



## CFR Course Note #007: Retailing and Circular Economy

Introduction to Retailing (NDH101), 2024

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Governments around the world see a transition to a circular economy as an important part of solving the climate crises. For example, as part of the [European Green Deal](#), the European Commission has adopted a circular economy action plan to “pave the way for a cleaner and more competitive Europe”.

The term Circular Economy typically refers to an economic system that is regenerative and circular, rather than wasteful and linear. The general idea is to develop long-lasting design, maintenance, repair, reuse, remanufacturing, refurbishing, and recycling to make sure that waste is eliminated and materials from used products are used as raw materials in new products. For retailing, this implies a shift towards business models that are not just focusing on selling products (“linear”), but rather being responsible for products from sourcing to consumption as well as finding ways to ensure a long-term use of materials and products sold (“circular”).

The concept circular economy has mainly been developed by [practitioners](#) and [policy makers](#). Today, many retailers are investing in various efforts to make their business more circular. This course note summarizes some recent developments when it comes to academic research on the core tenets of the circular economy, embodied by the “3Rs” - reduce, reuse, recycle and its relevance to retail.

### What is Circular Economy?

Circular economy is defined as “an economic system that is based on business models which replace the ‘end-of-life’ concept with reducing, alternatively reusing, recycling and recovering materials in production/distribution and consumption processes” (Kirchherr, Reike & Hekkert 2017, p. 244). The term is often linked to sustainable development. Specifically, arguments are made that the economy must change how it operates at the micro level (products, companies, consumers), meso level (shopping centers, business parks), and macro level (city, region, nation and beyond) in order to create environmental quality, social equality, and economic prosperity to the benefit of current and future generations.

Circular economy initiatives designed to reduce consumption and promote product reuse, such as repair programs, take-back schemes, and the sale of second-hand products, are gaining increasing popularity in the marketplace. In search of more sustainable solutions, companies introduce various changes across all facets of their business models—including product design and lifecycle, supply chain management, production, operations, marketing, employee engagement, and financial strategies (Nenkov, 2024).

Adopting a circular business model involves creating value loops that extend the life of products. This approach can lead to new revenue streams, reduce reliance on raw materials, and foster innovation in product development and customer engagement. By embracing these strategies, companies not only contribute to a more sustainable economy but also position themselves competitively in a market increasingly driven by eco-conscious consumers and regulatory pressures.

### **Retail and the 3Rs of Circular Economy**

For retailers, the move to circular business models is largely dependent on changes in consumption among its customers. This shift demands that retailers not only focus on selling ("getting products out of stores") but also on empowering consumers to use products more responsibly and extending the overall lifespan of products. For consumers, a circular economy requires that consumption is not only about buying and using, but also being active in "closing the loop", for example by reselling and recycling.

The core tenets of the circular economy are often embodied by the "3Rs", referring to an economy that focuses on reduce, reuse, recycle. Below we discuss how they fit with retail.

#### ***Reduce***

*Reducing consumption.* Promoting a sustainable future necessitates refining production processes and encouraging consumers to consume less. Traditionally, consumption has served as a measure of market demand in the business sector, which has led many companies to resist promoting reduced consumption (e.g., owning fewer possessions and practicing mindful consumption) due to the belief that reducing consumption is directly linked to lower profits. However, the negative impacts of overconsumption, which include reduced well-being for consumers, communities, and the environment, are increasingly being recognized (Chen & Wei, 2023). For instance, brands such as Muji, COS, and Patagonia are emphasizing the value of simplicity by offering minimalist clothing styles and durable homewares, thus encouraging consumers to buy less. These efforts mark a significant shift in perspective, suggesting that the conventional belief linking consumption directly to profit is beginning to change.

*Repair programs.* With the aim of encouraging consumers to extend the lifespan of their belongings through repair instead of replacement upon breakage, "right to repair" laws have been enacted across Europe and the United States. These laws mandate that manufacturers provide the necessary components, tools, and instructions to facilitate product repairs (Jin, Yang, & Zhu, 2022). This legislative shift, coupled with the rising support from consumer advocacy groups, environmental organizations (Jin et al., 2020), has led many brands to adopt repair initiatives as a means to lower their environmental footprint. For example, Patagonia has integrated repair services into its stores, while fashion label Ganni has formed a collaboration with a repair service to offer aftercare for its products.

Despite the increasing availability and popularity of repair services, a most consumers still prefer purchasing new products over repairing their old ones, with only a minority actively engaging in repair activities (Liu, Cakanlar, & Nenkov, 2024). While companies promote the repairability of their products as a signal of durability and as part of their Corporate Social Responsibility (CSR) efforts to raise awareness (Munten & Vanhamme, 2023), consumer

reluctance to use these services is a barrier for the transition towards a circular economy. To encourage product repairs, companies utilize various campaigns to incentivize consumers to repair their products, with some emphasizing the environmental advantages of repairs, others highlighting consumers' attachment to their possessions, and some advocating for self-sufficiency (e.g., "Tell everyone you fixed it yourself"; [Patagonia, 2023](#)). The effectiveness of these campaigns varies based on several factors. For example, research indicates that brand-loyal consumers are generally reluctant to repair their electronics because they are more inclined to upgrade their devices (Miller et al., 2019). However, marketing messages that emphasize consumers' commitment to their products (e.g., "Stay Committed to Your iPhone") can increase the likelihood of repairs among brand-loyal consumers, while having no impact on those who are not loyal to the brand (Liu, Cakanlar & Nenkov, 2024).

