Initial Assessment

Actual Full Business Assessment Report

Case Study
COMPANY Goals

- Grow enterprise value over next 3 to 5 years and position for transaction.
- Stabilize current manufacturing operations in N.A. and Globally
- Penetrate N.A. Segment and grow retail carrier bag share to minimum of 16 Billion units or 16% share
- Shift output of Malaysian plant to North America.
- Increase N.A. EBITDA from current level
Initial Assessment

➢ Current N.A. Situation

➢ N.A. Market Perception of COMPANY is low
  ➢ Market Credibility is low
  ➢ Leadership Presence is low
  ➢ Product Quality Perception is low
  ➢ Customer Support Perception is low
  ➢ Delivery and Service performance is perceived as low
  ➢ Sales Representation is ineffective

➢ COMPANY Plant is Sub-Optimal
  ➢ Plant Leadership capability needs improved
  ➢ Currently operating at 80% capacity
  ➢ Current customer base is assumed to have marginal profitability
Initial Assessment

- **Current Malaysia Situation**
  - New Leadership with Lean Principles need to be deployed
  - Capacity is 8,000 MT/Month (approx 1.25 Billion Bags/Month)
  - Capacity Utilization is 70%
  - Current Customer Base is assumed to have upside profit potential
  - Current Customer Base dependent on Asian and Continental Europe demand.
  - Plant has been Capitalized within last 8 years
  - Material Usage effectiveness is not benchmarked
  - Labor efficiency is not benchmarked
  - Cost Competitiveness is not benchmarked
**Initial Assessment**

**Supplier Power: High**
- Resin suppliers have strong Oligopoly Behavior
- Forward integration threat is likely with Hilex largest resin supplier
- Main raw material (High Density Poly Ethylene “HDPE”) is a low profit output for energy converters.

**Barriers to Entry: Med**
- High start-up costs
- Assets (extruders and bag machines) are unique to plastic film businesses
- Customer relationships and market credibility is very important

**Threat of Substitutes: Med**
- Legislation mandating use of alternative products is greatest threat.
- Paper bags are not a competitive substitute at a cost of $50 per thousand versus $14 per thousand for plastic bags.
- Plastic provides better performance. (i.e., moisture and puncture resistance)
- Bags can be highly customized products with short lead times depending on customer preference

**Industry Competition: High**

**Low Rivalry Traits:**
- Economies/efficiencies gained from dedicated manufacturing lines.
- Highly differentiated service / design / fulfillment capabilities
- Low number of large competitors

**High Rivalry Traits:**
- NA Capacity exceeds NA Demand
- Total Global Capacity exceeds Global Demand
- Low switching costs
- Little product differentiation
- High fixed costs

**Buyer Power: Med**
- Product is relatively commoditized
- 75% of Market Volume controlled by 40 customers
- Buyers use of Internet Auction is reducing purchase price and creating annual or 2 year contracts only.
Initial Assessment

Domestic Market:

- Kmart
- Home Depot
- Big Lots
- Sobeys
- Wakefern Food Corp.
- Winn-Dixie
- A&P
- Lowes Home Improvement
- AWG
- Pathmark
- Wegmans
- Stater Bro
- Giant Eagle
- JCPenney
- Wal-Mart Stores
- Kroger
- Albertsons
- Safeway
- Publix
- Ahold
- BUNZL
- CVS
- YUM
- target
- Dollar General Corp.
- Delhaize America
- Loblaw
- Walgreen
- Rite Aid
- Dollar Tree
- Family Dollar
- Rite Aid
- SuperValue Wholesale
- Meijer Inc.
- H.E. Butt Grocery Co.

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Strategic Approach (90 to 100 days)

- Position Company as viable N.A. competitor
- Diagnose and Correct Customer Perceptions
  - Product Quality and Performance
  - Customer Service Effectiveness
  - Develop Value Add Sales approach
- Create Sales Strategy for Share Growth and Profit
- Deploy Energized Sales Team into Market
  - New Talent if needed
  - Improved broker network
  - Leverage team customer contacts
Proposed Approach (Diagnostic)

Initial Diagnostic in Four Key Areas

1. Market Credibility
   - Team Brings step change in perceived commitment to the NA Market
   - Conduct Customer Interviews for direct feedback of gaps
   - Diagnose and Correct Sales Representation gaps
   - Reposition Euro NA with Customers and Broker Networks

2. Customer Service and Support
   - Diagnose Current Customer Service Capabilities and close gaps
   - If not present, install appropriate Order Entry, tracking, and invoicing systems
   - Establish single point of contact for each customer.
   - Evaluate Product Supply Chain, Logistics, and Warehouse Strategy
3. Product Quality
   - Assess MFG team in COMPANY and adjust talent as needed
   - Assess product performance in market close gaps
     - Dimensions, Open-ability, Strength
   - Ensure N.A. market standards are met
     - Resin Recipe, Corrugate, Ink coverage
   - Assess current quality control system and close gaps
   - Evaluate Malaysian Systems for quality gaps

4. Profit Improvement Process
   - Determine Customer Specific Profitability by Product
   - Determine Raw material efficiency for quick gains
   - Evaluate equipment effectiveness and resultant cost position
Proposed Approach

Four Goals

1. Sales Plan
   - Develop Value Add Sales Strategy to include
     - Vendor Manage Inventory Capability
     - Potential Short Run Capability for increased Margin
     - Green Strategies
   - Develop Customer Specific Sales Plan for 2008 & beyond
   - Reposition Sales talent for growth
   - Mix Manage Current Base to maximize profit

2. Maximize cost position of COMPANY NH
   - Scheduling effectiveness
   - Change Over effectiveness
   - Evaluate use of purchased Post Industrial material
Proposed Approach (N.A Growth)

Goals

3. International Import Strategy
   - Maximize use of Malaysian Plant in North America
   - Supplement Customers with complementary imported products
     - Garment, Merchandise, etc
   - Benchmark Asian Plant cost and capability position.
   - Develop other International Suppliers For Continued NA Growth

4. Complete N.A. Overall Strategy and Profit Potential
   - Level Set 2008 NA business Plant
   - 3 Year N.A. Strategic Plan
     - Complete Financials
     - Complete Capital needs
     - Complete Liquidity requirements