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## **Circular market-places: exploring retail fashion futures, circular business models and customer participation**

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## Circular market-places: exploring retail fashion circular business models, customer value and participation

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**Keywords:** Circular Economy; Retail; Design; Customer behaviour; Value creation.

**Abstract:** The circular economy has been embraced by the fashion industry as a solution to pollution, overproduction and textile waste, and circular business models proposed as a way for people to access goods within a circular fashion system. Despite the pervasiveness of fashion shopping in contemporary culture, little consideration has been given to how customer value is created in a circular system, or how retail practices and customer experience design can promote or impede a circular transition. This study examines how brands and retailers are implementing circular business models, communicating the circular value proposition, and involving customers in value co-creation. Initial findings suggest that, despite public commitments, many firms are not integrating circularity into their customer-facing processes. Customer participation is necessary to realising circular value propositions, and further research is needed into how design of retail sites can promote circularity in fashion.

### Introduction

The Circular Economy (CE) promises a future in which people's needs are met through various forms of access and use, wider than just purchasing. This suggests a radical transformation of consumer engagement in the marketplace which has not been studied in depth. Despite the ubiquity of markets and shopping activities taking center stage in people's daily life in developed societies, CE marketplaces and related customer practices have been broadly neglected by scholars. As the environmental damage caused by the fashion industry grows, there is a need to attend to the role of retail practices in fueling overconsumption and to investigate opportunities for the emergence of retailing models that support the CE principles of sustainability and systemic change.

This paper describes an ongoing study which forms part of a doctoral research project examining retail in the CE. The research examines the value proposition (VP) of circular business models (CBMs) in the fashion industry as it is presented to the customer in retail settings. It aims to illuminate new possibilities for the design of market sites, contexts and customer experiences which will facilitate the expanded set of interactions required in future CE fashion retailing scenarios.

The scope of this research focuses on customers (consumption) practices rather than production aspects in CE, and therefore excludes work that focusses on new materials, product design, production methods, recycling methods or technologies, intra-firm issues related to culture or capabilities, and inter-firm issues related to implementation of circular business models or initiatives.

### Literature review

It can be argued that the majority CE literature presents an industrial design and management perspective (Lofthouse & Prendeville, 2018; Kuzmina et al, 2018) in which production is central and consumption corollary. Lack of research and knowledge on the customer value end of the spectrum has resulted in circular business models (CBMs) being developed under certain assumptions and omissions, without an explicit theoretical economic model underpinning key concepts. One stated aim of a circular system is "to keep products, components, and materials at their highest utility and value at all times" (EMF, 2015). The goal of CBMs is to "help companies create value through using resources in multiple cycles and reducing waste and consumption" (Lüdeke-Freunde, Gold & Bocken, 2019). Yet, core concepts including value are often undefined (Widmer, Tahjono & Bourlakis, 2018). The failure to define the nature of key concepts means aims lack clarity, and

resources are directed toward objectives which often do not produce the desired outcomes. The slippery conceptualisation of value in CE literature undermines efforts at systemic transformation in at least four ways:

### 1. Value and cost

First, value creation and cost-minimising activities are occasionally conflated. While the conventional view is that value is created either by providing unique benefits or minimising costs to the customer (Porter, 1985), some CE authors assume that minimising environmental costs automatically creates value (Table 1).

Author/ Institution	
Ellen MacArthur Foundation, 2015	<p>"CIRCULAR ECONOMY [...] SOURCES OF VALUE CREATION</p> <p>"[...] Repairing and maintaining a product [...] preserves more value than just recycling the materials [...] preserv[ing] more of a product's integrity, complexity, and embedded labour and energy.</p> <p>"[...] Reusing a product a number of times or extending product life [...] avoids the material, energy and labour of creating a new product or component.</p> <p>"[...] Diversifying reuse across the value chain [...] substituting for an inflow of virgin materials into the economy.</p> <p>"[...] Uncontaminated material streams increase collection and redistribution efficiency while maintaining quality, particularly of technical materials, which in turn extends product longevity and thus increases material productivity."</p>
CIRAIG, 2015	<p>"Value is created using the tightest possible loops for both technical and biotic nutrients."</p> <p>"Cascading and toxicity reduction are also value creation drivers."</p>

Lüdeke-Freund, Gold & Bocken, 2019	"[CBMs] show how focal companies can create value through implementing CE approaches such as eco-design or cleaner production".
Rosa, Sassanelli & Terzi, 2019	"The economic value of a product can be maintained through a series of activities, like: i) lowering the dependence from virgin materials, ii) shifting from non-renewable to renewable energy systems, iii) adopting more sustainable production practices and iv) greening the entire value chain."

