

Expanding the Scope of Global Sourcing

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Agenda

- **Overview of MWV**
- **Challenges facing Services Sourcing**
- **Supplier Relationship Management (SRM) as a Solution**
- **Questions**

MWV OVERVIEW



MWV How brands
take shape™

MWV is a global leader in packaging and packaging solutions



MWV Global Packaging Markets



Healthcare



Cosmetics and Personal Care



Food and Beverage



Home and Garden



Media and Entertainment

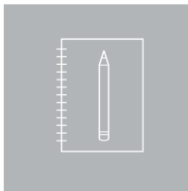


Tobacco

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MWV Related Businesses



Consumer and Office Products



Specialty Chemicals

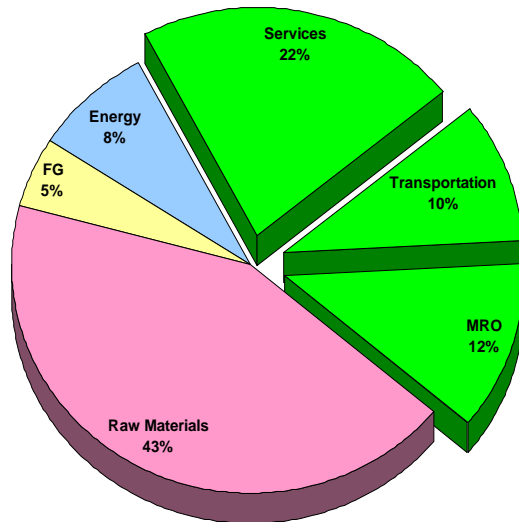


Community Development and Land Management

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MeadWestvaco 2007 Global Spend



Global Spend 2007
\$3.985BN

Indirect Spend
\$1.75M

Services Spend
\$.550MM

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MWV Sourcing Organization

- Headquartered located in Richmond, VA
- Global focus with regional execution
- Services Director reports to C.P.O.
- 3 Sourcing Managers and 1 Sr. Analyst support services sourcing efforts

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The Challenge



Current State of Services Procurement

- Limited internal resources
- Scarcity of skilled labor; Lack of access to key resources
- Market driven price increases
- Diminishing returns from cost reduction activities
- Perceived lack of organizational focus as compared to energy, logistics and raw materials
- Senior Leadership directive that procurement drive value beyond cost

SRM can be leveraged to address these concerns

The Solution: SRM

So What is Supplier Relationship Management?

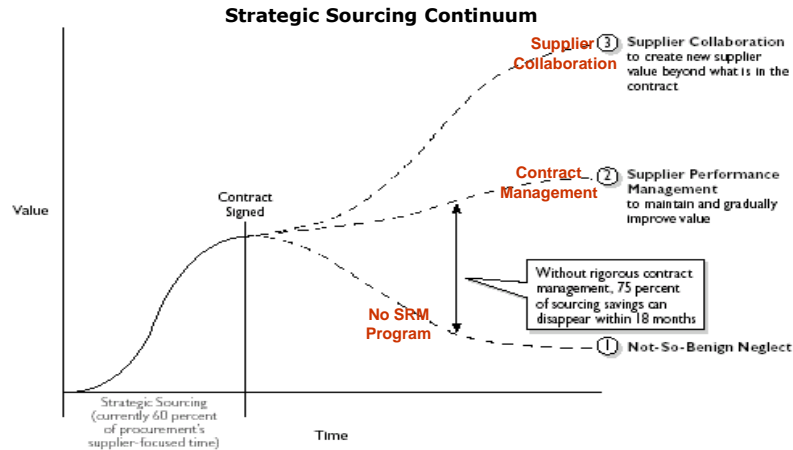
... a *comprehensive* approach which enables companies to manage relationships with strategic suppliers to reduce the total cost of ownership and ensure timely delivery of quality services.

... a method to grow business with strategic suppliers.

... a structured approach to monitor and measure strategic suppliers and eliminate non value add suppliers.

