



The value, role & relevance of product stewardship for SMEs



**Product
Stewardship
Centre of
Excellence**

**PRACTICE
NOTES**

AUGUST 2023

The Australian Industry Group

The Value, Role & Relevance of Product Stewardship for SMEs

All levels of government and other large entities hold significant market power, and their procurement practices can shape markets to help deliver improved environmental outcomes. Large entities that understand and acknowledge this power can use it to create positive market impacts in line with broader goals, including management of the waste challenge, circular economy transition, product stewardship activity, environmental sustainability as well as meeting the expectations of consumers and the community more broadly.

These goals are likely to lead to more attention being paid to product stewardship and related activities in the procurement process, whether through specifications or in changing assessment attitudes to what constitutes 'value.'

SME's¹ tendering for business from government or large entities will increasingly need to meet product stewardship and circular economy procurement requirements. SME's who proactively do so, increase their competitive advantage and find new markets for their products and services.

To do this, SME suppliers need to build and leverage their understanding of concepts like circular economy, product stewardship, Environmental, Social and Governance (ESG) Policy, and sustainability more broadly, to remain competitive, articulate value and to respond to changing market requirements.

Increasingly, value for money is seen as fitness for purpose, quality, whole-of-life costs, risk, environmental and sustainability issues, as well as price².

Whether technically specified or as a value-add, SME businesses that become better product stewards, are mindful of the three principles of a circular economy³, and articulate the value of these well, can unlock competitive advantages and win work while improving the life-cycle outcomes of their products and services.

¹ "Small to Medium Enterprise" as defined by the Australian Bureau of Statistics (ABS) which considers any business with under 200 employees to be a medium business and any with under 20 employees to be a small business.

² ['Improving access to government business for SMEs – goods and services procurement guide.'](#) Victorian Government (2019)

³ ['Circular Economy Introduction.'](#) The Ellen MacArthur Foundation

Quick Definitions

Circular Economy

Circular economy entails gradually decoupling economic activity from the consumption of finite resources and designing waste out of the system. Underpinned by a transition to renewable energy sources, the circular economy model builds economic, natural, and social capital. It is based on three principles – design out waste and pollution, keep products and materials in use and regenerate natural systems⁴.

Environmental, Social, and Governance Policy (ESG)

ESG policies are increasingly popular standards/guidelines which inform business operations and decisions and are used to help to avoid activities that pose longer term financial risks through poor environmental and social practices. Effective management of ESG risks and opportunities supports requirements to maximise returns⁵. Relevant ESG factors vary by industry and across asset classes but can include any of the following: occupational safety, human and labour rights, climate change, sustainable supply chain, corruption, and bribery⁶.

