

Circular Economy Business Models: The Case of Lush

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Abstract

Changing from a linear to a circular economy in business poses a number of real-world difficulties for businesses. The following research paper investigates the definition of circular economy and its key features in order to gain a clearer appreciation of the ramifications of this change. The business procedures of the company known as Lush are analyzed in order to address these issues from a practical perspective. A synthesis of the most common characteristics and what the principle entails would be deduced as a result of the established examination of the literature, leaving an opening for any additional study in later works in which each element proposed in this article can be expanded upon. The results show that circular economy is a vast topic that may be tackled in a variety of ways. The findings of this study can also be utilized to better understand how businesses might apply the theoretical framework in real-world situations.

Key words: business models, circular economy, sustainability, value creation, value proposition

J.E.L. classification: M1, M19

1. Introduction

The harmful effects of the main industrial models currently in use, which depend on extracting, manufacturing, and discarding resources and commodities, endanger natural ecosystems and have an impact on human health and welfare. Essentially, people are using up more of the planet's resources than it can support. As such, in an effort to circumvent this, industrial ecology laid the groundwork for the concept of a circular economy in its search for solutions to the unsustainable use of resources. Businesses must reconsider their supply chain operations and business structures (Cornescu *et al*, 2004) in light of the circular economy notion. In order to reimagine how businesses, produce value while upholding the key circular economy principles, several frameworks that can be found in both academic and practitioner research advocate circular economy business models. When these frameworks are examined it becomes clear that there is a need to integrate the state of the art because certain models are widely addressed, some are framework-specific, and some utilize different terminology to refer to comparable circular economy business models.

Business models are visual depictions of how organizations make revenue for themselves by delivering value to their clients in an increasingly digitized business world (Tohănean *et al*, 2018; Toma *et al*, 2018a). The value generation systems of businesses, business units, or other types of organizations can be described, managed, and designed with the help of these depictions, according to some experts (Massa *et al*, 2017). Value creation can be broken down into four categories:

1. value propositions, which reflect the advantages provided to customers based on goods, services, or product-service systems;

2. how value propositions are presented to clients by implicating actors and value delivery processes;
3. how value is created, which pertains to the stakeholders and activities performed in value-creating practices, such as production;
4. how focal businesses capture a portion of the created value (Chesbrough, 2010; Teece, 2010).

To continue to be able to create and offer value propositions, value capture is necessary to input into a company's value-creating system. Beyond consumer satisfaction and economic value, studies are increasingly examining the connections between business models and commitments to sustainable development (Toma, 2013; Schaltegger *et al*, 2016; Lüdeke-Freund *et al*, 2017; Toma *et al*, 2019).

Based on the preceding perspective, the following questions were established for this study:

Q1: How is a circular economy defined? Q2: What are some of the hallmarks of the circular economy, specifically? Q3: How would a business model based on principles of the circular economy look?

The purpose of this research paper is to introduce the circular economy concept and its business model. It also contributes to a better awareness of the real-world uses for this kind of company strategy in the current economic environment. The article is set up like follows: The literature review, which highlights some of the most pertinent contributions in this area, is illustrated in the chapter that follows. The research approach is presented in the third part. In the fourth portion, the authors reaffirm the study's findings, and the final piece serves to summarize the results.

2. Literature review

The conception of a circular economy has been credited to Boulding K. E. in 1966. He was the first to propose the concept of a circular ecological framework that is capable of perpetual synthesis of resources. He claimed that the earth's reservoirs of resources are finite and that nature cannot completely absorb pollution, therefore we should take steps to forestall the shortage of raw materials and reduce environmental pollution because these facts could lead to more serious issues for society in the future. In 1990, Pearce D.W. and Turner R.K. coined the term "circular economy" in their article "Economics of Natural Resources and Environment." They argued that the existing economic system is endangering the environment by turning it into a waste reservoir because producing operations continuously generate waste and pollution. As a result, the system needs to be changed into a circular one by viewing waste as an origin for additional resources. The need to comprehend the economy and the ecosystem in response to the growing global waste burden and the limited availability of resources has arisen as a contemporary research issue, despite the fact that this idea dates back to the 20th century.

Although the principle of circular economy cannot be conveyed through a single definition, various authors have offered a variety of interpretations. Using such a definition, circular economy can be seen as an economic system that aims to support sustainable development, by meeting today's needs without compromising those of tomorrow, and by separating economic growth from its negative effects on the environment and social stratification, redesigning how it consumes, produces, and interacts with the world and society itself, through innovative business strategies and a continuous public policy pursuing an optimal implementation of the four Rs, namely: reduce, reuse, recycle and recover (Carlos *et al*, 2021).

