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# Sustainable Growth and Customer Engagement in a Circular Economy



By [Wolfgang Ulaga](#) and [Christoph Senn](#) , INSEAD

**Embracing circular business models unlocks opportunities for companies to engage with customers, optimise resource utilisation and ensure a sustainable future.**

The circular economy is increasingly influencing marketing and sales strategies across industries, providing new opportunities for meaningful engagement with customers, employees and stakeholders. Companies can benefit by meeting the evolving needs of customers, fostering strong relationships and introducing innovative value propositions.

Additionally, adopting circular practices allows for optimised resource utilisation, cost savings and price stability throughout the supply chain. This approach also helps companies build a reputation for innovation, attract and retain employees, establish solid relationships with governments and regulators and meet the expectations of investors.

A recent Discovery Event – organised by INSEAD’s **Marketing & Sales Excellence Initiative (MSEI)** and held in partnership with the school’s **Sustainable Business Initiative** – brought together experienced managers and executives from our MSEI member companies who have begun to experiment with (or are already deeply engaged in) circular business models. They shared and exchanged best practices, seeking to gain further insights on initiating change within their respective organisations.

In his keynote lecture, **Atalay Atasu**, Professor of Technology and Operations Management at INSEAD, highlighted the **growing momentum** behind the renewable energy transition. However, he stressed that this transition brings with it faster substitution as renewable energy technologies become more efficient, leading to significant waste.

Take the example of solar panels: Customers are discarding their existing panels prematurely as cheaper and more efficient models flood the market each year, incentivising the switch long before the projected 30-year lifespan.

In a **Harvard Business Review article**, Atasu and his co-authors underlined the urgent need for the solar power industry to develop effective recycling capabilities to handle the influx of discarded panels. Similar challenges may arise with wind turbines and electric vehicle batteries. Moreover, the depletion of critical resources due to current production rates poses a significant threat, Atasu said.

This is where sales and marketing professionals come into play. In the case of solar panel replacement, a salesperson might encourage customers to upgrade. However, in the circular economy, all functions of the company must align around the same goal. While linear business models prioritise growth, which leads to future waste and resource challenges, circular business models prioritise utilisation. Atasu stressed the importance of companies acknowledging the finite nature of our natural resources and taking proactive measures to anticipate resource scarcity.

Adding to the discussion, **Luk Van Wassenhove**, Emeritus Professor of Technology and Operations Management at INSEAD, emphasised that consumers are demanding action, prompting businesses to respond. He highlighted that the impetus for change is not limited to traditional stakeholders but also includes new players with whom businesses may not have previously collaborated. Pressure exerted by investors, upcoming

legislative changes and evolving customer behaviours are driving the shift toward circularity, he said.

Atasu and Van Wassenhove **outlined a strategic framework** for transitioning from linear to circular business models, focusing on three critical factors: value, access and process. The value of a product or material directly impacts a company's ability to recapture or resell it. Access refers to a company's capacity to "close the loop" by effectively managing its output after use. Process involves the repurposing of reclaimed materials, which is not always efficient, cost-effective or feasible.

However, devising the optimal circularity strategy on paper won't necessarily make it work in reality. In the case of a **beverage-bottling company** in Malta, an executive wanted to establish a recycling plant for plastic bottles on the island, thereby allowing the company to close the loop locally rather than relying on other European Union nations. He drew up four separate plans for recycling facilities powered by renewable energy. However, none of his plans projected profitability before the 20-year life cycle of the recycling machinery elapsed.

### **From volume to value**

When evaluating the business case for circular initiatives based solely on traditional financial metrics, the concept may appear unviable. However, circularity execution requires capturing additional value beyond conventional measures. This includes regulatory cost avoidance, improved sustainability ratings, increased access to critical resources, carbon emissions reduction and market demand-side benefits.

Essentially, circularity emphasises the growth of value rather than volume. It encourages businesses to shift their focus from pushing more units onto customers to creating higher value for existing products and services.

**Laurence Fontinoy**, Head of Circularity at global sporting goods retailer **Decathlon**, echoed this sentiment during her presentation on the company's plans to scale up circular business models, including second-hand sales, rentals, repairs and recycling.

Fontinoy stressed that the most "impacting" product is the one that is not being used, such as the tent sitting in storage that is dusted off once in a blue moon. She added that life-cycle analyses have shown that rented tents have significantly less environmental impact than newly purchased ones

(unless the new product is used regularly). Fontinoy further highlighted that Decathlon's rental and second-hand business models have proven to be more environmentally friendly and economically beneficial compared to their traditional business model.

Another initiative by Decathlon is their children's bike-subscription service, where customers can rent and exchange bicycles as their children grow instead of buying and reselling them through second-hand platforms. At its core, the subscription model aims to shift from growing through increased unit sales and ownership to monetising ongoing customer relationships through personalised services that continue to provide value.

The key lies in determining which products are better suited for linear models, rentals or second-hand sales, said Fontinoy. Decathlon continuously tests circular business models using a lean and structured start-up approach and maintains a pipeline of business models at different stages.

**Loic Sadoulet**, Professor of Economics and Political Science at INSEAD, emphasised the extent to which transitioning from a traditional retail logic to such new go-to-market approaches requires a heavy dose of agility and change management, a journey Decathlon has impressively embraced.

Industry leaders like Decathlon have the power to shape the market rather than merely respond to customers' willingness to pay. Identifying areas where value can be created is crucial. Once businesses grasp this concept, they can engage in meaningful conversations with consumers and business clients.

The circular economy represents a paradigm shift that demands innovative thinking, collaboration and a departure from traditional linear models. Embracing circular business models opens a world of opportunities for companies to forge deeper connections with customers, optimise resource utilisation and ensure a sustainable future for our planet.

*This Discovery Event on the circular economy builds on an earlier event on sustainability, held in September 2022. For further information, please visit the website [here](#).*

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