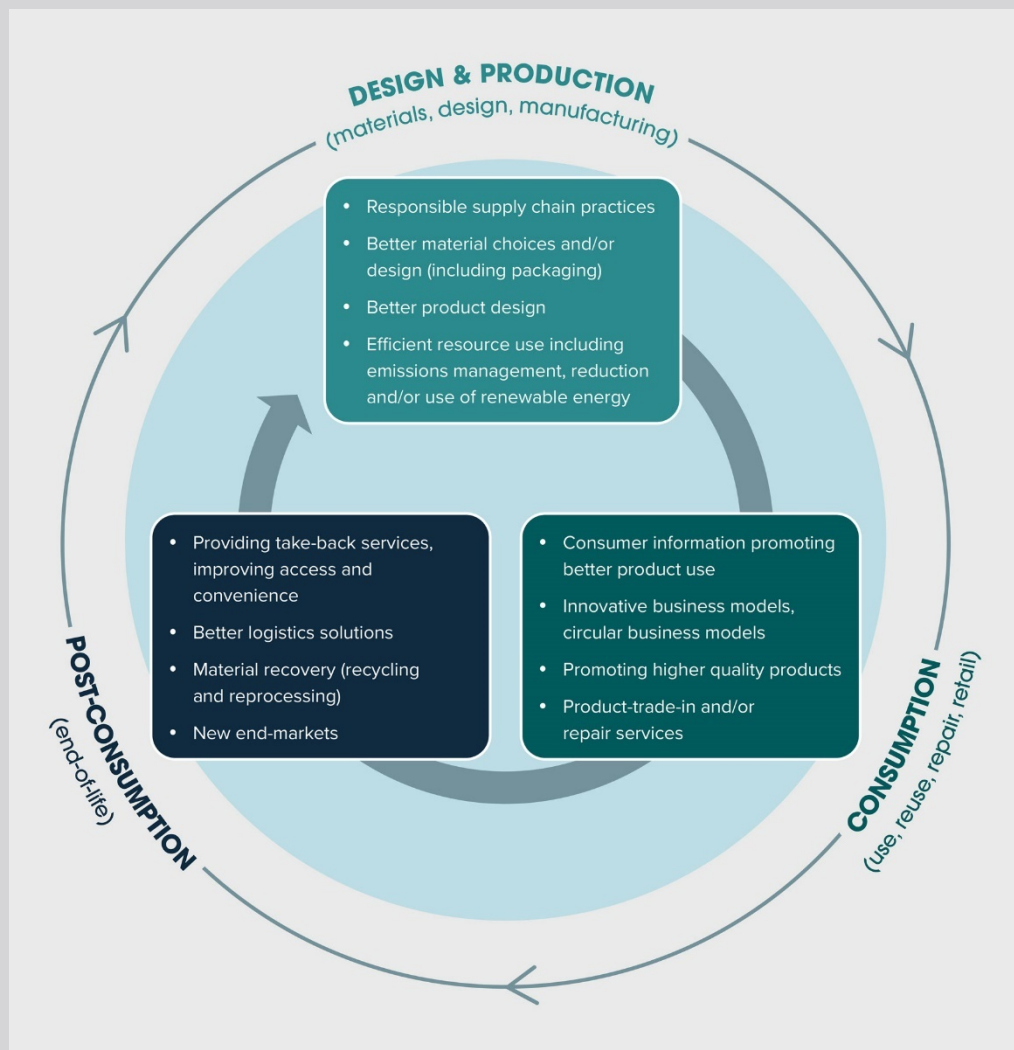
Procurement

Procurement is the process of acquiring goods and services. It begins when a need has been identified and a decision has been made on the procurement requirement. Procurement continues through the processes of risk assessment, seeking and evaluating alternative solutions, and the awarding and reporting of a contract⁷. Procurement generally will not include things like grants, investments (or divestments), sales by tender, loans, statutory appointments, and the engagement of employees⁸.

Product Stewardship

Product stewardship acknowledges those involved in designing, manufacturing, and selling products have a responsibility to ensure those products or materials are managed in a way that reduces their environmental and human health impacts, throughout the life-cycle and across the supply chain. It aims to drive environmentally beneficial outcomes through good design and clean manufacturing, including the use of components and materials that are easier to recover, reuse and recycle.

Extended producer responsibility or EPR is an element of product stewardship and refers to *extending a producer's responsibility (financially and organisationally) to the post-consumption stage of a products' life-cycle and is commonly focussed on take-back, recycling and disposal of used products.*



⁴ 'Circular Economy Introduction,' The Ellen MacArthur Foundation

⁵ 'Management of environmental, social and governance issues,' The Future Fund, Australia's Sovereign Wealth Fund

⁶ Ibid.

⁷ [Commonwealth Procurement Rules](#) (14 December 2020), Department of Finance, paragraph 2.7

⁸ Ibid, paragraph 2.9

Small Medium Enterprise (SME)

Definitions can vary between what is 'small' and 'medium,' however, the Commonwealth Procurement Rules define SMEs as Australian or New Zealand firms with fewer than 200 full-time equivalent employees⁹. This definition is used for the purpose of this practice note.

Sustainable Procurement

Sustainable procurement looks beyond the up-front cost to make purchasing decisions based on the entire life cycle of the goods and services, considering associated costs, environmental and social risks and benefits, and broader social and environmental implications¹⁰.

Sustainable Product Design

Is the approach to creating products and services that have considered the environmental, social, and economic impacts from the initial phase through to the end of life.

