ELLEN MACARTHUR FOUNDATION

HOW *NOT* TO FAIL:

Avoiding 10 common pitfalls when scaling circular business models

About this paper

This paper is designed to guide businesses towards understanding and overcoming common internal barriers when scaling circular business models. Researched and written by the Ellen MacArthur Foundation, it draws on the first-hand experiences of more than 30 companies in its Network that are leading the transition to a circular economy. The research identifies 10 internal barriers frequently preventing circular business models from scaling, each one common across industries, regions, types of circular business model, and stages of business maturity. Together, these insights can help businesses spot common pitfalls early and scale circular business models with greater confidence.

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Foreword

Joe Murphy, *Chief Strategy and Innovation Officer, Ellen MacArthur Foundation*

One indicator of the shift from a linear to a circular economy is the examples of tangible innovation visible in the market. By that measure, we've seen huge progress in the past 15 years. When the Ellen MacArthur Foundation was established, there were scant examples of products or business models that embodied the core principles of a circular economy, with the same few cases stuck on repeat. It's a different picture now: you can't ignore the wave of innovation coming from research institutions, startups, and corporations.

Much of this activity is in the form of R&D, lab-based experiments, concepts, demonstrators, or isolated and time-bound pilots. These have a powerful role in showing what's possible, creating necessary space for new questions, and offering new answers. Working in this way – independently, controlled, and behind closed doors – may feel safer for businesses. This initial safety is important, since we won't be able to create a more circular economy without a business culture that encourages experimentation.

But if we are to scale innovation and challenge our extractive industrial systems, we need to go beyond the pilot, engage with these systems, and confront difficult questions.

Making the leap from pilot to scale is not easy. It changes everything; the economics of the proposition, customer behaviours, technical feasibility, regulatory scrutiny, and governance. Any business trying to navigate these changes will experience a lot of 'learning by doing', but many lessons can also be gleaned from those who've been on the same path before. That's why we've created this study.

Societally, and in business, we've become more comfortable with the notion of 'failure' in recent decades. Yet this hasn't always been applied to circular economy innovation. Advocates may want to avoid highlighting the times when implementation didn't play out as predicted, but in reality, all practitioners face a messy, incremental journey towards implementation. So what about the efforts and initiatives that didn't make it? What can we learn from those stories, and the people behind them? What pitfalls did they discover, that the rest of us can take note of, and avoid? It's tempting to focus on where businesses found success in the circular economy, but that only shows one side of the story. Because if we only celebrate the wins, we miss the lessons that will make winning possible.

EXECUTIVE SUMMARY

Executive summary

This paper outlines 10 common reasons why circular business models fail to scale, with a focus on the internal factors in organisations.

Insights based on discussions with more than 30 businesses from the Ellen MacArthur Foundation Network suggest that circular business models are not failing to scale because they're unviable, but because they **lack a strategic, long-term roadmap for building the model, running operations and capturing value effectively.** These pitfalls can be divided into four main categories:

- Early-stage decisions that lack a long-term approach and are misaligned with the wider business strategy, thus inhibiting the longevity and strength of organisational support when the moment comes to scale.
- The selection of ineffective combinations of business model, customer experience and product mixes for an organisation's context, thus limiting operational success and revenue potential.
- Narratives that don't convey the full economic rationale of the business model, thus hindering their ability to garner support from internal stakeholders and gain access to the resources needed for scaling these initiatives.
- The exclusion of necessary wider organisational functions or appropriate external partners from the project's outset, reducing the ability of these models to be incorporated into the mainstream business offering further down the line.

There's no right route to scale

The common pitfalls highlighted in this paper were remarkably consistent, regardless of business model type, company, industry, or partnership structure. No single organisational setup or delivery model guaranteed (or prevented) success at scale. Teams approached delivery in vastly different ways. Some created cross-functional groups within the core business, while others formed internal startups or contracted external partners for (significant parts of) the delivery of the business model. None of these configurations could be determined to always be more or less successful.

This should be welcome news for practitioners: circular business models can scale in almost any context without the need to restructure or control every variable, as long as the value proposition and organisational design considers the unique context of each business, and sets up the right internal conditions for success, as outlined below.

Reaching scale is not just about knowing what works but also recognising what tends to go wrong. **This paper aims to help readers understand and avoid 10 common pitfalls, enabling them to scale circular business models with greater clarity, speed, and confidence.** These insights can be applied across industries, regions, types of circular business model and stages of business maturity.

These insights can be read as standalone pitfalls, clusters, or a complete picture, depending on what the reader finds most relevant.

10 common pitfalls when scaling circular business models

THINKING TOO SMALL

- 1 Lacking a plan for scale from the outset
- 2 Missing the link to core business objectives

STRATEGIC MISALIGNMENT

- 3 Mismatching the business model and organisation
- 4 Neglecting customer experience
- 5 Overlooking product alignment

RELYING ON A NARROW BUSINESS CASE

- 6 Not leading with the financial narrative
- 7 Using limited financial KPIs
- 8 Missing a long-term mindset

GOING IT ALONE

- 9 Not involving cross-functional teams and leaders
- 10 Partnering ineffectively with external organisations

Click on a title to jump to the relevant pitfall

From pilot to scale: seizing the challenge of business transformation

Circular business models can unlock huge value for businesses, yet many of them fail to scale. Why is this, and what can be done about it? This study seeks to answer these questions by highlighting 10 common pitfalls businesses face internally when trying to enact this transformation – across industries, sizes of business, and types of circular business model.

Scaling circular business models is one of the most transformative moves that businesses can make today. Circular business models can unlock new sources of revenue, drive customer loyalty, and reduce exposure to the risks of material price volatility, supply disruptions, and supply-demand gaps, all while helping to deliver on climate and biodiversity goals. But the full extent of these benefits only materialises when these models move beyond small pilots and reach scale.

While the total number of circular business model pilots is increasing, few are scaling to a meaningful level. Useful insights often emerge from these failed attempts to scale, but companies can be hesitant to discuss them, making it difficult to identify common challenges and ways to surmount them.

To help businesses understand and overcome barriers, the Ellen MacArthur Foundation teamed up with more than 30 companies in its Network to uncover 10 common internal reasons why circular business models fail to scale. The challenges cut across industries, regions, types of circular business model, and stages of business maturity. Many are similar to those seen in any major business transformation or change management journey, but as this paper reveals, circular business models also face challenges different from other innovation and change management initiatives. If navigated effectively, however, they can present enormous opportunities for economic growth, resilience, and the environment.

Scale: when a circular business model has become a significant or dominant source of revenue for a business, ideally eventually replacing traditional linear offerings.

