

MULTIMEDIA ONLINE TEACHING CASE

# **The Blue Connection: The transition from Linear to Circular**

*Case by*

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**The Blue Connection**

EXPERIENCE A CIRCULAR FUTURE



## The Blue Connection: The Transition from Linear to Circular<sup>1</sup>

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“Indeed, those numbers don’t look good at all”, Catherine McLaren thought, while she was going through the reports of The Blue Connection. According to the numbers, the company had achieved a limited degree of circularity, but wasn’t really progressing and still far from profitable. So there was a lot to be done still. “But after all”, she thought, “that’s why they hired me!”.

Already a few years before, The Blue Connection had been trying to move from the traditional linear way of doing business to become more circular. In short, the objective was to not have bikes just disappear into the market and potentially end up in the famous Dutch canals or in landfills (Figure 1).

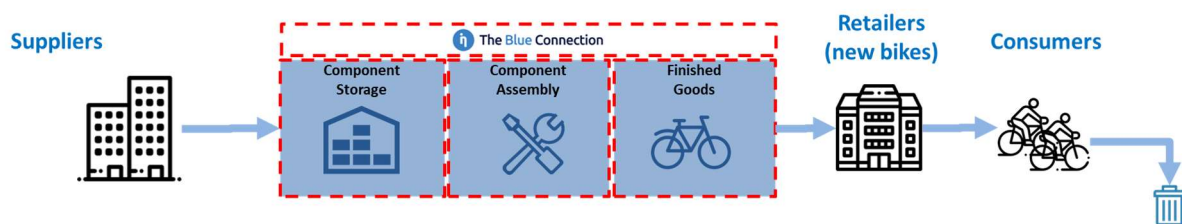


Figure 1: traditional linear value chain at TBC (“take-make-dispose”)

Instead, the idea was to try and find ways to ‘narrow’, ‘slow’ or even ‘close the loop’ and work on concepts like maintenance, refurbishing, remanufacturing and/or recycling (Figure 2).

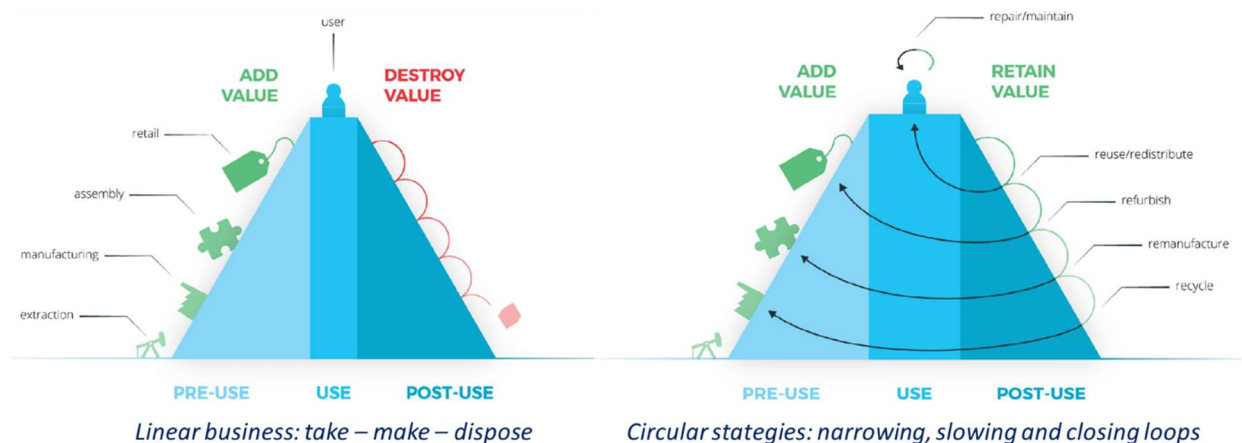


Figure 2: Linear business and circular strategies: The Value Hill<sup>2</sup>

The reason for this move towards circularity was that The Blue Connection was owned by a Luxembourg-based investment firm called Ark Investments, who saw such initiatives towards more

<sup>1</sup> This case was written by Ed Weenk MSc PDEng, as the basis for teamwork and class discussion. The case is not intended to serve as endorsement, source of primary data or illustration of effective or ineffective management. The case, though based on realistic events, is fictionalized. It links to the cloud-based environment of The Blue Connection business simulation game. Any resemblance to actual persons or entities is purely coincidental.

<sup>2</sup> Achterberg, E, Hinfelaar, J and Bocken, N (2016) Master circular business with the Value Chain, Circle Economy, <https://publish.circle-economy.com/financing-circular-business>

sustainable approaches as the right way forward. For them, ultimately, this was going to be good for the value of the company, if carried out properly.

