

Procurement in a circular economy

From savings to circularity

Procurement's contribution to an organisation's success is about more than managing spend. As the world transitions towards a circular economy, the Procurement department has many vital roles to play.

1

As regulators increasingly demand that companies establish transparent value chains and conduct due diligence regarding the social and environmental conduct of their suppliers, Procurement departments must ensure a company's compliance with rules and demonstrate transparency.

2

Events such as the COVID-19 pandemic or the blockage of the Suez canal have made the vulnerability of many supply chains painfully obvious. Risks such as extreme climate events, political instability or trade wars need to be monitored and mitigated by Procurement to ensure that the supply chain is resilient and does not suffer shortages or extended delivery times.

3

Increasing consumer demand for sustainable products creates market opportunities and reputational benefits that can be realised. Most of a product's circularity is determined at the design stage, which includes used materials. Procurement can do more than significantly influence the environmental and social footprint of the final product. Considerations regarding the circularity of materials often go hand in hand with positive quality implications: products designed to last longer and be maintained and repaired more easily.

4

All the above implies that the Procurement department's profile within an organisation needs to rise from a purely operational to a more strategic and proactive level. Consequently, Procurement's performance needs to be measured with key performance indicators (KPIs) that go beyond savings, able to capture the strategic contribution to an organisation's success.

Regulatory Developments

Swiss Responsible Business Counterproposal:

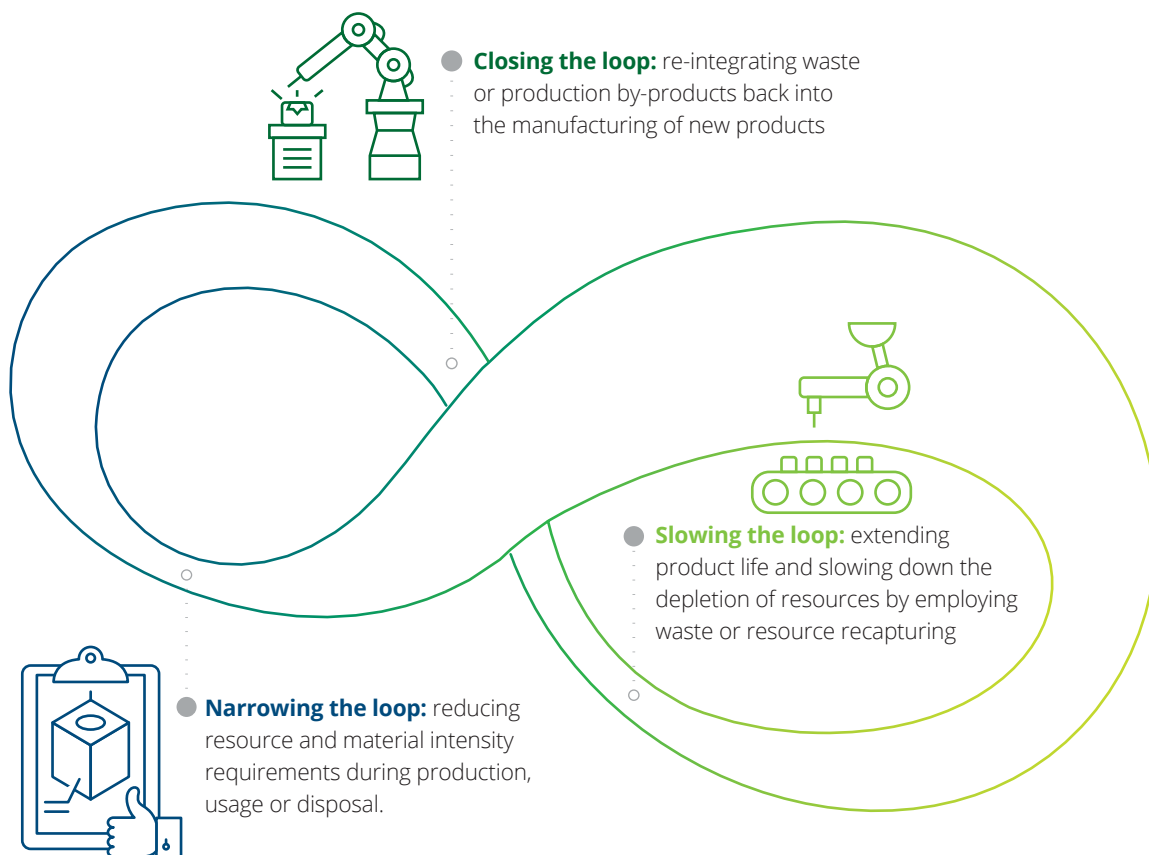
- Mandatory non-financial reporting on environmental and social aspects
- Due diligence regarding child labour and conflict minerals

