

Can a Circular Business Model Be a Profitable and Sustainable Approach for Your Brand?

ARTICLE |

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The fashion industry, in its current state, is not environmentally sustainable. For this reason, [companies have begun implementing circular business initiatives to appeal to conscious consumers](#) and cut back on their carbon footprint. But a new study shows that these models may only benefit higher-priced players, leaving value markets in the dust.

A May 2019 report from [Accenture Strategy](#) and [Fashion for Good](#) found that circular business models prove most profitable for higher-priced markets across the board, but mid-level and premium markets could benefit as well.

For luxury markets, all circular models are profitable on a per-garment basis, with the most notable being the rental segment (61%), followed by recommerce—defined as the recovery and resale of garment by the original retailer—(39%) and subscription rental (30%). Similar to luxury, there are positive margins across the board for premium markets, with the highest return being in the recommerce category at 28% vs. 14% in subscription rental and 1% in rental.

Mid-markets are also profitable in the recommerce and subscription rental categories (22% and 9%), but they fall short within the rental space (-12%). Within the value market—also regarded as "fast fashion"—circular models were found to be unprofitable. The operating margins for rental, subscription rental and resale were -346%, -96% and -156%, respectively. This can be attributed to the lower quality and longevity of inexpensive apparel.

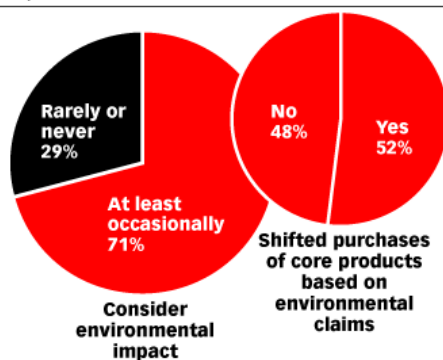
"A lot of consumer-facing businesses are approaching sustainability from different angles; it's all positive because it's raising awareness and getting people thinking about the fact that products aren't made in a vacuum," said Allison Sommer, director of strategic initiatives at luxury consignor The RealReal. "We're now having a conversation beyond the fiscal benefits [commissions], and we're discussing the environmental benefits. We're making people aware that consigning is a desirable alternative to buying fast fashion."

While circular business models are not currently profit-yielding for every market, demand from consumers (especially younger ones) could force adoption. According to an April 2019 study from [OC&C Strategy Consultants](#), 15% of Gen Z consumers said they are dedicated to reducing the amount of waste they create. Similar proportions also cited "reducing my carbon footprint" and "reducing use of single-use plastic."

And though environmental impact is only one piece of the circular model puzzle, nearly three-quarters of US internet users have at least occasionally considered environmental impact when making purchases. More than half have shifted their product purchases based on environmental claims, per a March 2019 survey from global management consulting firm [A.T. Kearney](#).

Do US Internet Users Consider Environmental Impacts When Making Purchase Decisions?

% of respondents, March 2019



Note: ages 18+

Source: A.T. Kearney, "Earth Day 2019: Capturing the 'green' opportunity with consumers," April 22, 2019

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Retailers are taking note of consumers' desires to be more environmentally conscious. According to a January 2019 report from online resale marketplace [thredUP](#), 96% of senior retail executives surveyed said they want to advance their company's circular fashion efforts by 2020. The majority (87%) said they were interested in testing resale, with slightly fewer interested in rental (61%) and just more than half (52%) noting they'd be interested in testing a refurbishment platform.

Those who choose to implement a circular business model should consider their product offering and how it fits into the fashion ecosystem. And for companies that may not profit directly from this tactic, determining other environmentally conscious initiatives is also worthwhile.