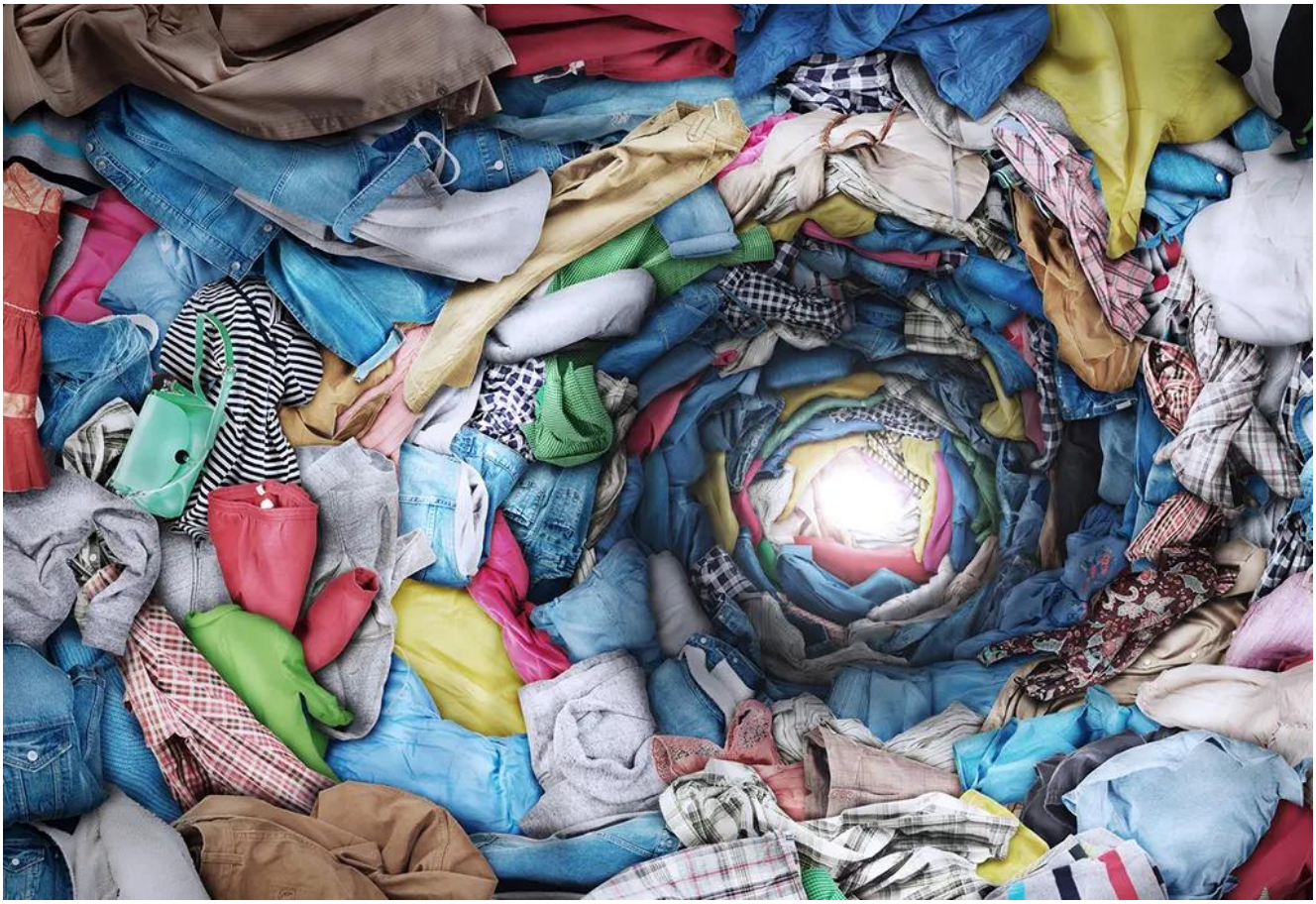
The circular economy: Are you ready?

As the European Union embraces the circular economy, this is what it means for business, along with the new leadership competencies to drive change.



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By Anna Saez de Tejada Cuenca, Fabrizio Ferraro and Pascual Berrone

The circular economy strategy of the outdoor apparel company, Patagonia, boils down to this:

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Make stuff to last a long time; fix the stuff you sell and encourage others to do the same; help customers sell their used stuff. Though it hardly sounds revolutionary, in a world of ultra-fast fashion, where clothing is designed to last for less than a season, this seemingly simple strategy is actually world-shattering.

Patagonia, a sustainability pioneer, began experimenting with circularity in 2005 through its Common Threads initiative, originally a limited recycling program. Since then, the company has expanded its commitment, all the while encouraging customers to reduce their consumption overall, and it now offers an integrated ecosystem of repair, trade-in and resale.

This values-driven experiment has evolved into a coherent circular fashion strategy, with an operating system designed to turn product longevity into sustained competitive advantage, even if it appears, at first glance, to work against the basic retail imperative to sell more.

