



# The Circular Economy Advantage

Peter Lacy, Global Managing Director for Sustainability Services at Accenture Strategy, tells Dawn Murden how businesses are adopting circular economy business models to drive competitive advantage



Most businesses are operating on borrowed time, according to **Peter Lacy**, Global Managing Director for Sustainability Services at Accenture Strategy. The continued dependence on scarce natural resources for growth will expose a company's tangible and intangible value to serious risks.

"For the last 250 years we've worked on the basis of linear value chains. Until the last 50 years these have served us well, we didn't have the constraints of natural resources and we didn't have the potentially terminal environmental challenges that we face today," Peter says.

While at the foothills of change, many organisations are recognising the value of the circular economy – one that is restorative and regenerative by design, and aims to keep products, components and materials at their highest utility and value.

There's no doubt that this model requires leaders to think differently.

As a result, Peter and Accenture Strategy colleague Jakob Rutqvist wrote the book *Waste to Wealth: The Circular Economy Advantage*, to help leaders to adapt.

Peter notes three drivers of the circular economy. Resource constraints (as mentioned above); technological development, which makes this idea more attractive and viable for businesses; and finally the socio-economic opportunity.

"The circular economy goes way beyond driving sustainability in my view," Peter comments. "It's a new way of thinking about business models, about digital technology;

it's a way of driving competitive advantage... and should be on the agenda of the CEO, chief marketing officer and chief innovation officer.

"If we think about the future, the businesses that are able to decouple the value they provide customers in terms of products and services from natural resources intensity will have a double advantage.

"They will deliver goods and services in more innovative ways, meet customer expectations and demands, while also insulating themselves from volatile and scarce resource issues."

To give an example, Peter cites Caterpillar's remanufacturing business that reuses and refurbishes existing components in its industrial and mining equipment.

This is now a business with over 4,000 employees worldwide and one that has been able to increase profit margin. They found a remanufactured product also consumes 85 per cent less energy during production than a new one.

"It has created a great customer proposition and a circular business that uses resources more effectively," Peter adds.

## Old Habits Die Hard

At a practical level, making the shift to the circular economy is not that easy. Linear business models and value chains are deeply entrenched in our economy.

"What we've tried to do in the book is show leaders examples from different

industries of what is needed in order to trigger that shift," Peter comments.

The book identifies five business models:

### 1. Circular Supply Chain

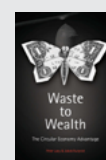
This introduces fully renewable, recyclable or biodegradable material that can be used in consecutive lifecycles to reduce costs, increase productivity and control.

Example: CRAILAR Technologies produces renewable biomass resources using flax, hemp and other bast fibres. Using these fibres, apparel companies produce garments that are as soft and durable as cotton, but without the environmental risks associated with its cultivation.

### 2. Recovery and Recycling

This business model creates production and consumption systems in which waste is revived for other uses. Companies either recover end-of-life products to recapture and reuse materials, energy and components, or they regain waste and by-products from a production method.

Example: General Motors recycles 90 per cent of its global manufacturing waste and has 102 landfill-free facilities. This generates \$1 billion in revenue annually. >



*Waste to Wealth* examines five new business models that provide circular growth,

from deploying sustainable resources, to the sharing economy.

To find out more about *Waste to Wealth* please click [here](#).



### 3. Product-Life Extension

By maintaining and improving products through repairs, upgrades, remanufacturing or remarketing, companies can keep them useful and relevant for as long as possible, rather than simply throwing them away at the end of their life. This involves shifting from merely selling products and moving customer transactions to relationships.

Example: Dell Outlet and Dell Refurbished resells products such as its certified refurbished items and those that have come back off lease.

### 4. Sharing Platform

In developed countries, up to 80 per cent of items stored in a typical home are only used once a month. Increasingly enabled by digital technology, the sharing platform forges new opportunities for consumers, businesses and entrepreneurs who want to swap, share or rent idle goods.

Example: A number of companies built on this model have gained millions of

#### EMERGING MARKETS AND THE CIRCULAR ECONOMY

“There is even more to gain in the developing economies,” Peter says. “Customers are willing to experiment and are not locked into some of the ownership models and ways we think about value. The rapid adoption of technology you see in China demonstrates this.

“People in the emerging markets will say they are used to finding ways of reusing everything. There is still the memory of a very different era. Now, it’s about changing the mindset and making it aspirational to reuse resources again.”

members, grabbed headlines and in some cases a \$50 billion-plus valuation. The most cited instances are Uber and Airbnb.

### 5. Product as a Service

Under this model, manufacturers take on the total cost of ownership adjusting their focus to longevity, reliability and reusability.

Example: A number of automobile concerns lease tyres and charge per mile driven.

In many of the examples outlined, companies have launched a new business unit under the circular economy model, yet it is equally applicable to existing business.

“It depends ultimately on where the value lies,” says Peter. “If the value lies in you switching out of scarce volatile commodities then the answer may well be to start with your own existing value chain, but if the value comes from you spotting a new customer segment and it requires new capabilities, then a new unit may be the best solution.”

### Hurdles to Jump

There are barriers to overcome before adopting these models. In many cases the true value of natural resources is not effectively represented in the price mechanism, notes Peter. “The current 12-year low in commodity prices, including oil, is a cyclical rather than structural shift in trend in terms of global supply and demand in the medium to long-term.

“In the long-term, we need to put a more holistic price on these natural resources. In the short-term, there are a number of business barriers we need to work

through, such as public procurements processes.”

According to Peter, companies are also calling out for governments to be progressive and willing to experiment in this area: “Forward-thinking businesses want to work with governments that are willing to push through innovative policy matched with business strategy, such as tax incentives and breaks for proven models and local waste collection advances.

“There are some bright spots. The European Commission is about to launch its circular economy package, which I expect will be the most ambitious circular economy regulatory and policy framework put in place to date... We are at the early stages of policy makers figuring out what they want.”

Peter urges companies to follow in the footsteps of those leading the way and advises: “Look at what’s already out there. Look at what you and your top team think is practical. Map out the ease of adoption vs the value at stake.” ■



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Peter is a trusted advisor to top executives and leadership teams around the world on strategy and sustainability. He has worked for over 15 years with CEOs and top management of leading global companies, the United Nations, European Union and national governments helping them to solve complex problems.

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