Toward circular retail

think big, start small, stay agile, scale fast

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2025

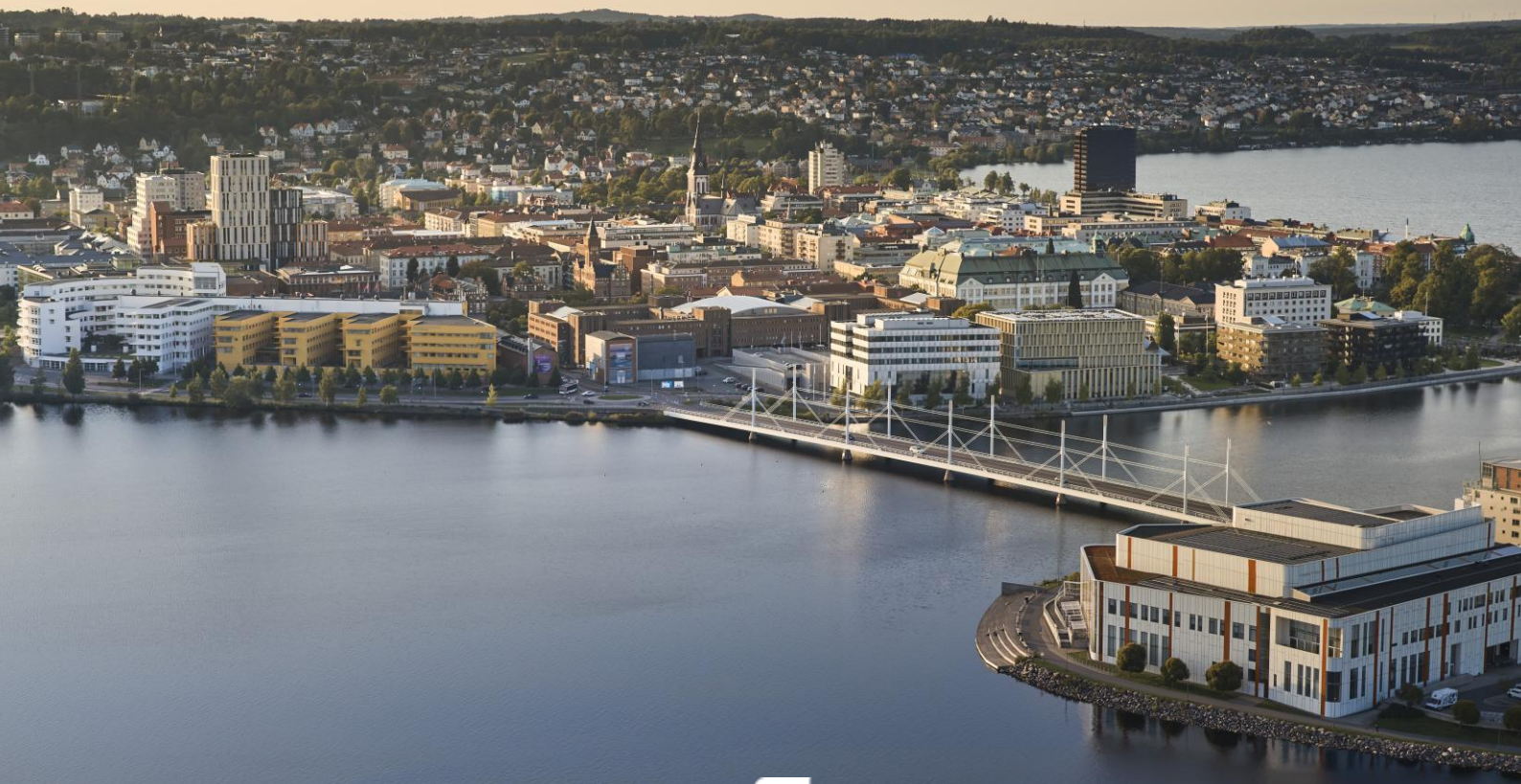
Document Version:
Publisher's PDF, also known as Version of record

CER 2025

9th

COLLOQUIUM ON EUROPEAN RESEARCH IN RETAILING

Book of Abstracts



JÖNKÖPING UNIVERSITY

School of Engineering

Jönköping, Sweden, June 26 – 27, 2025

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Think big, start small, stay agile, scale fast: *Configuring retail stores in the circular journey*

