

RE: Mars Pet Nutrition - CPI

From: "Nankervis, Luke" <[REDACTED]@effem.com>
To: Paul Carroll <[REDACTED]@coles.com.au>
Cc: Chad Burke <[REDACTED]@coles.com.au>; Brian Keane <[REDACTED]@coles.com.au>; Emma Bates <[REDACTED]@coles.com.au>; "Barrett, Lane" <[REDACTED]@effem.com>;
 "Byrnes, Anthony" <[REDACTED]@effem.com>; "Conkling, Justin" <[REDACTED]@effem.com>
Date: Thu, 01 Sep 2022 16:06:38 +1000
Attachments: CPI - Commercial Trade Plan Template 01.09.22.xlsx (821.3 kB); Focus Packs Modelling_1.9.22.xlsx (191.89 kB)

Hi Paul,

Thanks for your time on Tuesday and today to further discuss our Cost Price Increase. As a business, we are currently experiencing significant impacts as a result of rising costs. We don't take passing increase costs onto our retail partners lightly, however we find ourselves in the position of needing to take this increase to continue to operate profitably and sustainably. We find ourselves in unprecedented times, and although I understand your sentiment around our history of cost increase since 2019, we have continued to demonstrate that these are justified and have worked with Coles to continue to move our relationship forward.

Please see attached the promotional submission template.

We have reviewed your further feedback, and believe we have pulled together a number of additional initiatives that meet your key concerns. This builds a comprehensive plan to drive margin progression, promotional excellence, support for Coles key initiatives and manages costs through the transition period.

- *** Total Supplier Funding** – our proposal represents a further +\$[REDACTED] investment in supplier funding. Supplier Funding initiatives are broken down into the below:
 - *** Margin Investment** - You can see below our progress against your margin targets based on our calculations. We have used a 52 week forward looking view, including innovation, which may mean that the margin basis that we are measuring against is different to your calculations. This means products that are not going through a CPI in September are also included in the base calculation. This only includes margin that is currently accepted into range, and investments agreed as part of range reviews already concluded (i.e. Cat July 2022 & Dog September 2022). This represents +\$[REDACTED] improvement in Mars' 5th margin, on top of the average increase of almost [REDACTED] we are having this financial year so far.
 - *** We have looked to address your tension on specific packs where possible.** Please note there are no packs that are moving backwards from a blended margin perspective versus their RRP's. For packs you have questioned, we've attached a spreadsheet ("Focus Packs Modelling") to provide the total promotional modelling view we have so you can see the blended margin values for these packs.
- *** Promotions** – we have added 2x additional Dine Creamy Treats 30% off promotions and 1x Pedigree Dentastix 28pk 40% off promotion to the plan to drive key must-win segments. This drives an additional +\$[REDACTED] of 5th margin value.
- *** We also identified an issue that was understating the value of the Down Down promotions we are supporting and have corrected this in the latest modelling.**

CATEGORY	FROM			TO			TARGET	v TARGET	Progress vs Target
	RSV (incl. GST)	5TH TM \$	5TH TM %	RSV (incl. GST)	5TH TM \$	5TH TM %			
LITTER	\$9,158,524	[REDACTED]	[REDACTED] %	\$11,311,529	[REDACTED]	[REDACTED] %	[REDACTED] %	-3.7%	0.0%
WET DOG	\$83,063,508	[REDACTED]	[REDACTED] %	\$95,535,505	[REDACTED]	[REDACTED] %	[REDACTED] %	-1.1%	1.2%
DRY CAT	\$27,197,057	[REDACTED]	[REDACTED] %	\$31,982,634	[REDACTED]	[REDACTED] %	[REDACTED] %	-3.5%	1.4%
WET CAT	\$112,716,235	[REDACTED]	[REDACTED] %	\$131,094,705	[REDACTED]	[REDACTED] %	[REDACTED] %	0.1%	0.6%
DRY DOG	\$44,116,914	[REDACTED]	[REDACTED] %	\$46,145,431	[REDACTED]	[REDACTED] %	[REDACTED] %	0.8%	0.0%
DOG TREATS	\$54,940,661	[REDACTED]	[REDACTED] %	\$62,665,726	[REDACTED]	[REDACTED] %	[REDACTED] %	-3.8%	0.7%
CAT TREATS	\$15,711,882	[REDACTED]	[REDACTED] %	\$18,506,568	[REDACTED]	[REDACTED] %	[REDACTED] %	0.3%	0.8%
	\$346,904,780	\$1	[REDACTED] %	\$397,242,097	\$1	[REDACTED] %	[REDACTED] %	-1.1%	0.8%

On top of the above increase in supplier funding, the below elements are also to be considered.

- *** Online Promotions** – as part of this updated proposal we are committing to our Online promotional program for FY24 H1 (July to December 2023). This program is worth +\$[REDACTED] of additional 5th margin value.
- *** Prices Locked** – Mars are committed to supporting Coles' Trusted Value strategy, and as a result are proposing the beneath 12 pack groups move onto the Locked program following the Cost Price Increase.
- *** CATSAN Crystals 2kg, MYDOG Tray 24x100g, OPTIMUM Wet Dog Tray 24x100g, OPTIMUM Dry Dog 15kg, PEDIGREE DentaStix 56pk, SCHMACKOS 1kg, TEMPTATIONS 350g, DINE CLASSIC COLLECTION Tray 14x85g WHISKAS OH SO Pouch 24x85g, WHISKAS Dry 3kg, WHISKAS Milk 1L.**

You have requested that the below two elements not be considered as part of the gap closure; however I would like to highlight that they represent a cost for Mars, and as such I've still included beneath the table for reference.

