



# THE CIRCULAR ECONOMY

The Customer Journey in Circular Retail





## OVERVIEW

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**Circular retail services are gaining popularity among businesses looking to limit their environmental impact and remain relevant in a changing landscape. With society in the early stages of developing effective closed-loop business models, we set out to investigate best retail practices within the circular economy.**

The study focuses on three key sections - refill, return, and repair. Zero-waste packaging is one of the fastest-growing retail industries, valued at US\$229.46 billion in 2021. The resale market will double the size of the fast fashion industry by the end of the decade, and repair services will experience an annual growth rate of 9.9% in 2021, reaching US\$1407.22 billion by the end of 2022. Together they form a network of services that seek to reduce pollution and create opportunities for brand loyalty.

SLD surveyed over 600 North American respondents, interviewed five circular business owners, and conducted over a dozen store audits. By combining insights from our research, the study identifies key areas of opportunity for brands to elevate their circular programs and enter the circular economy.

## HYPOTHESIS

We hypothesize that:

- Most consumers would participate in circular services if they were more convenient for them to navigate.
- Circular services with innovative store incentives tailored to consumer needs are more successful in influencing sustainable shopping habits.
- Investing in circular services will result in increased brand loyalty and customer retention.

## RESEARCH GOALS

The study began with the following research objectives:

1. To identify common challenges business face when transitioning to a closed-loop business model.
2. To explore barriers and motivations that influence consumer engagement with circular services.
3. To establish key business opportunities that will enhance the customer journey while engaging in circular services.
4. To create a strategic outline that will help retailers enter the refill, repair, and return market with a strong position.

## RESEARCH METHODS

We surveyed 600 people in Canada and the United States to understand consumer perspectives on the circular economy and experiences interacting with circular services.

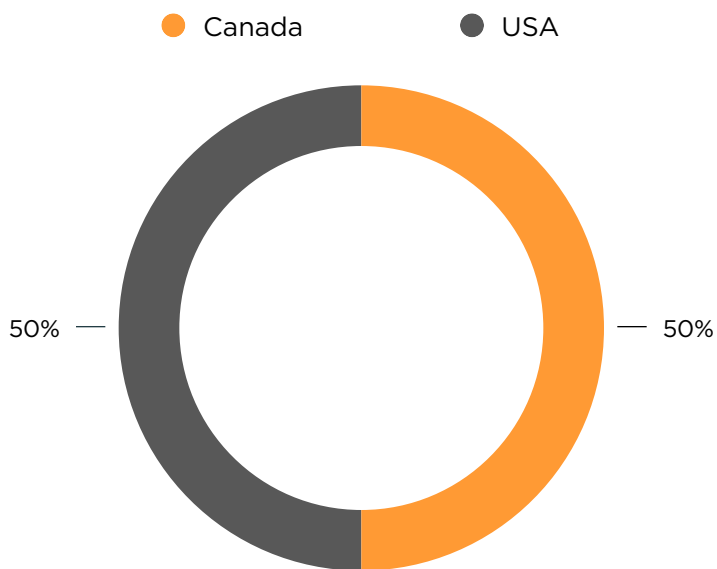
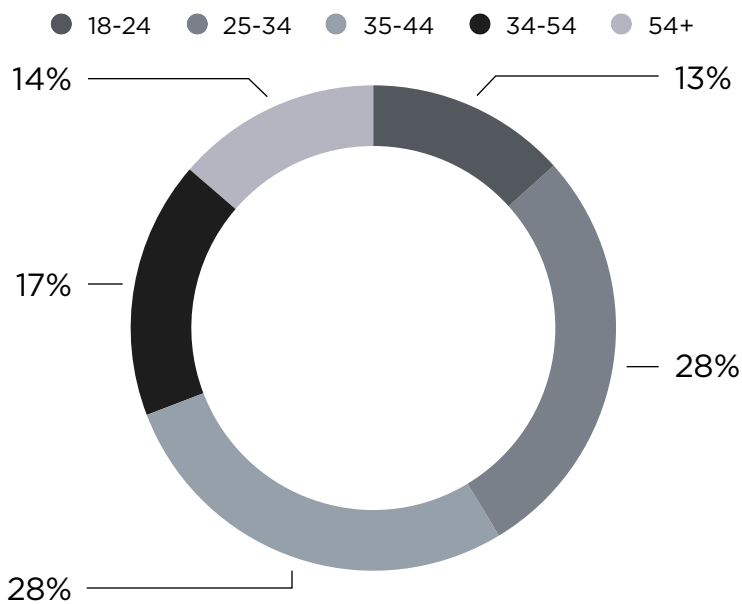
We audited 13 stores with refill, return, and repair initiatives, testing their services to identify common friction points in the customer journey.

