



CIRCULAR ECONOMY IN THE TEXTILE INDUSTRY AS A FACTOR OF FINANCIAL SUSTAINABILITY AND COMPETITIVENESS

Review paper
DOI: 10.5937/CT_ITI26360J

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ABSTRACT: The modern textile industry faces significant environmental challenges due to high levels of waste, intensive resource consumption, and the short life cycle of products characteristic of the fast fashion model. In response to these limitations, the concept of the circular economy is gaining increasing importance, as it implies a transition from the linear model of production and consumption to a model based on reuse, recycling, and extending the life cycle of products. The aim of this paper is to analyze the role of the circular economy in improving the financial sustainability and competitiveness of textile companies. Special focus is placed on changes in the cost structure, opportunities for cost savings, development of new revenue sources, and the impact on business profitability. Research results indicate that the application of circular models may lead to increased costs in the short term, while long-term effects are reflected in improved efficiency, more rational use of resources, and a stronger market position of companies. It is concluded that the circular economy represents an important direction for the development of the textile industry and a key mechanism of its transition toward sustainable business.

Keywords: circular economy; textile industry; linear model; cost structure; sustainable business; textile recycling.

CIRKULARNA EKONOMIJA U TEKSTILNOJ INDUSTRIJI KAO FAKTOR FINANSIJSKE ODRŽIVOSTI I KONKURENTNOSTI

APSTRAKT: Savremena tekstilna industrija suočava se sa značajnim izazovima u oblasti zaštite životne sredine, usled visokog nivoa otpada, intenzivne potrošnje resursa i kratkog životnog ciklusa proizvoda karakterističnog za model brze mode. Kao odgovor na ova ograničenja, koncept cirkularne ekonomije dobija sve veći značaj, jer podrazumeva



9. Međunarodna naučna konferencija
„Savremeni trendovi i inovacije u tekstilnoj industriji“
17-18. septembar 2026. Beograd, Srbija

prelazak sa linearnog modela proizvodnje i potrošnje na model zasnovan na ponovnoj upotrebi, reciklaži i produženju životnog ciklusa proizvoda. Cilj rada je analiza uloge cirkularne ekonomije u unapređenju finansijske održivosti i konkurentnosti tekstilnih kompanija. Poseban fokus stavljen je na promene u strukturi troškova, mogućnosti za ostvarivanje ušteda, razvoj novih izvora prihoda i uticaj na profitabilnost poslovanja. Rezultati istraživanja ukazuju da primena cirkularnih modela može dovesti do povećanja troškova u kratkom roku, dok se dugoročni efekti ogledaju u unapređenju efikasnosti, racionalnijem korišćenju resursa i jačanju tržišne pozicije kompanija. Zaključuje se da cirkularna ekonomija predstavlja važan pravac razvoja tekstilne industrije i ključni mehanizam njene tranzicije ka održivom poslovanju.

Ključne reči: cirkularna ekonomija; tekstilna industrija; linearni model; struktura troškova; održivo poslovanje; reciklaža tekstila.

1. INTRODUCTION

The textile industry is one of the most significant sectors of the global economy, while simultaneously being one of the major sources of adverse environmental impacts. Intensive production, rapid consumption, and short product life cycles, which are characteristic of the fast-fashion model, have led to a substantial increase in textile waste and the inefficient use of resources.

Among consumption categories in the European Union, textiles rank fourth in terms of their negative impact on the environment and climate change, following food, housing, and transport [1]. The European Commission further indicates that the textile industry ranks third in the EU in terms of water and land use, and fifth in terms of greenhouse gas emissions and raw material consumption.

In addition to its environmental consequences, this business model also has significant economic implications. Short product life cycles and limited opportunities for reuse result in the loss of material value and the underutilisation of economic potential. It is estimated that more than USD 500 billion in textile product value is lost globally each year due to insufficient utilisation, premature disposal, and the absence of efficient reuse and recycling systems [2].

The textile industry is facing a growing waste-generation problem and low recycling rates, ranging between 15% and 20%, which further demonstrates the limitations of the linear business model [2]. An additional challenge arises from the hidden costs associated with waste management and negative environmental externalities, which are increasingly becoming subject to regulatory intervention, ESG requirements, and new sustainability standards.

These factors indicate that, although the linear fast-fashion model may be profitable and operationally efficient in the short term, it entails significant long-term financial risks. This further reinforces the need to transition towards more sustainable and circular business models.



