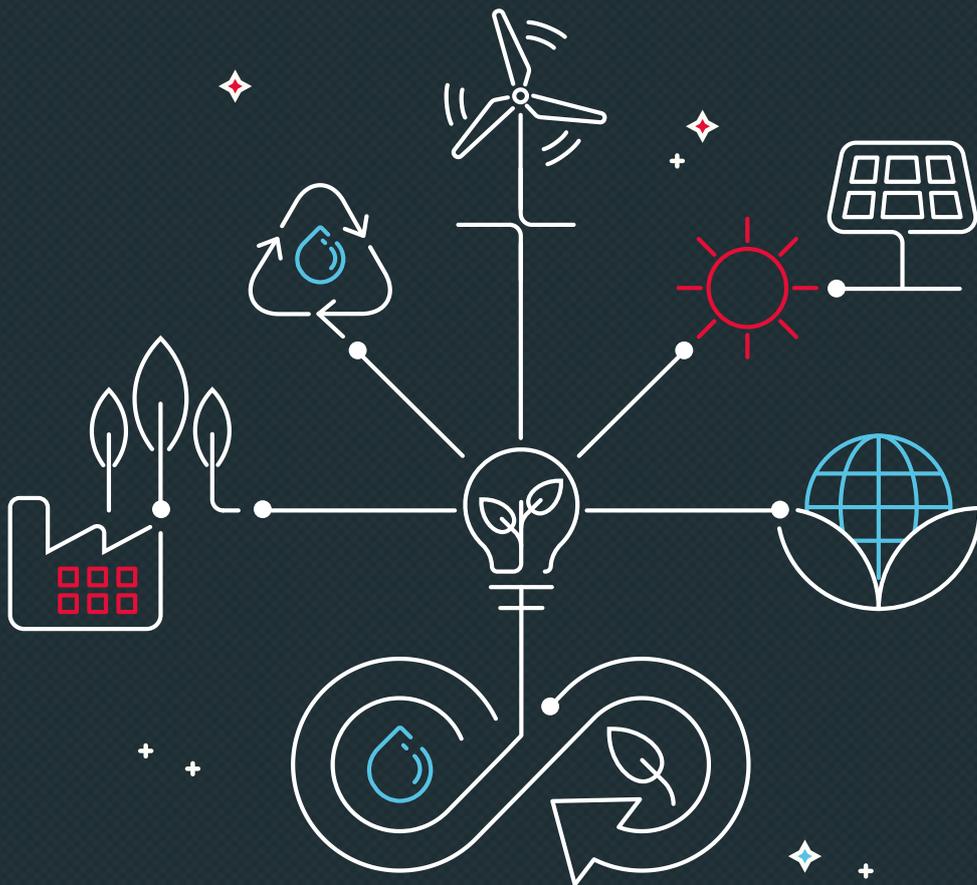


Circularity is ~~impossible~~

Unlock the next frontier with
business model transformation



cognosis

Why is the circular economy so critical?



What is circularity?

Unlike the traditional linear model of “take, make, dispose”, the circular economy seeks to optimise resource efficiency by keeping products and materials in use for as long as possible through a combination of reuse, repair, remanufacturing, and recycling.

Let's face facts

↑ **Humanity is currently using**
1.7 times

more resources per year than our planet's ecosystems can regenerate.¹



This is a problem that all businesses have a responsibility to help solve.

There's a commercial reason for action too

33%

of executives expect their industry to be disrupted by insurgent circularity start-ups.²

50%

expect circularity to become the 'new normal' for all companies in the next decade.³

Therefore, the development of circular business models is not only an environmental necessity. Done right, it will also offer competitive advantages and bring lasting resilience to your business.

What's at stake?



By applying circular economy principles to the way we produce and manage food resources we could **cut greenhouse emissions by 49% by 2050.**⁴



The circular economy could create more than 7 million jobs and unlock up to **\$4.5 trillion in economic growth by 2030.**⁵

While this projection presents a huge opportunity for more innovative businesses, the drive for circularity is fraught with perils for those that find innovation daunting. Many businesses are already putting circular in the box marked “too hard for now”.

The uncomfortable truth about circularity:

Given these statistics, circularity is both essential and inevitable. It also stands to reason that larger businesses will need to start transforming their business models. Successful pioneers like Back Market and Vinted are already disrupting at an increasing scale, but these are circular natives conceived on a blank sheet of paper. As start-ups, they have designed their entire approach to value creation on a circular model.