... applicable to direct and INDIRECT materials.

SRM Enables Significant Value



Source: Geller & Company, World Class Procurement: Increasing Profitability and Quality; Procurement Strategy Council survey and research

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Services Program Elements

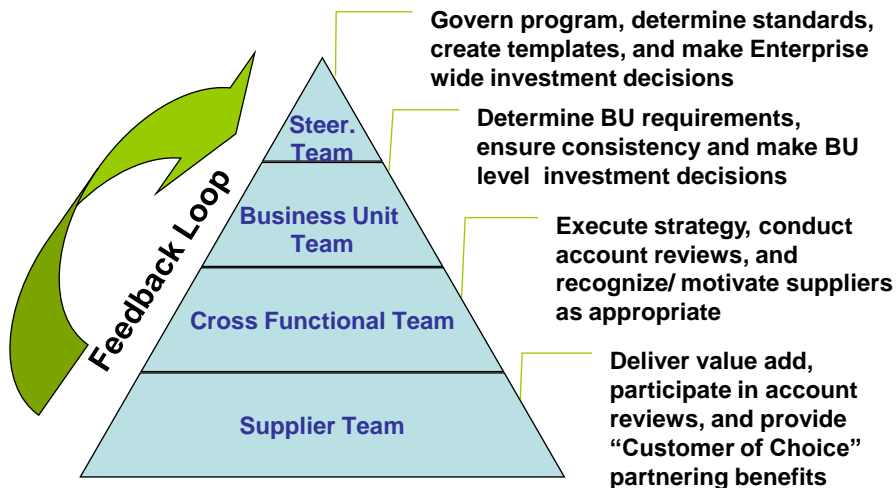
- Define requirements
- Define approach to meet requirements
- Segment suppliers
- Identify management approach and value creation opportunities from each resulting segment of your supply base
- Implement value enhancement approach with strategic suppliers

Source: ADR International Purchasing Consultants 2007

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Structure Program to Drive Accountability



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Develop a Sustainable Program

...is not fundamentally different than for Direct Materials

Governance Structure Toolkit

- | | | | |
|-----------------------|--|-----------------------------------|-----------------------|
| Goal Alignment | • Definition of roles and responsibility | • Implementation approach | Dedicated Team |
| | • Data archiving and retrieval strategy | • Change management approach | |
| | • Data cleansing process | • Issue resolution approach | |
| | • Method to access to data repository | • Escalation Process and triggers | |
| | • Administration resources | • Internal communication methods | |
| | • Data analysis approach | • External communication methods | |
| | • Application of appropriate tools | • Communication frequency | |
| | • Reports and reporting distribution | • Standard formats and templates | |
| | • Stakeholder identification | • Training documentation | |
| | • Policies and procedures | • Business Justification process | |

Senior Leadership Support

Source: ADR international Purchasing Consultants 2007

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Segment Suppliers to Determine Optimal Supplier Relationships

MWV Portfolio Analysis

Market Difficulty	High	Critical Reduce risk	Strategic Secure competitive advantage
	Low	Acquisition Streamline administration	Leverage Create competition
		Low	High

Expenditure

Considerations

- Multiple approaches exist to segment suppliers – consider business criticality, strategic fit, spend, and risk
- Utilize a best in class tool to stratify suppliers based on pre-defined criteria
- Ensure segmentation criteria is consistently applied
- Data accuracy may be a barrier in segmenting services suppliers. Be prepared to cleanse data...
- Sacred cows may prove difficult to segment. Be prepared for internal AND supplier pushback...

