

Sustainable Procurement: Integrating ESG into Purchasing



Traditional purchasing strategies prioritize cost efficiency, quality assurance, and supply chain reliability. However, in recent years there has been a growing movement to incorporate ESG (Environmental, Social, and Governance) factors into procurement. This incorporation serves as a crucial step towards sustainable procurement, emphasizing the role of ethical, social, and environmental responsibilities in purchasing decisions. Sustainable procurement reflects a broader understanding of value that includes ethical and environmental considerations.

Businesses have many reasons to pursue sustainable procurement strategies. Consumers know the environmental impact of their spending and want to [spend more with companies](#) that take corporate social responsibility (CSR) seriously. [Investors](#) and [financial institutions](#) take ESG factors into account when making investment decisions. A [recent study by IBM](#) found that two-thirds of candidates are more willing to apply for and take jobs with environmentally sustainable organizations.

Sustainable procurement doesn't mean less effective or efficient procurement. The strategies that underlie sustainable procurement often lead to economic benefits and a reduction in total procurement costs. Sustainability increases operational efficiency and reduces waste, cutting supply chain costs by [up to 10%](#).

In this article, we explore why businesses embrace sustainable procurement, how to implement a sustainable procurement strategy, and the role technology plays in building more efficient and sustainable procurement processes.

WHAT IS SUSTAINABLE PROCUREMENT?

Sustainable procurement, also known as green procurement, is acquiring goods and services in a way that considers the total cost throughout their lifecycle, including financial, environmental, and social costs. It involves evaluating the environmental and social footprints of products and services, from their production and use to their disposal, ensuring they are ethically sourced and contribute to sustainability goals.

The concept of the triple bottom line is central to sustainable procurement. It expands the traditional reporting framework to consider ecological and social outcomes as well as financial outcomes.

The three pillars are:

- **People (Social Responsibility):** Factors include labor practices, local community support, and considering the health and safety of both the production and end-use of products and services.
- **Planet (Environmental Health):** Factors include product carbon footprint, energy efficiency, and waste. The aim is to minimize environmental harm and promote conservation practices.
- **Profit (Economic Value):** While focusing on environmental and social factors, sustainable procurement also emphasizes economic efficiency. It analyzes the lifecycle costs of products and services, including acquisition, use, maintenance, and disposal, to ensure long-term economic sustainability.

Integrating the triple bottom line into procurement strategies helps businesses to ensure a balanced approach that considers the broader impacts of purchasing decisions and how they contribute to sustainability practices.

ACHIEVING ENVIRONMENTAL, SOCIAL, AND GOVERNANCE OBJECTIVES WITH SUSTAINABLE PROCUREMENT

An ESG-oriented sustainable procurement approach helps businesses meet their sustainability and financial goals. Let's look at the benefits of sustainable procurement and how it allows businesses to flourish economically while considering their impact on their environment and communities.

Reduced Environmental Impact

The headline benefits of a sustainable procurement policy are environmental protection and a reduced environmental footprint. Green procurement encourages economic development through efficient resource management and value-based supplier selection. Choosing suppliers who source materials responsibly, minimize water use, and prioritize renewables whenever possible helps businesses reduce their carbon footprint, energy consumption, and environmental impact.

Cost-Efficiency and Waste Reduction

Sustainable procurement strategies aim to improve supply chain efficiency and reduce waste and unnecessary consumption. Increased efficiency leads to better environmental outcomes while reducing procurement, waste disposal, and energy costs.

Additionally, sustainable procurement considers the total cost of ownership rather than just the initial purchase price. The holistic approach often uncovers hidden costs and savings opportunities throughout the procurement lifecycle, from acquisition to disposal.

Long-Term Savings

While some sustainable practices may involve upfront investments, they can lead to significant long-term savings. For example, investing in energy-efficient products can reduce ongoing operational expenses. Similarly, reducing waste may require investment in new processes, but it results in lower waste disposal costs over the long term.

Supplier Relationships

To maximize the benefits of their sustainable procurement strategies, businesses usually move away from a purely transactional, cost-based approach to supplier relationships. Instead, they build collaborative and sustainable relationships incorporating ethical and environmental factors.

Sustainable procurement is often beneficial for both buyers and suppliers. When sustainability is a priority, businesses are motivated to channel more spending to sustainable suppliers, increasing the opportunity for improved service, discounts, and priority service.

In this regard, sustainable procurement has a lot in common with strategic sourcing, a topic we explored in depth in [What is Strategic Sourcing and How Does It Work?](#)

Regulatory Compliance

Sustainable procurement helps businesses in the U.S. comply with various regulations, from environmental standards to social responsibility requirements. Sustainable development is particularly important for businesses that sell directly or indirectly to federal, state, and local government organizations, which are often obligated to source goods and services via sustainable supply chains.

In the future, governments will likely become even more stringent about buying from environmentally and socially aware suppliers. Planned changes to the Federal Acquisition Regulation (FAR) may soon require federal agencies to procure sustainable products and services [to the maximum extent practicable](#).

SEVEN STEPS TO IMPLEMENT SUSTAINABLE PROCUREMENT

We've seen why businesses adopt more sustainable procurement, but how do they go about it? The specifics depend on the industry, market, and company, but a successful transition typically includes the following seven steps.

1

Define your priorities and goals for sustainable procurement

Before a company can adopt strategic procurement strategies, it must understand what ethical and environmental sustainability means in its unique circumstances. Then, it should define priorities and goals that align with its vision of sustainability in procurement.