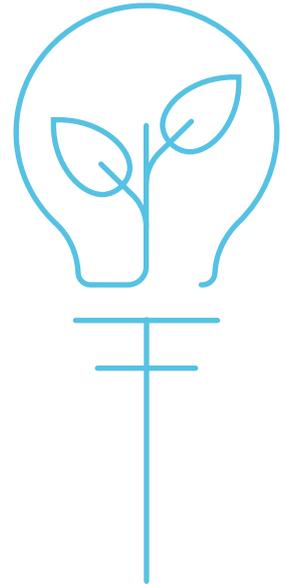
The uncomfortable truth is that most businesses aren't built that way. For incumbents, the act of innovating and disrupting profitable, tried-and-tested linear business models can feel like commercial suicide. Yes, the long-term benefits of risk mitigation and resilience appear attractive. There's also the potential of massive profitability. But the short-term path seems impossible to plot. Industry has spent the last century and more optimising and entrenching its linear business models. So the task, for many established businesses, of reinventing these models in the near term is practically unthinkable.

Senior executives face a dilemma. They will know that circular business models are the way forward in the long term, but very few of them are truly enabled, empowered or incentivised to drive this transition. Deep down, they feel that any attempt to drive meaningful circular change could pose huge short-term risks to their core business.

Sources:

- 1 Global Footprint Network
- 2 & 3 Circularity Survey by Bain & Company in 2021
- 4 Ellen MacArthur Foundation
- 5 UN Trade and Development Report 'Entrepreneurs Riding the Wave on Circularity'

Why change is so slow



This feeling of inertia is not just a perception. Circular innovation in most established, large linear businesses is sluggish because shareholders and executives see risk. They have run the numbers and found that the challenges and costs of circular transformation outweigh the shorter-term returns or benefits.

The major blockers to change are:



High up-front costs

35% of executives cited high up-front costs as the biggest barrier to transitioning to circular business models. The timeline for ROI is another source of nervousness, with many boards stating that the benefits are often not presented clearly enough or will take too long to materialise

British Business Bank



Lack of regulatory support

42% of executives highlighted lack of clear government policies or incentives as a major barrier to developing circular business models

Stockholm Environment Institute



Technological / Innovation barriers

48% of executives noted a lack of credible innovations and technological solutions to enable transition to circular business models

Stockholm Environment Institute



Consumer demand uncertainty

33% of executives suggested that consumer demand will not be sufficient to drive transition to new circular models

Deloitte / Utrecht University



Impact on revenue and margin

40% of executives cited negative impacts on revenue and profitability as a critical barrier to embedding new circular models