Businesses are facing a world of instability, volatility, and technological disruption. To navigate these changing times, they will need to take innovative approaches to how they operate and capture value. Circular business models can unlock competitive advantage, but to benefit businesses will have to move from pilot to scale in the next few years. These 10 common pitfalls have been identified to help with that transformation.

> ***"There is so much friction [in the change management] but that's always going to be the case when working with circular business models. We are at the point where it's about taking the circular economy and actually operationalising it, and there is no way to operationalise it in the way that the linear model is structured."***
>
> **Network member**

External factors

While not explored in this paper, external factors also play a significant role in creating the necessary conditions for circular business models to scale. For example, the influence of policy, reporting frameworks, and available infrastructure can both hinder and enable scale. Aligning these elements – so that they can incentivise and create favourable conditions for circular business models to become the norm – will require broader, more targeted, and at times industry-specific collaborative action across stakeholder groups. To learn more about the roles of policy and reporting in promoting the scale-up of circular economy activities, see:

- Business Coalition for a Global Plastics Treaty
- Influencing climate emissions accounting

THINKING TOO SMALL

Pitfall 1: **Lacking a plan for scale from the outset**

Pitfall 2: **Missing the link to core business objectives**

When circular business models are designed without considering how they could operate at scale, or without a clear link to core business objectives, they will not succeed in gaining the organisational buy-in that is vital for their growth.

PITFALL 1:

Lacking a plan for scale from the outset

Pitfall in practice

One European multinational piloted a circular rental service through external partners, under a different brand, so that it could go live quickly as a local-level proof of concept. Customers responded well and revenue was strong. Encouraged by this, leadership decided to replicate the model in other regions and bring the operations of the business model in-house for its expansion. But the key elements – such as customer experience, operational flows, and supply chain – had been shaped by external partners in response to the location and scale of the pilot, so when internal teams tried to replicate the offering across a greater proportion of their portfolio, the model failed. Bringing the service under the multinational's own brand name also meant having to use premium products and different locations to align with its luxury, heritage brand identity. As a result, the new service and operational design could not replicate the original profit margins. Existing customers from the original partner-led pilot were disappointed when services were no longer available in their locations at the same price point, while new customers found the price point too high. Despite having the in-house capabilities to deliver the service, the company couldn't reproduce the conditions that made the pilot work fast enough. The project was ultimately dropped and led to a negative perception among the corporate leadership around the success and profitability of circular business models, despite them being previously favoured as a future growth strategy.

Point of failure

Launching a circular business model without a clear operational roadmap makes it much harder to scale. Circular business models often require new infrastructure, logistics, stock management methods, and new ways of working, either with third-parties or internally. Highly localised pilots, run without mapping the long-term operational demands of scale, often fail to generate transferable insights or build the internal buy-in needed to progress.

Many teams look at partnering with externals as a way to access missing capabilities, accelerate delivery, and reduce risk, particularly for pilots. But when companies try to integrate the model internally later on, several difficulties can arise if not considered during the design phase. The organisation can miss out on key operational learnings, fail to build shared ownership across teams, struggle to persuade leadership, and lose customer engagement. The result is a model that works in theory but lacks the internal alignment, skills, and infrastructure needed to be successfully delivered in practice. By then, it may be too late to retrofit for internal delivery.

"I guess the question really comes down to: is the pilot designed in such a way that you can scale it? Or rather, that it's designed in such a way that the scaling is taken into account... To meaningfully scale circular business models, you need to redesign internal operations and customer experience for scale from the outset, and this will require large internal transformation and change management."

Network member

Potential solutions to explore

- **Treat scale as the goal from day one.** Map what the circular business model needs to look like when fully integrated: which teams and stakeholders have to be involved, what processes must change, and what infrastructure is needed. Then build a roadmap that allows you to test and address any sticking points and risks as soon as they appear. You don't need every detail up front, but you do need a clear picture of what scale looks like and which questions must be answered at each step to reach it.
- **Select the most appropriate piloting approach.** Consider whether a standalone pilot is the best way to build a business case for the selected circular business model. In some instances, larger-scale projects might be essential to prove the financial business case. In other instances, it may be more valuable to implement multiple pilots in a portfolio across different formats or markets, knowing that some will fail. Set expectations accordingly so that the success of any innovation is defined by the learning it generates across the portfolio, not by the performance of a single pilot.
- **Design partnerships for scale.** When partnerships are brought in to deliver aspects of the business model, bear in mind the potential impact on scaling. Some partners may be able to grow with the project, while others may only be appropriate for a limited volume or geographical context. Understand these potential limitations from the outset. See Pitfall 10 on what to consider to integrate partnerships successfully. For examples of companies that have successfully employed third parties in scaling circular business models, see the Ellen MacArthur Foundation's work on the Fashion ReModel.

> *"We no longer think in terms of pilots. We're targeting scale. In the past, our pilots often ran in isolation with participation from only a small [internal] group, and we'd report out at the end. What's different now is that we're planning for scale from the beginning, through broader engagement and alignment across the business."*
>
> Network member

PITFALL 2:

Missing the link to core business objectives

Pitfall in practice

A global electronics company with a near-century-long reputation for quality materials and precision design began exploring circular models. Its sustainability team proposed a business model around incorporating recycled content into products, but product teams and operational leads pushed back, seeing it as a compliance-driven shift that could dilute the brand's reputation. Since no prior work had been done to prove that recycled materials could meet the company's high standards for durability and performance, and the circular economy hadn't been framed in relation to how it could contribute to the brand's core objectives of quality and precision, the business model stalled before it could be fully tested. Many leaders felt the model contradicted the unique selling points of the company's products, and the wider organisation only understood it as a sustainability initiative. It hadn't been introduced in a way that resonated with the existing values of the organisation: as an opportunity to innovate while advancing the company's commitment to quality and longevity.