**Table 1. Selected examples of authors conflating value creation with cost-minimisation.**

Unfortunately, many firms achieve low prices not through efficient or innovative cost-minimising measures, but through cost-externalising practices including environmental and labour abuse. The CE promises a system in which the "full costs of negative externalities are revealed" and priced in or designed out (EMF 2015). However, research does not support the assumption that such activities will necessarily create value for customers. Ritch (2020) finds that mainstream apparel customers do not prioritise options without externalised costs, preferring them only in the absence of trade-offs. Consequently, improving workers' labour conditions or the environment by pricing in and minimising previously externalised costs can lead to a reduction in customer value where prices increase.

The failure to differentiate between cost minimising and value creating activities prevents recognition of how cost externalisation is a customer value driver for some firms.

### 2. The irrational customer

Many CE proposals neglect the motivations and capabilities of the customer. Many authors have uncritically adopted the neoclassical model of the consumer as an omniscient, rational actor who seeks to maximise utility through their consumption choices. The EMF's headline benefit of circular textiles for "citizens and society" is "greater utility and choice [...] for customers" (2017). This depiction of the customer as a utility-maximising agent underpins the logic of CBMs which sell access to or performance of goods (Bertoni, Rondini & Pezzotta, 2017). Unfortunately, this 'economic man' does not exist. Evidence shows that

people have bounded rationality, relying on incomplete information, subjective factors and moral imperatives in decision-making (Thaler & Sunstein, 2009; Hodgson, 2013) while operating in a marketplace shaped by sociocultural contexts, norms and practices (Santamaria, Escobar-Tello & Ross, 2016).

Customer value is a multidimensional, interactive, emergent experience (Holbrook, 1999; Leroi-Werelds, 2019) which is the fundamental core of a firms' competitive advantage and business model design (Porter, 1985; Leroi-Werelds, 2019). Holbrook posits eight different types of value in his widely used typology which groups utility and choice together as self-oriented-extrinsic economic value types, termed excellence and efficiency respectively (1999). Approaches centering utility and choice neglect intrinsic value types entirely (e.g. Piscicelli, 2015; Santamaria, 2016), circumscribing the scope of activities which could create perceived customer value in a circular system.

Broader approaches that recognise value creation as a multidimensional, emergent experience could enable new roles for the customer, shaping value perceptions and decision making through service and customer experience design. The capacity for design to shape the contexts of customer experience and value creation in CE transformation is under-examined.

### 3. The role of the market

The function of the market in assigning and realising value is not recognised. To the contrary, CE literature often describes the value of goods and materials as inherent or embedded properties which are created, added or maximised by producers (see Table 1). This presents the value chain as a cumulative set of activities with each link adding value to the finished good. With value assigned to a product or material itself, a financial value for those goods can be estimated. The widely cited claim that "USD 500 billion of value is lost every year due to clothing underutilisation" is calculated using the replacement cost of discarded garments (EMF, 2017). This assumes that the unrealised value of discarded garments is equal to the value of new garments which has been realised in the market.

Author / Institution	
Lacy, Keeble & McNamara / Accenture, 2013	"Circular economy business models all have unique ways to protect embedded value in a product, component, material or process"
Ellen MacArthur Foundation, 2015	"The essence of value creation lies in the opportunity to extract additional value from products and materials"
Ellen MacArthur Foundation, 2015	Repairing and maintaining a product [...] preserves more value than just recycling the materials [...] preserv[ing] more of a product's integrity, complexity, and embedded labour and energy."
Ellen MacArthur Foundation, 2015b	"Circular economy technologies and business models aim to maximise the value extracted from finite stocks of technical assets and materials"
BSI, 2017	"In the circular economy, materials should not be discarded as wastes, but treated as raw materials with inherent value."
Lüdeke-Freunde, Gold & Bocken, 2019	"Value added' is a typical way to depict the economic value created through business models and accumulated across supply chains. The value created along forward supply chains is quite evident—raw materials are processed into products that are sold.  [...]  "Business models that support a CE would retain either product or material value."
UNEP, 2020	"The activities linked to value creation such as business models, investments and regulation."