German 'Lieferkettengesetz' (Value Chain Law):

- Requiring that intermediate goods or finished products procured abroad be traced at all stages of the supply chain
- Liability for any production processes that are harmful to the environment or violate labour conditions

The circular economy as a means to achieve sustainable development

Sustainable development means living within the limited resources of our planet and also considering a just distribution of resources at an intra- and intergenerational level. In a sense, it constitutes a desired target state for society (the *WHAT*) and has inspired a broad range of tools, methods and frameworks that help define, measure and implement sustainability on a micro, meso and macro levelⁱ. The circular economy is one such approach, proposing a way (the *HOW*) to achieve sustainable development. It describes an economic system that – in contrast to linear ‘end-of-life’ concepts – keeps resources in the economic cycle at their highest value for as long as possibleⁱⁱ. At the same time, waste and pollution are designed out of resource loops and natural systems are regeneratedⁱⁱⁱ. Broadly speaking, there are three dimensions to the transition from a linear to a circular economy^{iv}:



This transition from linear to circular can be achieved through activities described in the so-called R-hierarchy, where operationalisation principles are ranked according to their desirability: Refuse, Reduce, Resell/Reuse, Repair, Refurbish, Remanufacture, Repurpose, Recycle, Recover, Re-mine^{1 v}. In this way, economic growth is decoupled from natural resource use,^{vi} no longer implying that faster growth means more rapid use of natural resources. A part of the appeal of the circular economy stems from its potential to create synergies between environmental and economic development goals^{vii}, triggering a regenerative industrial transformation towards sustainable production and consumption^{viii}. The Ellen MacArthur Foundation (EMF) estimates that circular economy activities may contribute as much as US\$ 700 million in annual material cost savings to consumer goods production, as well as a 48% reduction in carbon dioxide emissions by 2030.^{ix}

1 See our latest article [A Circular Transition](#) for more information on the R hierarchy

The changing role of Sourcing and Procurement

Achieving a circular economy goes far beyond recycling. It requires fundamental changes to the way materials are sourced and products are designed, produced, sold, used and disposed of. Successfully closing, slowing and narrowing resource loops often entails great amounts of planning and coordination that surpass organisational boundaries. Even though a company's commitment to transitioning away from linear patterns is vital, a transformation cannot be accomplished in isolation. A functioning circular economy requires consideration of systems and loops.

Procurement's role as an interface to actors in the upstream supply network therefore needs to become more strategic. A company can only be as circular as the suppliers it sources from. Hence Procurement serves as a 'guardian' of the upstream value chain. What success looks like becomes different – instead of purely chasing savings, criteria relating to the environmental and social footprint become more relevant. Sourcing materials for circular products changes the process of supplier selection and affects selection criteria and the way companies relate to their suppliers. Procurement departments need to understand how materials affect the circularity of the final product ('material literacy'). In depth knowledge of current supply markets is important, but innovations and emerging supply markets should also be on the radar.

At a more general level, an organisation's need for materials must be reconsidered through the lens of the circular economy. Opportunities must be sought to dematerialise and avoid resource consumption or consider alternative sourcing options to replace virgin inputs with existing waste streams.