Point of failure

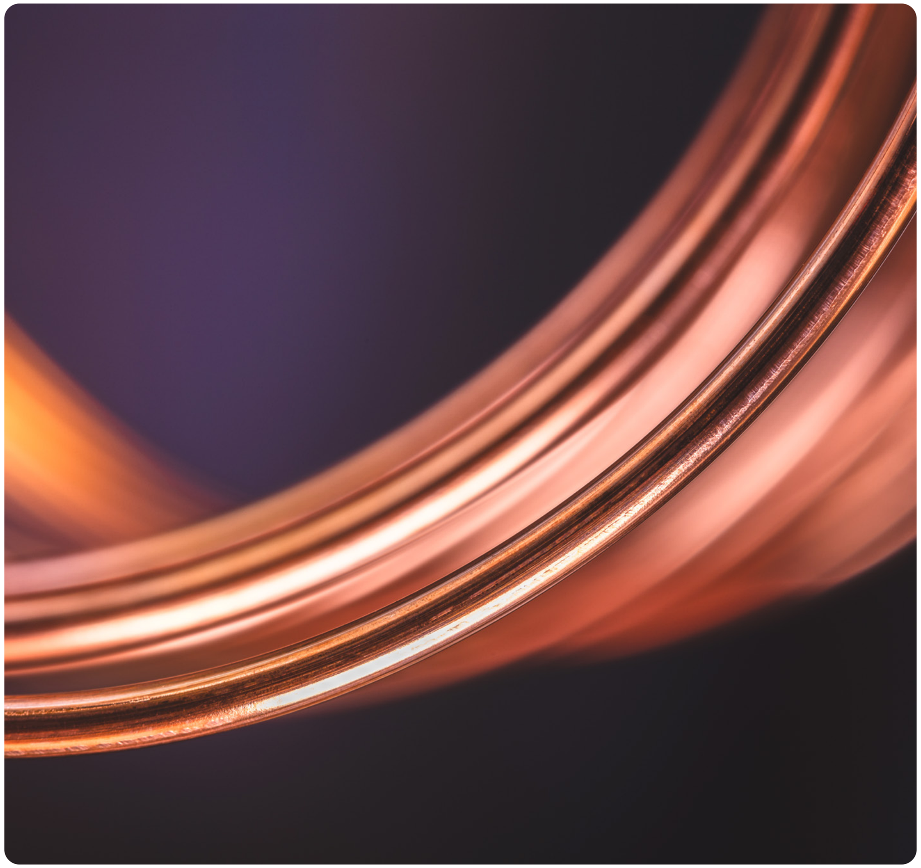
The case reflects a broader pattern: circular business models struggle to gain organisational buy-in when they are seen as adjacent to, or in competition with, core business objectives. This often happens when circular business models are introduced by sustainability teams, who tend to frame them around waste, climate, and environmental goals, rather than their potential to drive innovation, business growth, and customer value. The problem is less that companies have multiple strategic priorities and more that circular business models are commonly seen as serving only one of these priorities. When the broader business value is left unexplored or isn't tied to these priorities, the model risks being dismissed as peripheral or as an act of corporate social responsibility. This makes securing investment more challenging, particularly given the upfront costs and longer lead times often needed for adopting these models. To become a predominant revenue driver for a company, a circular business model should not constitute a new 'mission' but should progress existing business goals.

> *"There is still a tendency to see this as a reporting exercise and not integrated into the core innovation processes of the company. That's why we're also trying to push hard to demonstrate that we're innovating for our company, that we're looking for new sources of growth, and to bring new business in."*
>
> Network member

Potential solutions to explore

- **Anchor circular business models to core business objectives.** Frame circular business models in line with the organisation's strategic targets, values, and identity; or as a way to address the key challenges of a business. If quality or durability is part of the brand identity, emphasise how circular business models strengthen it. Lead with the potential benefits and present it as an innovation opportunity the whole organisation can embrace. Where other equivalent terms are already established, it may be appropriate to avoid the term "circular economy" to minimise confusion. To embed circular business models across the business, leverage existing frameworks for product design or innovation to include circular goals. Additionally, appoint a person responsible for the circular business model from outside the sustainability team. Take a look at how Zalando achieved this as part of the Fashion ReModel and how other businesses are driving and securing buy-in from internal stakeholders.
- **Connect to existing targets and KPIs.** Link the model to the performance goals of each function involved in delivery. For sustainability teams, highlight climate and biodiversity gains. For retail teams, stress the opportunities to generate customer loyalty. Tying the message to each team's goals and metrics makes it easier to justify scale and increase buy-in. See Pitfall 6 and Pitfall 7 to explore the importance of a robust financial narrative to scale circular business models. See Pitfall 9 for details on engaging cross-functional teams to deliver a circular business model.
- **Use the right language.** Adapt how you communicate the model to reflect what each team already cares about. Circular business models are, by nature, rooted in collaboration and sharing, which can excite and resonate with people. Borrow marketing techniques that make the value of the circular economy intuitive and compelling for customers when communicating across the business. See the Foundation's Marketing Playbook and Accenture Our Human Moment to explore how to make circular communications and propositions more accessible and relevant.

> ***"What I learned is that if you don't link it to performance bonuses, it won't work. We saw the whole history of sustainability, and it was exactly the same. Unless top executives feel the impact in their compensation, there will be no transformation."***
>
> Network member



STRATEGIC MISALIGNMENT

Pitfall 3: **Mismatching the business model and organisation**

Pitfall 4: **Neglecting customer experience**

Pitfall 5: **Overlooking product alignment**

Circular business models often fail when they're designed without factoring how the business works, what the customers want, and what the product requires. These need to be considered together, not in isolation, to ensure that delivery, adoption, and revenue generation are possible at scale.

PITFALL 3:

Mismatching the business model and organisation

Pitfall in practice

A multinational high-street fashion brand saw the rise of resale platforms and decided to launch its own resale model in-house, aiming to tap into the potential for profit and reach a younger customer segment. But the company had been built for high-volume, one-way transactions. It lacked the logistical and stock management capabilities to make resale operational. By following the opportunity without comprehensively assessing the company's ability to deliver, the pilot failed to demonstrate the expected value and instead created internal scepticism about the potential of circular business models.

Point of failure

Circular business models fail to scale when companies pursue them without assessing organisational fit. Trends like resale or rental may appear to be quick wins, but this lens alone, without aligning with internal capabilities, could lead to a dead end. A mismatch between the model and the businesses' identity, operational strengths, and partner setup creates friction that internal teams can't necessarily resolve. In practice, this shows up as a lack of capacity to run new processes, missing skills and capabilities, or insufficient digital or physical infrastructure. When these gaps are exposed mid-pilot, what results is disillusionment rather than proof of concept, and a loss of internal confidence in the feasibility of circular business models.

> *"You can't overlook the whole cultural aspect, the whole process aspect, the capabilities above all, if it's something new... Do they have the right skills, do they have the right people and, when they say 'we have an innovation opportunity, a new business model', do they understand how to implement it and what is the target operating model?"*
>
> Network member

Potential solutions to explore:

- **Pick an easy entry point.** Treat the circular business model pilots or early implementation as a strategic entry point and optimise for early adoption – without compromising long-term scalability. Consider choosing a model that either can be implemented with the fewest changes to existing teams and systems, or comes with a clear plan for making the relevant changes in a timely manner. Read more about how to select circular business models.
- **Map required capabilities.** Map the circular business model's delivery needs (skills, capabilities, and capacity - both initially, and when operating at scale) against what your organisation can realistically support now. Identify what gaps need to be bridged and over what timescales. Assess whether alternative models might be an easier fit for your organisation – either models where the capabilities are already present, or could be built to support the delivery of the business model.
- **Explore delivery partnerships.** Where operational capacity can't be met internally, external partnerships can be established to outsource components of the business model or help develop in-house capacity. This article published by Forbes explores third-party partnership options for resale models. Read more about designing partnerships for success in Pitfall 10.
- **Invest in innovators.** Investing in startups can both support the scaling of solution providers, which could support project delivery for your organisation, and provide an additional revenue stream from circular business models. Explore H&M Group's investment in Sellpy in this podcast by the Foundation.

