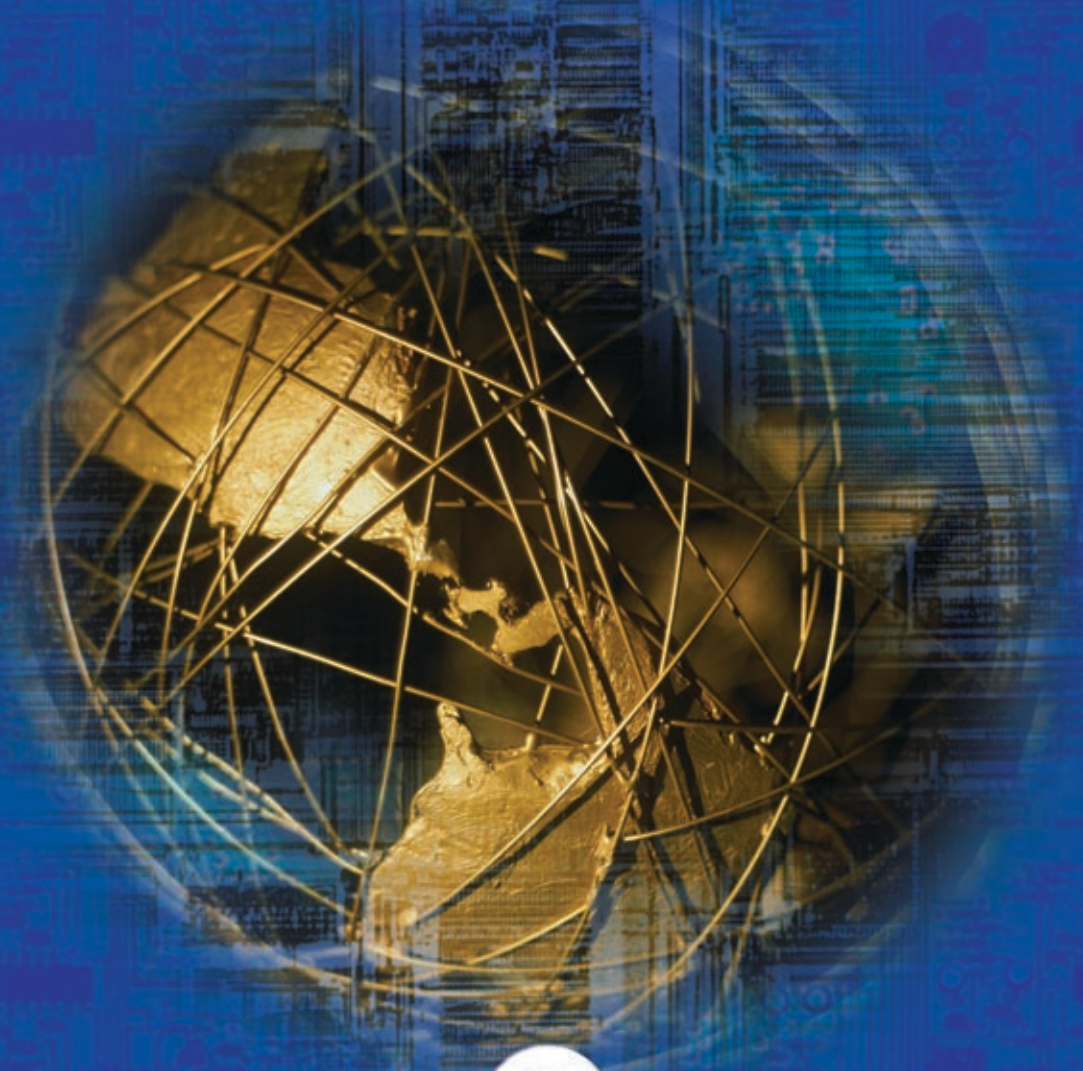


# Key Elements & Philosophy of Global Sourcing



GRAHAM PACKAGING COMPANY



# Key Elements & Philosophy of Global Sourcing

## OVERVIEW

Graham is a company committed to profitable growth. We deeply believe superb performance by our vendors is integral to this growth, and can offer us a significant competitive advantage.