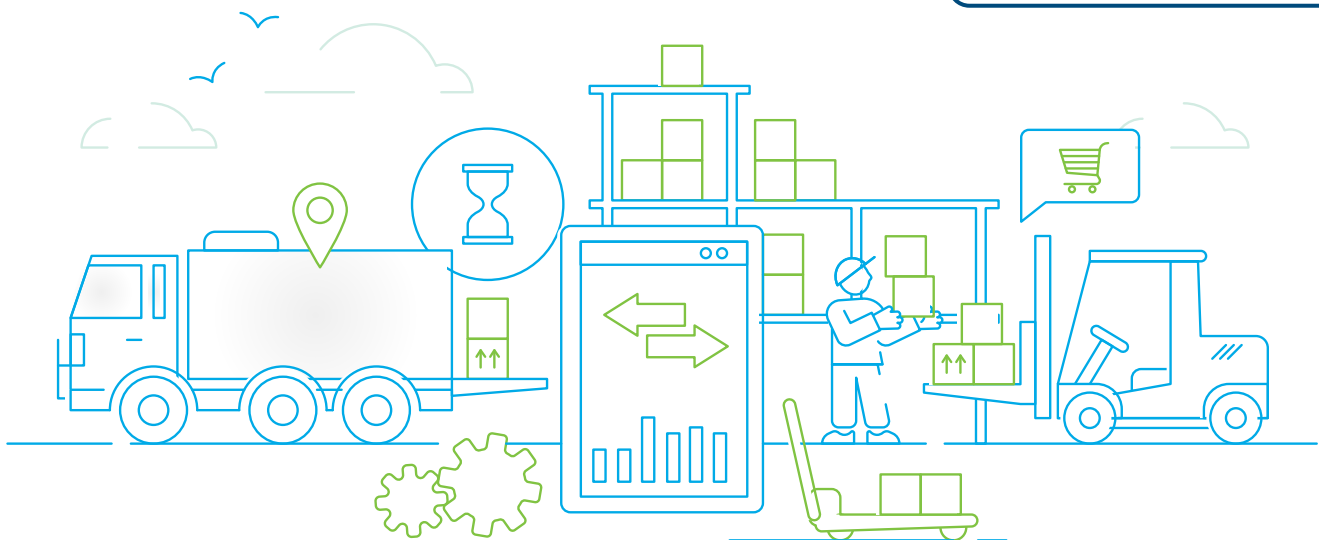
Circularity of Products and Materials

Designing products in a Circular Economy means the *resisting, preventing, or reversing* obsolescence

- at the product
- the component
- and the material level

Products are designed to

- reduce resource use (such as materials and energy)
- last longer
- enable repair/ refurbishment/ remanufacturing
- allow for and ease recycling



These changes need to be supported by adaptations to the processes and tools landscape.

Different tools and instruments have already been developed to facilitate the transition towards a more circular economy. Embedding the right tools will not only allow companies to assess circularity at the level of the entire company, certain business activity, or product group, but will also allow customers to be informed about the environmental impact of products and organisations. Procurement departments need to take the lead in identifying the right KPIs and the underlying tools to measure them. Standard tools for measuring classical risks in the supply chain will be enhanced to measure new KPIs like the Product Environmental Footprint (PEF) and Organisation Environmental Footprint (OEF), and new specialised tools will enter the market to not only measure but also provide actionable insights.

Compared to 'traditional' Procurement, procuring for circularity takes on a different, more collaborative mindset towards suppliers but also internally, to other organisational departments. Assessment and monitoring are a starting point to achieve a sustainable impact, for example in the context of an initial supplier segmentation or as a means of managing supplier-related risk. Beyond that, relying on commonly acknowledged third-party certifications (vs. internal assessment guidelines) can provide some amount of credibility with external stakeholders such as customers, governments, NGOs and the general public. Certifications can also signal compliance with regulatory requirements and simplify internal reporting. But studies^{xii} have shown that merely assessing and monitoring suppliers is not enough to significantly improve the environmental footprint of products.

Cooperation with strategic suppliers, on the other hand, can be a powerful source of innovation and sustained competitive advantage. Increasing specialisation and vertical dis-integration lead to networks and alliances of firms whose connections are no longer purely transactional, and thus more specific and harder to imitate. Supplier-buyer relationships can be sources of a 'collaborative surplus' that is jointly generated through contributions of the alliance partners that cannot be generated by either firm on its own. This surplus can take the form of relationship-specific assets, knowledge exchange and joint learning, as well as the combination of complementary resources and capabilities and more effective governance.^{xiii}