We interviewed five stores with circular business models to understand organizational challenges in the circular economy and best practices for mitigating consumer barriers.

# RESPONDENT PROFILE

The study featured a broad representation of respondents ranging from knowledgeable circular economy consumers to those unfamiliar with the concept.

## Respondent breakdown





**REFILL**

# KEY INSIGHTS

Reusable and refillable products will be one of the fastest-growing packaging industries, driven by consumer demand for sustainable business models. Retailers can show their commitment to reducing single-use plastics by fundamentally rethinking how their customers buy and consume their products. The zero-waste packaging market is projected to surpass US\$2415 million by 2028, demonstrating significant business opportunities. While the demand is high, few retailers have adopted refill services.

## #1 - Refill services are inconvenient

People are eager to engage with refill services, but barriers make engagement challenging, including a lack of locations and required preparation. The top-ranked reason participants have not used a refill service before is the lack of convenient locations. The additional inconvenience of planning ahead to bring containers from home makes it difficult for impulse shoppers to incorporate refill stores into their shopping routines.

**58%**

Of consumers said that the main reason they have not used refill services was because there were not any located near them

**65%**

Of consumers said that a convenient location nearby would motivate them to participate in refill services

# KEY INSIGHTS



## #2 - Communication is inconsistent

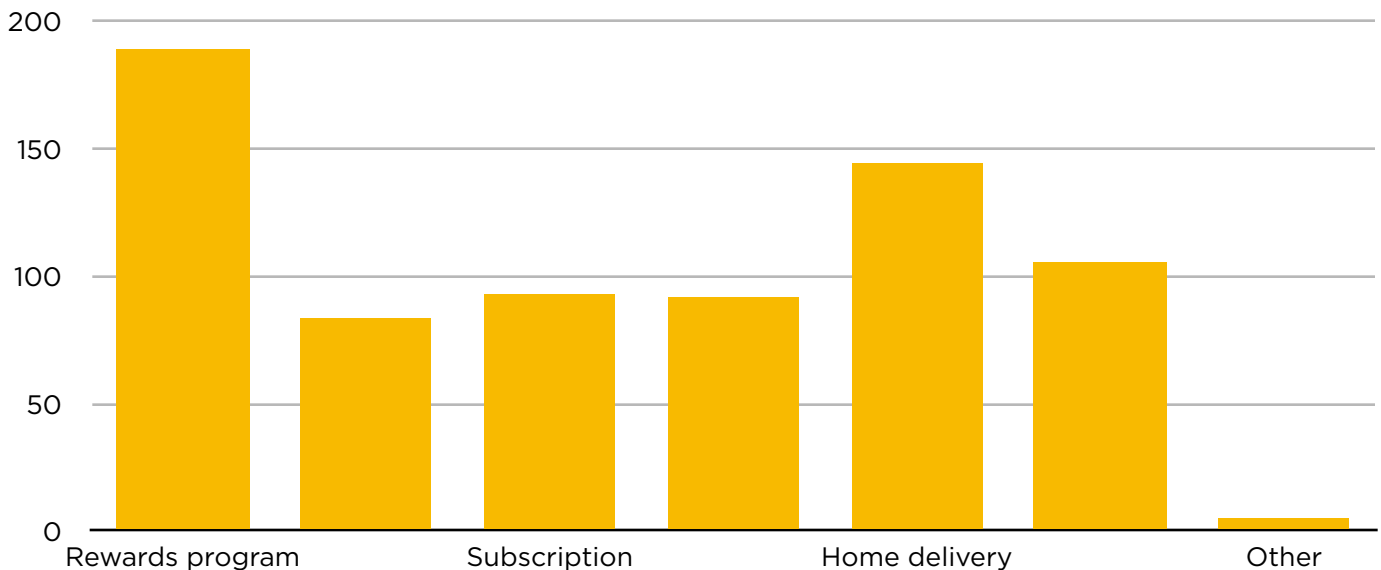
Our store audits revealed a lack of service communication in the customer journey. Many shoppers are unfamiliar with refill services, and there is an increase in anxiety and fear of the unfamiliar in the post-COVID society. Businesses are in need of consistent and detailed service information in-store and online to increase engagement from new refill shoppers.