PITFALL 4:

Neglecting customer experience

Pitfall in practice

A resale service provider collaborated with a large luxury fashion retailer on a resale model. To differentiate the offer from its core business, the retailer chose to host the resale platform on a separate site/channel. This meant its marketing team had to build a new audience and customer flow from scratch. By isolating the resale platform, the retailer missed the opportunity to leverage its existing audience and had to invest heavily to catch up.

In a parallel collaboration with another retailer – similar in profile and audience base – the resale startup integrated its offer into the retailer's main website. As a result, organic traffic was much higher and less marketing spend was needed to achieve engagement.

Point of failure

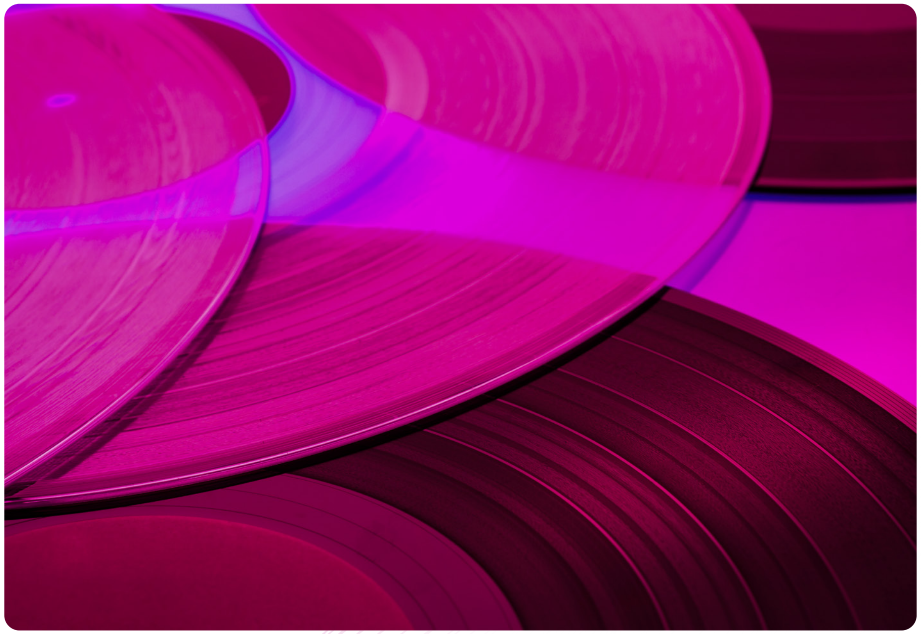
Circular business models often introduce unfamiliar steps and experiences for customers, such as returns, repairs, resale items, or packaging reuse. When those steps are not designed around customers' desires, expectations, behaviours, and the support they need to change their habits, then sales and adoption suffer.

Many circular business models disrupt the traditional single point of purchase interaction between customers and businesses, instead requiring customers to take steps after the point of sale or engage differently with a company to access the product or service they want. For instance, customers may have to repackage/return items at their end of use, send items out for repairs, or pay a monthly subscription. If those steps are unclear, inconvenient, or disconnected from the business's main communication channels, conversion rates will drop. Without a clear customer value proposition and seamless experience, even well-intentioned models may struggle to generate the volume of participation needed to prove desirability.

> ***"When it comes to scalability, it's a lot about that seamless presence within the customer journey that consistently drives traffic without me having to bother the marketing team for yet another campaign."***
>
> Sofia Gazzotti, Reflaunt

Potential solutions to explore:

- **Design for ease.** Meet your customer where they are now. Consider making the circular model fit into existing channels and platforms, and avoid asking users to navigate unfamiliar systems or sites. The easier it is for customers to engage, the more likely they are to return and advocate for the experience.
- **Select a high potential customer segment.** Identify a customer segment that offers scale – opt either for a large target market (B2C) or a high-volume client (B2B). Collaborate with marketing and customer-facing functions early to learn about how to make the model desirable for the chosen customer segment. See the Foundation's Marketing Playbook for guidance on making circular behaviours irresistible.
- **Engage and upskill customer management teams.** Circular models often entail new marketing approaches, customer onboarding processes, and customer management. Engage these functions early in the design phase and be realistic about where additional resources may be needed to deliver the experience.



PITFALL 5:

Overlooking product alignment

Pitfall in practice

One lifestyle retailer set out to pilot a rental model, aiming to improve customer loyalty and reduce the cost of procuring new materials. With leadership buy-in secured, the innovation team selected a product line that traditionally had a high upfront investment and infrequent use, believing that it would make for a good short-term rental model. But the product line didn't have an established client base, so the offer didn't attract enough interest to make the case for scaling the pilot. This failure made it harder to build the case for testing the business model in the next product segment, thwarting its ability to scale.

Point of failure

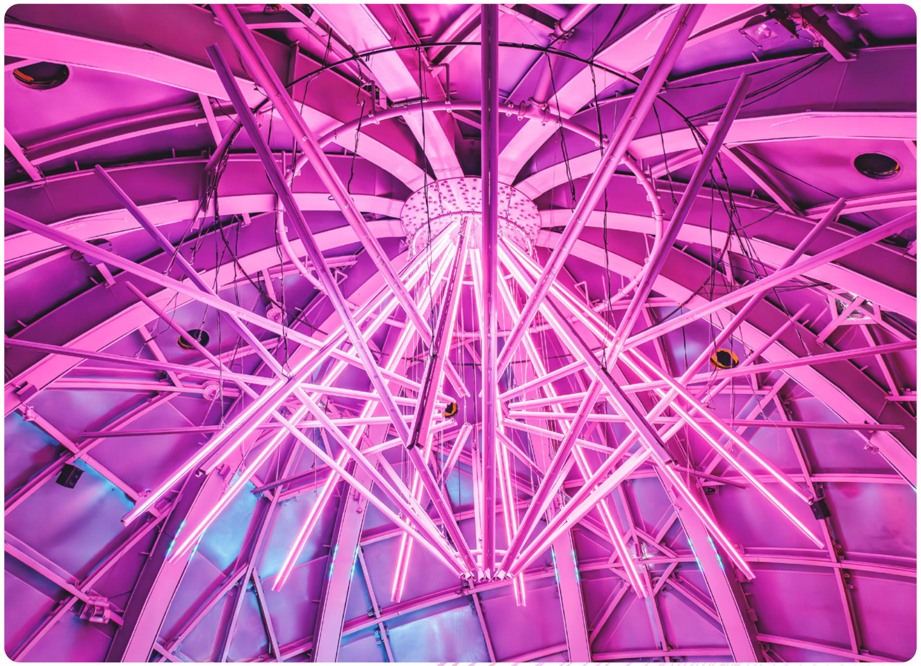
No matter how well executed a circular business model is, if the product-model fit is wrong, it will fail to gain traction and won't capture the value needed to scale. In implementing circular business models, many companies focus so intently on the model itself, that the importance of product alignment is overlooked. Different circular models place different demands on the product itself. Rental models, to be viable, need durable products that can circulate multiple times with minimal degrading. Repair models work best on products designed with easy-to-replace componentry. Beyond functional traits, businesses can fail to scale circular models when the product–model combination is undesirable to customers. For example, a customer might resist renting a kettle, but embrace repairing it – when a product does not match the model, it fundamentally hinders the ability to attract customers, deliver return on investment, and build sustainable operations.

