

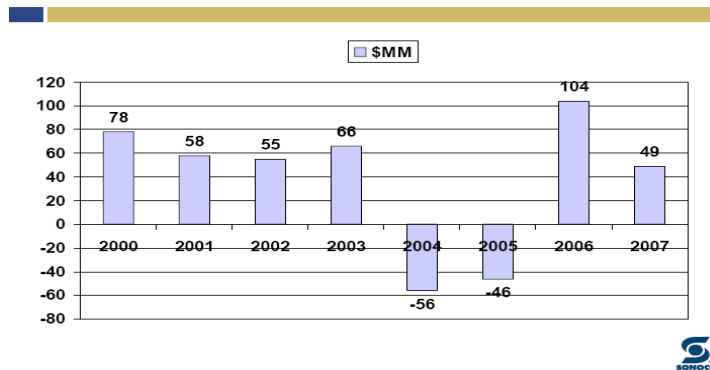
## THE GLOBAL SIX SIGMA AND BUSINESS IMPROVEMENT AWARDS

### SONOCO – Nomination for Best Project Achievement in Supply Chain Management

#### 1. Strategic objectives and scope of business excellence project

Sonoco, founded in 1899, is today a \$4B packaging company headquartered in Hartsville, SC, with a strong history of year over year EBIT improvement and dividend payouts to shareholders. One of the company's core strategic drivers is to grow the top line via organic growth and key acquisitions. In 2005, the company's CEO noted that working capital costs had increased by \$100MM over the preceding two years. This put the growth by acquisition goal at potential risk. In years' past, performance was improved at year end via increased management focus; however, that improvement very quickly regresses after the fiscal year to where they were before. In addition, external benchmarking revealed that Sonoco was performing in the third quartile as compared to our peer group in the packaging industry. A steering committee was formed in September 2005 with the mission to "improve, via systemic root cause analysis and subsequent targeted process changes, performance in both dollars and days on the three components of working capital: accounts receivable, accounts payable, and inventory."

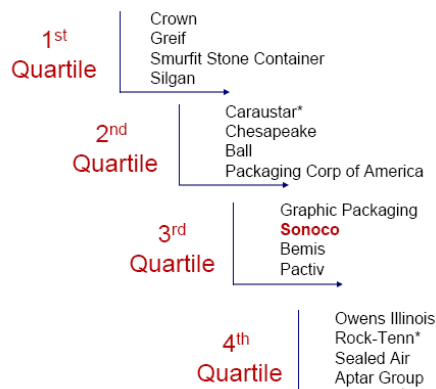
Change in Net Working Capital  
2000 - 2007



The team's vision statement was to reach the top quartile in the peer group by the end of 2008. Establishing this vision created the foundation for creating the "burning platform" for all associates to engage in the improvement initiative: everyone wants to be the best among their competition.

#### Peer Group Comparison - 2005

Extended Containers & Packaging Sector\*



\* Have included Caraustar & Rock-Tenn, which are technically in the Paper & Forest Products Sector.

## 2. The business excellence project implementation and timeline

In September of 2005, Sonoco's CEO became the executive sponsor of the Working Capital Steering Committee, comprised of leaders in sales, manufacturing, supply chain, and finance established improvement targets for the corporation and all global business units for each of the three components of cash gap. In addition, the steering committee had members who in turn selected key individuals from across the company to work on the AR, AP & Inventory sub-teams. This was a global initiative, so team members came from all departments and international operations.

The improvement targets were established based on calculating an "entitlement" factor, meaning demonstrated sustained performance at those levels at some point over the preceding 3 years. These entitlement calculations served as the process capability study from which to set improvement goals.

From the 2005 baseline, a target improvement of \$175MM in working capital over the next three years, though December 2008, was established. Due to exchange rate fluctuations, volume changes, and material price inflation, the metric to gauge improvement was days of working capital. Targets for AR, AP, Inventory, and Total Cash Gap were set in days for each team.