It was assumed that the transition would be complex and would take time. However, after a year of trying, the results were not satisfactory enough yet, at least not according to Ark Investment's CEO Juan Gancho. He decided it was time to act and to find someone to help them make the successful transition from linear to circular happen. During the recruitment process they found a very talented candidate, with a solid background in circular business: Catherine McLaren was hired to shape and lead the circular transition at The Blue Connection. Juan Gancho decided that the project was important enough to have her report directly to him. They would have their first follow-up session in the coming days, so he was very curious to hear about her first observations and her plan to move forward.

## The Blue Connection

The Blue Connection, or TBC as it was nowadays known by the general public, was founded already in the 1890's in The Netherlands. Over time it grew to be the prime bike manufacturer in the country, constantly at the front of innovation. It wasn't a surprise that they were among the first companies in the industry to introduce electric bikes ("e-Bikes"). Apart from the aspect of convenience, e-Bikes were seen as a sustainable alternative for other modes of transportation, such as motorbikes and cars. TBC recently launched a new e-Bike named "Monsoon", which was proving to be a big commercial success in the market.

### **Retailers and products**

The Blue Connection manufactures and assembles bicycles. The Blue Connection delivers its products to a variety of retailers, located all over the world. It delivers its retailers from stock, meaning that the delivery is sent the day after the retailer places an order.

The Blue Connection delivers its products to three main retailers:

- *Cheetah*. A powerful retailer in France, very strong in delivery of high-quality bikes for a good price. Their consumers are trusting Cheetah to deliver durable bikes, that last a lifetime, and are willing to pay for it. Unfortunately, Cheetah has been bought and sold several times by private equity. This has resulted in high debts and high financial burden. The credit rating of the company is reflecting this;
- *HBS*. A Dutch retailer successful in a very interesting and growing market niche. Their focus is on daily work commuters to switch from their car to an e-Bike. Their story of climate change and sustainability resonates stronger and stronger. Their consumers are very environmental sensitive, trying to reduce their carbon footprint. The consumers are also willing to pay a

premium price for a circular product. But of course greenwashing is not acceptable, the claim must be real and trustworthy.

- *Gearshift*. A UK based retailer, focused on consumers looking for a hassle free bike experience. And the good news is, this convenience can create a profitable business when offered to the right people, at the right moment in the right format. Gearshift is a very stable and trustworthy retailer with a long track record.

### **Product storage**

The Blue Connection's products are stored in the finished goods warehouse. The products remain there until delivery to the retailer is made.

### **Production process**

The Blue Connection assembles all bikes itself. The production and assembly lines are part of The Blue Connection's equipment. In addition, The Blue Connection also prides itself for having a refurbishment line that is capable of refurbishing the products that have been returned by the consumers. After the refurbishment the e-Bikes can be sold on the 2nd hand market for a good price.

### **Components**

An extensive bill of components specifies which quantity of which component is required for a finished product. Components can include the frame, wheels, battery, etc. Each component has its own characteristics for re-manufacturability, recyclability and repairability.

### **Materials**

Each component has a bill of materials that specifies which materials the suppliers have used to produce the various components. This can include a variety of materials such as plastic, steel, paper, etc. Each material will have its own characteristics for recycling.

### **Suppliers**

Components are purchased from suppliers. Both local and global suppliers can be a candidate to supply these components to The Blue Connection.

### **Component storage**

Components cannot always be immediately used for production. Therefore, the company owns a components warehouse to store them.

### **Maintenance**

The Blue Connection has the possibility to offer a maintenance service directly to the end consumers. Of course in collaboration with the retailer. This service enhances the consumer experience and the lifetime of our products.

### **Recycling Service Provider**

The Blue Connection has decided to outsource all activities regarding the disassembly of the returned bikes, remanufacturing of the components and recycling the components to their original materials. A specialized service provider is contracted by The Blue Connection for those activities.

### **Organization**

In terms of the management of the company, The Blue Connection had a classical functional structure in place, the Board consisting out of 5 VP's:

- *Vice President of Sales*, heading the commercial side of the company
- *Vice President of SCM*, responsible for operations and supply chain planning
- *Vice President of Finance*, responsible for the company's funding, cash flow and credit risk
- *Vice President of Design & Purchasing*, taking care of the supply side of the company, as well as the main design choices for components and materials
- CEO, the overall responsible for The Blue Connection

Each of them had their own clear responsibilities and they would frequently meet in order to discuss important issues and align their decisions.

### **Catherine McLaren, circular turnaround manager**

Catherine McLaren had always had a heart for the complex combination of sustainability and business. After graduating with a major in Sustainable Business she had been very active at a start-up incubator at the local sustainable business ecosystem, where local government, academia and entrepreneurs worked together in creating sustainable businesses. A few successful journeys at circular start-ups later, she had been looking at making a move into larger and more established companies, just like her two older brothers had done before her.

Catherine's brother Bob had made it into a well-respected CEO of a Group of brands in the drinks industry and Anthony had made a career as a crisis-manager specialized in turning loss-making companies around. Catherine had always been inspired a lot by her brothers and had always dreamt of stepping into their footsteps someday. Probably that's why she was so excited when the opportunity at The Blue Connection came along. She saw this as the perfect playing field to demonstrate what she was capable of achieving.