**Table 2. Selected examples demonstrating the conceptualisation of value as a property added or embedded by production activity.**

According to the goods-dominant logic employed, the shops and warehouses full of goods unsold during the Covid-19 pandemic are stockpiles of 'embedded value'. Yet, without marketplaces where value can be realised through exchange with customers, firms have collapsed and workers deprived of wages due.

Far from being assets with ‘embedded value’, large inventories were liabilities requiring “damage control” through write-downs or stock clearance (Amed et al, 2020). The firms who have prospered are those reaching customers through online shopping, successfully creating value through exchange.

In a CE, value is created through exactly the same market exchange mechanism as items are cycled “through sale and resale, repeated rental, or being sold, repaired, returned, refurbished or recycled, and resold again” (Amed, 2020). CE design proposals which focus on materials, production processes or products overlook how circularity will require repeated interactions and new pathways across the interface between producer and customer (Lofthouse & Prendeville, 2018; Kuzmina et al, 2019). How service and interaction design can be employed to create market transaction innovation remains a significant gap to be addressed.

Retail has a long history of dynamic change, with new formats developing to meet changing customer needs and commercial opportunities (Hamilton & Petrovic, 2011; Leong, 2001; Herman, 2001). Department stores, shopping malls, box-stores and online shopping have all, in turn, employed new technologies, infrastructure and experience design to stay relevant for customers (Leong, 2001a). Concurrently, the emergence and spread of new retailing formats has reshaped culture, society, physical infrastructure and political-economic structures (Crawford, 1999; Chung, 2001; Leong, 2001a; Leong, 2001b; McMorrough, 2001; LeCavalier, 2016). A significant body of trade and academic literature addresses the design of retail spaces, services and customer experience as methods for increasing sales. Yet, how design, technology and innovation can be employed to create new contexts for circular customer interactions has been neglected.

#### **4. Legitimising the status-quo**

From a marketing perspective, Vargo (2021) argues that designating production activity as the source of value legitimises a system predicated on the unending consumption of value-laden goods. Service-dominant logic offers an alternative model which shifts the locus of value creation to the beneficiary, i.e. the customer (Vargo, 2021). SD-logic

conceptualises value creation as a process in which the customer integrates available resources from the value proposing firm and a broader service ecosystem with its own emergent properties and coordinating institutions (ibid).

As institutions linking large groups of consumers and suppliers, retailers are market-makers and organisers of the global economy (Hamilton & Petrovic, 2012). Respectively, transformation of the market-making institution, its norms, conventions and supporting service ecosystem should be a vital endeavour in a CE transition. Yet, consideration of retail sites as a key venue for presentation and customer evaluation of circular business model VPs is lacking.

New approaches to understanding value creation in the CE and the design of CBMs are needed which distinguish between value generating and liability creating activities; acknowledge the role of the market in assigning and realising value; centre the customer as an active value co-creator; and enable people to meet their multidimensional needs via wider interactions beyond continuous consumption (and disposal) of goods.

## **Methodology**

### ***Study Aim and Objectives***

The fashion industry has embraced circularity as a solution to its problems with overproduction, resource scarcity and waste. The aim of the study was to explore how circularity is presented to customers in online retail settings, the value offered customers, and the customer role in realising and co-creating value.

The study objectives were:

- To examine what circular business models are currently being implemented by firms
- To identify what value is offered to customers
- To consider the customer role in realising the VP within these models

### ***Sample***

Approximately 125 retailers and brands were identified who have partnered with the EMF’s ‘Make Fashion Circular’ initiative, signed the GFA 2020 Circular Fashion Commitment, or



appear as exemplars in grey and academic literature. An initial random sample population of 51 firms' customer facing websites were visited to locate information about CBMs employed and identify the customer VP.

