



# Opportunities and challenges of circular business model growth

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## Abstract

Circular economy is an important tool in the effort to reduce the impact of humanity on the environment, which involves designing business models and products that aim to keep materials in circulation. This research project uses a qualitative approach to compare businesses that represent the major business models in the circular fashion industry across Europe and the US. Major findings include the role of third party collaborators in outsourcing parts of the circular model, the role of pricing incentives and the emerging effects of COVID-19 on the industry as a whole.

## Research Gaps

- Lack of case studies which practically applied business model evaluation
- Lack of industry specific circular business model analysis
- Effects of COVID-19 on circularity within the fashion industry

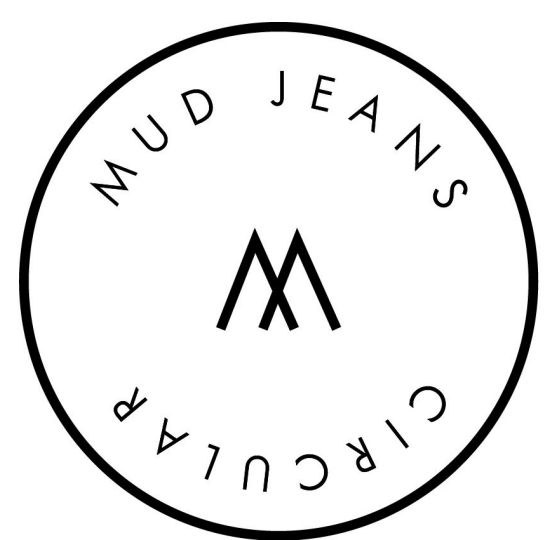
## Main Business Models

**Recommerce** - Taking a product back and repurposing it for resale

**Rental** - Short term leases with fixed prices

**Subscription Rental** - Ongoing lease with regular payments

## Interviewed Brands



Nudie Jeans co

LE TOTE



Filippa K



EILEEN FISHER

**Note:** The brands above were selected for their diversity of business model and sector within the fashion industry

Additionally, **4 industry experts** were also interviewed to give a wider context of the circular fashion industry

## Results

### Organisational Challenges

- Inventory Management
- Quality Assurance/Damages
- End-of life logistics/Processing
- Management team that is risk-averse
- Less creative freedom to use less sustainable materials

### Organisational Opportunities

- Mutual feedback loops between brands and third party partners
- Allows brand to tap into its own second hand market
- Saves money on reduced need for new clothing production
- Direct to consumer means more control over price, sustainability
- Less reliant on constant seasonal changes

### Contextual Challenges

- Customers claim to be willing to pay a premium - but do not
- Many consumers still uncomfortable with the idea of second hand
- Many customers don't use circular model as intended
- Displacement rates still very low
- COVID-19 brings uncertainty, companies prefer to reduce risk

### Contextual Opportunities

- Easier access to financial capital as a circular brand
- Developing circular business stays ahead of future regulations
- Leasing/recommerce gives customers access to higher quality
- Potential for mutual gain among inter-brand collaborations
- Incentives like free repairs lower higher costs for customers

## Conclusions

By separating rental and recommerce and analysing real-life circular business models this project was able to add rich qualitative insights to existing theoretical understanding of circular business models, and in an updated context that examines the state of the industry in 2020. Practically, this research has given practitioners a valuable glimpse into what it takes to implement a circular business model, what the common challenges are and some recommendations on how to manage these challenges to succeed. The business case for circular fashion business models has never been clearer, yet more work needs to be done to make these opportunities more salient to the brands that are still hesitant to embrace the circular transition.