## #3 - Loyalty programs are undervalued

Our store audits revealed that very few refill shops provide effective loyalty programs, and our survey results showed that they are in high demand. Refilleries require an initial container investment in exchange for long-term savings, making rewards programs ideal for repeat customers. 50% of survey respondents said a loyalty program is the best way to improve refill services.

■ Respondents

Q: HOW WOULD YOU IMPROVE YOUR EXPERIENCE USING REFILL SERVICES? (MULTIPLE SELECTION)



# THREE OPPORTUNITIES



**1 Accommodating impulse shoppers** With convenience being the biggest motivator for consumer shopping habits, refill services must be available to impulse shoppers. Stores need to provide secondary packaging that adheres to their sustainable refill initiatives, such as compostable bags and recycled pre-packaged products for return. Alternative sustainable packaging options will attract a new stream of consumers and allow shoppers to purchase beyond the limit of the containers they bring.

**2 Consistent omni-channel communication** Retailers must provide consistent visual communication in-store and online to create a unified omnichannel experience. This will enhance customer satisfaction and remove many of the barriers today's shoppers face during the refill customer journey. Store visual communication must be clear, concise and straightforward across all channels for new customers to comprehend refill services at a glance.

**3 An incentive based loyalty program** There is a high demand for loyalty programs that offer points, rewards, and other incentives, presenting an opportunity to increase consumer loyalty and long-term profits. Customers can immerse themselves in the refill experience through this platform by tracking store deals, managing bottles for return, ordering for delivery, and pocketing credit from container returns. With a high demand for loyalty programs and few stores offering them to their customers, retailers have a tremendous opportunity to capitalize on this gap.





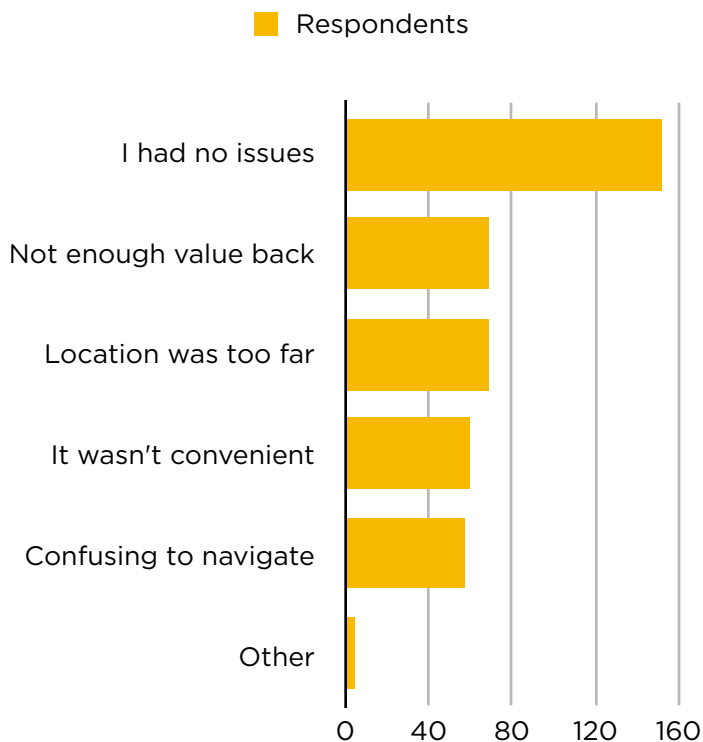
# KEY INSIGHTS

According to [thredUP's 2022 Fashion Resale Market and Trends Report](#), 2022 is the fastest-growing year for the second-hand clothing industry. Our survey results showed that 70% of respondents that have used return services have been in clothing, indicating customer willingness to participate in clothing return services.