### Method

**Business model** – To identify CBMs employed by each firm, a basic typology of CBMs employed in the fashion industry was adapted from sources in literature (see table 3) and used. Eco-efficient practices were noted but are not included as a type of CBM; efficiency gains do not constitute a business model (Geissdorfer et al, 2020).

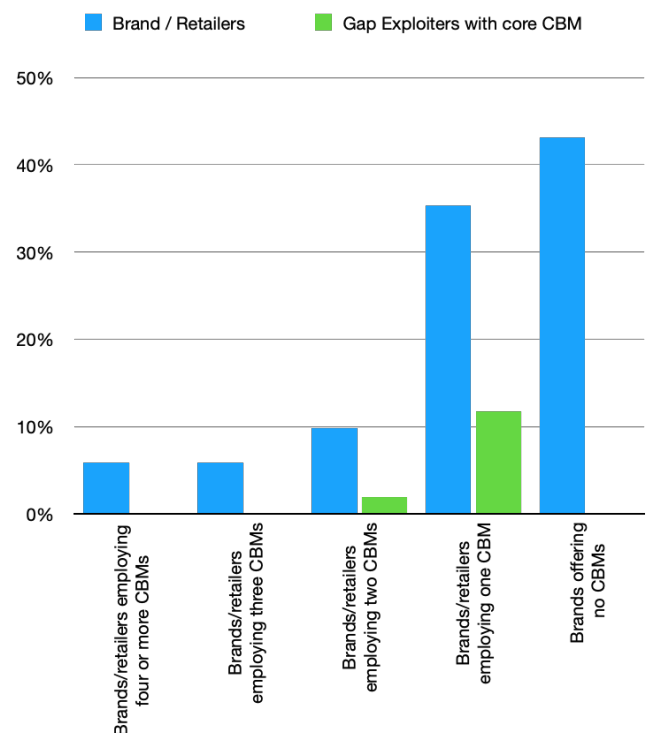
CBM	Definition and circular strategy
Durability/ long-life	Materials are selected for durability and goods are constructed to a high standard for an extended lifespan.
Remanufacturing	Damaged or otherwise unusable goods are disassembled, and materials or components re-used to create new products.
Rental/ Leasing / PSS	Customer pays for the performance of or access to a good. May include intensifying usage of a good.
Repair / Refurbishment	Extending the lifespan of a garment through mending or reconditioning.
Resale	Finished goods are sold on to new ownership for re-use.
Takeback	Goods and materials are recovered by firms. May go to re-sale, downcycling, recycling or energy recovery.

**Table 3. Circular business model types, adapted from Bocken et al, 2016, BSI 8001, 2017; Henry et al, 2020; Geissdorfer et al, 2020; Lüdeke-Freund, Gold & Bocken, 2019.**

**Customer value** – Having identified website content related to the firms' CBM offering, a textual content analysis was employed to identify the customer value proposed. A secondary analysis categorised VPs according to Holbrook's widely used typology of customer value (1999).

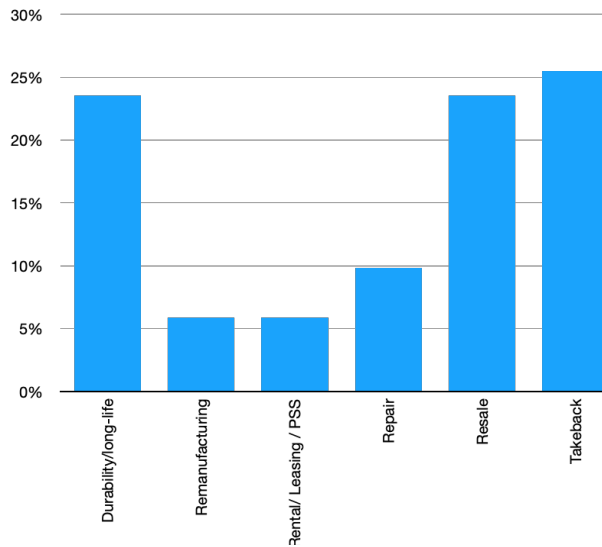
### Findings and Discussion

Many brands prominently displayed information about eco-efficient practices, yet 43% of businesses in this sample employed no CBMs. Over a third, 35%, employed only one, suggesting that circular practices are not well integrated or embedded into these organisations. It's notable that the majority of Kering Group brands are not employing any circular strategies or communicating sustainability messages to their customers at all, despite the Group's efforts to position itself as a sustainable fashion leader.



