Circular economy: A framework to get you started!

How KPMG can help

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Making circularity work

The circular economy rising up the boardroom agenda. For businesses adopting circular models, benefits include greater efficiency and profitability, less waste and cost, better innovation and stronger relationships with customers. Research suggests the economic opportunity for business is huge. In Europe alone, adopting circular principles could generate net economic benefit of EU€1.8 trillion (USD$2 trillion).1 More companies are now designing products or services from the start for longer-term use, reuse and recycling. Markets are increasingly disrupted as leasing and sharing business models challenge traditional ‘linear’ models of product manufacture, ownership and disposal.

What’s more, governments are recognizing the potential of the circular economy to drive business competitiveness, sustainable economic growth and job creation. The Netherlands is perceived as front running country in the circular transition.

It is now time for business leaders to shift away from a take-make-waste, linear model towards circular business. However, companies may encounter challenges in adopting circularity. Some do not know where to start their circular transition as they lack current performance information for decision-making. Others have set targets, but do not possess the knowledge and tools to measure and monitor their performance. In response to these challenges, KPMG was at the forefront of the development of the WBCSD Circularity Transition Indicators (CTI) framework, the first global open standard for measuring and monitoring circularity.

The CTI framework provides a common language and enables companies to measure and monitor their circular performance. Subsequently, it provides a seven-step process on how companies can use the insights for business decision making and for setting a circular strategy with circular targets and objectives. The framework allows companies to take ownership of their circular transition. Measurement enables management. KPMG can support in every step of the CTI process.

KPMG specialists can help your business in obtaining insights into circular performance by following the Circular Transition Indicator framework process. KPMG has helped multiple companies in adopting the framework and has first-hand knowledge as co-author of CTI.

**How KPMG can help**

**01 Phase 1: Scope & Selection**

Organizations differ with regard to what circular insights are valuable for them. KPMG can support in determining the scope for the assessment and select the relevant indicators from the CTI framework.

— **Determine objectives for measuring circularity:** support in establishing what circularity insights are valuable for your organization.

— **Establish the scope of the measurement:** support in setting boundaries of the circularity assessment through answering relevant questions - e.g. what level of the business should be assessed (company, business unit or product level)? What is the time frame? What material flows should be included and excluded?

— **Select the indicators:** support in analyzing the relevance and selecting the indicators included in the “Closed the Loop,” “Optimize the Loop” and “Value the Loop” categories.

**02 Phase 2: Collect & Calculate**

Data with some level of detail is needed for conducting CTI calculations. KPMG can support in identifying relevant data and assessing its quality to ensure that accurate input leads to relevant insights.

— **Collect and identify the right data:** support in identifying useful data, making sense out of comprehensive data sources, collaborating with data owners, connecting with value chain partners and provide solutions for overcoming data gaps.

— **Conclude and calculate:** support in concluding on the readiness of performing the CTI calculations and conducting the CTI calculation, optionally through using the CTI Tool (see the add on).

**The Circular Transition Indicators framework**

The CTI framework provides a menu of indicators divided in three modules. The first module is used for establishing the company’s effectiveness in closing the loop either on product, business unit or company level. The second module demonstrates how the company can further optimize its recovery strategies and assesses the inflow considered critical and/or scarce. The third module demonstrates business value of circularity by assessing the decoupling of revenues from linear material use.

- **Close the loop**
  - % circular inflow
  - % circular outflow
  - % water circularity
  - % renewable energy

- **Optimize the loop**
  - % critical material
  - % recovery type

- **Value the loop**
  - Circular material productivity

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How KPMG can help (continued)

Applying the methodology will provide the company with a percentage circularity and outcomes on the other indicators. KPMG can support in interpreting and contextualizing these results and translating these to relevant insights for business decision making.

— **Analyze the results**: support in establishing current performance, tracking performance over time and identifying opportunities for improvement, by interpreting and visualizing the results.

— **Prioritize actions**: support in assessing the company’s exposure to linear risks through a risk assessment, scenario planning and mapping thread and vulnerability. Evaluation of the company’s circular opportunities and formulating business cases to enable prioritization of the identified actions for improvement.

— **Plan and act**: support in setting up and implementing an action plan to start improving circular performance.

For more information on CTI, please refer to below links:

— Video WBCSD
— CTI report

To support the application of the CTI framework the WBCSD, in joint effort with Circular IQ, has developed the **Circular Transition Indicators Tool**. The tool supports in performing the calculation and serves as a central place to collect data and store assessments for current and future use.
The CTI framework

Through the Circular Transition Indicators (CTI) you can assess and understand the circularity of your company. The framework enables you to determine the circular performance of your company, the ability to close the loop, insights into resource use optimization and the impact on business performance.

A company can assess the circularity at three key intervention points:

**Inflow:** how circular is the inflow that the company sources? The performance on this sub-indicator is mainly driven by (circular) procurement.

**Outflow – recovery potential:** how does the company design and process its materials to ensure they can be recovered (e.g. by designing for disassembly, reparability, recyclability, etc.)? The performance on this sub-indicator is mainly driven by (circular) design.

**Outflow - actual recovery:** how much of the company’s outflow is actually recovered? The performance on this sub-indicator is mainly driven by closed-loop business models (i.e. product as a service) and open loop value chain collaboration (i.e. through collection programs).

The framework enables you take the driver’s seat towards circular, profitable and resilient business.

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**CTI model; World Business Council for Sustainable Development**

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Arnoud leads the development of KPMG’s circular economy services and coordinates the KPMG network of professionals who specialize in this space. With over 15 years of consulting experience, he has worked with numerous private and financial sector clients to implement circular business practices. He has also worked with governments including the EU on policy programs to strengthen the adoption of circular business models.

Suzanne Kuiper
Suzanne managed the development of the Circular Transition Indicator framework in collaboration with the World Business Council for Sustainable Development. She has 7 years of experience in consulting, working with leading firms to assess circular performance and to help adopting circular business models.

More information?

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