

RE: Mars Pet Nutrition - Cost Price Increase (12 September 2022)

From: Paul Carroll <[REDACTED]@coles.com.au>
To: "Nankervis, Luke" <[REDACTED]@effem.com>; "Conkling, Justin" <[REDACTED]@effem.com>
Cc: Chad Burke <[REDACTED]@coles.com.au>; Brian Keane <[REDACTED]@coles.com.au>; "Barrett, Lane" <[REDACTED]@effem.com>; "Byrnes, Anthony" <[REDACTED]@effem.com>; Cost Price Increase Requests <costpriceincreaserequests@coles.com.au>; "Conkling, Justin" <[REDACTED]@effem.com>; Emma Bates <[REDACTED]@coles.com.au>; Indi Tait <[REDACTED]@coles.com.au>
Date: Fri, 15 Jul 2022 19:19:59 +1000
Attachments: Summary - Mars Petcare.xlsx (4.08 MB)

Hi Justin,

Thanks for sending this across. Myself and Brian will work through the detail of this.

We have received the feedback from the VMO. Their steer is as follows:

- We have completed the review of the request for **206 SKUs** from **Mas Petcare** in the Pet Food categories. We have found that **6.1% (\$13.0m in COGS p.a.) can be justified** of the request for **13.8% (\$29.6m in COGS p.a.) with a gap of \$16.6m in COGS p.a.**

Please refer to the attached file for more details (Summary – Mars Petcare). You can share this file with the supplier.

Callouts:

- As the supplier did not submit cost allocations by commodity, we have arrived at cost compositions of commodities using should cost modelling and standard industry benchmarks. For this reason we also cannot share our allocations with the supplier
- We have used the supplier's indicated commodities in the submission template as guidance
- Indices
 - As raised in the previous CPI, we have limited indices available for pet food grade specific commodities. If the supplier is willing to share the monthly data points for their indicated indices we are happy to update our analysis
 - We have matched our indices to the supplier's indicated indices as close as possible however due to data limitations we have considered alternatives for some indices
 - We do not have access to an Australian Bentonite index (8582103 CATSAN ULTRA CAT LITTER CLUMPING CLAT7KG) or Paramethin & Piperonyl Butoxide indices (8460434 Exelpet Fleaban House Carpet Spray 375ml) so have only considered packaging and freight components for these SKUs, as such may be more suited for a commercial discussion for the category team
- Last price change/baseline
 - For products part of the November 2021 CPI, we have used January 2022 as the baseline as we considered data up until that point in time previously
 - For other products we have considered the data in the supplier's submission as they are in line with internal system dates, except for the following 3 SKUs which appear to be newly ranged and so have used system ranging dates:
 - 4931346 SCHMACKOS TASTY BITES CHEESY NIBBLES CHEESE & BEEF DOG TREAT 140

GRAM:BEEF WITH CHEESE::140 GRAM

- 4931335 SCHMACKOS TASTY BITES BEEF CHEWY SLICES DOG TREAT 155 GRAM:CHEWY BEEF::155 GRAM
- 5189323 TEMPTATIONS CAT TREAT HEARTY BEEF 350 GRAM

If the prices seen in our market indices do not correlate to the price trends experienced by the supplier, they can provide us with some sort of documentary evidence to support price movements they have quoted (either in the form of contracts or invoices or any publicly available indices)

Coles is committed to protecting the confidentiality of any data provided by any supplier as part of the cost price adjustment process. However, to address any concerns they may have about the provision of confidential information the supplier may:

- a. Enter into a confidentiality agreement in relation to the information provided (with Coles CCT) i.e. to share invoices to confirm the cost increases*
- b. Engage an independent third party to conduct a confidential review of the information and provide a recommendation to Coles. The identity of the independent third party is to be agreed between the supplier and Coles and the cost of such review will be shared equally by both parties.*

Next Steps:

- As you know we are disappointed to receive another CPI in the space of such a short time and already shared our concern regarding the extensive frequency Mars has proposed cost price increases over the previous years and in a short time frame. This really has stunted both our ability to grow. In the spirit of partnership and avoiding this from happening again, I will partly accept the CPI to the sum of 6.1% (\$13m in COGS p.a) on the go live date, reflective of the VMO analysis. In return Coles will allow Mars to maintain all existing ranging related the CPI outside of range review despite the cost price increase. However Coles must flag we do feel the cost price increase will come at a detriment of their performance but Coles will remain committed to voice the performance and customer impact concerns (should there be any) in advance of review.

I do believe this to be a winning outcome for Mars. Please let me know if Mars accepts or declines this proposal.