Procurement and SMEs

SMEs are an essential part of the Australian economy. The Australian Bureau of Statistics has reported that SMEs account for 99.8% of all enterprises in Australia and employ more than 7.6 million people, which equates to around 68% of employment in the private sector¹¹. Impressively, small businesses (fewer than 20 employees) are said to account for around 35% of Australia's gross domestic profit and employ 44% of Australia's workforce¹².

Despite the important role SMEs play in the Australian economy, it can be more of a challenge to compete against larger businesses in the tender/request for quote (RFQ) process. Some businesses report that tender specifications can be difficult to understand, which may be more of a barrier to SMEs who are generally less resourced to navigate these complexities.¹³

Additionally, SMEs may have fewer resources to invest in terms of engagement with policy trends, participation in government consultations and limited capacity to keep across policy and regulatory matters which on the surface, do not *appear* relevant to business-as-usual.

Sustainable Procurement, Product Stewardship, and the Circular Economy

Sustainable procurement looks beyond the up-front cost to make purchasing decisions based on the entire life-cycle of the goods and services, considering associated costs, environmental and social risks and benefits, and broader social and environmental implications¹⁴.

The considerations made in the sustainable procurement process are complimented by product stewardship activity. Product stewardship aims to drive environmentally beneficial outcomes through good design, and acknowledges those involved in designing, manufacturing, distributing and selling products have a responsibility to help reduce their environmental and human health impacts through out their lifecycle.

Similarly, a circular economy approach connects with sustainable procurement because its focus is on building economic, natural, and social capital. Its three core principles (design out waste and pollution, keep products and materials in use and regenerate natural systems)¹⁵ can easily compliment the life-cycle considerations taken during the sustainable procurement process.

Understanding each of these concepts and approaches can help SMEs better articulate the true value of their goods and services where there is commitment to sustainability, stewardship and/or circular thinking.

During 2023 the [Product Stewardship Centre of Excellence](#) will be releasing additional guidance materials for SMEs around demonstrating understanding how they can better contribute to circular economy outcomes and better stewardship practices when seeking to attract new contracts, particularly from larger entities concerned with ESG and connected policy objectives.

⁹ Ibid, [Appendix B: Definitions](#)

¹⁰ [Sustainable Procurement Guide: A practical guide for Commonwealth entities](#), Commonwealth of Australia (2020), p.33

¹¹ ABS 2017-18 in 'Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard', OECD Library

¹² [Small Business Counts: Small business in the Australian economy](#), Australian Small Business and Family Enterprise Ombudsman (2019)

¹³ [The Australian Manufacturing Industry: Economics References Committee Inquiry](#), Ai Group Submission, September 2020, p.16

¹⁴ [Sustainable Procurement Guide: A practical guide for Commonwealth entities](#), Commonwealth of Australia (2020), p.33

¹⁵ [Circular Economy Introduction](#), The Ellen MacArthur Foundation

Government Procurement

Suppliers able to demonstrate strong product stewardship credentials will be well placed to win work.

Like any large entity, government procurement practices can shape markets to help deliver improved environmental outcomes. Governments that understand and acknowledge this market power can use it to create positive market impacts in line with broader goals, including management of the waste crisis, circular economy transition, product stewardship activity and environmental sustainability more broadly.

Governments are setting increasingly ambitious goals for Australia's waste.

For example, Australia's [National Waste Policy Action Plan](#) set out targets such as:

- Reducing the total waste generated in Australia by 10% per person by 2030
- 80% average resource recovery rate from all waste streams in line with the waste hierarchy by 2030
- Phasing out problematic and unnecessary plastics by 2025
- Halving the organic waste going to landfill by 2030, and
- Significantly increasing the use of recycled content by governments and industry

The Action Plan notes that to close the loop on recycling, there needs to be a demand for products made from recycled material, and sustainable procurement by governments (businesses and individuals) is needed to make the recycling sector thrive. However, it is important for governments and businesses to understand that meeting these targets meaningfully will involve numerous market and policy drivers, and sustainable procurement is about much more than recycled inputs.