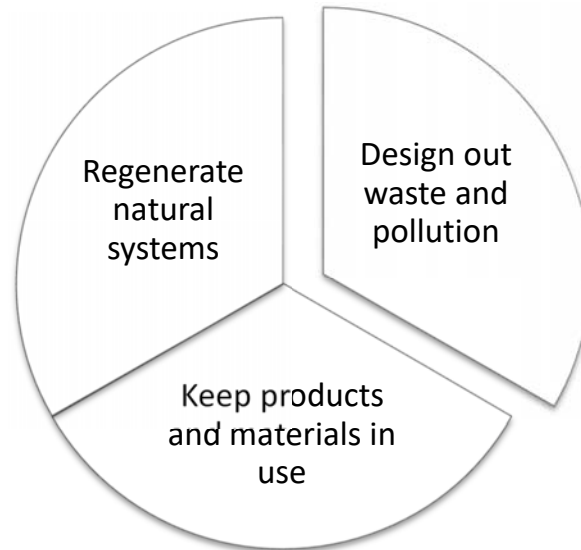
The Ellen Macarthur Foundation put forth new circular economy concepts in 2013. These appear to be a more detailed interpretation of the 4 Rs. These ideas include:

- Design out wastages: Create products whose parts can be used to create something else with the least amount of materials and energy;
- Create diverse connections in production to increase resilience through diversity and reduce uncertainty;
- Think in systems: examine and comprehend how one action can affect all of its settings and the possible outcomes;
- Rely on renewable energy sources: Take advantage of the plentiful renewable energies available, such as sun and wind;

- Think in cascades: get more use out of materials or goods by employing them in various applications.
- Waste is food: If a product's constituent parts cannot be salvaged or repurposed, they ought to be capable to be assimilated by the environment.

The concepts put forth in 2013 have changed over time, and in 2019 they have been suggested in a more simplified form to make them easier to understand and use in practice (Figure no 1):

Figure no. 1. Circular economy concepts.



Source: Authors' contribution

A major shift like the transition to a circular economy model would call for new ways of thinking and conducting business. The more revolutionary the technical or product development, the more difficult it will be, and the more likely it is that changes to the established economic model will be needed. Core business model strategies that meet the techniques of slowing and closing resource cycles are highlighted based on the business model principles of Bocken, N. (2014). This is why today's business strategies and models have to be not only socially and environmentally responsible (Toma *et al*, 2011; Imbrișcă *et al*, 2020) but also entrepreneurial (Grădinaru *et al*, 2017), creative (Toma *et al*, 2018b) and based on the implementation of specific managerial methods and techniques (Toma, 2008; Toma *et al*, 2009). A strategic approach represents a prerequisite for obtaining business success in a turbulent environment (Toma *et al*, 2016a; Toma *et al*, 2016b).

Long product lives and product reuse are encouraged by business models with slow resource loops via model innovation. In business model innovation, closing loop is the process of extracting value from by-products or "trash" that would otherwise be seen as waste in a linear business model. These tactics can be more "macro" in nature when items are eventually thrown away and the substance is recycled through a totally unrelated network, or more "micro" in nature when materials are repurposed in manufacturing operations within a manufacturing plant. For some commodities, like aluminum, where the power costs of production are higher than liquefying, this business model is already lucrative (Bocken *et al*, 2016).

3. Research methodology

The current study used a qualitative research approach, collecting and analyzing secondary data on the subject from books, reviews, reports, and scientific publications that have already been issued. The formulation of the concept of a circular economy is examined in the first section by the authors, who then list its key components. As a result, various pertinent notions were put into use during this

approach, including value generation and capture and sustainable business models.

The study started with a briefing and explanation of the concepts that were later assimilated and exhibited via a case study in an effort to meet the stated purpose of this research, as is customary in prior research. This paper's point of view builds on earlier research conducted over the previous ten years by a number of well-known academics in the scientific field.

4. Findings

The cosmetics industry can also benefit from the circular design approach. In reality, if one could plan ahead to create long-lasting items with packaging that is also simple to reuse, recycle, and deconstruct, one would prevent obsolescence while retaining goods and resources to provide the most value. In order to suggest an alternate and responsible approach to designing, the significance of design and the role of designers in developing progressively sustainable models have been extensively explored in the academic community and elsewhere (Romli, A. et al., 2015).

Design that is sustainable considers the consequences of long-term economic growth, social and environmental preservation. Durability is an issue with some of the concepts that might be used in the cosmetics sector when it switches to circular forms. All of this may be explained in terms of the environment, society, and economy, and then distributed for societal good. The packaging of modern cosmetic items, however, has drawn criticism from some authors since plastic packaging waste is not effectively recyclable (Issara, U. et al., 2014). Sustainable materials will also be required to take the place of chemicals in cosmetics. In order to apply innovation for the shift to the circular economy, new capabilities and skills are required, supported by legislation that can increase manufacturers' understanding of new circular layout processes (Charter, M., 2018). Businesses are becoming more interested in this innovative economic approach. Lush is one business that uses the circular economy business model. (Morea, D. et al, 2021)

The authors have studied the company Lush Cosmetics' business model and strategies in order to better comprehend the idea of the circular economy. Six co-founders, including Mo Constantine, Mark Constantine, Rowena Bird, Helen Ambrosen, Liz Bennett, and Paul Greeves, created Lush in 1995. It was the identical group that came up with and was inspired by the new business endeavor Lush after a prior mail order company named Cosmetics To Go, a huge success that failed due to over-trading and floods, collapsed. Lush considers its employees to be the heart of the company, hence 10% of the company is owned by them. (Lush, 2020)