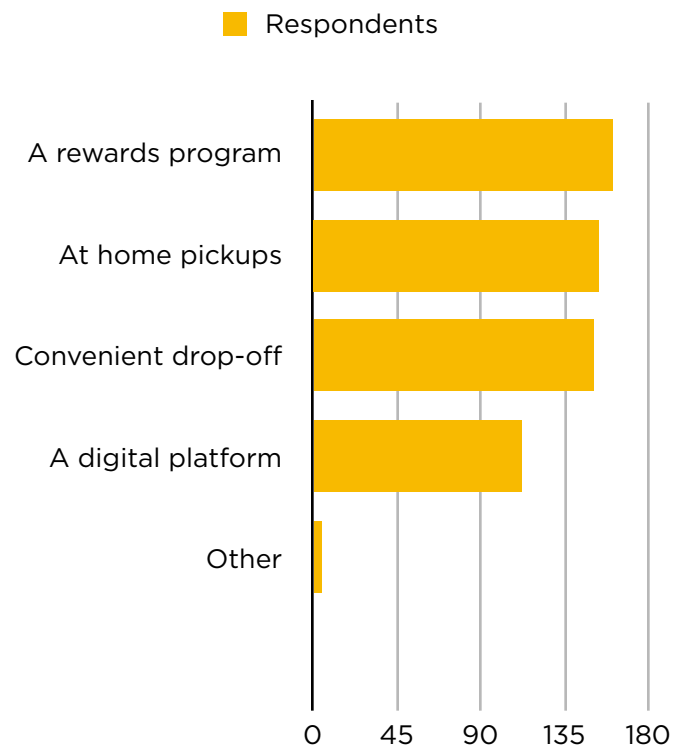
The resale market is expected to be twice the size of the fast fashion industry by the end of the decade. With consumers reselling their purchased goods using online platforms, brands not participating in resale initiatives are missing out on a huge opportunity. Retailers must offer customers strong incentives for returning their brand goods to remain relevant in the changing landscape.

## #1 - Product return services aren't enticing

Our research suggests that the current landscape for return incentives are not appealing to customers. 20% of respondents said they were unsatisfied with the value they received in exchange, and 50% said a rewards program would improve their experience. A failure to provide incentives worth the return is swaying consumers to use secondary resale platforms such as Facebook Marketplace and Depop.



Q: WERE THERE ANY PROBLEMS YOU EXPERIENCED WHILE USING RETURN SERVICES? (MULTIPLE CHOICE)



Q: HOW WOULD YOU IMPROVE YOUR EXPERIENCE USING RETURN SERVICES (MULTIPLE CHOICE)

# KEY INSIGHTS

## #2 - Minimal return services available

62% of survey respondents have not used return services because there are none in their area, and convenient drop-off locations ranked as their top motivator. Although most respondents had not used return services, over half still have an improved store perception of brands that offer them. Most brands with buy-back and trade-in programs across the USA do not have physical locations for returns and rely on their online platform, creating a barrier for customers that want to conduct their returns in-store.

62%

Of consumers said that they haven't used return services because there were none in their area

## #3 - A lack of impactful communication

Our store audits revealed that many brands offering return services lack informative communication. Several of the stores with trade-in and buy-back programs did not incorporate visual or digital information about their return services into the customer journey. One of our interviewees stated that the best informative communication tool regarding circular services is emailing past purchasers. This tactic fits into the customer journey narrative as a complimentary reminder that they can return products through their buy-back program if no longer in use. program if no longer in use.

60%

Of consumers said that a convenient location would motivate them to participate in return services

47%

Of consumers said that fixing this among other issues would make them consider using a return service

# THREE OPPORTUNITIES



1

**Integrating return services with loyalty programs:** Retailers have a significant opportunity to integrate return services into their existing loyalty programs. Our research revealed that many stores do not offer flexible vouchers, and an integrated approach provides a solution by crediting customer accounts. Account credit will allow consumers to use vouchers on their own time, in-store or online. As many brands' used clothing sales are only available online, this may influence customers to purchase from their buy-back program and further contribute to the circular model.

2

**Make communication clear for customers:** There is an opportunity to amplify how customers navigate store return services through physical signage. Many stores did an excellent job promoting their return services on their websites with visual instructions and graphics, but in-store communication was inconsistent. Return services should clearly and effectively advertise these initiatives within the customer journey using signage and email reminders.

3

**Tailored incentives for customer loyalty:** Brands have an opportunity to improve customer retention through buy-back programs. The return incentives may include discounts, vouchers, or products that encourage repeat purchases. Leveraging existing customer data through analyzing purchase patterns and consumer interactions is critical in designing the right incentive for their customers.



