

The Sustainable MBA

Philips Lighting, WM transition to the circular economy

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Philips is moving away from selling light fixtures to providing light as a service.

The following Q&A is an edited excerpt from the Bard MBA's Dec. 1 [Sustainable Business Fridays](#) podcast. Sustainable Business Fridays brings together students in Bard's MBA in Sustainability program with leaders in business, sustainability and social entrepreneurship.

Thomas Singer felt that there was already plenty of good writing about the theory behind the circular economy. So, when he and his Conference Board colleagues thought about what they wanted to contribute to the conversation, they focused on case studies: "real, practical examples of companies that have been involved in these types of initiatives."

The resulting 2017 report, "[Business Transformation and the Circular Economy: A Candid Look at Risks and Rewards](#)," profiles the strategies and successes of seven companies at the forefront of the transition to an economy based on recovery, reuse and regeneration.

Bard MBA student Carolyn Pincus spoke recently with Singer about his work and what he learned about why companies such as Philips Lighting and Waste Management increasingly pursue circular economy initiatives.

Singer is a principal researcher in corporate leadership at the [Conference Board](#). His work focuses on CSR and sustainability issues, and he's the author of numerous other publications, including the comprehensive sustainability benchmarking report, "[Sustainability Practices](#)."

Carolyn Pincus: What led you to your current work at the Conference Board?



Thomas Singer

Thomas Singer: My work in sustainability, and specifically the circular economy, started well before I started at the Conference Board. My background is in strategy consulting, and during that time I was actually helping companies understand why sustainability was important for them and how to develop a sustainability strategy and build a business case.

When I joined the Conference Board about six years ago, I was brought in to do research in the sustainability space. Over the last few years, though, activities in the circular economy have been gaining in interest from our members. There's a lot of activity in terms of regulation outside of the United States, particularly in Europe. There are also a lot of companies that are looking into pilots at companies that are beginning to get involved in this space. All of this naturally led us to begin to explore this topic of circular economies as one of our key research areas.

Pincus: How did you come to write *Business Transformation and the Circular Economy*?

Singer: Most of our work is very member-centric. We take stock of what our members are interested in, what issues they're struggling with, what issues they should be aware of. The circular economy concept has become pretty prevalent in terms of the number of companies thinking about it and in terms of legislation and regulation, particularly in the EU. So this was a topic that many of our members were beginning to want to understand a little bit more about.

We approached this particular research project from a case study standpoint. We were less interested in the theory behind the circular economy because a lot of good

work has already been done around that. Instead, we were interested in learning about real, practical examples of companies that have been involved in these types of initiatives. We wanted to understand what the challenges have been, how they've succeeded or why they've broken down, and what key factors enable success.

We looked at seven companies that have been involved in circular economy initiatives in one way or another, some of them for many years, and others having only just begun with a few pilots or programs. Each of them was able to share real experiences about how their projects have worked out — and cases in which they haven't worked out at all.

Pincus: Where did the company Waste Management (WM), specifically, see its risks and challenges?

Singer: WM is a great example of why companies get involved in circular economy initiatives. When we conducted a survey of over 50 of our members in this particular area, we asked them what drives them to pursue circular economy projects. The majority of those respondents (44 percent) said cost savings. But when we dug a bit deeper and spoke with the companies in our case studies, we found that something else is really at play. Many of these circular economy initiatives are triggered by pressure to meet changing customer needs and, in particular, customer sustainability goals.

This is where we see a company such as WM. What has actually driven a lot of its work around the circular economy is this change in customer goals and in the types of products and services customers are demanding. For instance, in the early 2000s, about a quarter of WM's company revenues were in what one would call traditional landfill — essentially, helping companies take their trash and landfill it.

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But WM realized that that core business model was going to be at risk because a number of its customers were establishing zero waste to landfill goals. We now see a number of companies with these types of goals, but at the time the idea was pretty novel. With this change in customer dynamics, the circular economy became crucial for Waste Management to remain relevant to its customers and to meet their needs.

Today when we look at the company, about half of its revenue can be attributed to green services, which include not just recycling but also sustainability consulting services. Waste Management now works with companies to design products that last longer, are more easily recycled and more sustainable. Specifically, it is working on designing waste out of the system.

Pincus: Which case study most embodies the circular economy as you described it in your report and why?

Singer: They are all at various stages in the circular economy. Some have been at this for a number of years, and others have only recently begun to launch pilots and initiatives around circular economies. For a company like Interface, though, circular economies are core to its business model, and I'd point to it as a great example of making circular economy initiatives part of the business model and not just a side project.

Philips Lighting is another example that I'd bring up, mostly around its work in transitioning away from selling products to moving toward a product as a service solution. The leadership at Philips Lighting realized a few years ago that we're seeing a shift in consumer demographics: about 5 billion more middle-class consumers will be joining the market in a few years. They recognized that if the company wanted to be around for another hundred years, they needed to shift away from relying on extracting raw materials.

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Think about one of Philips Lighting's key business areas: lighting. The company is moving away from selling light fixtures, for instance, to providing light as a service. Customers will purchase the maintenance, the upgrades and in some cases, even the kilowatts from Philips Lighting rather than owning the physical light fixture. Instead, Philips Lighting retains ownership of that light fixture.

Three benefits are associated with this model. One, the financial benefit for customers — now they have an operating expense rather than a capital expenditure. Two, there's a customer-relationship benefit for Philips Lighting, which is able to stay on top of customer needs and learn about usage patterns, since it now retains ownership of the light fixtures. It's able to understand how customers are using its products and to relay that information to its innovation teams, which are developing new products. And lastly, there are the environmental benefits. Philips Lighting now has an incentive to extend the replacement cycles of the fixtures, as well as to use the most energy efficient fixtures. At the end of the day, it's now Philips Lighting's responsibility to maintain, upgrade and even dispose of the light fixtures through recycling or other means of disposal.

A final reason I bring up Philips Lighting is that a number of companies have been involved in these initiatives for years, but only a small number of them have begun to quantify the business impact of the circular economy. Philips Lighting can demonstrate that the circular economy accounts for 9 percent of its revenue, and it's set a goal of growing that to 15 percent by 2020. Philips Lighting exemplifies a company that's brought the circular economy into the core of its business.