



THE CIRCULAR RETAIL REVOLUTION

AND FOUR TRENDS CHANGING RETAIL FOREVER

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The retail industry is one of the most dynamic and demanding aspects of the economy, as evolving consumer habits and technology continually change the way consumers shop.

For years, retail business models were primarily driven by paradigm shifts in globalization, digitization, omnichannel, and just-in-time thinking. However, the emergence of the COVID-19 pandemic has transformed the retail landscape at an unprecedented pace. In many cases, retailers had to adapt their business models across the whole value chain to survive.

One key driving force that has become increasingly important and will gain rapid momentum over the next couple of years is the circular economy, which emphasizes reusing and recycling goods and their components. A circular retail revolution will change the retail landscape forever, as e-commerce did. This article provides a spotlight analysis of the circular economy, outlines four trends changing retail, and summarizes key recommendations to succeed in this new retail environment.

1 Clean' retail will win big and grow market share.

The pandemic has acted as a catalyst for change, with retail corporations reviewing their environmental, social, and governance (ESG) policies and their purpose, and has given retailers an opportunity to improve brand perception by demonstrating how they serve a greater purpose than pure profit generation. For example, Inditex and H&M were praised for giving over their supply chains and producing personal protection equipment. Meanwhile, Leon and Pret a Manger delivered surplus food to the U.K.'s National Health Service workers.

Increasingly, conscious consumerism is at the forefront of consumers' minds:

- 73% of global consumers say they would or probably would change their consumption habits to reduce their impact on the environment.¹
- 51% of U.S. consumers agree a product sourced from a socially responsible company is worth paying more for.²

- 70% of customers would pay up to 5% more and change their buying habits to brands that align with their own personal values.³

2 Consumers will move away from 'dirty' retail, which may lose market share.

The November 2021 United Nations (UN) Climate Change Conference and the Intergovernmental Panel Climate Change August report, which UN Secretary-General António Guterres called "a code red for humanity," has put climate change in the forefront of consumers' minds.⁴

Swedish environmental activist Greta Thunberg has previously addressed fashion retailers and posted to Twitter stating the fashion industry is a "huge contributor to the climate and ecological emergency," adding that workers and communities are being exploited for "some to enjoy fast fashion."⁵

Consumer activism and boycotting of certain brands is on the rise; and

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Increasingly, consumers view the circular economy as better than new.



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whilst not new, groups of Reddit users cost certain hedge funds billions when they attempted to short GameStop shares in 2021. It is increasingly easy for consumers to voice their dislike. Boycotts have the potential to gain steam without anyone ever meeting face-to-face and now regularly spread virally through social networks worldwide. Consumers can also find out the politics and philosophies behind brands and corporations through apps such as Buycott.

Conscious consumerism is becoming a standard consumer expectation. Even more importantly, brands must develop and execute a clear communication strategy regarding their values and develop sustainable relationships with their customers, or they may lose market share if they fall out of favor with consumers for unsustainable practices.

3 The retail circular economy could explode and is already changing shopping habits.

The circular economy market grew 25 times faster than the wider retail market globally in 2020, and most recent projections forecast a global market volume of \$600 billion by 2025.⁶ The popularity of the circular economy will continue to grow, highlighting the increased importance of sustainability.

The circular economy has already created a significant shift in consumer behavior from ownership to usership with the rise in three key routes to market: retail rental, resale, and peer-to-peer.

The rental market is estimated to grow to \$3.2 billion globally by 2029.⁷ The fashion sector benefits

from rentals, as they provide an affordable opportunity to continuously introduce new, and often luxurious, collections to customers' wardrobes.

In the U.K., the temple of high fashion, Harrods, partnered with My Wardrobe HQ to provide consumers with the opportunity to rent a £10,000 (\$13,200) dress for £134 (\$178) a day. U.K. fashion retailer Hurr offers consumers Selfridges' collections for rent online and in stores. Meanwhile, Selfridges launched its own resale website, Resellfridges.com, allowing customers to buy and sell luxury second-hand items.

Additionally, the development of the rental market coincides with the growth of the resale market, since together they provide true conscious consumerism. Accordingly, John Lewis is on its way to becoming the AirBnB for furniture rentals in partnership with FatLlama, offering 500 lines of furniture for rent, 86% of which were rented in the first 48 hours.

In fashion, H&M's resale arm, Sellpy, collects bags of unwanted clothes from customers in 24 countries and sorts and resells the items, giving customers 40% of the proceeds. Since 2014, 9 million garments have been resold. Levi's also launched a resale platform allowing customers to sell their old jeans back at a discount, which are then recycled and again sold on the resale market.

Beyond furniture and fashion, MusicMagpie is now the U.K.'s biggest mobile phone recycler, having experienced enormous growth during recent years. Experts estimate £16 billion worth of old electronics are

sitting in drawers in the U.K. alone, an average of 11 devices per house.

Lastly, the peer-to-peer market also grew exponentially during the pandemic, as consumers were increasingly looking to buy secondhand. Generation Z and millennials are adopting secondhand clothing 2½ times faster than other age groups,⁸ and companies such as Vinted and Depop cater to this growing market.