In this context, the linear production model, based on the “take–make–dispose” principle, is increasingly being questioned from both sustainability and long-term economic efficiency perspectives. In response to these challenges, the concept of the circular economy has gained growing importance in contemporary research and business practice. Although the existing literature largely focuses on the environmental and social dimensions of sustainability in the textile industry, the financial implications of implementing circular business models remain insufficiently explored. It is particularly important to examine how the transition to a circular model affects companies’ cost and revenue structures, profitability, and long-term business sustainability.

2. THEORETICAL FRAMEWORK OF THE CIRCULAR ECONOMY IN THE TEXTILE INDUSTRY

The circular economy represents a systemic approach aimed at closing material and energy loops through reuse, recycling, and the extension of product life cycles. The primary objective of this concept is to preserve the value of resources within the economic system for as long as possible, while minimising waste and adverse environmental impacts [3]. Circular business models reduce dependence on primary raw materials and enable the creation of additional economic value through more efficient resource management [4]. The contemporary development of the circular economy has been further encouraged by regulatory and technological innovations, among which the concept of the Digital Product Passport is particularly significant. This instrument enables the monitoring of the entire life cycle of textile products, including the origin of raw materials, production methods, product use, and recycling options. In this way, it enhances transparency and facilitates the transition towards circular business models [5]. The introduction of such solutions also has significant financial implications, as it contributes to more efficient resource management, cost reduction, and stronger consumer and investor confidence.

The transition from a linear to a circular model brings about structural changes across all dimensions of business operations, ranging from resource use and waste management to cost structures and revenue streams. Table 1 presents the key differences between these two models from the perspective of relevant economic and environmental factors



Table 1. : Key Differences between the Linear and Circular Models in the Textile Industry

Factor	Linear Model	Circular Model
Resource use	Single use of raw materials: extraction, production, use, and disposal	Continuous circulation of materials through reuse, repair, and recycling
Waste management	High levels of waste; a large share of products ends up in landfills	Waste minimisation; materials are returned to the production cycle
Environmental impact	High resource consumption, pollution, and CO2 emissions	Lower carbon footprint, reduced resource consumption, and less waste
Economic approach	Focus on mass production and rapid product turnover	Value retention through product durability, repair, resale, and closed-loop systems
Product life cycle	Short product life cycle	Extended product life cycle
Revenue	One-time sales	Multiple revenue streams: sales, rental, resale, and repair
Cost structure	Lower initial costs; higher hidden costs of waste and inventory	Higher initial investment; lower total costs in the long term

Source: Authors' own interpretation

In the textile industry, the circular economy encompasses several interconnected forms of activity:

1. **Eco-design of products** – designing garments with a longer service life, improved repairability, and greater recyclability.
2. **Extension of product life cycles** – repairing, altering, maintaining, and reusing clothing.
3. **Reuse and resale models** – second-hand sales, resale platforms, and clothing exchange systems.
4. **Rental models** – renting clothing for special occasions or short-term use.
5. **Upcycling and remanufacturing** – transforming existing textile products into products of higher value.
6. **Textile recycling** – the mechanical and chemical processing of textile waste into new fibres or other products.
7. **Use of sustainable and recycled raw materials** – organic cotton, recycled polyester, regenerated fibres, and alternative materials.
8. **More efficient resource management** – reducing the consumption of water, energy, chemicals, and packaging in production, as well as increasing the use of renewable energy sources.
9. **Digital support for circularity** – Digital Product Passports, raw-material traceability, AI-based waste sorting, and transparent supply chains.



10. Product take-back systems – programmes that enable consumers to return used clothing to manufacturers for reuse or recycling.

From an economic perspective, these models alter the traditional cost and revenue structure of the textile industry. Although they often require higher initial investments in technology, logistics, and business organisation, they may lead to lower raw material costs, generate new revenue streams, enhance resilience to market risks, and strengthen long-term competitiveness [6]. At the macroeconomic level, their effects are reflected in the development of new markets, job creation, reduced import dependence, and lower environmental costs for society as a whole [7]. In addition to environmental considerations, the integration of financial and environmental indicators into business performance assessment is becoming increasingly important. Traditional accounting systems often fail to capture environmental costs, which may result in an inaccurate assessment of the actual profitability of both linear and circular business models. In this regard, contemporary approaches, such as material flow cost accounting, provide a more precise overview of total costs and facilitate the identification of potential savings [6]. Accordingly, the circular economy in the textile industry cannot be understood solely from an environmental protection perspective. It also requires an analysis of financial effects and long-term business sustainability, which constitutes the central focus of this paper.

