
How best can SMEs enter the circular economy space?

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Big businesses are leading the charge on circular exploration, but there remains a huge untapped opportunity for more nimble, disruptive pioneers. Maxine Perella investigates where these entry points might be for smaller firms.

Cast your eye over the emerging circular economy landscape and you'll see it is mainly the larger corporations that are banging the drum beat for change. This is interesting given that this change needs to be radical, if not disruptive. The circular economy is an ideal fit in many ways for smaller businesses, entrepreneurs and start-ups who can react quicker to shifting market requirements and craft their models from the outset to capitalise on such trends.

What smaller enterprises tend to lack however is access to finance and in some cases, a commercially proven track record. Circular economy experimentation doesn't come cheap, especially if an organisation is looking to adapt its existing business proposition. A lack of awareness among the SME community on how to best engage with the circularity agenda is also hindering their involvement. But those working at the circular economy coalface believe the tide could be turning.

The Technology Strategy Board, an arms-length government body that funds circular economy innovation projects, runs various competitions to encourage new talent to come forward in this field. According to its lead specialist for sustainability, Mike Pitts, smaller organisations have a clear advantage.

“Businesses have eroding profit margins from the increasing cost of raw materials and supply interruptions due to the effects of environmental change ... they have to look at ways to make more money by selling less stuff and need help doing so,” he says. “Small businesses with smart ideas that can move fast will deliver such solutions, or in some cases disrupt existing sectors by offering a better customer proposition from the start.”

Pitts advises those who are looking to enter the circular economy space to connect up and down their supply chain first to establish that it is robust enough to support any business proposition. “The main issue for circular business models is retaining value – how do you get your stuff back and what form is best? Understand which model works for your product, technology or service and concentrate on where that model, be it repair, remanufacture, reuse or recycle, makes most sense.”

It's a view echoed by Christian Rudolph who heads up Nextcycle, a German-based sustainability innovation firm. “Circular economy entrepreneurs should develop the ability to understand and analyse the material and value flows of their specific industry and the extent to which these are essential for the value proposition of business models,” he observes. “Only then will they be able to clearly formulate the added value of their own business and to identify the partners needed to design supply-cycles.”

Rudolph suggests one route to entry could be to identify arbitrage opportunities for reverse cycles that are more profitable when compared with conventional ‘take-make-disposal’ options. “I strongly believe that circular economy practices, at least in Europe, will work their

way up from the end of the supply chain, because this kind of thinking works just fine within the reasoning of resource efficiency, which is easier to digest for the linear system compared to cradle-to-cradle product design.”

In industrial terms, the circular economy model is founded on principles of designing out waste, making the start-of-life phase an obvious entry point for more creatively-minded entrepreneurs, such as designers. But demand is growing for smarter end-of-life solutions to help unlock secondary material value and deliver it ready-made for applications such as remanufacture.

Kingfisher Group’s head of innovation James Walker feels there is room for a new breed of waste management service provider – one that can serve the changing requirements of big business. “There is a great opportunity for new companies to enter this sector and offer a responsive ‘just in time’ supply service for secondary materials,” he says.

“Our business can’t get the right quality of reused materials at the right colour at the right price. What would we have to do as a business for the waste industry to be able to identify what our products are and to know what to do with them? That innovation starts at the end of the chain ... it needs a new type of waste management company to come along and realise this,” he asserts.

Likewise Pitts feels that the end-of-life phase, dominated by traditional waste management companies, is the “least developed area” in terms of new players. Simon Graham, environmental strategist at SME Commercial Group – an office supplies firm that is looking to make its business model more circular – believes more questions need to be asked of waste contractors.

“The waste industry should reposition itself as a mechanism to help customers get resources from their supply chains,” he says. “There are certain parts of the waste industry which are really engaged and there are some innovators out there who are seeing a business opportunity, but it’s often being presented as if it is something different and new.”

So is the waste management sector one that is ripe for disruption? Seb Beloe, head of sustainability research at WHEB Asset Management, believes the rise of digital platforms and the internet of things is certainly raising some profound questions. “The way I tend to think of this is where you have a waste problem, is there an innovative technology or opportunities for people to find some value for that waste?” he says.

Beloe points to the fact that where there is informational value in a product, there is also value in a traditional manufacturer retaining a service contract alongside the sale of that product. He cites GE Aviation as an example, with its plane engine sensor technology that can alert potential mechanical failures ahead of time and enable replacement parts to be delivered to the airport before the plane lands. This type of innovation presents a different way of thinking about material flows, and it may be that a start-up IT provider or smart-tech firm is better positioned to deliver such solutions.

Pitts says the trend towards collaboration, where large corporations are seeking to partner with, or buy in skills, from smaller enterprises to progress experimentation and scale up circularity will also help accelerate things forward. “Some of our best circular economy projects have been led by small businesses with great ideas or key expertise. More and more big companies are keen to explore circular business models and need pilot projects to test ideas out. These offer great opportunities for small companies.”

Maxine Perella is an environmental journalist specialising in circular economy issues

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