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Keywords

Circular retail, retail logistics, scalability, circular economy, context, case study

Introduction

The concept of a circular economy has captured the interest of researchers, policymakers, and the retail industry. There is consensus on the need to embrace circularity in retail. However, the path to integrating circular retail services varies among retailers. This journey is shaped by various retail-specific contingency factors that shift significance across different time periods and process stages (e.g., product characteristics, product assortment, logistics network, organizational dynamics, and competitors). Research suggests that retailers often begin with small initiatives, such as in-store recycling or offering resale services, which lay the groundwork for a more substantial transformation (Hultberg and Pal, 2023). Bocken *et al.* (2018) emphasized the importance of experimentation, highlighting the inherent messiness, uncertainty, and learning that accompany the experimentation process in circularity, as well as its iterative nature. Retail stores play a crucial role in this journey. These nodes can serve as spaces for experimentation and idea generation, given their direct interaction with consumers. However, for retail stores to function as experimentation hubs, they must be designed with flexibility and adaptability. Throughout the various stages, the retail store may need to adjust its role and design to accommodate circular retail services. Bocken and Konietzko (2022) emphasize the importance of granting autonomy to local retail stores, as they are best positioned to develop effective strategies for circular retail services. Using a process research approach (Langley, 1999), this study aims to understand how retailers configure their stores to support the scalability of circular retailing over time. By comparing different journeys, this study aims to explore the following research questions:

> **RQ1.** What contingency factors influence the scalability of circular retail services?
>
> **RQ2.** How do retailers configure their retail stores as they gain experience and scale up circular services?

Purpose

The purpose of this study is to understand the adoption and scaling of circular retail services, with a focus on how retailers adapt their store configurations and strategies over time. This study explores the role of retail-specific contingency factors in shaping these journeys. It employs a contingency and process theory lens to understand organizational adaptability, experimentation, and scalability within the circular retail journey.

Conceptual framework

This research is grounded in the literature on the circular economy, logistics, and retail. It draws on two research theories, contingency and process, to develop a scalability model.

The structural contingency theory, proposed by Donaldson (2001), suggests that the relationship between organizational characteristics or configuration and performance cannot be fully understood by examining only these two variables. Instead, a third contingency variable must be considered to explain the how and why of the relationship. Drazin and van de Ven (1985) proposed a system-fit approach to understanding relationships, as this can only be advanced by considering multiple factors, structural alternatives, and performance simultaneously to gain a comprehensive understanding. Because organizations operate in environments with numerous contingencies that conflict with one another, system fit is considered appropriate. Problems arise when an organization faces different factors, each requiring a different design (Child 1977). For example, one factor might suggest keeping operations in-house, whereas another suggests outsourcing. Balancing these conflicting demands forces organizations to make trade-offs, which often lead to a structure that is not ideal and creates internal inconsistencies (Drazin and van de Ven, 1985). For retail in particular, Breugelmans *et al.* (2023) suggest that contingency factors influence the appropriate time and approach adopted by a retail store. External factors, driven by the macro-environment (e.g., political, economic, social, and technological), and internal factors specific to a particular store or function (e.g., sector, location, management, and employees) influence how a retail store implements a new initiative. Furthermore, as Eriksson *et al.* (2019) suggested from a material-handling logistics perspective, internal contingency factors should be further separated into organizational and internal factors. This separation is crucial, as organizations commonly make decisions that influence retail store configuration. However, these cannot be considered internal factors for the store, as control and ownership are at the organizational level rather than the retail store level.

On the other hand, the scalability phases of circular retail can be analyzed through life-cycle theories (van de Ven and Poole, 1995), such as the “Wheel of Retailing” (Hollander, 1960), where sustainability and operational efficiency emerge as key drivers of retail evolution. As circular retail services gain traction and regulations develop, large retail organizations are gradually competing and collaborating with established second-hand rental and repair providers to diversify their revenue streams into circular markets. This shift challenges traditional retail dynamics, as organizations no longer rely only on price-based competition but also integrate resale, rental, and repair services into their operations. Addressing how retail stores physically and operationally develop to accommodate circular services challenges traditional views on market expansion. This integration requires a disruptive transformation of the retail store's role and design to support reverse logistics. Drawing from the literature on circular business model innovation, several stages have been identified: internal experimentation, small-scale experiments in a real-life context, testing all assumptions in a single pilot, and scaling up (Bocken *et al.*, 2018). Sandberg and Hultberg (2021) elaborated on different techniques for scaling from a dynamic capabilities perspective: scaling up through networking, scaling deep by normalizing circularity, and scaling out by developing efficient operations. This topic highlights various configuration strategies for achieving scalability, including maintaining in-house services, outsourcing, and collaborating with partners (Hultberg and Pal, 2021, Stål and Corvellec, 2018).