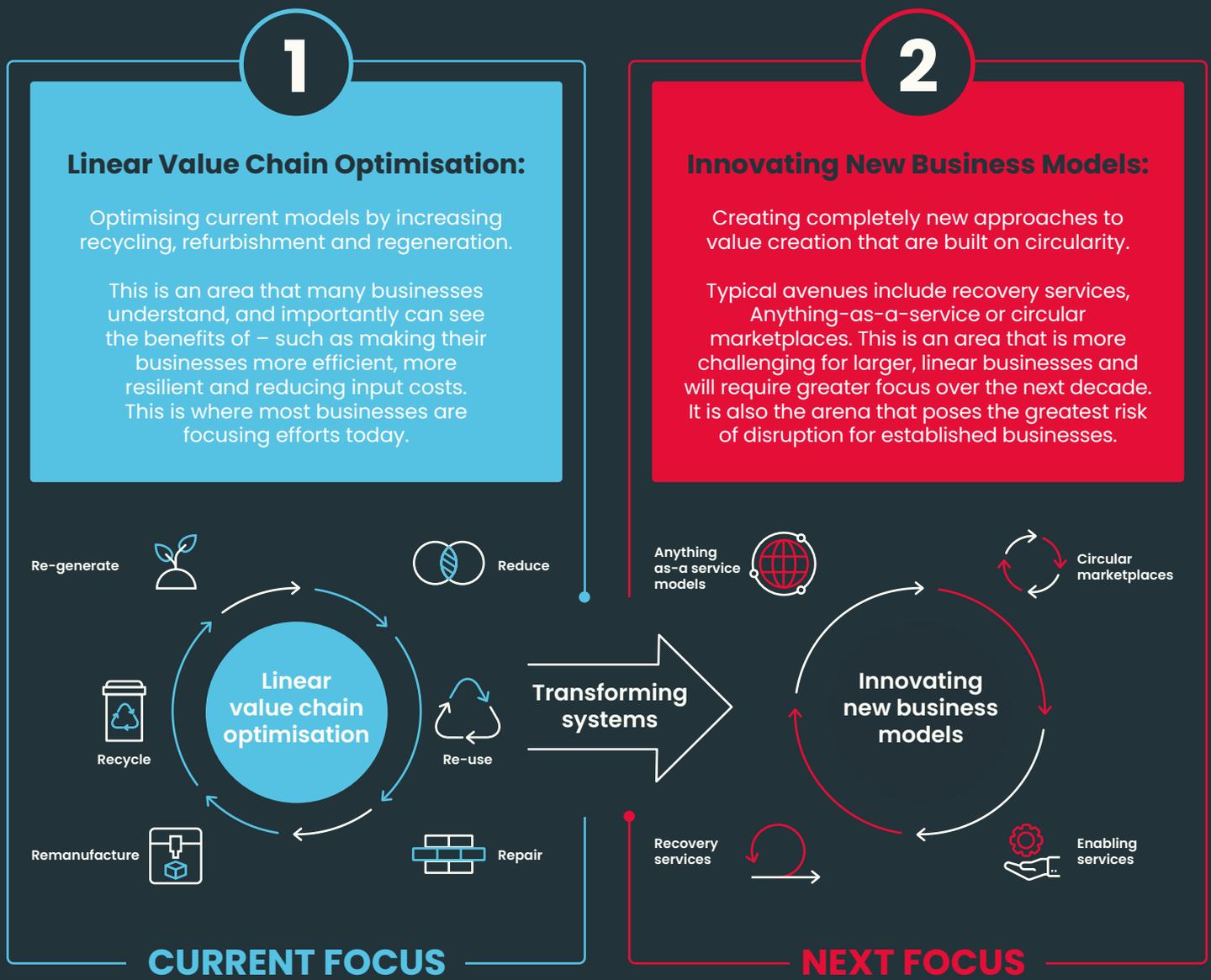
Stockholm Environment Institute

'Transitioning to a circular economy challenges business leaders to rethink everything from design to distribution. It's not easy, and many businesses worry about the costs and possible disruptions to profitability.'

Andrew Morlet, CEO of the Ellen MacArthur Foundation

Two approaches to building circularity into your business model

Businesses need to actively embrace the circular challenge on two fronts:



Circular business model innovation today

Despite the daunting challenge of developing innovative circular business models, those who can pioneer and move first will gain competitive advantage - an advantage which will only increase over time. Through our work in this space, Cognosis is developing a Circular Business Model Innovation database, a repository for circular business model innovations that details where and how new ideas and partnerships are taking shape. The headline news is that the pace of innovation is accelerating. While much is still being driven by start-ups, we are starting to see more circular business model innovation from large global linear businesses. This resource is designed to help codify learning to support those who are embarking on circular innovation.

A 4-way classification of business model innovations

Analysis of business model innovation across these four areas shows a wealth of new models driven by both start-ups and more established players.