"Sometimes a company has been set a task or objective for the year that they need to look into this circular business model... They might also be following a trend in the industry... But when we explore it for them, they've realised that maybe the stock is not the sort of quality that they expected or it's super seasonal... It can be a challenge as sometimes they don't have the right data to know what is the best fit."

Hayley McDonald, ACS

Potential solutions to explore:

- **Explore product–model–market fit.** In the design phase, test different combinations of product, business model, and market segment. Find the configuration with the greatest potential for traction and future expansion. Some organisations have even explored moving beyond physical products to offer digital alternatives, from music to clothing.
- **Start with a high-potential product.** Which products and customer segments hold the biggest opportunity for circular business models for your organisation? Selecting a new or niche product line may limit the potential market, whereas a line with an established track record could increase initial uptake, prove revenue potential, and build the case for extending the model to other products. Conversely, some organisations began with harder-to-sell items – for example, repairing damaged returns for resale.
- **Match the product to the demands of the model.** Consider which product properties best match the business model's needs. Does your product meet those needs? If not, either adapt the product with your design team or choose a model better suited to your existing range.



RELYING ON A NARROW BUSINESS CASE

Pitfall 6: **Not leading with the financial narrative**

Pitfall 7: **Using limited financial KPIs**

Pitfall 8: **Missing a long-term mindset**

Circular business models rarely scale without a strong, broad financial case. Yet, teams implementing circular business models often focus on short-term gains in revenue or sustainability and waste reduction metrics, while overlooking the full business value these models can unlock.

PITFALL 6:

Not leading with the financial narrative

Pitfall in practice

In one global organisation, an innovation manager leveraged the company's strong sustainability commitment and pressure from upcoming policy to pitch a circular business model project. The manager's sustainability narrative emphasised the opportunities for reducing waste and avoiding emissions, but it lacked a compelling financial angle and, as a result, failed to secure the investment needed from company leadership. Instead, more affordable projects that demonstrated clear financial impact over time were initiated. Months later, a disruptor launched a near-identical circular business model project in the selected region, took market share, and achieved a high return on investment.

> *"For most brands, commercial growth still outweighs impact, so unless we frame circularity in those terms, embedding it into the core business won't be prioritised."*
>
> Emily Rea, Circulo

Point of failure

Circular business models can drive powerful outcomes for the top line, such as new revenue streams, brand strength, customer loyalty, and market traction, while also unlocking value for the bottom line through resource efficiency, cost savings, and reduced risk to supply chain volatility. But too often, implementation teams focus on short-term gains in revenue or sustainability and waste reduction metrics, while overlooking the full business value of the approach. When circular business models are pitched primarily on sustainability grounds – rather than their financial potential – they often struggle to secure the internal commitment needed to scale. When switching from linear models, achieving profitability through circular business models can require longer time horizons and investment in activities such as redesigning existing products, creating new operational systems, and building partnerships and infrastructure. If the business case does not elevate sales, revenue, and profit, then key decision makers and delivery teams may be sceptical, viewing the project as "pure sustainability play". This is particularly true for those in the finance function whose buy-in is often crucial for scale.

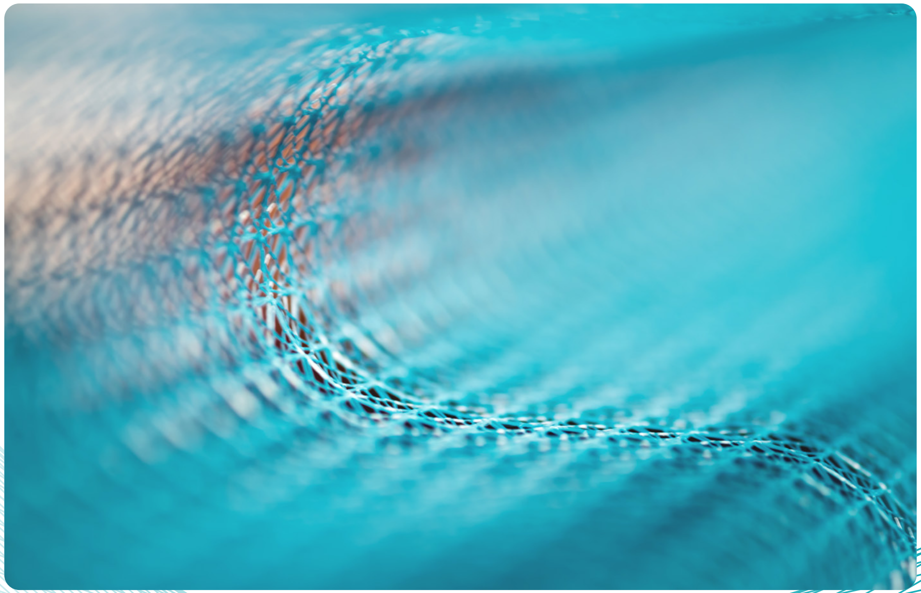
If climate, biodiversity, and environmental benefits are already strategic priorities, cost neutrality may be enough to get buy-in. But financial metrics, not climate goals, remain the most effective way to showcase the potential of any business model. Sustainability narratives alone are rarely persuasive enough to generate the support needed across a business.