3. TRANSITION COSTS AND INVESTMENTS REQUIRED FOR CIRCULAR BUSINESS MODELS

In contrast to the linear model, the circular economy entails a different cost structure, characterised by higher initial investment requirements but also by the potential for lower operating costs once the system has stabilised and economies of scale have been achieved. Consequently, the financial effects of circular business models tend to differ between the short-term transition phase and the medium- or long-term period of business operation. The implementation of circular business models requires investment in recycling technologies, reverse logistics, digital traceability, sustainable raw materials, and supply chain reorganisation. During the initial phase, these requirements may increase expenditure and capital needs [8].

Although technological innovation represents an important driver of circular economy development, certain studies also indicate the existence of the so-called rebound effect. According to the research conducted by Yerushalmi and Saha, some innovations in the textile sector may lead to an increase in overall consumption and production as a result of reduced costs and lower prices of final products, thereby diminishing or even offsetting some of the anticipated environmental benefits [9]. These findings suggest that technological innovation alone is insufficient and that the transition towards a circular economy also requires changes in consumer behaviour, an appropriate regulatory framework, and sustainable business models.

Greater use of secondary raw materials may contribute, over the long term, to more stable input costs and reduced dependence on primary commodity markets, particularly given the



volatility of energy and petrochemical prices, which significantly affect the cost of polyester as the dominant raw material in the textile industry.

One of the key challenges lies in the complexity of textile recycling, especially in the case of blended materials such as cotton, polyester, and elastane, which increases sorting and processing costs. Advanced recycling increasingly requires investment in automation, artificial intelligence, and material-composition identification systems. These technologies improve sorting efficiency, the quality of secondary raw materials, and process productivity, but require additional expenditure on sensors, robotics, software, and industrial automation [10]. The lack of developed recycling capacity has been identified as one of the main financial constraints on the fashion industry's transition towards a circular business model [11].

Numerous studies indicate that more efficient recycling systems and the closing of material loops can make a significant contribution to waste reduction and improved resource efficiency in the textile industry [12]. According to estimates by Boston Consulting Group and ReHubs, Europe will require between EUR 8 billion and EUR 11 billion in capital investment to achieve an annual textile-to-textile recycling capacity of 2.7 million tonnes by 2035, in addition to annual operating costs of between EUR 5 billion and EUR 6.5 billion [13]. Such investment provides a foundation for waste reduction, the development of domestic material streams, and the strengthening of industrial competitiveness in the coming period.

Additional costs arise from systems for collecting used garments, as well as from the transport, sorting, and storage of used products. However, efficiently organised reverse logistics systems can increase product utilisation, generate additional revenue through resale activities, and reduce the cost of purchasing new materials. According to the H&M Group Sustainability Disclosure for 2023, more than 29,000 tonnes of textiles were collected through its garment-collection programme, confirming the importance of developing effective product-return logistics.

A significant new cost category is associated with the introduction of the Digital Product Passport system, which requires investment in QR-code or RFID product identification, databases, ERP integration, and regulatory reporting. Greater transparency may strengthen consumer confidence, facilitate recycling, and improve future supply chain management. For small and medium-sized enterprises, these costs may represent a substantial barrier to adopting circular business models. Therefore, when implementing new requirements, the regulatory framework should take into account the proportionality of obligations, transitional periods, and the availability of technical and financial support.

An additional category of investment relates to product redesign in accordance with eco-design principles. This includes the development of more durable products, designs that are easier to repair, the use of recyclable materials, and a reduction in complex fibre blends. Such changes may increase the costs of product development, testing, and the adaptation of production processes, while simultaneously creating the basis for longer product life cycles and higher market value.

An important aspect of the transition also concerns investment in energy efficiency and renewable energy sources, including solar systems, heat pumps, heat-recovery systems,



and equipment modernisation. Such investment may reduce exposure to rising energy prices, contribute to more stable operating costs, and improve the sustainability of production.

Marketing and market-development activities also generate additional expenditure. Emerging models, such as resale, rental, and products made from recycled materials, require investment in promotion, consumer education, and confidence-building regarding product quality. Once the market has been developed, these models may generate new revenue streams and strengthen customer loyalty.

Transition costs also include employee training, the adaptation of internal procedures, and the development of new competencies in the fields of digitalisation, sustainability, and reverse-flow management.

