driven insight into how customers are wearing the clothes, and diverse revenue streams - it is still unwinding from a cost-intensive operation that it built before Covid, which included owning inventory and operating bricks and mortar stores. It's share price has rebounded lately, so watch this space.

YCLOSET
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The Beijing-based company charged a monthly subscription fee of \$70 for unlimited rentals and helped brands promote their products by encouraging users to buy those rentals. However, as YCloset scaled, it struggled to keep up with high expenses in shipping, dry cleaning, and staying abreast of the latest fashion trends, and it shut down operations after five years.

About the Authors

GABRIELLE HASE



Gabrielle Hase is a London and France-based digital commerce strategy consultant. After moving from the US in 2006, Gabrielle founded Soleberry Advisory, and works with leading consumer brands on building their online presence and increasing market share. Gabrielle's clients include brands such as McArthurGlen Group, Hobbs, Sweaty Betty, LK Bennett, Moonpig, The White Company, Knomo, The School of Life and retailers Fenwick's, TK Maxx and Browns Fashion. Technology clients include Conversity, RedEye and Attract.

Gabrielle is a Non-Executive Director and Chair for a portfolio of retail technology platforms and brands. They include Tate Enterprises (the commercial arm of Tate Galleries), K3 Business Technologies PLC, Ultra Commerce, Planks Clothing, and is an Advisory Board member for Sook. Her previous NED roles include LS Retail, Ampliance and accessories brand Knomo. Gabrielle received an MBA from the Wharton School of Business.



www.linkedin.com/in/gabriellehase

CAROLINE CARTELLIERI



Caroline is a C-level executive with over 25 years' commercial experience in retail, consumer goods and hospitality. She advises private equity firms on digital strategy and transformation. Caroline has held board level roles including those of interim Chief Commercial Officer at Hand Picked Hotels and at hospitality group Ennismore. Previously she was Chief Digital Officer at Sun European Partners. Caroline has also held the role of Chief Operating Officer of MySpace International and prior to that of Managing Director of Expedia UK. She started out as a consultant for BCG and McKinsey & Co.

Caroline is a Non-Exec at Europ Assistance, a Trustee of Asthma + Lung UK, and a Non-Exec of the Museum of London Trading Board. She holds an MBA from the Wharton School of Business and a BSc from the London School of Economics.



www.linkedin.com/in/carolinecartellieri