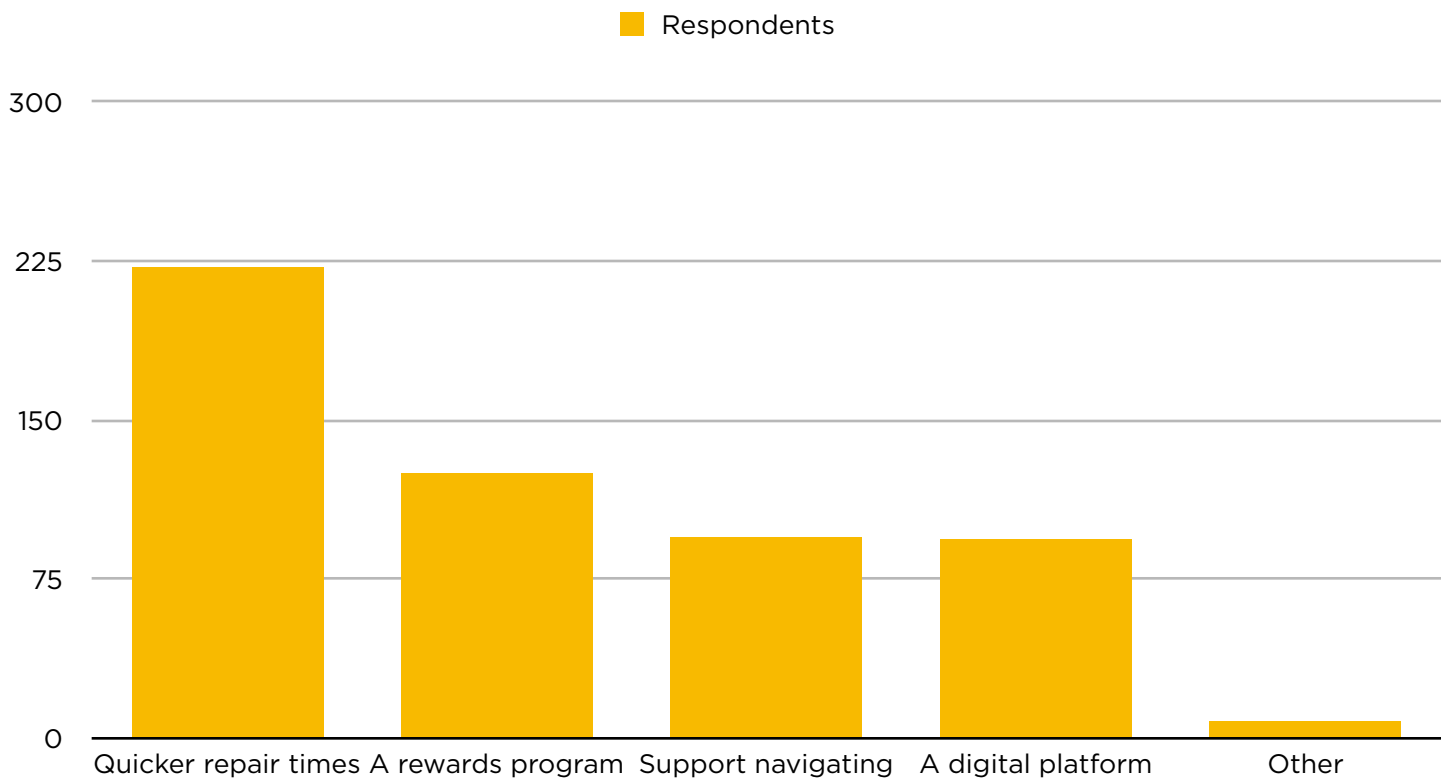
**REPAIR**

# KEY INSIGHTS

[Repair networks are a critical component of the circular economy](#) by extending the operational phase of products. Consumption of material goods is greater than ever as shoppers seek short-term fixes in industries including fast fashion and technology. With shoppers looking to change how they consume products, repair networks need to be enhanced.

## #1 - Wait times are reducing repair inclination

E-commerce and instant delivery have reduced consumer patience, and brands must make product repairs feel worth the wait. From our survey, 67% of respondents said a faster repair turnover would improve the service experience. Our store audits also revealed that repair turnover can take up to ten weeks, making people more inclined to replace than repair.

