



Ten Steps Toward the Circular Economy

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Corporate leaders are increasingly seeing the business and societal value of strategies to reuse and recycle resources—and thus are moving toward what’s known as a “circular economy.” This approach rethinks the traditional take-make-dispose economic model and envisions a new model that is regenerative by design.

The business benefits come in many flavors. Innovations that foster reuse of resources can, for example, make companies less dependent on scarce inputs, increase operational efficiency, drive further innovation, and enable new offerings that attract customers and deepen existing relationships. It’s been estimated that the transition to the circular economy could unlock \$4.5 trillion of GDP growth worldwide by 2030.¹

Notes:

¹ Peter Lacy and Jakob Rutqvist, *Waste to Wealth: The Circular Economy Advantage*, New York and London: Palgrave Macmillan, 2015.

The societal benefits are also numerous—making it easier to shelter, feed, and clothe the 8.5 billion people expected to inhabit the planet by 2030.

But how to get there from here?

In 2017, the World Business Council for Sustainable Development and BCG joined forces to better understand how leading companies are implementing circular initiatives. The research included a survey of almost 100 managers from a variety of

industries around the world and one-on-one interviews with leaders to understand best practices—and it culminated in a report, *The New Big Circle: Achieving Growth and Business Model Innovation through Circular Economy Implementation*.

We learned that circular implementation involves various stakeholders at different stages and calls for strong collaboration all along the value cycle. While the challenges differ by industry and by company, we were able to distill ten recommendations for putting circular initiatives in place.

1. Engage with External Stakeholders

External stakeholders typically play an important role in pushing circular initiatives to the top of the corporate agenda, so it makes sense to be proactive. Customers often have their own sustainability goals, and more than 50% of survey respondents said customers were one of the most influential outside groups. Other influential external stakeholders include government agencies and regulators, NGOs and community organizations, and investors, who are increasingly embracing sustainability.

2. Provide Consistent and Strong Top Management Support

Respondents cited top management as the most important internal stakeholder for driving circular initiatives. Without leadership from top management, the organization will not deploy the necessary financial and human resources. Leaders' vocal and visible support is also vital to maintaining momentum and building enthusiasm among the rank and file. Engaged leaders understand the potential relationship between circular initiatives—which can decrease costs or unlock new profit pools—and competitive advantage.

3. Explain the Concept and Communicate the Vision

Management must clearly define what circular means for the company—both strategically and operationally. This will ground the concept and make it easier for managers to communicate with employees. The explanation of circular will be unique for every company and will help foster a common understanding across the organization. Management also needs to explain the strategy and rationale.

4. Identify Specific Ambitions and Develop a Business Case

According to our survey, 81% of companies with a circular strategy also have a clear business case underlying it. Given the higher costs still often associated with circular activities, the business case is usually strongly linked to acquiring new customers, strengthening existing customer relationships, or opening new markets.

5. Educate Your Employees

Particularly in the first year of change, leadership should consistently reinforce the importance of circularity with employees—after all, they are the ones who will bring the circular vision to life. And companies need to back up the talk with training. For example, those in operations need education in dematerialization and remanufacturing, while those in design need to be trained in eco-design, recyclability, and practices that extend product lifetimes.

6. Engage and Empower Business Units

Although sustainability departments may initiate and incubate circular-economy projects (46% do so), the core business is responsible for implementing and scaling these initiatives. Almost half the companies in our survey reported that the business units ultimately take over project responsibility and drive change. For this handoff to succeed, top management must ensure that sustainability departments involve the business units early on.

7. Start with Process Innovation, Followed by Product and Business Model Innovation

It makes sense to start with the least disruptive change. Circular process innovations are often quick wins that help the organization align around the circular vision. Then, based on that foundation of early success, it's easier to explore new product opportunities. Only after circular thinking is well established does it make sense to consider the big step of business model innovation—an area where even many circular leaders are struggling.

8. Collaborate with External Partners

It takes an array of skills and new ways of thinking to develop circular products and processes. The most successful companies don't try to develop or acquire all these

skills internally. Instead, they collaborate with a variety of external partners, from suppliers to research institutions to NGOs. Sometimes this collaboration can even span industries. After all, one industry's waste may be another industry's raw material.

9. Define KPIs Around the Business Case

The circular economy promises improved sustainability, competitiveness, and profitability. But the only way a company can prove a business case is by having the right KPIs in place to measure progress. Regular reporting, both internally and externally, is also important in order to maintain accountability.

10. Do Good and Talk About It

When circular initiatives are pursued correctly they create tangible business and social benefits: among them, more efficient processes, compelling new products and services, adjacent growth, and enhanced brand equity. Circular products and services generally don't support a price premium over traditional offerings; however, sharing information about circular initiatives can attract new customers, strengthen existing relationships, and satisfy investors.

Many executives are coming to the conclusion that the circular economy will change the way business is conducted and that it will disrupt current business models—and even whole industries. There is little doubt that the ongoing depletion of resources needs to be reversed, and it's also clear that in a world of increasingly scarce resources, competitive advantage will accrue to companies that pursue smart circular-economy business cases.

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- 1 Peter Lacy and Jakob Rutqvist, *Waste to Wealth: The Circular Economy Advantage*, New York and London: Palgrave Macmillan, 2015.

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