Overall, the economic viability of circular business models should not be assessed solely on the basis of initial costs, but rather in terms of total product life-cycle costs, opportunities for the repeated monetisation of resources, and financial effects that become more pronounced following the implementation phase.

4. NEW REVENUE STREAMS AND THE ECONOMIC POTENTIAL OF CIRCULAR BUSINESS MODELS

In addition to affecting costs, the circular economy also contributes to the transformation of revenue structures in the textile industry. Unlike the traditional linear model, which is based on the one-time sale of products, circular business models enable product value to be retained and utilised for longer periods through second-hand sales, resale platforms, repair services, rental models, product take-back programmes, and material recycling. In this way, companies can monetise the same product multiple times throughout its life cycle—through its initial sale, resale, rental, repair, and the final recovery of material value. The global transition towards circular business models in the textile industry is accelerating, driven by the development of resale markets, product reuse, sustainable materials, and new approaches to textile waste management. According to an analysis by Frost & Sullivan, the global market for circular economy and sustainable solutions in the textile industry generated revenues of USD 2.53 billion in 2023, with a projected compound annual growth rate of 13.8% for the period from 2024 to 2030 [14]. Within the hierarchy of circular business models, product reuse often generates greater economic value than recycling, as it preserves product functionality while requiring minimal additional processing costs. Consequently, resale, second-hand, and repair models represent particularly attractive revenue streams in the textile industry. Their expansion reflects changing consumer behaviour and the growing acceptance of more sustainable forms of consumption. Estimates indicate that the global second-hand apparel market could reach a value of USD 367 billion by 2029, while the United States market is expected to reach USD 74 billion. The online resale segment has recorded particularly dynamic growth, increasing by 23% in 2024, with its market value projected to reach USD 40 billion by 2029 [15]. A practical example of the profitability of the resale model is provided by the Vinted platform, which recorded a 36% increase in revenue in 2024, while its net profit



rose by 330% compared with the previous year [16]. These results confirm the commercial potential of the secondary apparel market. According to research published by ThredUp, 58% of surveyed consumers reported purchasing second-hand clothing during 2024 [15]. This finding indicates the growing acceptance of resale models and a gradual shift in consumer behaviour towards more sustainable consumption patterns. The development of second-hand markets varies across regions, as demand is influenced by household income levels, the affordability of new products, digital infrastructure, and the degree to which sustainable consumption patterns are accepted. The expansion of platforms such as Vinted, Depop, and The RealReal further confirms the increasing market value of the secondary fashion market and the continued growth of digital resale models.

According to selected market analyses conducted by Circular Carbon Markets, the implementation of resale, rental, and repair models, together with product take-back programmes, may contribute to revenue growth of between 12% and 18% among fashion and textile companies with well-established brands and direct customer relationships [17]. The actual financial effect depends on the specific business model and the extent to which circular practices have been implemented.

The expansion of the second-hand and resale markets is also evident in the Republic of Serbia. According to an analysis by IBISWorld, Serbia's second-hand goods retail market, which includes used clothing, footwear, and other pre-owned products, is estimated to be worth EUR 32.3 million, with annual revenue growth of 17.4%. Between 2020 and 2025, the market recorded a compound annual growth rate of 19.9%, indicating its rapid expansion and the growing importance of product-reuse models in the retail sector. Furthermore, the development of digital platforms such as KupujemProdajem, Limundo, and Kupindo, together with the increasing number of vintage and second-hand shops in Belgrade and other cities, points to the gradual expansion of online resale models and changing consumer behaviour in the domestic market.

5. FINANCIAL EFFECTS OF IMPLEMENTING CIRCULAR BUSINESS MODELS IN THE TEXTILE INDUSTRY

Although circular business models often require higher initial investment, numerous studies indicate that they can generate significant financial benefits in the medium and long term through cost reductions, the development of new revenue streams, and greater business resilience. Empirical evidence suggests that the application of circular economy principles may reduce production costs by approximately 12% through the reuse and recycling of materials [18].