Because of the significant size of the targeted improvement, interim goals for each operating year were set. In this way, stoplight scorecards could be used to monitor performance and incentive plans could be adjusted to include the cash gap improvement component. Both incentives and performance plans for associates not on bonus plans are set up on a calendar year basis, so the scorecards aligned to a January-December schedule of each of the three years.

2008 Working Capital – April Results

	2007	2008 Goal	Month	3-Month Moving Avg
IPD-U.S. & Canada	44.3	43.2	42.3	41.3
IPD – Mexico	71.4	68.9	75.2	73.7
IPD – Europe	56.8	62.1	62.2	57.3
Paper – Europe	14.6	18.6	15.5	13.0
IPD/Paper – Europe	43.8	52.3	49.0	48.2
IPD – Asia	68.0	67.6	78.3	73.5
IPD – Aust/NZ	60.8	47.4	59.2	60.4
IPD – Latin America	75.9	66.1	74.0	71.2
Adhesives	26.1	11.7	20.4	17.5
Paper – US	5.3	5.1	1.0	0.9
Paper – Mexico	42.9	42.3	45.0	38.1
Paper – Canada	23.3	15.7	29.0	23.6
Forest Products	27.0	22.8	27.5	23.3
Recovered Paper	22.9	29.5	22.0	21.8
Paper – Latin America	79.0	65.4	96.0	85.1



## 3. The size of the project challenge

Because the strategic impact of the project was so critical, many process improvement tools were used.

DEFINE:

- A global teleconference was held to discuss the corporate strategy, key implementation plan dates, team contacts, known best practices, metrics and improvement targets. Participants signed on via web-ex and the presentation was archived on the corporate intranet for viewing by those on different time zones or who were unable to log on during the scheduled meeting.
- Diagnostics were used to acquire VOC data from existing business processes to establish current sets of internal best practices and minimums for work standardization.
- The steering team utilized the John Kotter HBR 8-step Change Management process to set direction for the overall communications and reward and recognition plans.

#### MEASURE:

- In addition to conducting large amounts of secondary research on best practices in working capital management, a team of consultants was brought in to provide external benchmarking data and best practices for each team.
- Cash gap targets were incorporated into every management committee member's incentive plan. Previously, this was not a component of senior leaders' variable compensation.
- The AR sub-team value stream mapped the credit and collections process to identify areas of waste and opportunities for payment cycle time improvement.

#### ANALYZE:

- An FMEA (Failures Modes and Effect Analysis) was conducted to prioritize action plans for the highest risk areas for potential process failure.
- The inventory sub-team adopted an ABC inventory management plan for the two largest industrial integrated businesses.
- An S&OP (Sales and Operating Planning) process was introduced in the Paper Division, which allowed for inventory and manufacturing capacity to be quickly adjusted to rapid shifts in demand. This improved demand visibility linked with three internal Sonoco divisions as well as external customers.
- The AP sub-team categorized spend buckets and targeted the largest opportunities, such as employee benefits, energy, and freight for payment via Visa card—thus stretching AP days by an additional 30.
- A Dispute Management System was created via a latch on web application to the existing financial system. This DMS enabled workflow and escalation for late payment root causes.

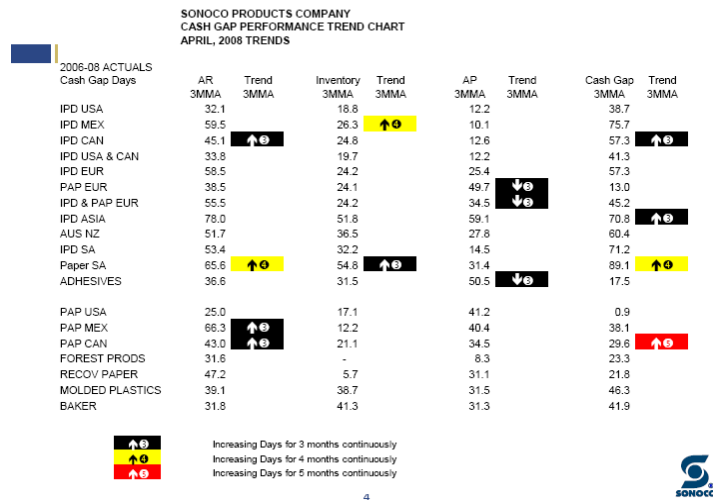
#### IMPROVE:

- The Inventory sub-team shifted focus from aging to turns – thus avoiding slow moving inventory vs. trying to move it after it's created: a true preventive vs. reactive improvement.
- Collectors have daily and weekly metrics on which to deliver, vs. monthly. These leading indicators immediately react to shifts in cash coming in or promised on a daily basis, thus preventing rollover.
- A standard set of terms was established to cover all customers in all global business units. This standardization resulted in a 78% reduction in terms sales reps and customers may select when drawing up sales agreements or long-term contracts.
- The Steering committee established a reward and recognition plan for businesses achieving interim yearly goals.
- Corporate communications created a video of the CEO and key people on the sub-teams who delivered key improvements after year one of the process. This video was translated into 17 languages and distributed globally and it played an important role in celebrating early progress in the initiative.

#### CONTROL:

- Procurement poka yoked (mistake proofed) the ability of Buyers to change terms for suppliers by disabling that capability in the procurement system
- All three sub-teams created a standard set of procedures that had to be adopted by each operating unit. The adoption rate of these SOPs was measured on color-coded scorecards.
- A control early warning system (seen below) was created to alert teams of negative trends in each component. The accompanying response plan includes escalating levels of corrective actions that business units must take, based on the length and size of the trend. This early warning system, coupled with the stoplight scorecard and SOP adherence indicators comprise the overall control plant created to hold the gains once achieved.

## Control early warning system example:



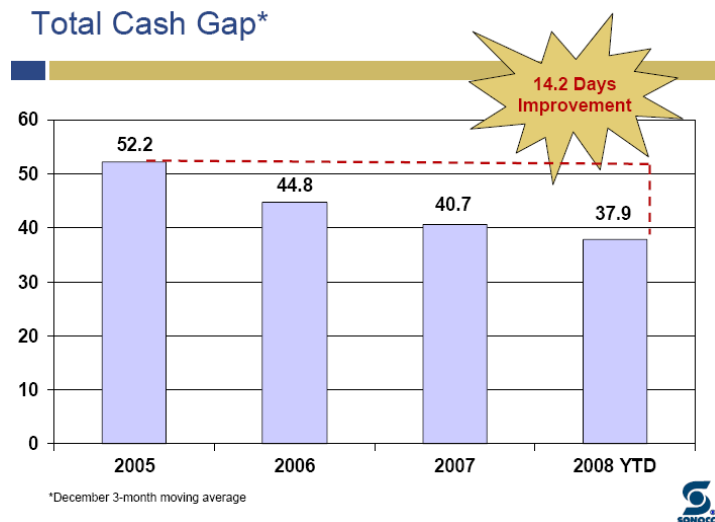
## 4. The organizational impact of the business excellence project

Sonoco has 29 operating units in Asia, South America, North America and Europe, and all have been included in the working capital initiative. All 318 operating plants have inventory improvement targets, all sales plus credit and collections teams have AR targets and all supply chain personnel AP targets. Overall, this initiative encompasses approximately 90% of all Sonoco associates globally.

Going forward, management of Accounts Receivable has been centralized and assigned to Corporate Treasury with strong links back to business unit sales organizations. Previously, no one group within Sonoco owned AR and process variation and control was sporadic. Ownership of Accounts Payable lies in Procurement, and Inventory is owned by Supply Chain Management personnel, who report jointly to a corporate SCM Director and to the business units.

## 5. The business results of the business excellence project

Since the initiative was launched in late 2005, working capital has been reduced by over 14 days, a 27% improvement over the baseline. This has freed up over \$185MM in cash for acquisitions, dividends, and capital expenditures.



Data on peer groups is not available until late summer, but as of 2006 and based on our internal method of calculating performance, Sonoco moved from the third quartile to the top of the second. Based on 2007 and 2008 performance, achieving the first quartile and thus the vision for the team as outlined by the steering committee at the outset of the project, is highly likely.