Source: ADR International Purchasing Consultants 2007

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Identify Management Approach and Value Creation Opportunities by Type

MWV Relationship Types

Market Difficulty	High	Critical Not relevant for services commodities	Strategic •Measure and monitor •Strategy alignment •Value generation •Trust development •Quarterly to monthly account reviews
	Low	Acquisition •Measure and monitor •No value add activities •Focus on cost out •Reverse auctions	Leverage •Measure and monitor •Focus on cost out and limited value add •Annual to bi-annual account reviews •RFx and some limited directed negotiations
		Low	High

Expenditure

Expected Outcomes

- Consistent approach to managing supplier relationships
- Ability to tailor supplier management approach to relationship type
- Resource optimization
- Motivated suppliers
- Internal stakeholders may view non strategic suppliers as strategic based on their relationships...be prepared to justify

Source: ADR International Purchasing Consultants 2007

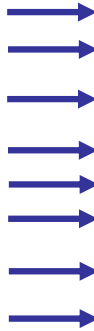
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SRM requires a change in how we manage our suppliers

- **Vendor Management**

- Short term focus
- Minimize purchase price
- Minimize costs of doing business
- "Arm's length" relationship
- Penalty-oriented
- Competitive/Adversarial focus
- Closed mindsets and lack of trust
- Focused on all suppliers



- **Relationship Management**

- Long term focus
- Minimize total supply chain cost
- Maximize total value
- Transparency
- Reward-oriented
- Collaborative focus
- Open behavior and mutually trusting relationship
- Focused on high opportunity suppliers

Increasing Supply Market Complexity and Value of Supplier

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Determine how to "Measure the Health of Supplier Relationship"

Performance Measurement

- Evaluate suppliers performance in terms of delivery, service quality

Financial Measurement

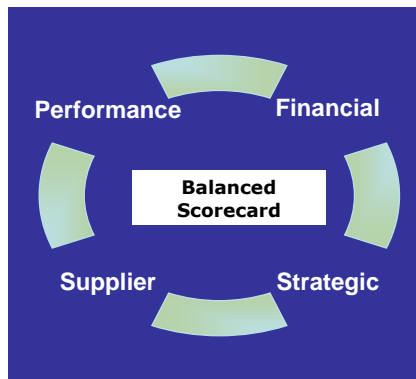
- Contract compliance via adherence to SOW, pricing and performance
- Measure revenue enhancement

Strategic Value Measurement

- Metric to assess how well the relationship is supporting strategic objectives

Suppliers Measurement

- Metric to assess suppliers perception of the relationship



"The balanced scorecard provides a mechanism to measure suppliers impact on business value drivers, hold suppliers accountable for poor performance, and provide incentives for outstanding performance"

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Scorecard Example 1

MeadWestvaco 2007 Mid Year Review Service Level Agreement (SLA)					
Category	Key Performance Indicator (KPI)	Point Value	GMAC GRS Results		Point Value Received
			Year End 2006	Mid Year 2007	
Amended Home Sale Performance					
DHSC for Amended Value Fall Through Rate	<9.5%+10, <10.5%+5, <11.5%+3 <2%+5, <3%+3, <5%+1	10 5	9.16% 0.00%	10.94% 0.00%	
Buyer Value Option Performance					
DHSC for BVO	<9%+10, <9.5%+5, <10%+3	10	7.43%	8.48%	
Days on Market (to sale)	<30+10, <45+5, <60+3	10	Avg days 20	Avg days 21	
Fall Through Rate	<2%+5	5	2.89%	0.00%	
AV Ratio					
AV Rate for BVO and AV vs GBO	>80%+10, >75%+5, >70%+3	10	96.45%	75.00%	
Inventory Performance					
DHSC for Inventory Property	<18%+10, <17%+5, <16%+3	10	11.43%	16.43%	
Loss on Sale	<4%+5, <5%+3, 7%+1	5	2.88%	9.52%	
Days in Inventory	<100+5, <120+3, <130+1	5	94 days	149 days	
Client Performance					
Transaction Response Rate (Satisfaction Surveys)	>80%+5, >40%+2	5	50.24%	47.80%	
Initial contact with Transferee within 4 hours on notification (95% compliance)	>95%+5, >95%+2	5	>95%	85.3	
95% Premier Service customer satisfaction results (Based on GMAC GRS Transferee Survey Consultant Satisfaction (Excellent, Very Good, Good))	>95%+5, >95%+2	5	80%	92%	
95% Premier Service customer satisfaction results (Based on GMAC GRS Transferee Survey Regarding Overall GMAC GRS Satisfaction (Excellent, Very Good or Good))	>95%+5, >95%+2	5	88%	94%	
Achieve overall Client Satisfaction Results of Good or Better	Yes=5, No=2	5	Yes	Yes	
Billing					
Expense report processing within 4 business days	>95%+5, >95%+2	5	>95%	>95%	
Overall Performance Matrix Score		100	2006	2007 YTD	
			53		