The long-term goal of Lush is to become a fully circular business, producing nothing that cannot be recycled through natural cycles or currently accessible technological processes. This entails implementing a zero waste and circular way mindset that guides all aspects of the company's operations. Lush has started to put some of these ideas into practice as part of their emerging zero waste culture, but would like to develop them further. These ideas include going "naked," which means having no exterior packaging except when customers require packaging to-go, avoiding single-use in their product lines, using renewable materials when new materials are needed, purchasing high-quality raw material that lasts, avoiding landfill, incineration and recycling export markets, and recovering legacy materials from the environment. A circular economy depends on collaboration, thus they also want to grow their current network of partners.

In their naked lines, Lush designs consumer packaging that is as straightforward and lightweight as feasible. Although the intention is for customers to take things home rather than create more waste, certain packaging is still necessary for maintaining, shipping, and consuming products. Lush lessens the effects of that by prioritizing recycled, organically grown, or upcycled resources and, to the greatest extent feasible, ensuring that the packaging may be reused, repurposed, composted, or recovered at the end of its useful life. Although this is currently a work in progress, the Lush teams are persistently pursuing this ultimate goal.

Currently, 37% of packaging is used for product packaging, backed by 34% for transportation and distribution. Customers can typically find Lush's distinctive black wrapping, crystal clear bottles, and wrapped gifts wherever they choose to package their final goods. Customers are encouraged to bring their own shopping bags or try their hand at artistic gift-wrapping using one of Lush's reusable knot-wraps as 15% of the in-store bagging is completely optional. Lush has reduced emissions by 74% and water use by 36% by choosing to employ recycled paper, cardboard, and plastics in the

manufacture of its packaging. Finding value in what is typically regarded as garbage and upholding the actual zero waste principles are both components of a circular economy.

Lush distributes the great majority of the garbage produced at its manufacturing and headquarters locations in Poole, Dorset, to the Lush Greenhub, a recycling facility located there. 75% of the 1,343 tonnes of solid waste they produce are recycled in closed or open loops, or 188 kilogram for every product tonne they generate. Waste to energy is mostly used to discard of the remaining 47 kg of waste; landfills receive 1.3% of all waste. No manufacturing waste from the UK is shipped outside of the country. Since they make sure items don't end up in an illegitimate landfill on the other side of the globe, their recycling rate indicates actual recycling.

By emphasizing internally developed technical advances, Lush is encouraging a circular economic mindset in addition to other ways. Lush's digital team developed Lush Lens, a function on their Lush Labs App (available for download on iPhone or Android) that allows users to scan bare products with their phones to access information about those products that is generally found on physical labeling (like usage, ingredients, etc.). Lush Lens can be used to display pre-recorded movies and still images of what the goods appears to look like in use for items like bath bombs that are typically demonstrated in retail venues using sinks and large bowls filled with water. With consumers no longer requiring to wipe their hands following a product demo, this also results in less tissue waste. The Lush Lens component on the digitally available for download Lush Labs mobile application eliminates the need for signage that lists a product's price as well as, as was already mentioned, the need for physical packaging that lists a product's specifications. Instead, all of this information can be obtained by simply scanning the product being advertised. (Lush, 2019)

Lush cosmetics is one of the businesses that seeks to embrace the ideas of the circular economy in such a way that they can actually make an impact with their current practices, as can be shown in the preceding sections. However, as the circular economy model is increasingly taken into account, Lush has been able to gradually widen their inner circle and has developed into an international company. Some of their more well-known practices, such as not tolerating animal testing and cruelty and employing zero waste principles, have did lead to a constraint in their supply chain as they opt to only work collaboratively with other companies which represent the same principles.

The authors have found examples of the Ellen Macarthur Foundation's guiding principles used by Lush in its commercial operations. Through its zero waste rules and procedures, Lush has mostly succeeded in keeping any excessive waste and pollution out of their designs. Lush also makes an effort to preserve resources by providing a variety of packaging choices. Customers are urged to bring their own bags for purchasing, but Lush also offers recyclable materials in-store that they may use to artistically wrap their own products. Finally, Lush uses closed loop processes throughout their manufacturing system, which helps to regenerate natural systems.

5. Conclusions

This study paper's goal was to investigate the circular economy's theoretical underpinnings and business strategy. It has also improved understanding of some of the practical applications for this type of business strategy in the current economic climate. In this regard, this paper included a systematic review that was summarized and provided a synthesis of the published literature on the subject over the previous ten years. The procedure for carrying out quantitative and qualitative research for this study was covered in the chapter that followed. The study's findings and insights, as well as potential future directions, are summarized and discussed in the fifth section. The main questions of the study have been succinctly explained by the authors, who have illustrated their answers at every turn. The aforementioned study does have certain restrictions, though. One such restriction is that it only addresses the procedures of one business, a nearly ideal illustration of how such a model is used. It might be worthwhile to undertake additional research by examining what other businesses could accomplish by implementing more of these strategies.

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