**Figure 1: Percentage of firms offering CBMs**

The majority of circular VPs were not related to the product or material. The only exceptions to this were durability and quality, related to the long-life model offered by 24% of businesses. Despite frequent claims in literature, particularly grey literature, that "technology" is key to realising circularity, only one firm employed a technology-based solution in their CBM offering. Financial incentives or discounts were offered by 34% of retailers, many of which appear designed to promote new purchases.



**Figure 2: Percentage of firms offering various types of CBMs**

Many brands communicated the sustainable VP in terms of their own beliefs or practices before or instead of explaining a benefit to the customer. These offers followed a particular structure: the firm's belief system is related, a sustainability principle is set out, an ideal customer behaviour is described, followed by an invitation to participate by purchasing.

CE conceptualisation of circular VPs are often centred on utility or choice of products, excellence and efficiency respectively in Holbrook's typology. Yet, all firms offering CBMs extended multi-dimensional VPs beyond these two self-oriented extrinsic value types.

Firms offering one CBM had the least complex VPs, which tended to comprise a combination of the extrinsic value types – status or esteem and efficiency or excellence. CBMs which include charitable donations are frequently offered alongside a self-oriented VP, offering extrinsic esteem or status value by casting the customer as a benevolent charity donor, rather than intrinsic ethical value. One firm encouraged customers to “donate [...] for a good cause – and feel great about making room in your wardrobe for your new season favorites” (Lane Crawford, n.d.) while several others offered discounts on new purchases. This type of offer does little to change consumption behaviour or promote systemic change, merely offering incentives to continue the cycle of continuous consumption.

Responding the Leroi-Werelds' argument that externalised costs created “negative value” for customers (2019), Ritch finds that customers can and do avoid information about firms' bad behaviour (2020). Creation of altruistic, ethical value relies on customers understanding negative impacts and actively choosing to avoid them. Several firms incorporated information intended to educate customers about externalised costs, thereby creating the option of an ethical choice. Others relied on customers existing knowledge or understanding, for example that sending textiles to landfill was undesirable. While research finds that intrinsic values and motivators including aesthetics, creativity and self-expression drive fashion participation (Fletcher & Grose, 2012; Bly, Gwozdz & Reisch, 2015), realising ethical value proposals rely on customers internalising and acting on relevant sustainability information (Bly, Gwozdz & Reisch, 2015; Ritch, 2020).

Firms offering a core CBM or greater number of circular activities was correlated with a greater variety and complexity of VPs, which were more integrated with the main VP and value creating activities of the firm. Customer participation was central to the creating the value offering. Nudie Jeans, Patagonia and Eileen Fisher all offered resold, repaired and remanufacturing services in which value is co-created through active customer participation. Hvass's (2015) case study of Filippa K's resale programme acknowledges the role of customers in value co-creation in a limited way, as product suppliers (2019). Yet, in the aforementioned examples, value is actively generated by customers through the use and care of garments. Nudie Jeans, in particular, presents heavily seasoned denim as more valuable than lightly used pairs, carefully documenting information about repairs and previous ownership. Fletcher (2012) documents these “practices of use”, yet the vocabulary needed to describe the unique value generated through care and personal contact is still lacking.

Farfetch, Poshmark and Depop's resale services present curation and styling by previous owners as activities which create aesthetic value for their customers. Many resale platforms emphasise value co-creation in descriptions of their communities of participants. In these cases, garment owners are not simply consumers of value but actively creating value through their relationship with

the products and firms. Palma, Trimi & Hong (2019) identify the importance of intrinsic factors in motivating customer participation, while Michie et al. (2011) emphasise motivation as a key factor influencing behaviour change. Further research and consideration are needed to integrate customer value co-creation, motivation and behaviour change theory in support to a CE transition.