Drop the lone wolf mentality

Two Archetypes of Mentality in Supplier Relationships



The increasing shift from competing firms to competing supply chains becomes even more pertinent in the context of a circular economy and the shift in consumer preferences towards sustainable consumption choices. Improving the social and environmental impact of a product over the entirety of its value chain requires a joint effort by actors in the value chain. A collaborative environment allows buyers and suppliers to open up about their respective sustainability challenges, exchange ideas and combine complementary expertise. At the same time, a joint effort means that no single organisation needs to 'do it all' in regards to sustainability: each value chain actor can focus on addressing environmental and social challenges at their stage of the value chain, trusting that respective upstream and downstream actors do the same. Ultimately, a value chain of this kind can outperform competitors as it can satisfy market needs better – more transparently, more reliably, more sustainably, and potentially faster.

Unlock the potential of inter-firm collaboration

Supplier management is an important factor in realising the previously described 'collaborative surplus'. Of course, a company's supply chain position is an indicator of the company's potential power to influence suppliers either via their bargaining power or through an established relationship where there is trust and a common vision. Hence, the general supply chain context will likely shape the supplier management practices a company can or will employ.



Know your suppliers

Map supplier base, evaluate risks and prioritise according to criticality



Encourage open communication

Foster an open, honest and trusting relationship where all parties address issues proactively

Fostering collaborative supplier relationships



Define and communicate expectations

Establish a clear Code of Conduct that is frequently communicated



Regular interactions

Regular check-ins to encourage compliant behaviour, exchange feedback and support outstanding activities

Supplier collaboration aims at building long-lasting and fruitful supplier relationships, contributing to a competitive supply chain. There is no one-size-fits-all collaboration approach in circular Procurement. As companies frequently have a larger supplier base than they can efficiently manage with available resources, setting the right priorities becomes key. Doing so based on spend or performance alone can lead to a neglect of suppliers that might have a considerable impact on a company's circular economy ambitions. Segmenting suppliers based on current and future business strategy goals, including regular reviews to accommodate evolving business needs, is an important prerequisite to supplier collaboration. At the same time, the segmentation strategy should consider inputs from internal key stakeholder groups in a way that benefits the company's business goals, not just 'local' Procurement optimisation. In the broader organisational context, the segmentation approach should reflect the company's stance on the circular economy.


Conclusion

Even if supply networks become more complex and dispersed, actors in the supply chain need to move closer – at least figuratively speaking. Procurement departments must take on a more strategic role, driving a company’s competitiveness, and move away from merely ensuring the availability of materials at the right price. Transitioning to a circular economy requires procurement to embrace a collaborative approach in order to strengthen the organisation’s supply chain in terms of sustainability performance, compliance and resilience, as well as its ability to address market needs efficiently and effectively. Beyond that, supplier collaboration will improve supplier relationships, enable joint learning and innovation and support more effective governance.