Accordingly, relationships with our vendors are critical to our success. Beneficial growth of these relationships is based on a foundation of consistent, fair purchasing philosophies. We place great emphasis on lawful, ethical business practices, both by Graham personnel and by our vendors worldwide.

This document provides more details regarding our purchasing practices laying out what we expect of ourselves, our vendors and how we expect to do business. It provides guidelines and methodology for our employees so we are consistent in our approach.



Our policies and procedures are guided by the following values and beliefs:

- We believe in competition, among new materials and services, among vendors of the same items, and among ideas that will help Graham to grow profitably.
- We consistently challenge the status quo in all we do. Our vendors help us improve our business results via allegiance to Graham and allocation of human and capital resources that maximize our mutual prosperity.
- We follow the spirit and the letter of the law everywhere we operate. We expect our vendors to do the same.



- We purchase materials, services, and capital goods on a best value basis. Value is the combination of cost, service, technology, quality, and other key factors.
- We treasure long term vendor relationships and the trust that is mutually developed as a result. We believe that continual growth in value offered to Graham is an outcome of this trust. Accordingly, we do not take business from a vendor unless better value is offered by another.



# Key Elements & Philosophy of Global Sourcing

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# Graham Business Objectives & Linkage to Purchasing

## DEFINITION:

Description of the linkage between Graham overall corporate business objectives/specific goals and the strategies and priorities in purchasing.

## PRINCIPLES:

- Based on Graham senior management direction regarding business objectives, Global Sourcing develops objectives and strategies that encompass purchasing activities. These are renewed annually and measured/reported to management.
- Gaps between purchases objectives and actual results are identified, and plans developed to close the gaps.





# Global Organization – Structure and Linkage

## DEFINITION:

Purchasing is the commercially-oriented discipline which focuses on supplier relationships and market understanding to deliver best value to Graham for required materials, services, and capital items.

## STRUCTURE:

Regionally located, but globally linked and oriented. Key locations are in York, Pennsylvania, USA, Paris, France, and Sao Paolo, Brazil. The York group's report directly to the Vice President of Global Sourcing, and are linked to the North American business General Managers on a dotted line basis. The Paris based organization reports directly to the General Manager, Europe and is linked dotted-line to the Vice President, Global Sourcing. Similarly, the Latin American Global Sourcing organization, based in Sao Paolo, reports locally on a solid line basis to the Latin American General Manager, and on a dotted line basis to the Vice President, Global Sourcing.

## ORGANIZATIONAL LEVELS:

Global commodity managers report directly to the Vice President, Global Sourcing for delivering best value to Graham in Resin and Colorants, Packaging/Services and Capital. Regional and local commodity manager reports to the local business unit.

## GLOBAL LINKAGE:

We operate in global markets and link organizationally across the regions to maximize best value to Graham globally. This means close collaboration among regionally located groups to share information, pool volumes, and benchmark to help improve results.

## PRINCIPLES:

- We share best approaches across regions and designate lead managers in each commodity grouping to coordinate global activities. We search and reapply learning from external and internal sources.
- We make clear choices after reviewing opportunities and available resources, placing priority against the greatest potential projects and spending pools.
- We measure and communicate our results in a format friendly and useful to general management.
- We train all members of the organization regularly, and build an ever more capable, results-oriented organization.
- Members of our organization are talented, skilled and well trained in Sourcing, and practical in approach.
- We establish compatible global information systems to assist in our work and aid in rapid communication to other parts of the organization, suppliers, and customers.





# The Role of Sourcing

## MISSION:

The Global Sourcing Group exists to assist the company to increase profitability. This is achieved by helping grow sales or by reducing the cost of sales. The Sourcing group also obtains needed goods and services from the marketplace at best value to Graham.

## SOURCING'S RELATIONSHIP TO GENERAL MANAGEMENT AND OTHER DISCIPLINES

- Global Sourcing is a supplier of information to general management and other disciplines regarding cost outlooks and market pricing forecasts, material and service availability, and competitive activity. Global Sourcing is a proactive window on the marketplace.