The sector is changing rapidly, and a recent Vogue article notes the appearance of gap-exploiting start-ups offering repair, refurbishment and customisation services (Webb, 2021). Such positive developments should be met with caution; sustainable fashion start-ups frequently fail (Hussain, 2018) including one of the gap-exploiting resale platforms in this research sample and the apparel market remains dominated by large firms. Yet, the rise of resale platforms and firms demonstrates the market-making and organising power (Hamilton & Petrovic, 2012) of the retail interface, which merits further investigation.

## Conclusions

The research is limited by conditions which, at the time of writing, make it impossible to visit physical retail sites to assess circular initiatives, e.g. takeback schemes. However, this initial research found a significant number of brands and retailers failing to provide customers with information about sustainability or employ circular practices – despite public commitments to do so.

Literature and management practice are not aligned on the nature of the customer VP. Value offered by firms is multidimensional, even the simplest propositions offered more than increased utility or choice, including both extrinsic and intrinsic value types.

Firms who were most advanced in their integration of CBMs employed a range of operational practices which increased active customer participation in value co-creation, expanding the role and experience of the customer. Further research is needed toward developing the vocabulary and methods of customer experience and participation in CBMs.

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## Appendix 1: List of brands and retailers

Adidas	EMF 'Make Fashion Circular' participant; GFA 2020 Commitment signatory
Asos	EMF 'Make Fashion Circular' participant; GFA 2020 Commitment signatory
[BESTSELLER Brands]	EMF 'Make Fashion Circular' participant; GFA 2020 Commitment signatory
Jack & Jones	Hvass, 2014
[Bank & Vogue] Beyond Retro	EMF 'Make Fashion Circular' participant
Boomerang	Hvass, 2014
Burberry	EMF 'Make Fashion Circular' core partner
C&A	EMF 'Make Fashion Circular' participant
Circos (formerly Vigga)	Petersen & Riisberg, 2017
Depop	Gillick-Daniels, 2020
Eileen Fisher	GFA 2020 Commitment signatory; Hvass, 2014;
Elanic	Gillick-Daniels, 2020
Farfetch	EMF 'Make Fashion Circular' participant
Browns	
Filippa K	GFA 2020 Commitment signatory; Hvass, 2014
Guess	EMF 'Make Fashion Circular' participant; GFA 2020 Commitment signatory

H&M	EMF 'Make Fashion Circular' core partner; GFA 2020 Commitment signatory; Gillick-Daniels, 2020
Katvig	Hvass, 2014
[KERING BRANDS]	EMF 'Make Fashion Circular' participant; GFA 2020 Commitment signatory
Alexander McQueen	
Balenciaga	
Bottega Veneta	
Brioni	
Christopher Kane	
Gucci	
Saint Laurent	
Lane Crawford	Carrara, 2019
Lee	EMF 'Make Fashion Circular' participant
Levi Strauss	Hvass, 2014;
M&S	EMF 'Make Fashion Circular' participant; GFA 2020 Commitment signatory; Hvass, 2014;
MUD jeans	GFA 2020 Commitment signatory; Carrara, 2019
Nanushka	EMF 'Make Fashion Circular' participant
Nordstrom	EMF 'Make Fashion Circular' participant
Trunk club	
Nudie Jeans	GFA 2020 Commitment signatory
Patagonia	Hvass, 2014;
Poshmark	Gillick-Daniels, 2020
[PVH BRANDS]	EMF 'Make Fashion Circular' core partner
ARROW	
Calvin Klein	
Geoffrey Beene	
IZOD	
Olga by Warners	
Tommy Hilfiger	GFA 2020 Commitment signatory
True & Co	
Van Heusen	
Warners	
Reformation	EMF 'Make Fashion Circular' participant
Rent the Runway	Gillick-Daniels, 2020

Stella McCartney	EMF 'Make Fashion Circular' core partner
Swedish Stockings	Carrara, 2019
The Gap	EMF 'Make Fashion Circular' core partner; GFA 2020 Commitment signatory
ThredUp	Gillick-Daniels, 2020; EMF 'Make Fashion Circular' participant
[Inditex] Zara	EMF 'Make Fashion Circular' core partner; GFA 2020 Commitment signatory