## The transition from linear to circular @TBC

Catherine was preparing her first follow-up meeting with Juan Gancho. He had decided that she was going to report directly to him, so that meant that she truly had top-management attention directly from the owners of the company. And the pressure to live up to the expectation, of course.

Catherine knew that first of all, she would need to get clarity on the current state of TBC. What had the company done so far in order to become circular? And why hadn't this been successful until now? And, also important, what would be the options for circularity for an e-Bike manufacturer anyway?

Before going around the company and start asking questions to her new colleagues, she decided to start with the last question in order to prepare herself. Keeping the Value Hill framework in mind, which steps could an e-Bike manufacturer take in order to become circular? Which circular flows and activities could potentially make sense? Which accompanying business models would support those?

As a starting point, Catherine came up with the following 'mapping', showing the various possibilities to create circular flows in one integrated picture (Figure 3).

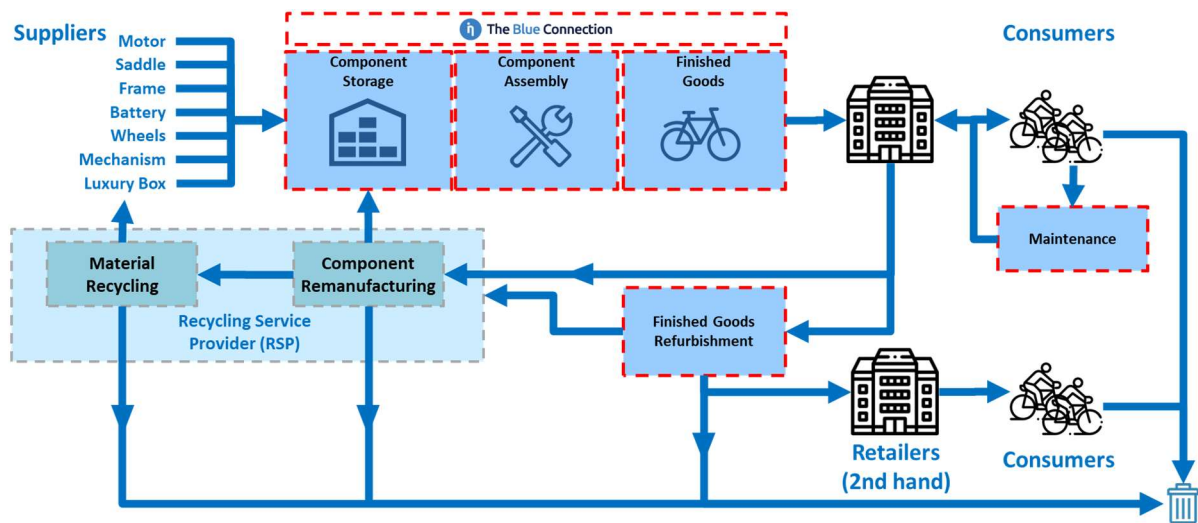


Figure 3: possible circular flows for The Blue Connection

In addition, in terms of business model, Catherine considered that traditional direct sales to the retailers would still be a possibility, even within a circular context, for example in combination with a buyback option, so that bikes would come back from retailers, so that they could be refurbished and sold into the second hand market. However, Catherine also saw other alternatives, such as a subscription scheme for an unlimited period of time, or bike leasing for a defined period of time.

*The Blue Connection – The Transition from Linear to Circular*

As soon as she was satisfied with the picture, she knew that she needed to collect information together with the company's VP's, so that she could see what had been done so far and match that information with the mapping she just finished.

After that she should be ready for drawing her first conclusions and defining an approach for the true transition of TBC becoming circular. After all, Catherine knew that Juan Gancho would be awaiting a clear and compelling story and she definitely wanted to live up to the expectation...



## Annex: getting access to TBC data

(Please note: if you already have a my.inchainge.com account, then you only have to follow steps 4-6.)

To get access to The Blue Connection (watch only), please follow the instructions below:

1. Go to the webpage <https://my.inchainge.com> and click on the link "No account yet? Register as a new user".
2. During the registration process you can define your own password, which should meet the following requirements:
  - minimum of 8 characters, of which:
    - minimum 1 CAPITAL
    - minimum 1 number (123)
    - minimum 1 non-alphanumerical symbol (!?#)
3. After registration you will receive a confirmation email on the email address you have specified as username. Follow the instructions in this confirmation email.
4. After registration has been completed, you can now log into the platform again at <https://my.inchainge.com>, using the specified email address and the password you created. On the screen that opens then, there is a field called "Code entry". Here you can insert the course code **TBCSTCASE** and click on submit.
5. After inserting the course code and potentially refreshing the page, you should now find a widget on the right-hand side of the screen called **TBC - Teaching Case Linear to Circular Student**.
6. By clicking on **Enter Simulation**, you can get into the system and see the screens with the required company data.