Possible priorities include the following:

- **Reducing carbon footprint:** Aim to lower greenhouse gas emissions by procuring eco-friendly products and services.
- **Enhancing resource efficiency:** Source materials and products that use resources more efficiently and have a lower environmental impact.
- **Promoting ethical labor practices:** Ensure suppliers stick to fair labor or fair trade practices, including adequate wages, safe working conditions, and no child or forced labor.

- **Supporting local communities:** Buy from local suppliers to boost the economy and reduce transportation emissions.
- **Encouraging supplier diversity:** Diversify your supplier base, including working with minority-owned, women-owned, and small businesses.
- **Choosing sustainable products:** Focus on products that can be reused, recycled, or made from recycled materials to minimize waste.
- **Sourcing renewable and sustainable materials:** Choose renewable or sustainably sourced materials to reduce environmental impact.
- **Promoting supplier sustainability performance:** Work with suppliers with strong environmental and social performance.

2 Build your business case

The success of a sustainable procurement initiative depends on support from senior management and key stakeholders. You need a compelling business case outlining sustainable procurement benefits, such as cost savings, risk mitigation, and brand value. It must also be clear how sustainable procurement aligns with the organization's overall goals and values.

[Learn how to build a business case for P2P automation.](#)

3 Assess current procurement practices and performance

The assessment should evaluate how current practices align—or fail to align—with the business's sustainable procurement goals. Key areas to focus on include supplier selection criteria, purchasing policies, and current procurement activities' environmental and social impact.

Once you identify sustainability shortcomings, you'll have a clear picture of the opportunities for improvement and the way forward to a more sustainable approach.

4 Identify challenges and solutions

Implementing sustainable procurement practices comes with its own set of challenges. Recognizing and planning for them is essential for a successful transition. Common challenges include the following.

- **Resistance to Change:** Employees and suppliers may resist new practices and procedures.
- **Cost Concerns:** Initial costs of sustainable goods can be higher.
- **Limited Availability of Sustainable Options:** In some markets, finding sustainable alternatives to unsustainable products and suppliers may be difficult.

Two of the biggest roadblocks are inadequate spend visibility and rogue spending. Businesses need to know where their money is spent. If they don't, they cannot enforce sustainable spending or demonstrate that goods and services are sourced sustainably.

Rogue spending, or maverick spending, is a related problem. It refers to unmanaged spending outside of agreed procurement policies and supplier contracts. Rogue spending undermines sustainable procurement initiatives—there is no way to determine whether spending conforms to the company's sustainability criteria.

Businesses should devise specific responses to these challenges. For example, [procure-to-pay technology](#) and procurement automation can help businesses to improve spend visibility and reduce rogue spending.

Procure-to-pay software joins each stage of the procurement process into a connected workflow, with procurement data automatically collected and communicated at each stage, ensuring comprehensive spend visibility.

Internal buyers are required to purchase through a [digital marketplace](#) that includes vetted sustainable suppliers, reducing rogue spending. Purchase requests are generated and routed for approval, ensuring all purchases follow a pre-defined process. Once approved, purchase orders are automatically dispatched to the vendor.

Learn more about [procure-to-pay automation and how it works.](#)

5 Develop sustainable supplier selection

Sustainable supplier selection involves establishing positive impact criteria that suppliers must meet regarding environmental and social responsibility. These criteria can include factors like carbon footprint, use of renewable resources, labor practices, and corporate ethics.

It's important to communicate these criteria clearly to potential suppliers and integrate them into the procurement process, ensuring that only suppliers who meet these standards are considered.

6 Create your sustainable procurement strategy and action plan

Your sustainable procurement action plan should detail how the organization will achieve its sustainability goals and should include specific actions, timelines, and responsibilities. Aligning this strategy with the organization's overall strategy and objectives ensures that sustainable procurement is not a standalone effort but an integral part of the business's operations.

7 Implement and monitor sustainable procurement initiatives

Finally, put the developed strategies and plans into action. Work with key stakeholders and suppliers to gradually align procurement processes, technology, supplier relationships, and internal training programs with sustainability objectives.

Continuous monitoring of progress and results is vital to ensure effective initiatives. Use sustainability KPIs and indicators to measure success and inform future procurement decisions. Commonly used KPIs include a reduction in carbon emissions, improved supplier sustainability scores, and better contract compliance rates.

HOW VROOZI CAN HELP YOUR BUSINESSES ACHIEVE SUSTAINABLE PROCUREMENT

Vroozi's [procure-to-pay software](#) helps businesses manage procurement and achieve the spend visibility they need to implement sustainable procurement strategies.

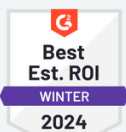
Vroozi is a modular cloud procurement solution that includes:

- A [digital supplier marketplace](#) for static and punch-out catalogs.
- [eProcurement](#) with [ERP integration](#)
- [Purchase order automation](#)
- [AP invoice automation](#)
- [Digital payments](#)

To see Vroozi in action, [experience a live version of the app](#) or [request a personalized walkthrough](#) from one of our team members.

EXPERIENCE VROOZI TODAY

Vroozi offers a complete procure-to-pay solution with extensive procurement automation capabilities, robust integration, and versatile customization options. If you'd like to see Vroozi in action, take a look at our [product demo](#) or get in touch for a [personalized tour](#).



Vroozi consistently ranks as having the best ROI among all Procure-to-Pay vendors on G2. Our users report seeing ROI within the first 10 months vs. the competitor average of 19 months.

Vroozi users also report an average time-to-go-live of 3.5 months — that's 15% faster than the average P2P implementation!



VROOZI FINANCIAL BENEFITS

- 100% spend under management
- 15 – 30% savings on purchasing costs
- 10 – 20% consolidation on tail spend
- 60 – 75% savings on vendor payment costs
- Increased financial control and visibility
- Increased remote operational efficiency

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