Potential solutions to explore:

- **Lead with financial metrics.** If possible, establish a revenue-based quantitative ambition for circular business models in your organisation. The Fashion ReModel uses gross percentage revenue from circular business models – a clear, business-centric metric to monitor progress on, and align internal action around.
- **Model the financial opportunity at scale.** Bring the finance function into the project as early as possible. Use financial modelling to show how the economics change with volume. If your pilot performs poorly at a small scale, demonstrate what's being left on the table by not scaling. Additionally, identify the size of the market you're missing out on and build this into your business case for scale. For example, resale platforms may already be capturing recurring value from your products, and the size of this revenue can be a compelling reason to prioritise circular investment. For inspiration, see the Foundation's report on unlocking a reuse revolution, which uses advanced modelling to quantify the performance of return models under certain conditions. Also see the Foundation's Building Prosperity report, which models the financial opportunity of a circular economy that's regenerative by design.
- **Combine business models to strengthen returns.** If a single model doesn't deliver strong enough financial performance, explore combining models. See how companies are using this technique in the Fashion ReModel, referred to as "stacking" business models.
- **Collaborate.** Consider partnerships with competitors, suppliers, or logistics providers to reduce upfront costs. Commercial collaboration can turn an unviable model into a scalable one, for example through shared infrastructure costs as outlined in the Foundation's case study collection on commercial collaboration. Modelling can also help qualify the benefits of scaling something collaboratively versus alone. See the System Change scenario in the Foundation's reuse revolution study, which depicts a long-term vision for optimised return models through system collaboration.

"With the industry being where it is, every single business case or new business idea that comes up for discussion really needs to have a solid, solid, solid foundation for profitability. And it can't be too long a payback period because, again, as the energy of the entire industry kind of plateaus, we're going to need to be focused on margins for the most part."

Network member



PITFALL 7:

Using limited financial KPIs

Pitfall in practice

A holding corporation that owns many popular global brands was exploring circular business models as a way to drive revenue from new customer segments. To scale a proposed rental model quickly it employed a third-party provider that could supply logistics and repair at a better cost than an in-house expansion of those capabilities. The pilot was successful at bringing in new customer segments in some product categories but not across the board. The leadership team was disappointed by the numbers of new customers and decided to abandon the project. Feedback from the existing customer base revealed disappointment at the loss of the service. After investigation, the team behind the circular business model realised the rental proposition had had an exceptional impact on brand loyalty and customer satisfaction scores in existing customers, but they had failed to consider this argument when communicating with leadership.

“We also had support from retail because they were very excited about the fact that they could go to market with a real innovation… It was a very interesting way for them to attract customers. We knew we had to measure the contribution, over one year, comparing a ‘normal’ client with a ‘circular’ client… On average, the first year, the top 10 performers in rental out of more than 300 stores in the network performed 10 times better than the network average!”

Yann Carré, Decathlon

Point of failure

By underselling the full range of value circular business models can deliver, delivery teams make it harder to secure long-term support. In today’s linear system, the profit margins of circular business models can sometimes appear lower when compared like-for-like with linear models. Yet, circular business models can drive business resilience and create financial value in ways not currently accounted for.

Circular business models create financial value in several forms:

- Direct returns – reduced raw material costs, resale revenue, and asset reuse (see more on the importance of this in Pitfall 6)
- Secondary drivers – increased brand loyalty, deeper customer relationships, as well as improved retention among both customers and employees
- Risk mitigation – reduced exposure to supply chain shocks and price volatility, and enhanced readiness for future regulatory conditions

Omitting these benefits in financial calculations weakens the case for cross-functional buy-in. Positive customer metrics, for instance, will likely strengthen arguments around desirability and viability. Similarly, framing circular business models as a lever for supply chain resilience or regulatory readiness can transform how senior stakeholders perceive its strategic relevance.

Potential solutions to explore:

- **Broaden your definition of value.** When creating the financial case, expand the top- and bottom-line narratives to include a broader description of the benefits of circular business models, including economic benefits, resilience, brand value, and environmental benefits. See here for more detail on wider benefits. Identify which value drivers align most with your company's strategy and stakeholder priorities, and show long-term return on investment. Take inspiration from impact-weighted accounting methodologies that extend traditional financial reporting to incorporate the social and environmental impacts of a company's activities such as NYU Stern's ROSI™ approach to quantifying sustainability-driven returns. Explore how fashion brands have collaborated with NYU Stern to align value drivers with resilience, customer loyalty, and climate goals in the Fashion ReModel.
- **Use customer metrics as proof points.** When launching a circular business model, include and track metrics such as increased brand trust or perceived quality among consumers to prove desirability and strategic fit. See examples of customer metrics fit for assessing circular business models in this report, created by the Foundation and Kantar.
- **Quantify the cost of inaction.** Model other scenarios to highlight the risks of sticking with linear systems. This could include assessing the potential financial impact of continuing to rely on volatile raw material prices and fragile supply chains as well as increasing regulatory pressures.

Overcoming this pitfall

A global tech organisation had focused less on sustainability in many of its core markets, and as a result struggled to prove the value of its sustainability initiatives, especially amid the growing backlash against ESG. The company had been relying on a global supply chain that was severely impacted by the COVID-19 pandemic, which drove up raw material prices and created costly supply delays. Seeing the opportunity, the sustainability team reframed their circular business model initiative as a risk-mitigation strategy focused on resilience. They modelled the costs from the COVID-19 pandemic to create future projections, accounting for risks of further global disruption in supply chains (from geopolitical instability, climate risks, and projected increases in critical mineral costs). Because of this, they were able to articulate the financial benefits of scaling the use of recycled materials and refurbished products over time – specifically in terms of increasing revenue potential and improving supply chain resilience. The sustainability narrative was leveraged in markets with stricter regulations, but it was not the leading hook. Through this work, the team realised the company could create a lower-cost product in some markets, which helped unlock a new customer segment.

PITFALL 8:

Missing a long-term mindset

Pitfall in practice

A global OEM with lengthy innovation cycles began developing circular business models in response to environmental, material, and regulatory risks. The company built strong narratives to secure internal investment, which it used to launch and test several pilots with key industrial customers. But being historically embedded in linear business practices, these customers were slow to adopt different models of product procurement, and the pilot numbers fell short of predictions. Because company leadership had expected a faster return on investment, more typical with linear innovations, they interpreted the results as a sign that the business model had underperformed. Without a longer timescale for testing, the company became reluctant to continue funding the project and the leadership team grew sceptical of the value of circular business models.

"If you are a CEO of a company, the next four years is when you have to be successful, and then let's see what happens later. And there's the issue. I mean, there's no incentive for long-term thinking… Even in industries that have better planning for long-term timescales, CEOs still have a focus on short-term success."

Stephan Fester, SAP SE

Point of failure

Delivering circular business models may require changes in the way organisations design products, build external partnerships, manage operations, manage teams, or talk to customers, which can take time. But many companies use short timescales to assess return on investment, organisational change, and customer uptake. This mismatch leads to premature conclusions. In some cases, this stems from ownership structures that prioritise short-term financial reporting. In other cases, the barrier stems from a culture of risk aversion or from instances where leaders hold equity and are personally incentivised in delivering short-term returns.
In essence, long-term value is left unrealised when the business is not structured to pursue it.