Vinted lists 300 million second-hand items and has a market capitalization of €3.5 billion (\$3.9 billion) and 45 million users worldwide. Depop estimates its model extends the life of a piece of clothing by an extra nine months, reducing global carbon emissions.

Smart and innovative retailers benefit from these shifts in consumer values by entering new markets, retaining existing customers, and increasing market share. Increasingly, consumers view the circular economy as better than new.

4 The circular economy will challenge and change the dynamics of the apparel sector.

According to McKinsey, the fashion industry is responsible for 4% of global carbon emissions, which is more than all international flights and shipping combined. Fashion consumes 120 million trees and uses 93 billion cubic meters of water per annum.⁹

Consumers are savvier to consumption of energy and resources and increasingly value sustainability when making purchasing decisions. According to Mintel, 60% of consumers think sustainability is important as a buying decision.¹⁰

Innovative retailers have seen an opportunity to develop ethical and highly lucrative new concepts. Footwear and apparel retailer Allbirds uniquely uses carbon labelling on its products, informing consumers how many kilograms of carbon were emitted in producing each item it retails. Recently, it expanded its natural range options by introducing flip-flops made from sugarcane, shoes made from eucalyptus trees, and shoelaces made from recycled bottles.

In contrast, the fast fashion sector often uses cheap labour and fabrics to mass-produce garments at low prices. The prices are so low that some consumers view the garments as disposable and discard them after one use or wear, which is not sustainable. Zalando CEO Robert Gertz recently said the global fashion industry “needs to abandon the fast fashion model within the next 10 years.”¹¹

Observers foresee strong growth ahead in the “slow fashion” sector, as it’s a priority spend among millennials and Generation Z consumers.

Growth Tied to Sustainability

In conclusion, a strong ESG proposition doesn’t necessarily mean a compromise on return, as it has the potential to create value.

Accordingly, the circular retail revolution can be good for both a company’s profitability and for the planet, and even prior to the pandemic, McKinsey recognized that there are five ways ESG can achieve value creation:¹²

1 Top-line growth. Consumers will prefer brands aligned to their values and are willing to pay a premium.

2 Cost reduction. Green companies apply innovative production techniques, which allow a more efficient manufacturing process.

3 Minimization of regulatory and legal interventions. European Union and governmental subsidies support ESG trends and help avoid state penalties.

4 Increasing employee productivity. From a human resources perspective, ESG initiatives allow companies to attract and maintain high-quality employees, as they have a positive social impact and motivate talents.



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5 Optimizing investment and capital expenditures. An ESG mindset directs capex towards more sustainable and technically more efficient projects.

The circular economy will ultimately collide head-on with business as usual. Successful retailers have always thrived by anticipating consumer needs and doing right by their customers and the planet. Ultimately, retailers that acknowledge the need for change from business as usual, embrace partnerships, use strong public policy, and maximize the outcome of limited resources will be in the best position to thrive in the circular retail revolution. ▣

¹ Nielsen, “A natural rise in sustainability around the world,” January 10, 2019, nielseniq.com/global/en/insights/analysis/2019/a-natural-rise-in-sustainability-around-the-world/

² Id.

³ IBM, “Meet the 2020 Consumers Driving Change,” November 2020, ibm.com/thought-leadership/institute-business-value/report/consumer-2020

⁴ UN News, “IPCC report: ‘Code red’ for human driven global heating, warns UN chief,” August 9, 2021, news.un.org/en/story/2021/08/1097362

⁵ twitter.com/GretaThunberg/status/1424423822854397960

⁶ World Economic Forum, “How digital authentication could drive a resale revolution for fashion,” June 15, 2021, weforum.org/agenda/2021/06/how-digital-authentication-could-drive-a-resale-revolution-for-fashion/; Kai-Stefan Schober, Roland Berger, “How circular economy can drive greater sustainability and new business opportunities in construction,” August 30, 2021, rolandberger.com/en/Insights/Publications/Strengthening-circular-economy-within-the-construction-sector.html

⁷ Global Data, ecdc.europa.eu/en/publications-data/threat-assessment-brief-emergence-sars-cov-2-variant-b.1.1.529

⁸ Ilaria Gasparo, “Millennials and Gen Z are leading the rise of resale fashion marketplace,” April, 2019, medium.com/@ilaria.gasparo/millennials-and-gen-z-are-leading-the-rise-of-resale-fashion-marketplace-bb24fa02ae77

⁹ McKinsey, “Fashion on Climate,” August 26, 2020, mckinsey.com/industries/retail/our-insights/fashion-on-climate; Rainforest Action Network, 2018; UNCTAD, 2019 Climate and Environment

¹⁰ Mintel, “UK Fashion Sustainability Market Report 2021,” store.mintel.com/report/uk-fashion-sustainability-market-report

¹¹ Financial Times, “Fast fashion must be shelved within a decade, says Zalando CEO,” October 23, 2021, ft.com/content/afdf9568-d9ac-4021-adb2-ab9bf80d24eb

¹² McKinsey, “Five Ways that ESG creates value,” November 14, 2019, mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/five-ways-that-esg-creates-value