- Global Sourcing advises general management on commercial issues, based on Global Sourcing's experience in dealing with multiple marketplaces and suppliers.
- Global Sourcing recommends options to improve Graham's competitive position, improve profits, and seize unique market opportunities or supplier proposals.
- We work collaboratively with other disciplines in Graham to achieve corporate objectives. We work hard to understand and assist in the achievement of other disciplines' goals.
- Global Sourcing develops priorities and a plan based on Graham corporate business direction, and renews these plans annually.



# Supplier Relationships

## DEFINITION:

The various ways we interface with suppliers, what we expect and what we offer, short and long term.

## PRINCIPLES:

- We strive to provide agreements for all commitments where it is important to capture the terms of an understanding between Graham and a supplier.
- The type of supplier relationship(s) chosen for material or service is derived from the sourcing strategy for the material/service. Our choice in the strategy to induce competition or create collaboration with a single source drives the type of relationship.



- Maintenance of multiple suppliers for a material or service is a choice we make, but single sourcing is an equally valid choice, depending on the sourcing strategy.
- We reward suppliers for best value primarily with increased business or a longer-term contract.
- We expect from suppliers all of the following:
  - Aggressive, proactive behavior and proposals that yield better value to Graham
  - Market information to enable our competitiveness and continued business health
  - Regular, creative idea flow
  - Perfect orders--meets quality objectives, on time delivery to the correct location, the correct material or service as ordered, and billed correctly
  - Discretion with all Graham information and absolute protection of Graham confidential information
- We do not guarantee profits; these are determined by the market in which our suppliers participate. We are committed to help make our suppliers as efficient as possible and assume that reasonable performance against commitments in line with supplier proposals will yield a profit for the supplier.

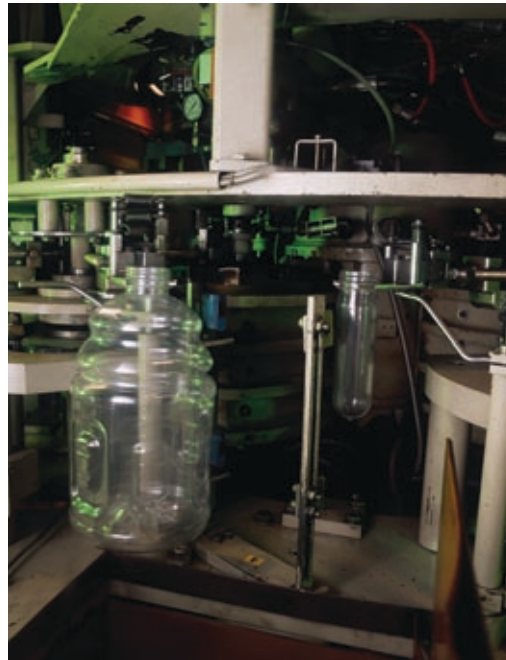
# Incumbent Supplier Treatment

## DEFINITION:

An incumbent supplier is one that currently supplies a material, service or capital good. To be considered an incumbent and governed by the principles below, the supplier should have a significant part of the business, typically covered by contract.

## PRINCIPLES:

- Incumbency is important as protection to Graham long term, not because it provides protection for the supplier.



- We do not move business from an incumbent supplier unless the alternative total value offered is significantly better than that of the incumbent.
- Incumbency is not a long-term guarantee of business, because our business may change. Rather it is a way of creating loyalty from a supplier and an encouragement to the supplier that long-term good value from current supplies will be rewarded by Graham with consistent awards of business.
- We expect incumbent suppliers to keep us competitive with their market. Failure to do so will do significant harm to the relationship.
- We resolve issues with suppliers on a fair and factual basis.
- All things being equal, we will continue to buy from an incumbent supplier.
- When we bid, we will only include suppliers that we are confident can successfully complete the contract.





# Purchasing Value

## DEFINITION:

Obtaining the best combination of price, service, quality, non-acquisition costs, and supplier technology.

## PRINCIPLES

- We will use the Vendor Selection Model as a framework for determining a numerical best value and to clearly demonstrate where suppliers are falling short of our objectives.
- Creation of value is a continual improvement process, and our activities are aimed at increasing value to Graham constantly. We proactively and productively change the status quo.