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Scorecard Example 2

Category	KPI	GMAC/GRS Action Request	GMAC/GRS Owner	MWV Owner	Due Date	GMAC/GRS Deliverable	Comments
Response Rate/ Turnaround Time	Within 2 business days GMAC/GRS provide cost proposal to ABC. Once provide ABC.	Report from system report of transactions to send to Tax Provider with copy to ABC contact	Strategic Relationship Owner (Int. Application)		Quarterly Reporting/Annual Review/Annual Settlement		2 days processing time based upon receipt of completed authorization from ABC. (Should have any missing info from ABC GMAC/GRS commits seeking additional info from ABC within 1 business day of receipt of info)
Response Rate/ Turnaround Time	Within 2 business days GMAC/GRS provide assignment letter to ABC	Report analysis including the request to ABC	Strategic Relationship Owner (Int. Application)		Quarterly Reporting/Annual Review/Annual Settlement		Assignment letter to be provided within 2 business days of completed authorization approval. Should ABC require additional information, ABC will be notified within 1 day turnaround with maximum of 2 changes. If these additional requests are not fulfilled by the end of the employee 2 day turnaround process will apply.
Response Rate/ Turnaround Time	Within 1 business day GMAC/GRS consult to customer regarding to schedule policy counseling	Report from system initiation data and land info to contact ABC regarding employee	Strategic Relationship Owner (Int. Application)		Quarterly Reporting/Annual Review/Annual Settlement		GMAC/GRS agrees to complete initiation of business level personal information services
Response Rate/ Turnaround Time/ Customer Satisfaction Credibility	% Premier Service Rating Response to Customer engagement question. Measure the Survey question "Year GMAC/GRS Credit was prompt in responding to Homecall - mail message"	Customer Satisfaction Survey/Phone Survey customer using GMAC/GRS Premier Service Survey (Based on GMAC/GRS Assignee/Transferee Survey regarding GMAC/GRS Credit Satisfaction (Excellent, Very Good or Good))	Strategic Relationship Owner (Int. Application)		Quarterly Reporting/Annual Review/Annual Settlement		One business day commitment to ABC for GMAC/GRS Credit and assignment letter questions

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Closing Thoughts

Services Procurement Revisited

Strategic Sourcing



Strategic Sourcing and SRM

- Limited internal resources
- Scarcity of skilled labor; lack of access to key resources
- Market driven price increases
- Diminishing returns from year over year cost reduction activities
- Perceived lack of organizational focus as compared to energy, logistics and raw materials
- Senior Leadership imperative that procurement drive value beyond cost

- Optimize resources
- Stable workforce including access to key resources
- Price increases tied to supplier cost
- Value enhancement which supplement cost savings
- Opportunistic view as services related value typically does not require capital investment to implement
- Procurement viewed as a strategic partner

Take Away's

- Focus on SRM once you have reaped sourcing benefits
- Assess your organizational readiness before starting the program
- Consider starting with a pilot
- Dedicate resources to develop, implement and govern program
- Segment, measure and monitor supplier performance
- Reward Supplier's which exceed performance expectations and penalize those that do not
- Structure contracts to support supplier value creation
- SRM is a tool to be leveraged and opportunistically applied in the services space

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Questions?

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