Kind regards,

Paul Carroll

Senior Category Manager - Pet

800 Toorak Road Hawthorn East Victoria 3123 Australia

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coles

Good things are happening

From: Nankervis, Luke <REDACTED-@effem.com>

Sent: Friday, 8 July 2022 2:50 PM

To: Paul Carroll <REDACTED@coles.com.au>

Cc: Chad Burke <REDACTED@coles.com.au>; Brian Keane <REDACTED@coles.com.au>; Barrett, Lane <REDACTED@effem.com>; Byrnes, Anthony <REDACTED-@effem.com>; Cost Price Increase Requests <CostPriceIncreaseRequests@coles.com.au>; Conkling, Justin <justin.conkling@effem.com>

Subject: RE: Mars Pet Nutrition - Cost Price Increase (12 September 2022)

Hi Paul,

Thanks for your patience in us getting this template back to you.

Please see the below methodology we've used:

- **Current**

- Current plan is a reflection of the annual promotional plans for each SKU from the end of February 2022, or when the CPI took place earlier this year.
- The exception to this is pack groups that have changed plans since this date (i.e. Whiskas Oh So 24pk), and instead the modelling reflects an annual plan on the current strategy.

- This will also mean that the current plan includes where we have cancelled promotions due to supply.

- **New**

- New plan is a reflection of the annual promotional plans for each SKU post the September Cost Price Increase (live date 12/9/22).
- The new plan will include our total maximum frequency should supply be sufficient to execute these.
- We are taking this opportunity to move all red ticket products back to Down Down after the cost price increase. This means products currently on Down Down will establish for 4 weeks post 12/9, then move to their new price. 4 weeks of price establishment is reflected in the modelling.

- **RRP**

- Please note this spreadsheet references RRP, not the Coles white ticket price. As such, we have reflected RRP's in this column which do not all align with the white ticket prices, due to your decision to move above the RRP price in February.

- **Funding arrangements**

- This new modelling has been completed to maintain margin pre vs post the cost price increase – Pre-CPI vs post-CPI RRP & maximum promotional price points.
- We have used this opportunity to balance the split between unit deals and BSCW deals for Down-Down products, ensuring that the white ticket margin during price establishment is the same percentage margin as when the product will be on Down-Down. This will mean you may see a movement in "net net unit price" on these products, but no change in the margin percentage of the Down Down.
- We have kept the same margin profile between base and promotion on most Hi-Lo products in this modelling; however we would like to discuss how we create sustainable promotional funding models moving forwards.

- **Run rates**

- These numbers reflect current run rates, or run rates updated with latest distribution (for Cat), or our aligned forecast for products just entering range now (i.e. Whiskas Favourites 12pk).

As always, pricing is at the sole discretion of the retailer, and margin is a projection only.

Please reach out to Justin, Anthony & Lane in my absence should you have any questions.

Thanks,

Luke

Luke Nankervis (he/him)
Customer Development
Head | Coles

Mars Petcare Australia
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Mars Petcare respectfully acknowledges the Traditional Custodians of the land on which we live and work, and pay our respects to their Elders, past, present and emerging.

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From: Paul Carroll <REDACTED@coles.com.au>
Sent: Tuesday, 21 June 2022 7:53 AM
To: Conkling, Justin <REDACTED - @effem.com>; Cost Price Increase Requests <CostPriceIncreaseRequests@coles.com.au>
Cc: Nankervis, Luke <REDACTED - @effem.com>; Chad Burke <REDACTED@coles.com.au>; Brian Keane <REDACTED@coles.com.au>
Subject: RE: Mars Pet Nutrition - Cost Price Increase (12 September 2022)

[EXTERNAL]

Hi Justin,

Thankyou for sending through. As expressed whilst we acknowledge that times are certainly challenging it is unsettling to us how much Mars have disproportionately taken price over the last 3 years and even more worrying the last 6 months.

As a result, Brian from the central commercial transformational team here at Coles will be assisting me. Whilst we wait for the VMO, can I ask you familiarise yourself (or even start completing) the template attached which will assist Coles coming to an agreement on the level we accept much sooner on your proposed cost price changes.

I will also flag potential deleted lines that we would find no longer commercially viable as a result of the proposed cost increases.

Kind regards,

Paul

From: Conkling, Justin <REDACTED - @effem.com>
Sent: Friday, 17 June 2022 5:29 PM
To: Cost Price Increase Requests <CostPriceIncreaseRequests@coles.com.au>
Cc: Paul Carroll <REDACTED@coles.com.au>; Nankervis, Luke <REDACTED - @effem.com>
Subject: Mars Pet Nutrition - Cost Price Increase (12 September 2022)

Hi,

Please find attached the Coles Cost Price Increase submission template for Mars Pet Nutrition. The

CPI will be effective from 12/9/22. Please advise if you need any further information.

Best regards,

Justin

Justin Conkling (he/him)
 Customer Development Director - Coles
 Mars Petcare Australia
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We work flexibly at Mars Petcare. I'm sending this email at a time that suits me. Please feel comfortable knowing that I do not expect you to read, respond to, or action it outside your normal working hours. Mars Petcare respectfully acknowledges the Traditional Custodians of the land on which we live and work, and pay our respects to their Elders, past, present and emerging.

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