- Development of viable alternatives as a means to a better value end/solution (e.g., longer term contracts, various specifications).
- We develop and document strategic sourcing plans for high priority cost pools and other critical goods, services and capital items.
- Obtaining best value may include complete outsourcing of a service or manufacture of an item.



# Purchasing Ethics and Code of Conduct

## DEFINITION:

The Graham Purchasing system of values and behaviors, toward suppliers, Graham employees in other disciplines, and others in Global Sourcing.

## PRINCIPLES

WE STRIVE TO BE A PREFERRED CUSTOMER, SINCE WE ALWAYS FOLLOW THESE PRINCIPLES:

- We obey the letter and the spirit of all laws, wherever we operate.
  - We are candid, accurate, and truthful in all we communicate.
  - We do not bluff... We are as good as our word.
  - Our commitments are thoughtfully considered before execution and we honor our commitments to the best of our ability. If a business situation makes a commitment impractical, we communicate that to the supplier and our management. Then we do what is fair and reasonable to reach a settlement.
  - We do not “burn bridges” to a supplier except in response to unethical behavior by the supplier. In such a case, we communicate that clearly to the supplier and offer time for a response that is satisfactory.
  - We identify personal conflicts of interest and remove the individual from decision making in that situation. We expect an individual to explain a conflict situation to his/her manager, and to cooperate in resolution of conflict.
- Graham Packaging employees will not accept or solicit anything for personal use or benefit from a supplier. Unsolicited supplier logo/advertising/promotional items, business meals or entertainment with the supplier present for the purpose of relationship building, and other items of nominal value that are merely tokens of appreciation and not related to any particular transaction may be accepted.
  - We pay our way in projects that involve significant risk for the supplier. If the project fails or changes significantly, we want the supplier to collaborate on future Graham projects without onerous conditions toward Graham.
  - We do not exploit honest supplier errors, and we pay our obligations on time.





# Risk Management

## DEFINITION:

Mechanisms or policies that protect Graham from precipitous or significant loss while purchasing materials, services, or capital goods over time.

## PRINCIPLES:

- We purchase reasonable amounts of necessary materials to supply agreed production schedules.
- We make service commitments that support agreed, best forecast needs.
- We make capital commitments only to support business plans agreed by general management.
- We do not speculate in any market by taking aggressive positions that expose the Company to unforeseen market changes.

- Commitments should aim for flexibility in quantities, adjustability of pricing that will protect Graham, and length of commitment that recognizes potential business changes.
- We have backup/disaster plans for all strategic materials, services, and capital goods.



# Delegation of Authority

## DEFINITION:

Documentation of specific spending and commitment limits that personnel must conform. Further, specific approvals that must be gained to exceed these limits.

## PRINCIPLES:

- Limits flow from the authority granted to the CEO of each corporate entity.
- Limits, dollar and length of commitment, are proportionate to the organization level...i.e., the higher the level, the greater the authority.
- Limits are proposed every 3 years by the Vice President of Global Sourcing, then reviewed and agreed by the CEO, COO and the CFO .

- All commitments to outside vendors/suppliers of materials, services and capital are made by Global Sourcing, unless formally delegated to other personnel by the Vice President of Global Sourcing in the delegation of authority documents.

- Commitments to suppliers of materials, services, and capital goods are documented via contracts and/or purchase orders.