1	2	3	4
Anything-as-a-Service Product ownership is retained, and use is offered through subscription or rental models.	Circular Marketplaces Platforms facilitate the exchange or use of 2nd-hand refurbished, or recycled products.	Recovery Services Closing the loop of product, component and material life cycles through recovery and reintegration.	Enabling Services Tools and platforms supporting circular models that allow the circular economy to function.
Product-as-a-Service Business retains ownership of product & customer pays for use over time. Canon Interface PHILIPS Signify	Peer-to-Peer (P2P) Individual sells or exchange their own products directly with each other. depop Vinted Etsy Marketplace	Recycling Products are broken down into raw materials & sold to manufacturers. DS Smith TERRACYCLE VEOLIA Biffa	Digital Platform & Software Talking product life cycles and managing inventory or facility sharing & trading. Teemill winnow Brambles COHEALO
Lease & Renting Products may be returned, upgraded, resold or bought after use. Miele BRICK BORROW xerox HURR	Business-to-Consumer (B2C) Business takes ownership of 3rd-party products, refurbishing & selling them at lower prices. THREDUP POSHMARK The RealReal BackMarket	Remanufacturing Components or products are recalled, refurbished & sold as 'like new'. CAT CISCO Refresh Renault Group GE HealthCare	Logistics & Reverse Logistics Facilitates product returns by specialising in collection and redistribution. optoro Coca-Cola SWIRE COCA-COLA Happy Returns (a UPS Company)
Sharing / Peer-to-Peer Individuals rent out underused products & services through a facilitating platform. airbnb SpareRoom Vrbo Rover	Business-to-Business (B2B) Platforms facilitate transactions or surplus materials, equipment or components. Rheaply TROV& SATORI Globechain	Repair / Maintenance Company repairs or maintains product whilst still under customer's ownership. UNI QLO IFIXIT PHILIPS AppleCare	Consulting / Advisory Design circular strategies to help businesses transition toward circularity. cognosis BCG BAIN & COMPANY CIRCLE ECONOMY
Subscription Services Customers subscribe to regular use of different products with business retaining ownership. RENT THE RUNWAY instant Ink MICHELIN CIRCOOS	Collaborative Consumption Company provides products for users to co-own or share. Lime Sontax forest BlaBlaCar	Take-Back Programs Companies take back products and feed into any of the above. IKEA NESPRESSO patagonia H&M	Blockchain & Traceability Tracing products & materials across the supply chain to create transparency. R&C IBM Blockchain suez EVERLEDGER

The first step is the hardest.

How do you define a circular strategy?

The shift to circular business models will almost certainly become the biggest single corporate transformation in the next 30 years. As we transition, there are no quick fixes. Expect winners and losers. But this is not the moment to panic. Most large legacy businesses are still at the start of this journey and the revolution won't happen overnight. However, it is critical that large linear businesses start thinking about this challenge today.

If your business is struggling to address this challenge, as many are, there are some simple steps you can take get the foundations in place and begin the conversation about circular business model innovation. The first is to understand where your industry is headed in the future and what opportunities and risks this trajectory poses.



STEP 1

Imagine what 2035 looks like

It is imperative to build a clear and credible view of what your industry will look like in 15 years' time. In many cases, executive teams know the transition to circular is important but have very little view or insight on how their market / industry will operate in 2035.

This future view does not need to be exhaustive, but should consider the following questions:

 Likelihood of circular regulation in your key geographies?

 Pace and focus of disruptive circular innovation in your industry?

 Shifts in consumer demand & behaviour?

 Sources of data, analysis & monitoring?

 Competitive intensity & investment in circular models?

 Investor appetite for circular innovation?



STEP 2

Identify opportunities for innovation

Once you have a view on the type and scale of change your industry is likely to experience in the future, you can then review your value chain and identify the key opportunities for circular business model innovation. To do this effectively, you need a good working understanding of the kinds of innovations and start-ups that are driving new models across your value chain. The ultimate aim is to pinpoint and prioritise the most critical circular opportunities across the value chain for business model innovation in the near, mid and long term.



STEP 3

Establish a credible vision and goals

Based on your future view and value chain assessment you can start to build alignment on company ambitions. This vision will be different in scope, scale and ambition for every business, but crucially it puts a marker down for the pace and scale of business model change the organisation wants or needs to drive. Your initial vision and goals may well be modest, potentially outlining an ambition to design and launch a few pilots. You don't need to change the world at the first attempt. Just getting up and running is a good start.



STEP 4

Start designing for now

Once you have clarity on your ambition and goals, it is imperative to get up and running with some pilot initiatives. Initially, these pilots should be designed for now, aiming to solve current consumer and customer problems. All too often, circular innovation fails as the solutions are built for needs that have not matured. This means that often new solutions are not underpinned by the necessary infrastructure or systems to succeed. The right ideas, at the wrong time. Focus pilots on areas where you can build some momentum and start gathering learning and experience.

How to go about Circular Business Model Innovation

All business model innovation is tough and many pilots are likely to end in failure. So, how to improve your chances of success? Here are some points for consideration.