Patagonia has made circularity inseparable from its identity. Repair and resale are not marketing add-ons but part of a deliberate business model choice — a choice that many more companies will be compelled to make as the EU Circular Economy Act is expected to be adopted by the end of 2026. For many, the implications will be huge.

9 R’s of the circular economy

Not all companies have a brand built on durability or a corporate narrative that embraces consuming less. Indeed, not all customers are prepared to pay for performance rather than passing trends.

Still, every company must write its own circularity playbook based on the so-called 9 R’s of the circular economy.

9 R’s of the circular economy

Refuse
Make products unnecessary or redundant by offering the same use through a completely different and more sustainable product or service.
Rethink
Design products for sustainability, imagining ways for products to be used by more people, such as through sharing models or multifunctionality.
Reduce

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Consume fewer natural resources via greater efficiencies in manufacturing and use.

Reuse
For products still in good condition and that can be used for their original function, pass them on to new consumers as many times as possible.
Repair
Fix and maintain defective or broken products so that they can continue to be used for their original function, extending their lifespan.
Refurbish
After serving its original purpose, restore and update a product for potential new uses.

Remanufacture
Take worn-out or discarded parts and use them in new products with the same function.
Repurpose
Use a redundant product or some of its parts to make a new product with a different function.
Recycle
Recover materials from waste to be reprocessed into new products, materials or substances, whether for the original or another purpose.

A word on recycling: At the center of many companies' and governments' sustainability strategies is recycling. But recycling should be viewed as an option of last resort, given how it falls at the end of the production process. Value is normally more evident when a firm reduces material use from the beginning or redesigns for durability, extending the product life cycle. Firms that rely solely on recycling, without resyncing the entire product and business model, practice circularity more symbolically than substantively.

Systemic change and business model innovation

The circular economy is about systemic change, rethinking business processes from product design through to disposal. It involves all productive sectors and firms, regardless of size. This requires innovation, not just of products but of processes.

To reimagine the life cycle of products, it can be useful to break it down in this way:

Design
of products for durability, modularity, ease of maintenance, repairability, reuse and recycling.

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Production
processes that require fewer resources and incorporate materials that are recyclable, reusable or compostable, as well as substituting virgin raw materials for secondary materials.
Transportation
options that minimize energy consumption and maintenance during transport.

Usage
that maximizes lifespan and makes a product easy to return and repair, which may involve providing post-sales repair services.
Disposal
at the end of life, in order to refurbish, remanufacture or recycle products or their components.

All of this implies fundamentally different business models. For example, in addition to producing longer lasting goods made with secondary materials, companies may consider product-as-a-service (PaaS) or reuse-and-sharing models based on leasing, pay-per-use or subscription schemes.

What's important is that business leaders rethink their value proposition, their value architecture and their revenue streams in order to craft new business models.

Sacrificing near-term gains for long-term loyalty

Let's return to the example of Patagonia to see how this can play out. In fiscal year 2025, Patagonia repaired approximately 174,800 products globally and resold around 212,000 items through its Worn Wear program. Yet of total company revenue of roughly $1.47 billion, Worn Wear generated around $13 million — less than 1% of the top line. In other words, the program is operationally significant but financially modest.

That's precisely the point. Patagonia isn't trying to replace its core business with resale. It is building a complementary system that makes its core business more resilient: extending product life, reinforcing quality and keeping customers inside Patagonia's ecosystem for longer.

Any serious program that repairs and resells at scale will inevitably displace some new purchases. For Patagonia, a rough calculation suggests that, by repairing and reselling existing items, it sacrificed around $21 million in revenue from new sales. Although a

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relatively small portion of total revenue, it is significant because it shows that Patagonia is willing to accept a measurable amount of near-term cannibalization in exchange for longer-term strategic returns.

For most apparel companies, voluntarily reducing new sales would be irrational. For Patagonia, it is a strategic fit.

4 reasons why circularity is strategic

1. It validates brand promises

Premium brands live and die by credibility. Patagonia's repair-and-resale infrastructure is costly, operationally complex and hard to fake. Competitors may easily copy the marketing language of circularity, but building end-to-end systems that keep products in use at scale is tough. It requires putting your money where your mouth is. And even for buyers who are uninterested in circularity but seek products that will last, Patagonia is sending a credible signal of their products' quality and value by committing to repairing and reselling them.

2. It turns longevity into a loyalty engine

Traditional retail loyalty programs reward more frequent purchases. Patagonia's model rewards continued participation in the ecosystem. Even if some new sales are displaced, Patagonia retains the customer relationship and captures value in other ways.

3. It hedges against volume-driven growth

A business model that depends solely on selling more is strategically brittle. Patagonia's program offers a hedge: It positions the company to succeed in a world where growth is constrained by resource limits, carbon targets or cultural backlash against overconsumption.

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4. It spurs better design

Repair programs reveal product weaknesses quickly; resale programs expose what holds up in real life. This feedback loop can improve the choice of materials, construction, warranty costs and quality control. Over time, the system nudges Patagonia toward designing for repairability and durability, strengthening its core business.