Given the environmental challenges Australia and the rest of the world faces, sustainable procurement is likely to be further embraced as a lever to achieve environmental and waste targets and objectives. This will mean suppliers able to demonstrate strong product stewardship credentials will be well placed to win work, and those who adapt early and responsibly market this point of difference clearly, have the potential to achieve a competitive advantage and be better prepared for a time when it may become a specification.

For tips on winning government work, please see the Centre's [A guide for SMEs – Winning government tenders through product stewardship](#).

Environmental, Social, and Governance Policy (ESG)

It is not just governments working to ambitious goals to manage the waste challenge, and other environmental and social concerns, as we transition to a circular economy. Investors are increasingly interested in ESG to manage their risks to help to avoid activities that pose longer term financial risks through poor environmental and social practices.

There is a recognition that effective management of ESG risks and opportunities supports requirements to maximise returns¹⁶. ESG-oriented investing has experienced a significant rise and global sustainable investment now tops \$30 trillion (up 68% between 2014 and 2019 alone)¹⁷.

This acceleration is driven by heightened social, governmental, and consumer attention on the broader impact of corporations, as well as recognition by investors and senior business leaders that a strong ESG proposition can safeguard a company's long-term success.

A strong ESG proposition has proven to help businesses tap new markets, expand into existing ones, and improve performance¹⁸.

Considering this, SMEs should not view investor, government, or corporate interest in ESG as a passing phase or a feel-good exercise. Nor should they underestimate the importance of connecting their value proposition with ESG to gain competitive advantage and futureproof their business.

Relevant ESG factors vary by industry and across asset classes but can include any of the following: occupational safety, human and labour rights, climate change, sustainable supply chain, corruption, and bribery¹⁹. A strong ESG proposition can create value, and given growing investor pressure, it is likely governments and large private entities will become increasingly

¹⁶ 'Management of environmental, social and governance issues,' The Future Fund, Australia's Sovereign Wealth Fund

¹⁷ 'Five ways that ESG creates value,' McKinsey Quarterly, November 2019

¹⁸ Ibid

¹⁹ 'Management of environmental, social and governance issues,' The Future Fund, Australia's Sovereign Wealth Fund

focused on ESG and look to sustainable procurement a lever to manage this going forward.

Round Up: The Value, Role & Relevance of Product Stewardship for SMEs

As explored in this practice note, SMEs can derive value from becoming better product stewards and articulating this when looking to win work.

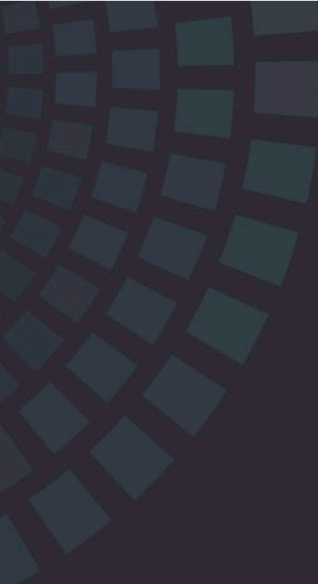
- ✓ Governments have set increasingly ambitious goals for Australia's to transition to a circular economy by 2030 and net zero emissions by 2050 and will need to embrace sustainable procurement as a lever to achieve these targets.
- ✓ Bigger businesses face investor pressure to develop sound ESG policy and will likely need to look to sustainable procurement as one of many levers to reduce actual/perceived risks.
- ✓ Suppliers that demonstrate strong product stewardship practices essential to creating a circular economy and delivering ESG commitments will be well placed to win work and access new markets, whether as an overt specification, or as a value add.

Resources

The PSCoE has a library of further materials to support SMEs to articulate their product stewardship activity and values clearly in the tender/RFQ process to unlock potential competitive benefits.

<https://stewardshipexcellence.com.au/resources/>

- Available Product Stewardship Centre of Excellence Resources Library [here](#)
- Product Stewardship Centre of Excellence Contact Details:
 - Web: <https://stewardshipexcellence.com.au>
 - Email: info@stewardshipexcellence.com
 - Twitter: @stewardshipAU



Product Stewardship Centre of Excellence

c/- Institute for Sustainable Futures

University of Technology

PO Box 123

Broadway NSW 2007

www.stewardshipexcellence.com.au