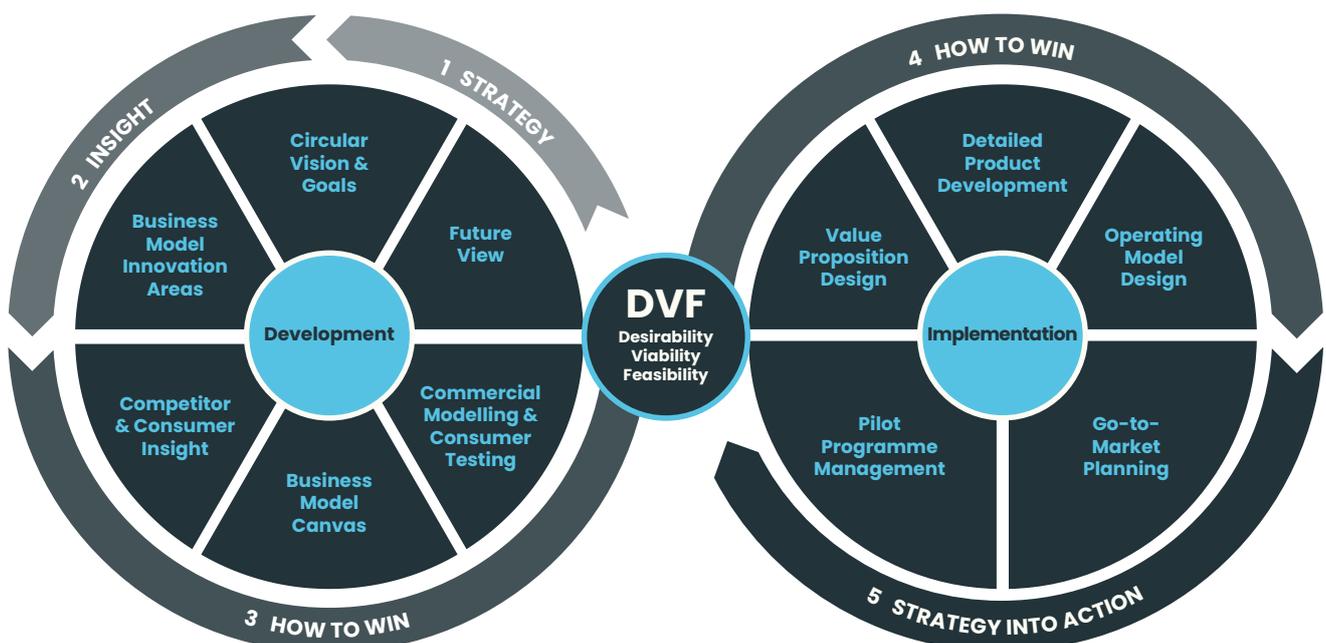
1

A robust and challenging design process

Building anything new and untested is challenging. It takes huge amounts of belief, passion and bravery, coupled with a critical eye for detail. As a result, it is vital to have the right design process in place to ensure you continue to push the boundaries and strive to do something new, but in a way that is commercial and credible.

Using a tried-and-tested process helps to structure business model innovation work, such as the Cognosis Innovation Framework. Before embarking on any new business model innovation programme, make sure you agree the process and the stage gates. We enforce a go-no-go decision after each stage. This means a low percentage of potential business models actually make it to market. It is critical that these stage gates are robust and challenging. All too often, new ideas get progressed too far because the innovation team want them to succeed, even when the evidence suggests they are not viable.

COGNOSIS BUSINESS MODEL INNOVATION PROCESS



2

Pioneer learning



The most useful learnings about how to build a new business model comes from those who have already tried. With the explosion of start-ups over the last 15 years, you can bet your life that any new idea, and every component of it, will have been tried by someone somewhere. Accessing the experiences from those pioneers – the people who have actually tried, failed, pivoted, failed again and possibly succeeded – is invaluable.

It pays to supplement all business model design and innovation with competitor and start-up intelligence. By seeking out real-world expertise, you will gather the nuggets of practical insight that lead to better design choices. Perhaps the most important principle is to invest time in speaking to the pioneers themselves, as they will give you much of the insight you need. You need to be determined and dogged in seeking out experts and listen deeply to what they have to say. (Many relevant case studies and insights are also captured in our Business Model Innovation Database.)

We leverage a global network of experts, founders, and expert interview transcripts to gather these pioneer insights.

3

AI enabled business model design



An ecosystem of AI tools will help develop new business models with greater speed and effectiveness. AI does not provide all the answers and needs to be used with care and caution. But when used effectively, it can shorten development, test times, and provide faster and more cost-efficient access to insights and data. There is a growing world of AI tools available that can help.