EU prepares to regulate circularity

While Patagonia opted for sustainability independently, the European Union is hoping to nudge European companies in the same direction. Its proposed Circular Economy Act aims to help the continent transition away from resource overextraction and excess waste generation, while enhancing long-term competitiveness and ensuring strategic resilience.

At a moment of intense geopolitical turbulence, circularity offers Europe the opportunity to be less dependent on the import of raw materials, many of them critical, and less reliant on unstable global supply chains.

“The challenge of the moment is to remain globally competitive and even strengthen our competitiveness, while moving circularity from the pioneers and frontrunners into the mainstream of our economies,” said Aurel Ciobanu-Dordea, a circular economy director in the European Commission’s Directorate-General for Environment, who spoke at a Circular Economy Summit organized by IESE’s Institute for Sustainability Leadership and Spain’s Ministry for Ecological Transition and the Demographic Challenge in Madrid.

The EU Circular Economy Act’s priorities will be helping create a single market for secondary goods and addressing the economics of circularity, he said.

Creating the conditions for an agile, EU-wide market for secondary materials is essential because the costs and availability of secondary materials are obstacles to scalability. Quality standards, including traceability, are needed to guarantee the integrity of secondary materials. Governments will also have to invest in collection, classification and processing infrastructure.

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Chief among the economic issues is affordability. Circular goods and services are often significantly more expensive than traditionally made products, a barrier to both companies and consumers. The EU is expected to offer fiscal incentives and subsidies to lower prices. To level the playing field with cheaper imports from abroad, the bloc is exploring targeted trade measures.

As an additional lever, the Circular Economy Act is expected to set percentages for green public procurement, in which governments commit to purchasing circular goods. This requirement is seen as vital for kickstarting demand and ensuring scale, which in turn could help lower prices.



https://www.youtube.com/embed/iTULD1_8vbg

How to pay for it all?

For companies contemplating circularity, investments are required at every phase:

- in the redesign of products and processes.
- in the adaptation of installations and investment in equipment.
- in the implementation of traceability and digital systems.
- in the creation of new supply chains and alliances.

Tax breaks as well as targeted subsidies and aid could encourage more companies to make these investments.

New leadership competencies

While technical advances (in materials engineering, product design, energy efficiency, etc.) are at the heart of circularity, managers and business leaders will also need to acquire new

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competencies to drive change, including:

Mindset

Abandoning the take-make-waste approach changes long-standing strategic, tactical and operational practices. It requires a different leadership mindset, with implications at all levels, from business strategy, to talent development, to relationships with stakeholders. It also requires adopting an ecosystem mindset that situates companies in a wider context of available resources.

Know-how

Leaders must understand the principles of the circular economy, be up to date on regulations, and develop an overarching vision for transforming business systems. Some employees will have to undergo reskilling.

Collaboration

Public-private cooperation is needed on many levels, from financing to infrastructure and support. To improve the value chain and find markets for waste and secondary materials, competitors will increasingly become collaborators.

Conviction

Circularity must form an integral part of corporate purpose. It must be adopted out of strategic conviction rather than mere regulatory compliance.

The final, pivotal piece: consumers

The final piece in the puzzle are consumers. The efforts of companies and governments will fall flat if consumers aren't on board, altering long-standing habits. Consumers have consistently been unwilling to pay more for sustainability, and many well-intentioned initiatives have encountered limited uptake.

Consider take-back programs in the apparel industry: Some retailers have set up collection sites in their stores, offering consumers a way to return used items instead of throwing them away, yet participation in these sorts of initiatives remains limited.

Marketing and public awareness campaigns will be needed. Research shows that retailers need to get their messaging just right, providing information on where the clothing is headed. Besides convenient return options, consumers want to know their stuff won't end up in a landfill and that the retailer isn't unduly profiting off their returned items.

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Even with all that, sustainability initiatives will fail without a basic willingness to change the way we consume, as inconvenient as that may be. For the circular economy to thrive, it will depend, in part, on all of us.

MORE INFO:

IESE Business School professors Anna Saez de Tejada and Fabrizio Ferraro made a submission to the European Commission during the public consultation and feedback process when stakeholders were invited to share their views on the Circular Economy Act as it was being formulated. View their submission here.

"The role of information, rewards and convenience in take-back programs for clothing," by Erin C. McKie, Anna Saez de Tejada Cuenca and Vishal Agrawal, is published in the journal of *Manufacturing & Service Operations Management*.

This article is included in IESE Business School Insight online magazine No. 172 (May-Aug. 2026).

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Anna Saez de Tejada Cuenca

Associate Professor of Operations, Information and Technology at IESE Business School.



Fabrizio Ferraro

Professor of Strategic Management and Academic Director of the Institute for Sustainability Leadership at IESE Business School.

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Pascual Berrone

Professor of Strategic Management and holder of the Schneider Electric Sustainability and Business Strategy Chair at IESE Business School.

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