Amcor Tobacco Packaging

2011 GAA Conference

Cost Control
Wednesday September 14th

Company overview

- A top 5 multinational packaging company.
- A$14 billion annual sales
- Headquartered in Melbourne, Australia.
- Listed on the Australian Stock Exchange (ASX) and London Stock Exchange (Eurobonds).

Sales*

A$14 billion

Co-workers

35,000

Countries

43

Sites

300+

Sample Packaging

amcor

Innovative Cost Control- Index Your Pricing

1. What is Index Pricing?

   Why is it not used more frequently?

2. Practical Application

   Example: Liquids

3. Advantages

4. Where should you start?

Innovative Cost Control- Index Your Pricing

What is Index Pricing?

Agreed Triggers + Agreed Intervals = Price (up/down movements)

- Triggers (inputs) are one or more accepted influencing variables
  - More Common: Oil, Energy, Pulp, Metals, Feedstocks, Inflation
  - Less Common: Capacity, Competition, CI/Quality Gains
- Interval Options
  - % Movement, Rigid Timeline, Supply Chain Dependency

Why are indexes not used more often?

1. Fear- loss of control over margin growth opportunities
2. Fluctuation/Variation- explanations can be tiresome
3. Complexity- some require the skills of an Actuary

Innovative Cost Control- Index Your Pricing

Example for Liquids

Quarterly Price Adjustment=

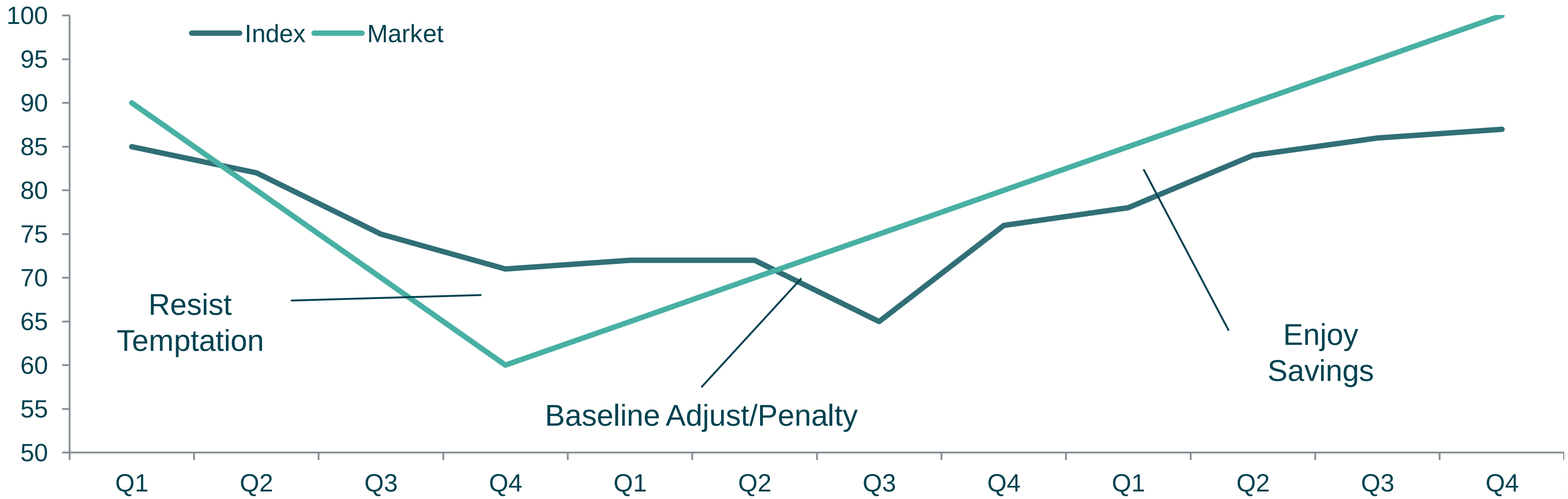
Baseline $A + : ____________ +

.5 (Quarterly move in $V1) + ____________ +

100% Region Price Shift of $V2 ____________ -

Late Delivery Penalty (____________)

Final Price: $\boxed{}$



Advantages of Indexes

1. The time & stress of negotiation takes place <u>once</u> during contract lifespan
2. Price Adjustments, though pre-determined, can be modified
3. Enables more focus on value add
   - Vendor and Customer working together to grow the profit pie

     (vs. fighting for the biggest piece)
4. Timely cash flows
5. Insulation against large swings in feedstock commodities
6. Eliminates “Foot in the door” strategy when putting business to bid

Where to Start

1. Do your research on feedstocks to the materials you buy
2. Conduct correlation analysis between feedstocks history and your price history
3. Using a spreadsheet and your collective feedstock price history- start creating several potential formulas
   - Model these formulas to both real world and hypothetical (worst/best case) scenarios
4. Get buy in to the risk/rewards associated with each formula and settle on the hybrid formula that your team/organization is comfortable with
5. Keep your notes handy in e-mail form so you can remind the team why your price changes didn't react evenly with the market