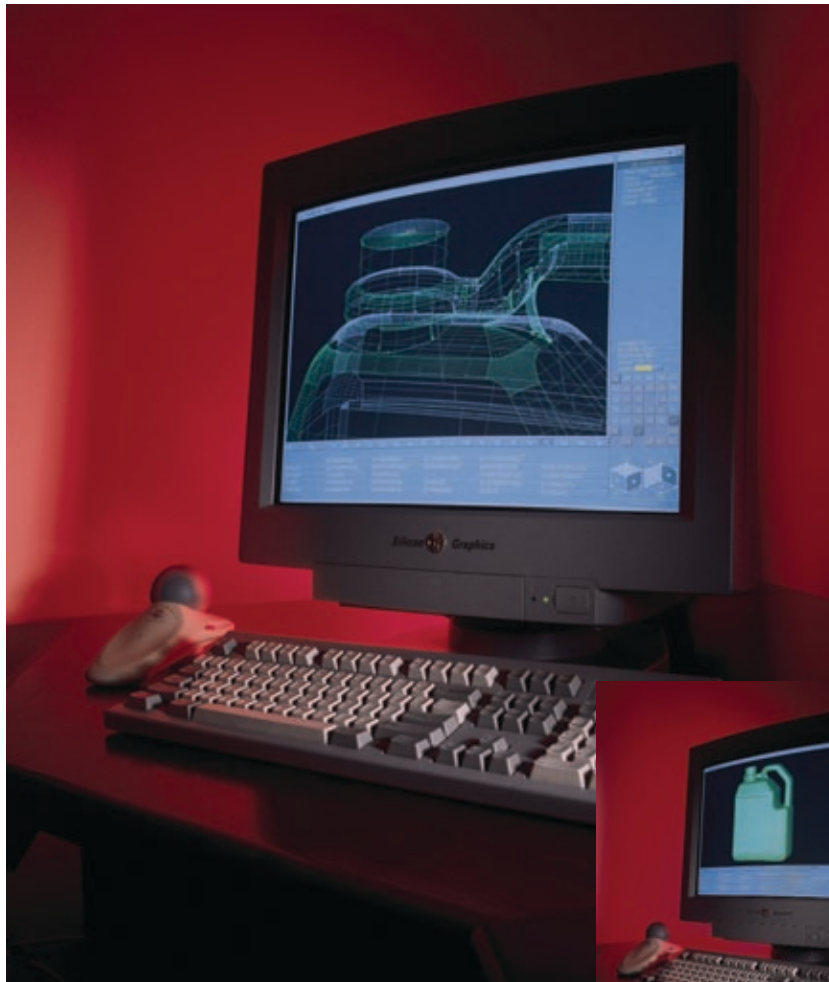
- Releases of materials and other items are made against approved purchase orders and contracts.
- There is to be a separation of duties among creating the obligation, releasing the materials, and approving the invoice.
- Any prices agreed to and entered into the financial system must have double approval within the Global Sourcing Department.
- See Global Sourcing Procedure Manual for specific levels of authorization.



# Request for Quotation/Inquiry

## DEFINITION:

Periodic survey of the market and suppliers which can provide materials, services or capital goods.



## PRINCIPLES:

- We will not conduct “phantom” RFQs where we have no interest in awarding business, but are simply testing the market.
- We will conduct pre-RFQ discussions with incumbent and other potential suppliers. In these we will detail our volumes, quality expectations, service requirements, our market outlook and business needs, etc. This preparation enables suppliers to develop thoughtful, comprehensive, proposals.
- We encourage and expect creative proposals.
- We will set deadlines for responses to the RFQ, and maintain the deadlines. If the deadline must be extended for good reasons, then all suppliers are given extra time.
- If we plan to renegotiate after receipt of basic proposals, we will announce this to all suppliers.
- The Vendor Selection Model will be used to evaluate the proposals.
- Awards are communicated to “winners”, and those not receiving business are given brief “reasons why”.
- Awards are followed by contracts or purchase orders.

# Negotiation

## DEFINITION:

Discussions between Graham and a supplier aimed at developing and agreeing to terms of a commercial arrangement.

## PRINCIPLES:

- All business discussions are negotiations.
- We do not bluff; we are consistent, ethical and fair.

- We understand our management's boundaries and mandates before we start our discussions.
- We are better prepared prior to the negotiation, hence we develop a better outcome.
- Training in negotiation skills is a pre-requisite to conduct of negotiations.
- We aim for win-win agreements with suppliers.
- When we cannot commit without management approval, we will tell the supplier up front.



# Controls and Standards

## DEFINITION:

Guidelines and procedures which ensure consistent purchasing processes and safeguard of company assets.

## PRINCIPLES:

- Contracts and purchase orders document our commitments, including volumes, time periods, prices and other critical understandings with the supplier.
- Commitments are consistent with delegation of authority limits.
- Global Sourcing is the company's agent for purchases of goods and services, with all exceptions agreed beforehand by the CEO or COO, or spelled out in the delegation of authority documents.
- All sourcing personnel are trained in standards and control mechanisms.