"There were many positive effects. The only negative effect is linked to the transformation process which is always complex… There are many changes that we have to face, such as reverse supply chain, stock management, recurring payments… To transform for a company such as ours with all the projects we have to work on in parallel with our information system, it generates stress in organisations and processes."

Yann Carré, Decathlon

Potential solutions to explore:

- **Model long-term risk and return.** Beyond short-term performance, model evolving risks – such as raw material price volatility, policy shifts, climate and supply chain impacts – alongside long-term value creation from circular business models. For instance, sufficient time and internal cooperation can allow a rental service to redesign products for longevity and repairability, which can lower repair costs, improve design efficiency, and increase the profit made from each product over time. See how Fashion ReModel participants used resilience risk modelling to transform executive appetite for circular business models.
- **Create a combined roadmap for value creation.** Blend short- and long-term value into a clear roadmap. A rental or repair model might unlock near-term customer growth but also lay the foundation for long-term brand loyalty as well as resale revenue from items that were previously sold only once. Roadmapping helps stakeholders visualise the pay-off in strategic phases.
- **Spread the cost and frame strategically.** Where return on investment is slow, secure cross-functional funding to spread the cost of the transition. Tailor the business case to different teams or functions, highlighting different value drivers for different teams. See Pitfall 2 for guidance on aligning your circular business model with the business strategy to foster strategic alliances. Learn more about functional incentives and stakeholder mapping in Pitfall 9 and Pitfall 10.
- **Seek external funding to support the transition.** If internal funding is limited or under pressure to deliver high returns, companies can explore options for more patient or impact-focused capital or green financing solutions such as flexible, performance-based loans, catalytic or first-loss capital, blended finance vehicles, or public grants to absorb early losses and underperformance while circular pilots mature. Explore the external funders supporting the transition to regenerative food production as part of the Big Food Redesign Challenge.
- **Partner with actors comfortable with risk.** Look beyond traditional partnerships. Bring in allies that support experimentation and can influence the appetite for risk in and outside of the business, for example academic institutions.

> *"A simple NPV (Net Present Value) model can help compare costs across a specific time horizon, such as the year you must reach a target. It's a familiar tool for finance teams and can help them understand the financial risks and opportunities of sustainability-driven initiatives. Working with the finance team on this model helps make them a part of the solution while providing realistic forward-looking estimates and assumptions, ultimately driving buy-in."*
>
> Network member

GOING IT ALONE

Pitfall 9: **Not involving cross-functional teams and leaders**

Pitfall 10: **Partnering ineffectively with external organisations**

Circular business models rely on coordination across teams, functions, and partners both internal and external. Without shared goals, incentives, and ownership, even strong business models run aground at scale. For success what really matters is who is empowered to deliver the model and how well are all of them aligned.

PITFALL 9:

Not involving cross-functional teams and leaders

Pitfall in practice

A global retailer launched a circular business model pilot that performed exceptionally well. It was quick to set up, easy to deliver through local partners, and yielded a margin eight times higher than the product's linear alternative. But the delivery team ran the pilot exclusively with an external organisation, excluding internal teams from its design or execution. When the time came to scale the initiative, other internal teams didn't understand the model's value, focusing only on the investment required. The retail team, for example, whose bonuses were tied to linear sales, saw the circular model as a threat to their income. Other operational teams felt they didn't have capacity to prioritise this work over existing targets. Leadership felt the pilot made a strong financial case, but competing initiatives and the lack of internal support meant they felt it would take much effort to overcome internal misalignment. Unable to convince the necessary teams to engage, the pilot stalled.

> *"The biggest thing for me is how do we start structuring ourselves around circularity. Because right now, we are trying to put a square peg in a round hole and it's just not going to happen. So we need to start thinking about how we actually are structuring ourselves around it and really moving away from the linear model".*
>
> Network member

Point of failure

Circular business models struggle to scale without cross-functional delivery teams and leadership. While there's no one-size-fits-all approach to organisational or team design, successful circular business models inevitably require input from multiple teams – demanding two-way flows of information, materials, and skills. There are benefits to investing in-house rather than working with a third party. For example, keeping the full revenue earned, building internal expertise, acquiring valuable customer data, and leveraging internal insights across multiple models. But even when external delivery partners are used, internal transformation remains essential. For cross-business transformation, senior leadership buy-in and joint investment into change management prove the most difficult to secure.

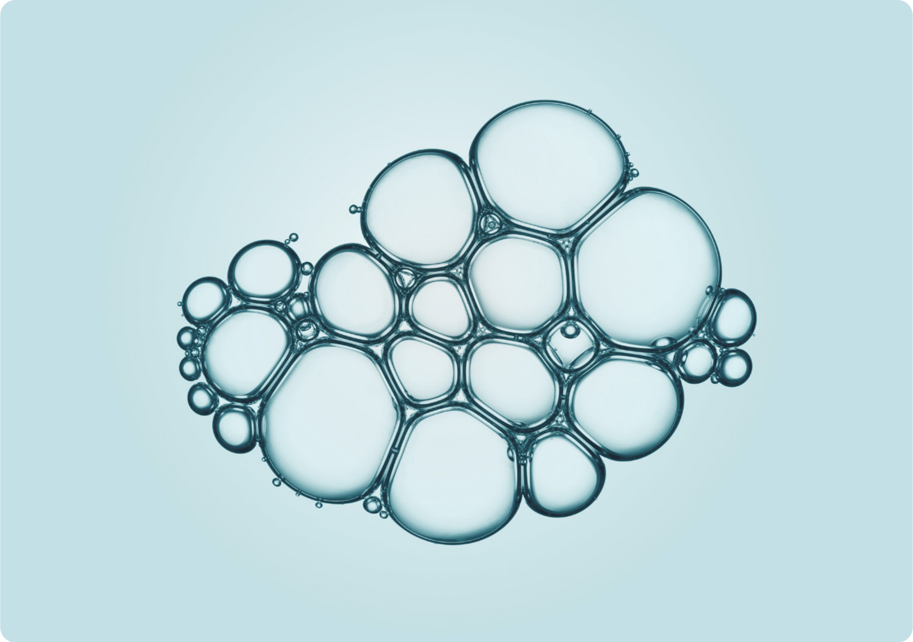
Many pilots fail to scale because key departments are not brought in early enough, typically finance, marketing, R&D, and operations. A lack of shared ownership leads to internal resistance and an inability to combine the strategy, innovation, and operations needed to align top-level goals with operational feasibility.

