Circular Procurement for A Sustainable Future



The explosive growth of global commerce, powered by increasingly complex and lengthy global supply chains, has created new markets, competitive strategies, and economic growth the world over.

However, the traditional model of production and consumption—known as a *linear model*, as it travels a straight line from production to consumption to disposal—is no longer tenable in an age where awareness of limited resources, climate change concerns, and the need for sustainability in all areas of business become more important to both consumers and the organizations that meet their wants and needs.

To address these concerns, both governments and businesses in the private sector are implementing changes to their business processes, such as the use of *circular procurement*, to make strides in adopting a *circular economy*.

Both circular procurement and the circular economy are driven by the preservation of value and the reduction of waste.

Understanding how they each work, and the ways in which both function best when guided by the principles of sustainability, can help your business compete

more effectively, generate value, and improve risk management while reducing environmental impact.

What is Circular Procurement?

The traditional model for both the modern economy and the procurement that helps support it is one of linearity. Goods travel a straight line, moving from production (make) to sales (take) to use to disposal (waste).

Raw materials are used to create new goods and services, and those new goods travel the same well-worn path as their predecessors.

To optimize profits, the linear model encourages the use of production strategies such as planned obsolescence and marketing tactics such as fear of missing out (FOMO)—a phenomenon familiar to anyone whose friends or relatives absolutely *must* have the latest phone, video game console, car, etc.

It's also, to the surprise of few, incredibly wasteful. For example, a startling 97% of all clothing is made with virgin materials.

This creates more than $500 billion in wasted materials every single year—and experts estimate that if this trend continues unchecked, the fashion industry will consume a full quarter of the world's carbon budget by the year 2050.

Fashion is hardly the only culprit, of course. The disposable nature of the modern lifestyle devastates ecosystems with its rapacious hunt for raw materials, creates horrifying garbage islands that choke the seas, and costs both consumers and companies untold billions that are never recouped.

And all of it is supported by linear procurement, designed to optimize the ways in which the linear "conveyor belt" is fed to maximize production with minimal disruption—or thoughts of sustainability.

In contrast, a circular economy, supported by circular procurement, creates a product lifecycle where goods travel from raw materials to production, use, and then recycling/repurposing.

It seeks to address problems such as excessive energy and resource consumption, and is supported worldwide by a variety of public procurement initiatives,

including sustainability programs from organizations such as the Organization for Economic Cooperation and Development (OECD), the Ellen MacArthur Foundation, and The European Union's Green Public Procurement (GPP).

As with the circular economy it supports, circular procurement is a paradigm shift of substantial proportions. It still prioritizes efficiency and strategic sourcing in the supply chain, but with a shift in primary focus toward sustainability.

In circular procurement, the design, use, and re-use capabilities of each product are considered from the jump. Circular procurement prioritizes:

- Product longevity and resilience.
- Minimizing waste.
- Sustainability of materials and resources.
- Renewable energy and materials.
- Restorative and regenerative usage models.
- Optimizing value generation and life cycle costing based on Total Cost of Ownership (TCO)

It is this consideration of design, usage, and *re*use, guided by education, support, and strategies that incorporate sustainable development from the start, that defines circular procurement.

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Circular Procurement and the Circular Economy

Creating a truly circular economy and achieving sustainable circular procurement are about more than increasing recycling or meticulously meeting EU GPP criteria. It is about crafting product life-cycles that are, in essence, "closed loops."

Closing material loops and energy loops slashes waste, reduces the use and need for raw materials, and helps "green" the economy while improving value retention

and encouraging important growth factors like innovation and localization of labor and strategic sourcing.

Many of the largest organizations of circular solutions are governments, which makes particular sense at the city level as cities, according to OECD, currently produce 80% of the world's greenhouse gases and 50% of its waste.