## **Reuse**

*Use of recovered materials.* The integration of recovered materials plays a crucial role in the transition to a circular economy. Numerous brands have introduced products that are either upcycled or recycled, embodying two core strategies pivotal to the circular economy model (Adiguzel & Donato, 2021). For example, Patagonia has pioneered the use of recycled polyester derived from plastic soda bottles, showcasing an innovative approach to recycling ([Patagonia, 2024](#)). On the upcycling front, Freitag crafts bags and accessories from recycled truck tarps, exemplifying the creative potential of upcycling ([Freitag, 2024](#)). While both recycling and upcycling aim to reduce waste, they differ in their processes. Recycling involves converting waste into reusable materials by breaking them down into their raw components, whereas upcycling repurposes discarded items or materials in a way that increases their quality or value without breaking them down, thereby avoiding degradation (Adiguzel & Donato, 2021).

Research has begun to elucidate barriers to consumer acceptance of upcycled and recycled products, such as concerns about contamination, as well as the factors that facilitate their adoption. For example, consumers often perceive products made from recycled bottles as contaminated, which decreases their willingness to purchase such items (Meng & Leary, 2020). However, this reluctance lessens for products that do not come into contact with the skin, such as a carrying bag, compared to those that do, like a T-shirt. In contrast to recycled products, upcycled products are viewed more favorably by consumers. This is because products are deemed more creative and appealing when they are made from components that originally had different functions (Caprioli et al., 2023).

*Take-back programs.* Related to upcycling and recycling products, companies like Apple, Adidas, Dell, and IKEA have implemented take-back programs, enabling customers to return their used products for reintegration into new product cycles (Tari & Trudel, 2024). Although research on the marketing value of take-back programs is scarce, these circular take-back initiatives have been demonstrated to enhance the perceived value of products among consumers.

*Secondary markets.* Numerous companies are leveraging the secondary market as a strategy to reduce their environmental footprint and achieve cost savings (Nenkov, 2024). An example is Eileen Fisher's renew program, which invites customers to return their worn garments. These items are then cleaned, repaired, and resold, with items that cannot be resold being recycled into new clothing ([Eileen Fisher, 2024](#)). Similarly, H&M, Levi's, and Lululemon have ventured into the secondhand market, accepting pre-owned items from consumers to minimize waste and extend the lifespan of their products. Previous research has highlighted

environmental concerns (e.g., Kessous & Valette-Florence, 2019) as significant motivators for consumers purchasing secondhand products, however motivations can vary widely. For instance, the emotional connections these items foster with their previous owners can also influence consumers' attitudes and behaviors towards secondhand products (Huang & Fishbach, 2021).

### **Recycle**

After decades of promoting recycling, consumers view recycling as one of the most significant actions for mitigating climate change (Winterich, Reczek, & Makov, 2023). Prior literature has examined various factors that can increase recycling behavior. These include product-level factors, such as the connection of products to a consumer's identity and the degree of product distortion (Trudel & Argo, 2013); and the framing and design of communication (Winterich et al., 2019). For example, emphasizing how recyclables can be transformed into new products can boost recycling efforts (Winterich et al., 2019).

Despite widespread promotion of recycling as a way for consumers to contribute to societal welfare, the availability of recycling options may paradoxically lead to higher resource consumption compared to when a recycling option is not available. This is because the availability of recycling may give consumers license to consume more (Catlin et al., 2021). Additionally, the presence of strong recycling norms might encourage consumers to engage in "wish-cycling" or "aspirational recycling," where they place questionable items in the recycling bin, hoping they will be processed (Catlin et al., 2021). Therefore, prevalent prescriptive point-of-disposal information ("Recycle these items") does not decrease recycling contamination and inadvertently can increase over-recycling, whereas proscriptive point-of-disposal information ("Do not recycle these items") is perceived as unique and inconsistent with individuals' existing beliefs about recycling as a positive and socially desirable behavior. The uniqueness of the information acts as a catalyst for learning proper recycling practices, thereby reducing recycling contamination (Cakanlar, Hunter & Nenkov, 2024).

### **Towards Circular Retail?**

In conclusion, the transition to a circular economy represents a fundamental shift in how businesses, especially retailers, approach production, consumption, and waste management. By embracing principles that focus on reducing, reusing, and recycling, companies can move away from traditional linear models towards more sustainable practices that extend the lifespan of products and materials. This transition not only addresses critical environmental challenges but also presents new opportunities for innovation, consumer engagement, and long-term economic growth. As governments and organizations worldwide increasingly recognize the importance of a circular economy in solving the climate crisis, retailers are uniquely positioned to lead this change by fostering responsible consumption, enhancing repair and reuse programs, and integrating circular practices into their core operations. Ultimately, adopting a circular business model is not just a strategic response to regulatory pressures and market demand but also a vital step towards building a more resilient, sustainable future.

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*Note: access to reports and regulations are available via hyperlinks in the text*

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