On the revenue side, fashion and textile companies with well-established brands and direct relationships with customers can generate additional income through resale, rental, and repair services, as well as product take-back programmes. Patagonia's Worn Wear programme provides an illustrative example of this approach. By purchasing used Patagonia products, refurbishing them, and reselling them at prices equivalent to approximately 50%–60% of the price of new products, the company generates additional



9th International scientific conference
„Contemporary trends and innovations in the textile industry“
17-18th September, 2026, Belgrade, Serbia

margins while simultaneously strengthening customer loyalty and brand value. This approach further reinforces Patagonia's reputation as a sustainability-oriented company. According to McKinsey & Company estimates, the development of the textile recycling industry in Europe could generate an annual profit potential of EUR 1.5–2.2 billion by 2030, while creating approximately 15,000 new jobs. This confirms that the circular economy may also represent a significant industrial opportunity [11]. The positive impact on the labour market is further supported by European Commission estimates indicating that between 20 and 35 jobs may be created for every 1,000 tonnes of textiles collected for reuse, particularly in the areas of sorting, logistics, repair, resale, and local service activities. These figures confirm the broader development potential of circular business models [1].

The considerable economic potential of the circular economy is also confirmed by a number of industry analyses, including estimates by Oliver Wyman [19] and reports published by the Ellen MacArthur Foundation [2]. According to these sources, circular business models in the fashion and textile sector could generate economic benefits ranging from USD 180 billion to USD 240 billion, primarily through more efficient resource use, the development of secondary markets, and the creation of new revenue streams.

Furthermore, the growth of the textile recycling market confirms that the circular economy is becoming an increasingly important field of investment and economic development. According to estimates by Grand View Research, the global textile recycling market was valued at approximately USD 4.97 billion in 2025 and is projected to reach USD 6.94 billion by 2033, representing a compound annual growth rate of 4.4% [20].

Academic evidence supporting the economic potential of circular business models is provided by Palea, Santhià, and Miazza, who indicate that circular economy strategies may positively affect corporate profitability, operational efficiency, and firm market value. Their research shows that capital markets tend to value companies that implement circular strategies more intensively, while investors and financial institutions increasingly incorporate sustainability and ESG performance into their risk assessments and financing decisions [21]. In this way, circular transformation may indirectly reduce the cost of capital and enhance the investment attractiveness of companies.

An additional financial benefit is reflected in reduced dependence on primary raw materials and lower exposure to their price volatility. This is particularly important in the case of polyester, the dominant synthetic fibre in the modern textile industry, whose production depends on petrochemical derivatives and fluctuations in oil and gas prices. Energy markets are characterised by pronounced price volatility caused by geopolitical risks, supply chain disruptions, and changes in global demand, all of which directly affect production costs. In the long term, the finite nature of non-renewable fossil resources represents an additional challenge. Greater use of recycled polyester and alternative materials may mitigate exposure to these market risks and contribute to greater cost stability for companies.

In this regard, the circular economy may contribute to cost stabilisation, revenue diversification, increased supply chain resilience, and improved long-term financial sustainability and competitiveness of companies.



6. CONCLUSION

The specific characteristics of the textile industry are reflected in its complex global supply chains, the high intensity of production and consumption, and the dominant application of the fast-fashion model, which is characterised by frequent collection changes and shortened product life cycles. These characteristics, together with the consumption patterns of contemporary society, further complicate the implementation of circular economy principles and contribute to increasing volumes of textile waste.

The results of the analysis indicate that the application of circular economy principles can significantly transform the financial structure of textile companies. Although the transition towards circular business models often requires substantial initial investment in recycling technologies, reverse logistics, digital traceability, and sustainable raw materials, in the long term it may contribute to lower material costs, more efficient resource use, and reduced exposure to price shocks in raw material markets.

At the same time, circular business models create new revenue streams through resale, rental, repair, upcycling, and recycling activities, thereby extending the economic life of products and generating additional value. The development of the secondary clothing market, digital resale platforms, and the expanding textile recycling industry confirms that the circular economy represents not only an environmental concept but also an increasingly important market opportunity.

It may be concluded that the circular economy in the textile industry does not constitute a universal or cost-free solution. Nevertheless, it represents a development pathway with considerable potential to improve corporate competitiveness, resilience, and long-term profitability. In the context of increasing regulatory requirements, changing consumer preferences, and growing pressure on resources, companies that initiate circular transformation at an earlier stage may achieve a significant strategic advantage.

At the macroeconomic level, the circular economy in the textile industry offers clear financial benefits through resource savings, the creation of new market opportunities, and greater systemic resilience. However, the transition at the level of individual companies remains challenging, particularly due to high investment costs, insufficiently developed infrastructure, and the misalignment of economic incentives across the value chain.

For the Republic of Serbia and other developing countries, the transition towards circular business models may represent an opportunity to modernise the textile industry, improve export competitiveness, and develop new market niches based on sustainable production and more efficient resource use.

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