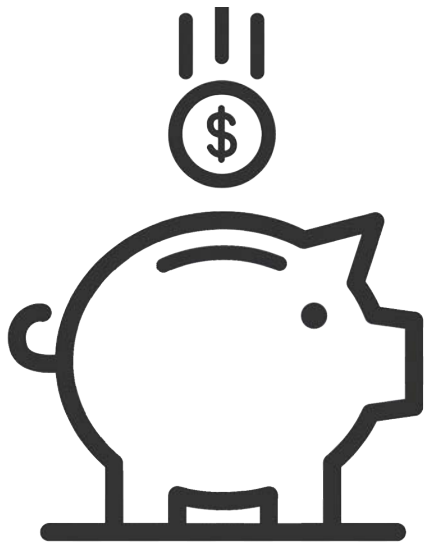


Q: HOW WOULD YOU IMPROVE YOUR EXPERIENCE USING REPAIR SERVICES?  
(MULTIPLE SELECTIONS)

# KEY INSIGHTS

## #2 - Repair costs are a huge barrier

Our survey revealed that price is the highest-ranking barrier for people engaging in repair services and warranty programs (e.g., AppleCare). Rather than paying high repair costs, people will find themselves looking for cheaper third-party repair services. Many fashion retailers, including Patagonia and Arc'teryx, offer complimentary lifetime warranties for damaged goods, which has proven successful for their brand image.



30%

Of respondents said repair cost is the biggest barrier

35%

Of respondents said cost of repair was the reason they hadn't used the service

## #3 - Repair service communication is ineffective

There is a lack of consistency with in-store signage and display. Our audits revealed that many of the brands offering lifetime warranties for repair services do not effectively convey this information, making it challenging for shoppers to navigate repairs. The presentation of signage and display plays a significant role in enhancing customer experience and awareness of lifetime warranties in connection with their repair services.



# THREE OPPORTUNITIES

**1 Reduce repair cost barriers with innovative incentives** With cost as a significant barrier for consumers to buy into repair services, there is an opportunity for brands to find other ways customers can access their repair programs. Complimentary repair services accounted for in the product price offers an incentive for customer loyalty, increasing customer retention and long-term profitability. Repair services speak to ethical motivations, increase product value, and incentivize people to engage with the brand.

**2 Improving visual communication is key to success** Stores must use signage and displays to ensure shoppers are made aware of brand repair services during the customer journey. Leaders in this space, such as Arcteryx, are making repairs a focal point in their brand image through innovative visual in-store displays. Their new reBIRD repair station evokes sustainable inspiration and increases customer engagement in circular services. Leveraging inventive methods of communication for circularity can positively influence a customer's interaction with their brand.

**3 Create accessible pick-up and drop-off locations** Retailers can mitigate inconvenience by providing more accessible drop-off and pick-up locations. Over 50% of respondents who have not used repair services said they would engage with them if they were made more convenient for their customers. Repairs are often routed to another facility creating a longer turnaround time. Rather than customers coming into the store to pick up their repaired items, brands should send the product directly to the consumer.



# THE TAKEAWAY

- Roughly 90% of respondents who have not used the three circular models communicated a willingness to participate, and convenience was consistently ranked as the top barrier.
- Most consumers are willing to participate in the circular economy, but brands must strategically reduce barriers to maximize convenience.
- Effective loyalty programs that provide store incentives are in demand and may be one of the most successful ways to influence sustainable shopping habits and participation.
- Simply offering circular services is not enough, and brands must leverage dynamic models of visual communication to inform their customers and prospects.
- Investing in circular services will result in positive ROI by enhancing customer retention, loyalty, and sentiment.
- As consumers become more environmentally conscious, brands that adhere to the circular economy will succeed.



# ABOUT THE AUTHORS



**Scott Do, Strategy Intern**

Scott is a strategist at heart that specializes in facilitating brainstorming sessions, customer journey mapping, and identifying trends. With a background in Service Design, Scott's passion for service-related projects recently won him first place in a global service design competition. As a Strategist Intern, Scott uses his knowledge to perform audits and benchmarks, competitive analysis, and define customer journeys to help form plans backed by strategy.



**Sydney Garden, Marketing and Communications Intern**

Sydney is a Communications and Marketing Intern that specializes in media relations and is a driving force in growing SLD's media presence. Sydney communicates with efficiency and clarity, using her past experience to ensure communications content is engaging and targeted. As a Communications and Marketing Intern, Sydney handles various communications and marketing-related initiatives like content curation, media outreach, brainstorming sessions, and research studies.