In leveraging circular public procurement, public authorities at the city, state/territory/province, and national levels are developing and executing action plans seek to:

- Minimize negative environmental impact.
- Maximize their return on investment (ROI).
- Reduce waste creation.
- Conserve raw materials and reduce energy use.
- Establish a public sector model based on circular economy principles that can be readily adapted by businesses seeking to do the same.

Circular procurement models are built to address three different levels: Systemic, Supply Chain, and Product.

Circular economy principles important to the System Level include:

- Collaboration with a variety of organizations to foster innovation and to pool resources and ideas.
- Transform purchasing into leasing or renting to improve sustainability and value generation.
- Transform products into services, where needs are met in a variety of ways using a range of products, rather than connecting needs to a single product exclusively.
- Development of robust supplier return systems designed to easily recycle, refurbish, remanufacture, and reuse goods.

At the Supply Chain Level, circular solutions prioritize:

- Collaboration to create, support, and educate buyers on supplier take-back systems.
- Consideration of all stages of the product's whole life-cycle, from design to disassembly to (minimal) disposal.

- A focus on goods with high resilience, reparability, and reusability.
- A focus on internal re-use of goods and other circularity principles by suppliers themselves.

Finally, at the Product Level, circular procurement is supported by:

- Readily identifiable, replaceable, and reusable/recyclable components.
- Products designed to be easily disassembled into components for repurposing or recycling.
- A focus on maximum resource and energy efficiency, as well as TCO.

A Note on Sustainability

In discussing circular procurement, it's crucial to understand that it works best when developed and executed in concert with sustainable procurement.

The two might seem interchangeable, but in truth sustainable procurement adds a few extra layers to circularity.

For example, consider a circular product such as boots made from recycled tires.

The well-developed circular design may prove to be for naught if the purchaser isn't made aware of how to recycle the boots or send them in for refurbishment, and either recycles them improperly or tosses them in the bin when they reach end-of-life.

Sustainability is a crucial part of circular procurement and the circular economy because it provides procurement professionals with a strategic, conceptual, and procedural framework within which circularity can be most effectively achieved.

To include sustainability as a necessary component of circularity, you can:

- Reconsider how to best meet needs.
    - Can this need be met with a service?
    - Is it necessary for the user to own this product, or will their needs be met through renting/leasing?
    - Do the systems exist to shift the products currently being used to meet a given need to a service/rental/lease model?
    - What opportunities exist to educate users on the benefits of such a change, and facilitate their adoption of it?

- Close loops whenever possible.
    - Focus on goods produced, shipped, and recovered using renewable energy sources and materials.
    - Work with suppliers to design resilience, reusability, and recoverability into products.
    - Develop internal programs to minimize the need for resource consumption or outright ownership.
- Follow the “Four Rs”.
    - Reduce purchasing through needs assessment, contract management, and supply chain management.
    - Reuse products whenever possible. Develop procurement protocols and business processes around recovery, repurposing, and reuse of goods.
    - Recycle what cannot be reused. Prioritize suppliers whose products are readily recyclable or whose component parts can be reused to create other products.
    - Recover waste wherever possible.
- Implement a best-in-class, cloud-based procurement solution with artificial intelligence and advanced data analytics for:
    - Optimal process automation (faster, more accurate processes mean less waste, shorter invoice and purchase order cycles, and iterative improvements that grow your efficiency and profits over time).
    - Improved collaboration and communication.
    - Elimination of paper waste, as well as energy and time wasted on manual processes, for a greener footprint.
    - Better data management for more strategic decision making and planning.
    - Integration with existing internal software environments, as well as vendor systems, to center continuous improvement and innovation through shared endeavors.

Blending Circularity with Sustainability

for a Better World

Sometimes, going in circles can be quite productive. Achieving circularity as part of sustainable procurement is a goal every procurement professional from project managers to CFOs can expect to tackle in the years ahead.

Break free from the waste and destruction of linear procurement. Build circular business practices into your procurement, and forge a supply chain that's sustainable, renewable, *and* profitable.

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