

Circular sourcing

How the circular economy can help purchasing departments reduce costs, secure supplies and save resources?

Focusing on exercising power or creating advantage, sourcing strategies often fail to address material efficiency

Main sourcing strategies

Exercise Power

- Consolidate number of suppliers
- Aggregate volume across units
- Redistribute volume among suppliers

- Compare “total” costs
- Model “should-costs”
- Renegotiate prices
- Hold an online auction

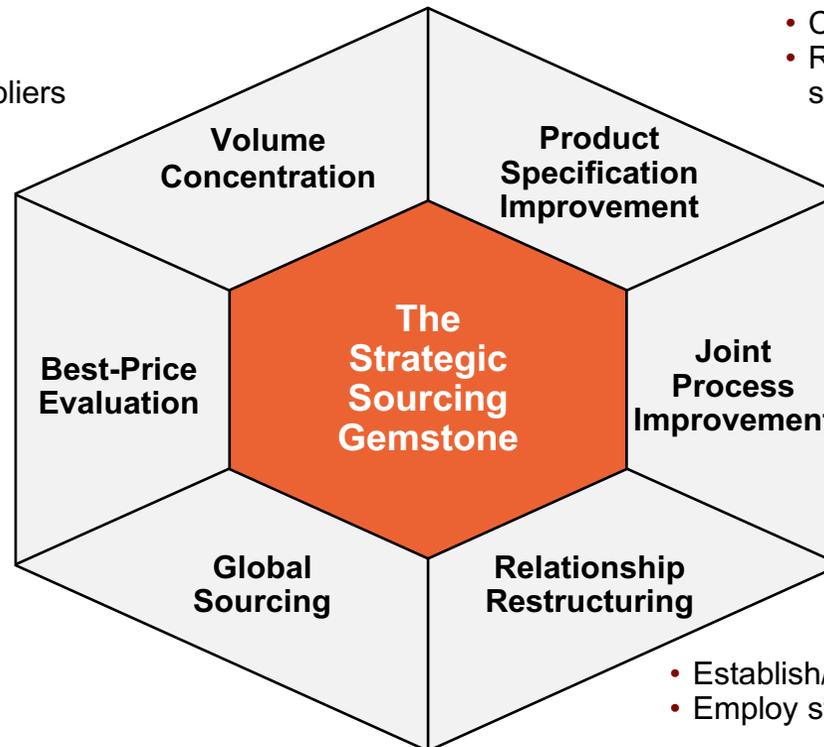
- Expand geographic supply base
- Develop new suppliers

Create Advantage

- Conduct product value analysis
- Rationalize / standardize specifications

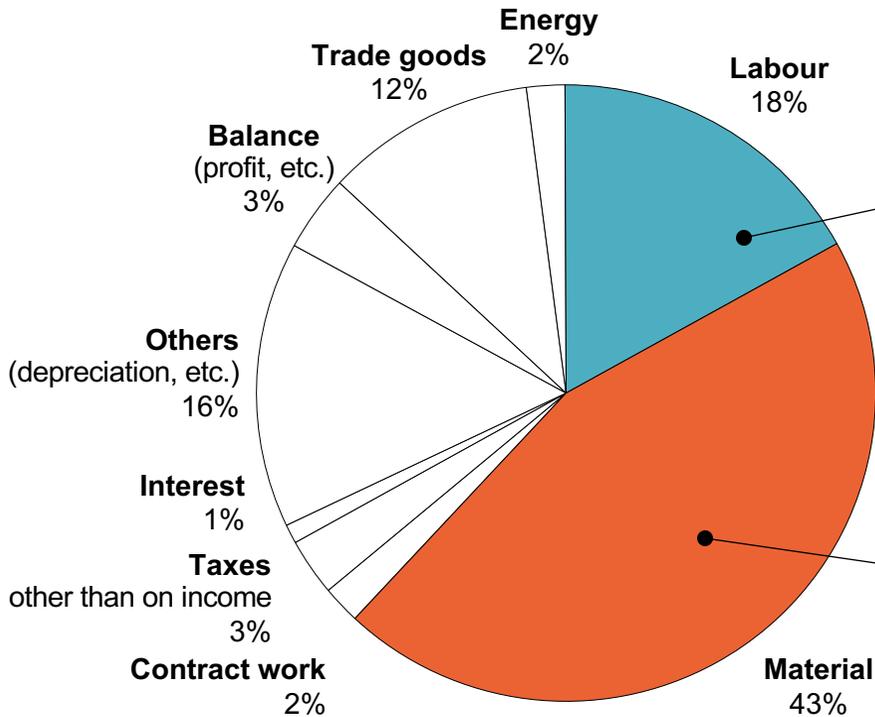
- Reengineer joint processes
- Support supplier operations improvement

- Establish/develop key suppliers
- Employ strategic alliances/partnering



As a result, materials cost for industrial companies is increasing

Cost structure in the manufacturing industry
Germany, 2014



Existing sourcing strategies have improved labour productivity

For instance, global sourcing, by sourcing in low-cost countries, has significantly reduced labour costs. Today, labour only accounts for 18% of manufacturing costs against 27% in 1993.

However, most existing sourcing strategies fail to improve material productivity.

Currently, materials account for 43% of manufacturing industry costs against only 36% in 1993.

To improve material efficiency, purchasing departments should leverage the 5 circular sourcing strategies, and capture the benefits

Examples of circular sourcing benefits

1

Circular sourcing reduces cost

- **COOP** buys refurbished commercial refrigeration equipment that usually cost 30 to 40% less than new ones.
- **BASF Coatings** plant in Münster saved annually 30,000 euros by shifting from buying compressors to buying compressed air as a service.

2

Circular sourcing reduces total cost of ownership

- **Renault's** total cost of ownership for cutting fluids felt by about 20% by asking its provider to shift from a sales- to a performance-based model.

3

Circular sourcing secures supply

- Consuming almost 1% of cotton global production, **IKEA** has chosen to use 17% of recycled cotton to secure its supply.
- To secure its supply in recycled PET, **Coca-Cola European Partners** has created a joint-venture with plastic recycling company Plastipak.

To help our clients adopt the 5 circular sourcing strategies, we provide a set of services



Conduct trainings & workshops

What we do?

We conduct trainings and facilitate workshops on circular economy opportunities for purchasing departments.

Case studies

For a luxury goods manufacturer, we organised a half a day training on circular sourcing strategies.



Improve a purchasing category performance

For a given purchasing category, we help our clients identify, qualify and experiment relevant circular sourcing strategies.

For a consumer-packaged goods manufacturer, chemical prices were not only high but also volatile. Chemicals total cost of ownership was increasing year after year, partially due to disposal costs.

Together, we reviewed the sourcing strategy of over 50 chemicals. We assessed alternative strategies such as recycling, chemical leasing or cascading use. We identified several sourcing strategies to reduce the TCO of 4 major chemicals by more than 20%.



Define circular sourcing strategies

Using a 4 steps approach, we help our clients define circular sourcing strategies.

A global chemical company purchased 8 billion € worth of products and service worldwide. It succeeded in improving labour productivity but struggled to increase resource productivity.

Together, we reviewed the existing sourcing strategies for industrial equipment used in more than 100 sites worldwide. We identified several strategies that reduced the TCO of several equipment by more than 20%.

Who are we?

Gate C is a consulting firm helping industrial companies to **capture the value of the circular economy**.

Gate C assists its clients to identify opportunities, build capabilities and capture values.



Gate C

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