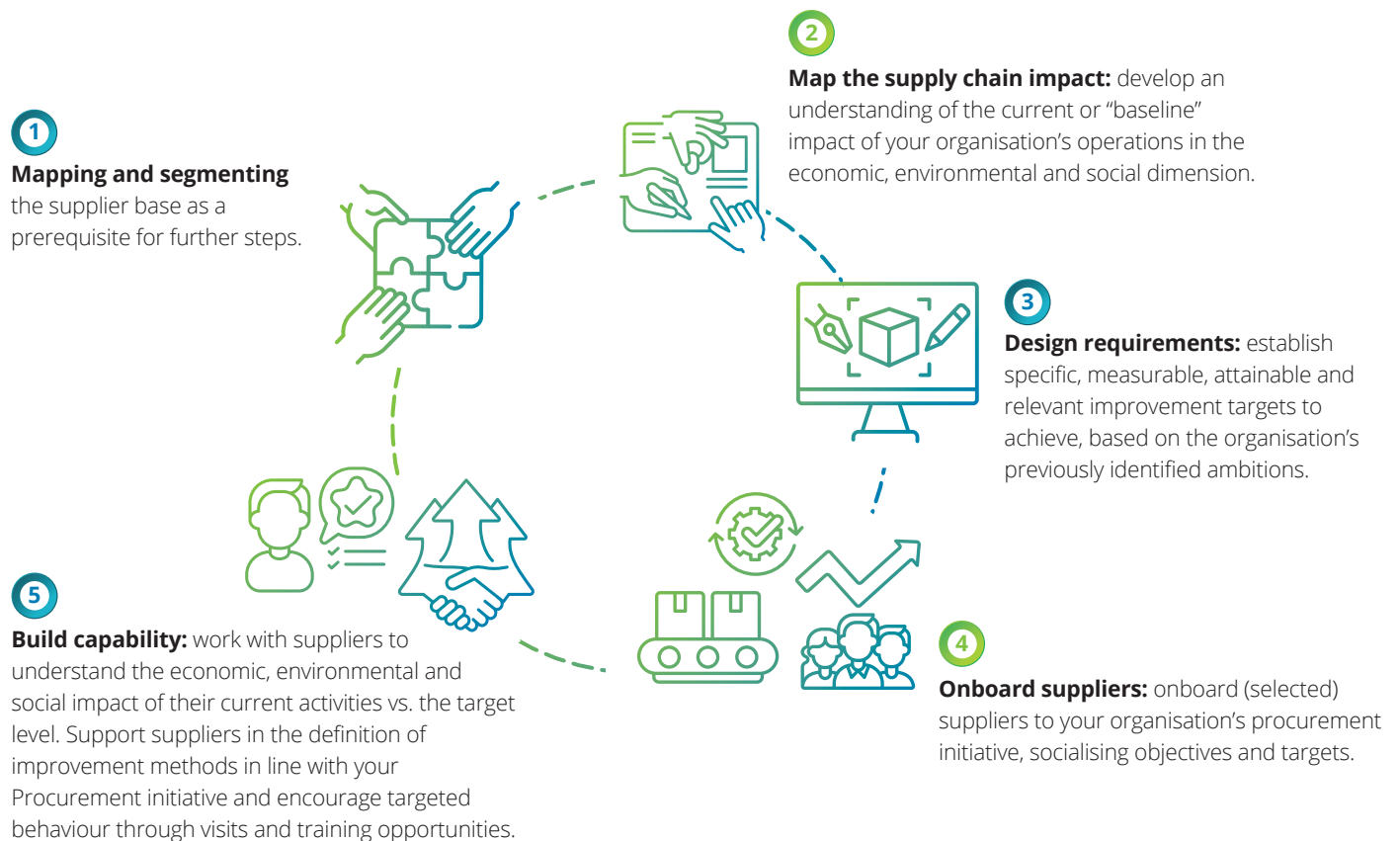
Below we set out five key steps that can help your organisation begin to forge collaborative supplier relationships.

Tangible Climate Strategies

Enrich your Sales & Operations planning process with carbon footprint data, in order to support business decisions on your journey to decarbonisation. D-Carb, a Deloitte solution leveraging the power of SAP IBP, allows you to close the gap between your climate strategy and your day-to-day planning activities.



How Deloitte can support your journey in fostering collaborative supplier relationships



Reference list

- i Korhonen, Nuur, Feldmann, & Birkie (2018); Deutz (2020); Schroeder, Anggraeni & Weber (2019)
- ii Kirchherr, Reike & Hekkert (2017)
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Author profiles



Nina is part of the Sourcing & Procurement Practice in Switzerland. She also pursues a PhD at the University of St.Gallen, working on the topic of how collaborating with suppliers can drive the design of more circular products. She has experience in supply chain compliance, trend-driven business and product innovation projects, as well as the streamlining of processes. Nina has worked across a variety of industries including life science, retail, wholesale, financial services, health care, technology and higher education. Her interests span a broad range of supply chain topics including supply chain sustainability, transparency, flexibilisation of supply chains and supply-related risk management.

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Marcus leads the Deloitte Sourcing & Procurement Practice in Switzerland and EMEA and brings over 15 years' experience in management consulting where he successfully led large-scale Procurement transformation. He combines process and technology expertise as well as intercultural working experience. He supported many leading international clients in the development and delivery of innovation, transformational and technology strategies as well as organisational operating model designs and cost reduction programmes. Marcus is targeting areas of digitalisation by using state of the art technology (e.g. cognitive, machine learning, RPA, analytics and blockchain) for empowering people and organisations to reach their full potential and getting prepared for the future.

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