According to Kembro and Norrman (2020, 2021), the design, operations, and resources of a material-handling node should be tailored to a particular context and configuration goals. In other words, a store’s context, role, and purpose are crucial factors that must be considered

when configuring it. Additionally, retail stores need to be designed considering their operations, layout, skills, and technologies (Kembro *et al.*, 2018). This study suggests that the role and design of retail stores should be reconfigured when integrating circular retail services. The type of circular retail service, retail store format, location, operations to be performed in the node, appropriate layout, skills, and technologies. The framework presented in Figure 1 shapes this research.

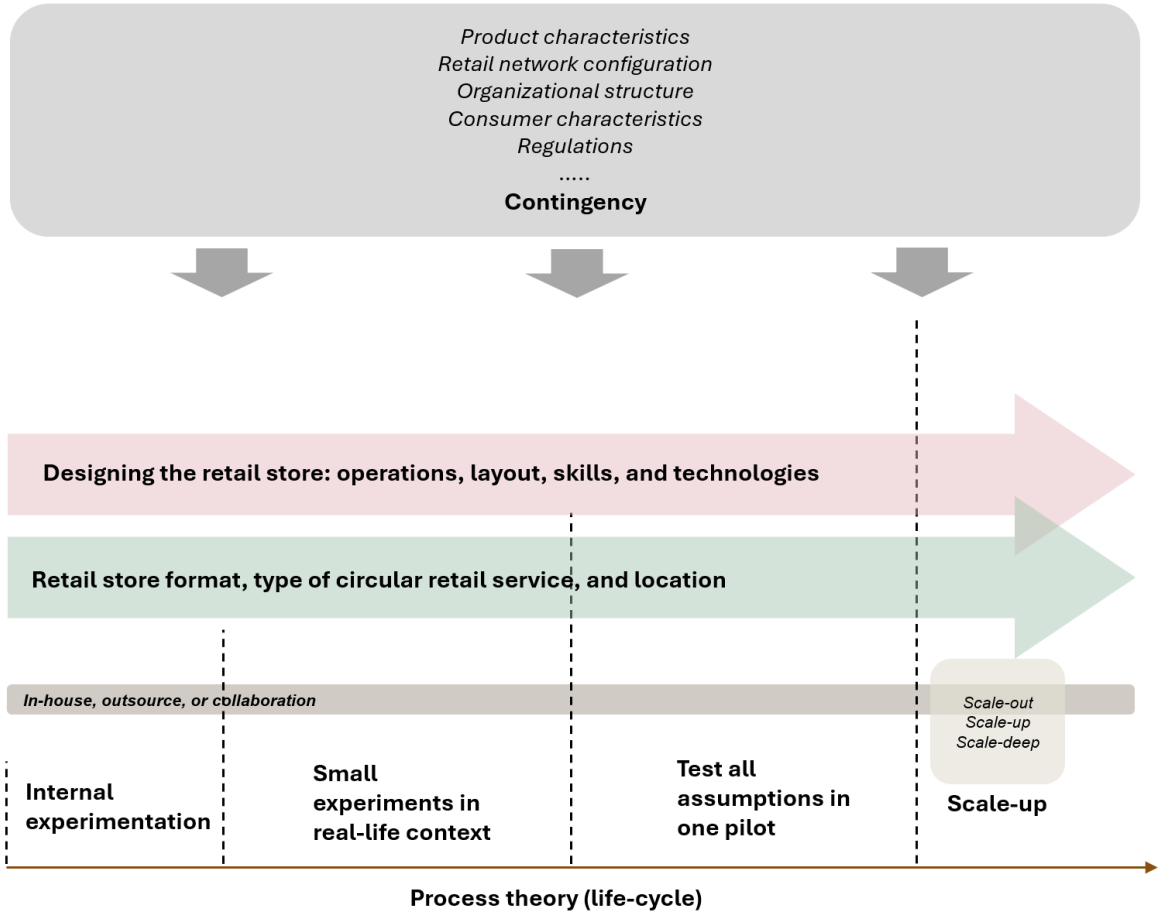

Figure 1 Conceptual framework

Methodology

This study follows a case study method, which enables an in-depth exploration of real-world examples of large retail organizations with physical stores testing circular retail services. Through interviews, observations, and public and internal data, the retailer's journeys are mapped. Then, by asking about the role of the retail store, its design, and what causes the different retail store configurations and journeys to occur. The entities involved, their powers, liabilities, and contingent relationships are identified (Easton, 2010). This study aims to capture data about ongoing, past, and future events (Langley, 1999). The goal is to identify one or more underlying factors that can be considered the cause of these events and explain the different ways in which retailers configure their stores across various phases to achieve scalability. The primary unit of analysis in this study is the retail store configuration along the circular retail journey. The secondary unit of analysis corresponds to contingencies that influence how retail stores are configured.

Multiple case studies of in-store circular retail services across different sectors are analyzed to capture different strategies and experiences. An embedded case study approach is used (Eisenhardt, 2021). For each of the three selected retailers, multiple retail stores are studied. Within each store, circular retail services (resale, repair, and rental) are analyzed separately. This approach recognizes that retailers often experiment with multiple initiatives that evolve in different directions and are positioned at various stages of scalability. Studying circular retail services across different stores within the same retailer allows for the control of certain contingencies (e.g., product characteristics, organizational structure), enabling a better understanding of the retail store configuration for different services and their respective influences. The retailers selected represent a range of product characteristics, including furniture, sportswear, and children's clothing. The furniture retailer offers a wide range of products (e.g., different materials, sizes, and technologies). The sportswear retailer offers traditional bike repair services, known for being scalable and profitable, as well as sports equipment and clothing, which have contrasting characteristics to bikes. Lastly, the children's clothing retailer presents a unique case, as rapid wear and turnover of garments often leave items in better condition for resale, repair, or rental.

