

The huge sustainability challenges still facing companies and consumers

The need to move towards a circular economy is as pressing as ever, but ING's Group Chief Economist, Mark Cliffe, identifies six key challenges we face to achieve this ideal



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Companies have a crucial role in combatting resource depletion by accelerating progress towards the circular economy. November's [ING International Survey](#) of consumer attitudes towards the circular economy found that failing to respond to this challenge could result in a popular backlash. In fact, 64% of Europeans surveyed told us companies would face a negative consumer response if they don't act to limit their environmental impact.

However, moving in this direction is easier said than done. The survey provided further evidence of six 'C' challenges that companies face in moving towards circular business models. Market forces alone will not be enough.

[Read our full report on Circular economy here](#)

Consumer demand

While a vocal, yet growing minority of consumers advocate sustainable living, there remains some reluctance to pay for it. Surveys show that few consumers are prepared to pay more for green products, let alone those that fully embrace circular principles. Our survey's latest findings show 82% of Europeans favour a good price for homewares, such as washing machines or a couch over the ability to repair an item (36%).

But consumers may be willing to pay a little in the name of sustainability. Almost half of our survey's European recipients said they needed no financial incentive to encourage them to recycle. Additionally, fixing a broken fridge would make sense for half of Europeans given the repair costs were less than 30% of buying new. The findings suggest a consumer's purse strings still dominate purchasing decisions, but consumers also recognise investment must come from somewhere.

A lack of both accepted definitions and labelling circular products doesn't help, but businesses certainly face the challenge of making sustainable products price competitive.

2 Counter trends

Sustainability is now a cultural trend. The survey highlights how concerns about plastic waste now suddenly rival those about climate change. But sadly, there other culture trends that are still running in the opposite direction. Some business models are not merely waste-intensively linear, but actively accelerating resource use. [Fast fashion](#) has spurred rapid increases in clothing purchases and disposal, with so-far limited push back. [E-commerce](#) is fuelling a want-it-now culture of over-ordering, fast delivery and return.

Moreover, the burgeoning middle class among emerging markets are embracing consumerist habits of the developed world.

3 CSR investor pressure

Businesses also face pressure from investors to 'go circular' and adopt more ethical corporate and social responsibility (CSR) principles. But while this trend is growing, it is hampered by controversies over whether these principles lead to higher investment returns. Some studies show they do, but whether the profitability of sustainable principles are the cause or the effect of business success is as yet unresolved.

4 Costs

For many businesses it is cheaper to use virgin raw materials or produce new parts rather than embrace recycling, reuse or reassembly. Prices of non-renewable resources, while volatile, have been jumping around a flat trend for decades, providing little incentive to limit their consumption. Meanwhile, the cost of repairing products has risen consistently in recent years, even while new products have fallen in price.

This is bad news for the circular economy as the survey confirmed that the relative cost of repair is a key factor in the consumers' willingness to repair rather than replace their appliances. The European Union recent announcement of "right to repair" rules to force manufacturers to supply spare parts for up to 10 years is at least a small step in addressing this problem.

Culture

Apart from cost, it is simply easier for businesses to continue with traditional resource-heavy production and distribution methods. Although enlightened large corporations and idealistic start-ups are embracing circular principles, there remains a long way to go in shifting corporate cultures towards circular economy principles. In part, this is because unlike the traditional linear business model, the circular business model involves new forms of collaboration throughout existing supply chains.

6 Creativity

Having accepted the culture of circularity, companies need now to innovate and invest in it. Creativity is required not just around eco-design, reuse, repair, and recycling, but also business processes, supply chains and market places to recycle and buy second-hand products, parts and materials. Innovative breakthroughs would go a long way to helping address the other challenges.

The precedent of the rapid progress in cutting the cost of renewable energy, and the development of new platform businesses, gives hope that business can help accelerate progress towards the circular economy in the longer term.

As the consumer appetite for moving towards a circular economy gains momentum, businesses will need help in rising to these challenges. If market forces alone fail to provide sufficient impetus, then the pressure will remain for public policy to respond.

Policy intervention will be needed to incentivise action through taxes and subsidies, positive advocacy and prescriptive rules and regulations.

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