- Separation of duties are articulated, understood, and not violated...i.e., ordering, receiving, and invoicing.
- Training is in place and regularly conducted for all sourcing roles regarding areas critical to effective execution of responsibilities.
- We protect confidential information via formal written agreements between our suppliers and Graham.



# Strategic Sourcing Policy

## DEFINITION:

A consistent, comprehensive methodology for development of purchasing strategies — materials, services, and capital goods — this process includes analyses of the market forces and supplier capabilities, Graham business needs and purchasing choices to meet those needs, and execution plans to deliver objectives.

## PRINCIPLES:

- A documented sourcing strategy exists for each key material, category, service and capital item or project as determined by the Vice President of Global Sourcing.
- The strategy is reviewed each year with key internal customers (general management, manufacturing, finance) and renewed as appropriate. If Graham business needs are revised, the strategy is re-examined for fit.

• A sourcing strategy describes:

- OBJECTIVES/GOALS...with linkage to Graham business objectives.
- EXTERNAL ENVIRONMENT...market forces, competitive moves, supplier capabilities
- CURRENT SITUATION...Graham's position in the market and relevant external commitments
- GAPS...between Graham current results and sourcing objectives
- INTERVENTIONS...what is necessary to close the gap?
- SUPPLIER RELATIONSHIP STATUS...desired state to achieve objectives



- Choices made to reach objectives (e.g., introduction of new supplier, RFQ)
- Rationale for each strategic choice
- Key next steps and timing for each...measures we will use.
- Completed Vendor Management System





# Competitive Advantage Through Purchasing

## DEFINITION:

A sustainable, significant advantage derived from a purchasing arrangement that accrues to Graham and/or Graham's customers.

## PRINCIPLES:

- We can deliver competitive advantage to Graham via unique supplier relationships or better market understanding and execution.
- Sourcing can assist in formation of relationships with customers that provide competitive advantage to the customer via better value from Graham. Examples are joint material purchases and tightly linked supply chains with the customer. These customer relationships are guided by marketing and general management.

- Maintaining and improving competitive advantage is achieved via purchasing tools including benchmarking, favored nations contracts, and meet or release contract clauses. We also leverage volumes via consortium purchasing, and create exclusive technology sharing agreements with suppliers.
- We constantly challenge suppliers of strategically important materials, services, and capital goods to demonstrate how they are delivering competitive advantage and better value to Graham.





# Vendor Management System

## DEFINITION:

Graham Packaging's measuring of suppliers performance is based on the following factors: contract, delivery, quality, technology, performance, supply chain, in-use performance, communications, commercial reputation, and culture.

## PRINCIPLES:

- Factors are further divided into important, relevant elements. For example, "commercial" includes contract management, decision-making, follow-up, proactive information, and innovation.
- Factors are weighted according to the relative importance of each for respective materials, services, and capital items.
- Data supporting each factor are developed via ongoing key performance indicators (KPI's). For example, quality data developed at each Graham plant is collected and summarized to support overall quality ratings.



- There are four main KPIs that will be used to monitor suppliers performance. Suppliers will be given a new score on each item once a quarter.
  - **Returns to Vendor:** This is a measure of quality. Reasons for returns will be compiled and returns that are due to supplier errors will be counted.
  - **On time delivery/shipping:** This is a measure of the ability of our supplier's supply chain to react to our orders and deliver them in an agreed to time period.
  - **Perfect Orders:** This is a measure of the ability of our supplier's supply chain to react to our orders and deliver perfect orders.
  - **Catalog errors:** This is a measure of the number of price corrections made on a POA.



# Value Consistency

## DEFINITION:

Value includes combinations of price, service, quality, non-acquisition costs and supplier technology.

## PRINCIPLES:

- We strive for consistent value between all suppliers of similar products.
- We do not pay premiums to any suppliers of similar products.
- To the extent that a supplier has a competitive advantage, we want to be able to benefit from that advantage.
- We will attempt to balance dissimilar value offerings based on the vendor management system.





GRAHAM PACKAGING COMPANY