Long-term success becomes less likely without multiple leadership sponsors to sustain momentum as roles or priorities change. Misaligned KPIs and incentives across teams can create conflicts of interest – for instance when rental models impact linear sales bonuses – and foster scepticism. And when delivery goals are not shared across teams and supply chains, misalignment spreads across the organisation and to partners, making it even harder to coordinate action at scale.

Potential solutions to explore:

- **Tailor the narrative to each audience.** Identify all the internal teams needed to bring your circular business model to life at scale, then adapt the internal narrative to match the goals and language of each team. Perhaps in your organisation, efficiency and waste reduction are current priorities. Instead of rebranding them as circular, expand on the value and benefits they offer. Use the Foundation's Circular Design Guide to map stakeholders and customise narratives that fit their needs.
- **Co-create the roadmap.** Create the transformation roadmap alongside all the teams involved, at both the team and leadership levels. Ideally secure dedicated budget from each team involved so the business case for scale is supported by cross-functional investment. Find out how large companies learned they had to de-silo their organisation to innovate faster in the Big Food Redesign.
- **Build mutually beneficial goals.** Circular systems work best when they enable mutual value creation. If you are speaking in the language of other teams and co-creating roadmaps, you should be able to create mutually beneficial goals that can help break down silos and foster reciprocal relationships. In the Big Food Redesign, a triple win framing for upcycling by-products helped articulate how circular business models could return more value for stakeholders, especially when the narrative was adapted to match internal ESG targets.
- **Establish a cross-functional steering committee.** Don't pin delivery on a single champion. Form a cross-functional leadership group with executive sponsors and senior team leads from all key functions. This structure ensures continuity, balances priorities, and enables the co-creation of shared KPIs that reflect the delivery needs of the circular model and roadmap. At a minimum, secure an executive-level champion. Read how, as part of the Fashion ReModel, Arc'teryx has combined executive sponsorship from its CEO and cross-functional working groups.

> *"Of course, you have to accompany this change (to the organisation). For the salesperson, this represents a massive shift: 'Why should I rent something £12 per month when I can sell it once for £200, and how will this be included in my payroll as the performance part of my bonus?' The power of £200 over £12: that kind of thing needs to be considered early on because you have to make sure your incentive programme fosters new business models, as you can't ask a salesperson to sacrifice their bonus for the sake of innovation even though it's positive for the planet."*
>
> Yann Carré, Decathlon



PITFALL 10:

Partnering ineffectively with external organisations

Pitfall in practice

A global company piloted a circular repair service that redefined its after-sales customer experience, requiring new capabilities. Due to initial concerns around the potential need for long-term investment to provide quality customer experience, the company partnered with a local supplier to deliver the pilot. The result was a huge success, both financially and in terms of customer satisfaction. The team then began building the business case for scale, but when they tried to access the customer data acquired during the sales experience, they couldn't. The customer data collected by the partner was protected by GDPR and the partnership agreement. The pilot had increased customer loyalty and lifetime value, brought in new customer segments, and boosted customer rating metrics, but the team couldn't access the figures to prove it. Worse, the partner wasn't able to deliver the service across the company's other markets, and because the internal team hadn't run the pilot themselves, they lacked the operational know-how to adapt it for scale. The partnership came to an end, and the project lost momentum.

Point of failure

Finding the right external partner can speed up the route to market, reduce upfront investment, and minimise the cost of learning and development for internal teams. But when external partners are brought in to deliver a circular business model without a clear plan for scaling, sharing data, and creating mutual benefits, the transition to scale will most likely fail.

Some circular business models require partnerships to deliver operations or skills that don't exist internally, such as cleaning and turning around rented inventory. Others need partnerships that evolve as the business grows, such as turning supply partnerships into more reciprocal, longer-term relationships, or, in the case of resale models, turning the customer into a supplier. Without clear agreements on data sharing and knowledge transfer, businesses can't track value creation or build a compelling case for scale. Failing to integrate teams and systems early can create significant challenges at a later stage. Some businesses discover that their partner can't scale the project because they lack the capacity or geographic reach.

Potential solutions to explore:

- **First, identify how you want to collaborate.** Identify which partners you need to deliver the model – from pilot through to scale. Assess where existing relationships may need to evolve and whether new partnerships and support (e.g. for reverse logistics, product tracking, and repair) will be needed. Monitor the startup landscape for emerging specialist services that enable circular business models. For some circular business models to scale, cross-industry collaboration might be needed to overcome systemic barriers. Collaboration could be about joint learning and direction setting, collective advocacy, or commercial collaboration. Read the Foundation's overview of commercial collaboration and relevant case studies here.
- **Co-design for mutual benefit.** Clearly define decision-making structures and develop a shared plan with your partner(s) that outlines how mutual value will grow if the project scales. Be transparent about the constraints (geographic reach, capacity limits, etc.) that could block expansion and agree how to address them.
- **Build data and sharing into contracts.** In the partnership agreement, specify which data points need to be collected, how they will be shared, and how ownership is defined.
- **Evolve the nature of supplier engagements.** Work with internal supply chain functions to deepen and transform supplier relationships so that all parties can more easily share the information and materials needed to operate the circular business model. Experiment with different incentive systems, setting clear criteria, and providing support structures to help bring suppliers on the journey and ensure everyone's efforts are aligned. Learn more about evolving supplier engagement activities in the Foundation's Designing supply chains for the circular economy report.

> *"Using NPV (Net Present Value) calculations, we modelled the cost of delaying a specific sustainability investment for five years, the cost of acting now with others, and the cost of doing what we've been doing on our own, i.e. closed door negotiations on sustainable services. We showed that, over the long run, it was actually cheaper for us to do something today through demand aggregation and collaboration with other companies than it was for us to do something on our own, even if we waited until prices dropped."*
>
> Network member

> *"If you had asked my team a year ago who our partners would be, we could have given you a list – but that approach has not led to scale. We're bringing people along on the journey. We've gone through a full RFP and involved nearly 30 people across 15 different business functions, both global and regional, and fed everything back into corporate governance. The process has been lengthy and highly collaborative… The goal is that our teams feel invested and aligned, ready to say: 'We're going to learn with this partner – and if it works, we'll scale with them.'"*
>
> Network member

ELLEN MACARTHUR FOUNDATION

About the Ellen MacArthur Foundation

The Ellen MacArthur Foundation is an international charity that develops and promotes the circular economy in order to tackle some of the biggest challenges of our time, such as climate change, biodiversity loss, waste, and pollution. We work with our network of private and public sector decision makers, as well as academia, to build capacity, explore collaborative opportunities, and design and develop circular economy initiatives and solutions. Increasingly based on renewable energy, a circular economy is driven by design to eliminate waste, circulate products and materials, and regenerate nature, to create resilience and prosperity for business, the environment, and society.

Further information: ellenmacarthurfoundation.org

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