The most relevant and useful AI tools for business model development are in the following areas:

Commercial & start-up insight & data gathering

Consumer & customer insight gathering

Concept generation & visualisation

Synthetic consumer & customer research & feedback

It's worth stressing that AI will only take you so far. Once you have developed your business model, nothing beats the learnings you gather when piloting in the real world.

4

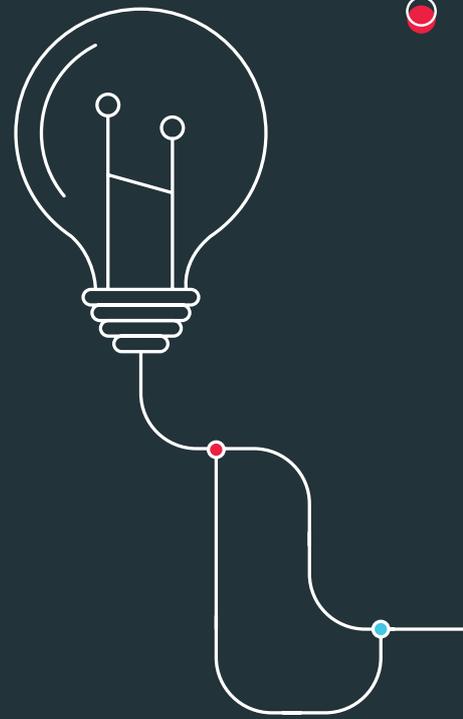
Frontier commercial modelling



Early in the exploration of new business models, it's worth building out frontier P&L models. It can feel premature to start developing a P&L when you are in the preliminary stages of scoping a potential new business model, but you stand to gain valuable insight and focus. High-level P&L models will explore the financial viability of a new business model at both pilot and scale phases.

While initial P&L modelling will be very directional, this exercise helps you highlight critical barriers to commercial viability early in the design phase, ensuring you apply your efforts, learning and development on the most critical challenges in the design process. The frontier models can also quickly highlight ideas and innovations that should be killed because they are just not financially viable.

The last word



When we look back in 2050 or 2060, we may wonder how the world ever functioned in a linear way. Circularity will be the norm – and business will have led the change. Yet, we might also reflect that the transformation wasn't easy or straightforward. How many companies from 2025 will have lasted the distance?

Doing nothing is not an option. That said, we do not all need to transform immediately. There will be inflection points, and those who navigate these well will thrive. But that good judgment will rely on a stronger view on where your industry is heading in the future and monitoring new innovations and consumer trends to identify the right time to move.

Your business may be well advanced on this journey. If so, good speed and fair winds. If not, here are three key actions for your leadership to agree:

- 1** Designate the person in your organisation who is responsible for developing and executing circular strategy
- 2** Develop a shared view on what the circular economy means for your business in the next 15 years
- 3** Articulate a clear circular strategy that embraces both:
 - How to optimise current linear value chain through circularity
 - Where to focus circular business model innovation

←

'By re-thinking and re-designing, we can accelerate the transition to a new model that doesn't just 'eke out resources a bit longer', but is restorative and regenerative by design.'

Ellen MacArthur, Founder of the Ellen MacArthur Foundation



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Duncan Campbell is passionate about building strategies that deliver. His wealth of experience in bringing business innovation to life is grounded in delivering sustainable growth opportunities and advancing strategies for a circular economy. His expertise lies in fostering resilient, future-focused business models that drive long-term value, blending his insights into corporate strategy with a commitment to environmental stewardship.

About Cognosis

We're a London-based strategy consultancy

We unlock business potential by creating strategies that drive sustainable growth.

For over 25 years, we've been igniting growth across more than 60 countries with some of the world's most ambitious companies.

Our award-winning approach to business model innovation development has underpinned successful programmes with some of the world's most trusted brands including AB InBev, AkzoNobel, McCormick & Company, Diageo, Hiscox, Three Mobile and DS Smith amongst many others.

What we do

STRATEGY

- > Business Strategy
- > Competitor Strategy
- > Strategy Implementation

INNOVATION

- > Business Model Innovation
- > Brand, Product & Services Innovation
- > Value Proposition Development
- > New Product Pilots & Launch

Who we work with

We work at both board level and with strategy, marketing & innovation teams. Whatever the industry, we're excited to work with people who are passionate about driving real change.

















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