The data collected will be initially coded using a priori coding from an inductive theory-building literature review. Then, a conceptually clustered matrix, qualitative timelines, and composite sequence analysis are used to systematically develop within-case and cross-case analysis (Miles *et al.,* 2020).

Findings

Although this research is yet to be conducted, this study speculates that retailers often initiate their journey toward circularity by observing consumer needs or in-store innovations. Later, the offering is established as an in-store service. As demand and capacity grow, decision-making regarding circular services must be assessed by management, triggering the need for adaptations and improvements in the efficiency of retail stores and retail logistics networks. Thus, the configuration of retail stores for circular retail services is seen as a reactive mechanism driven by profitability and scalability. Retail stores with greater flexibility in their designs and operations tend to adopt circular services more quickly and successfully. In addition, this study hypothesizes that store formats and locations significantly impact the scalability of these services, dictating the role of the retail store and its design along the circular retail journey.

Theoretical and managerial implications

This research makes practical and theoretical contributions. Theoretically, it elaborates on our understanding of how circular retail services are adopted and scaled, offering insights into the role of store configurations and contingencies in the process. Our findings suggest that the transition to circular integration is a dynamic journey that requires retail stores to adapt to their specific contexts and maturity stages. This study also challenges the wheel of retail theory by introducing a new perspective that positions sustainability as a driver of retail transformation. Retail store configuration is identified as a key factor in scalability, as it links physical retail design to retail evolution. Practically, it provides guidance for retailers seeking to integrate circular retail services. It presents a framework for retailers to assess their readiness for circularity, position their offerings accordingly, and provide strategies for scaling their initiatives. Retail managers, logistics managers, and policymakers will benefit from the insights provided.

Social implications

The research explores the transition to a circular economy and sustainable consumption, providing insights into policy and the development of retail stores that integrate societal and environmental considerations.

Research limitations

A limitation of this study is the use of case studies, which may not fully represent the diversity of retailers' journeys, thus affecting generalizability. As some of the retailers' future events are based on plans, longitudinal studies are needed.

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