- *** Margin maintenance through the Cost Price Increase period** – on top of the existing support for the OPTIMUM Masterbrand to maintain percentage margin through the Cost Price Increase period, we are also committed to supporting all other promotions that are not able to move retail price due to price establishment rules. This impacts the Monday/Tuesday of promotions commencing 7/9, and the entirety of promotions commencing 14/9. This is worth an additional +\$[REDACTED] on top of the commitment already provided, totalling +\$[REDACTED] of margin protection investment.
- *** Trading Terms** – as discussed, it needs to be noted that none of your calculations include the additional cost via Trading Terms as a result of the increase in cost price and change in promotional tactics. This is an additional expense from our behalf, and although it is based on an ongoing agreement, it still is additional funding provided from Mars to Coles that needs to be noted as part of this negotiation. **The additional value of this is worth +\$[REDACTED] annually.**

Metric	Impact
Cost Price % Increase Request	13.79%
Annual COGS (Last 12 Months)	\$213.50
COGS Impact	\$29.40
Cost Price % Increase Validated	6.10%
COGS Impact Validated	\$13.00
Gap	-\$16.40

REDACTED - CONFIDENTIAL

Gap after Round 2	-\$5.40
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REDACTED - CONFIDENTIAL

Gap	-\$2.35
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REDACTED - CONFIDENTIAL

Gap	\$2.11
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I also feel it is necessary to call out the gaps in the VMO process of which we are being measured against closing. There were a number of SKUs the VMO were unable to validate accurately due to lack of commodity information, and we were not provided with the detail if any SKUs were validated for more than 100% of the increase submitted. Both of these

variables would have reduced the gap value.

Overall, this is a collaborative and complete plan to manage through this cost price increase in a mutually beneficial way. Please give me a call if you have any questions.

Thanks,

Luke

Luke Nankervis (he/him)
Customer Development Head | Coles
Mars Petcare Australia
M: [REDACTED]
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From: Paul Carroll <[REDACTED]@coles.com.au>
Sent: Sunday, 21 August 2022 8:33 PM
To: Nankervis, Luke <[REDACTED]@effem.com>; Conkling, Justin <[REDACTED]@effem.com>
Cc: Chad Burke <[REDACTED]@coles.com.au>; Brian Keane <[REDACTED]@coles.com.au>; Emma Bates <[REDACTED]@coles.com.au>
Subject: RE: Mars Pet Nutrition - CPI

[EXTERNAL]

Hi Justin & Luke,

Thankyou for sending the below a commercial offer in return for Coles accepting a cost price increase beyond what has already been offered and validated by the VMO (6.1% vs 13.8% requested).

As you know I have expressed both my disappointment and concern regarding this 3rd significant CPI from Mars in 3 years. We only just relieved Mars of your cost price pressures in February and its important I document we accepted your full 9% with no impacts to range. We have now received a 13.8% request which is inclusive of further increases on lines we have already taken price on earlier this year. Mars ability to source and procure has been brought into question and we have adequate concerns about our ability to partner with Mars long term with so confidence another CPI will be submitted post this. I would appreciate if you could echo this pass up though the chain of command at Mars regarding feedback on how your CPI request was received. As my biggest partner-this will continue to be our biggest barrier to growth.

With that being said, it is positive to see that Mars have an appetite to try and step change their business with Coles through this request, and we have taken some time to validate your 1st and 2nd proposals for Coles to accept a CPI beyond 6.1% on 12th September 2022.

CPI Summary

Metric	Impact
Cost Price % Increase Request	13.79%
Annual COGS (Last 12 Months)	\$213.5m
COGS Impact	\$29.4m
Cost Price % Increase Validated	6.10%
COGS Impact Validated	\$13.0m
Gap	(\$16.4m)
[REDACTED]	\$[REDACTED]
[REDACTED]	\$[REDACTED]
[REDACTED]	\$[REDACTED]
Final Gap	(\$5.4m)

- * Round 2 vs Round 1 proposal provides +\$[REDACTED] additional funding to round 1 (which we concluded round 1 was worth approx +\$[REDACTED] in funding)
- * Optimum Masterbrand event offer/online promotions for H1 FY23 are worth approx. \$[REDACTED]
- * We can therefore summarise this proposal is worth approx. \$[REDACTED] with still \$[REDACTED] of opportunities for us to find between us
- * Coles believes the proposal steps forward Coles 5th margin by +50bps from [REDACTED] (not [REDACTED] as Justin has suggested).
- * Mars funding to Coles is increasing +\$[REDACTED] / +[REDACTED]%, mainly driven by BSCW deal which positively offsets the declining unit deal funding across the majority of packs

	Current	Round 1		Round 2		
		Metric	Change from Current	Metric	Change from Round 1	Change from Current
Sales	\$248.3M	\$302.9M	12.9%	\$302.9M	0.0%	12.9%
Volume	66,671,008	70,142,119	2.1%	70,150,119	0.0%	2.2%
ASP	\$3.91	\$4.32	10.5%	\$4.32	0.0%	10.5%
5th Margin \$	\$[REDACTED]	\$[REDACTED]	13.2%	\$[REDACTED]	1.1%	14.5%
5th Margin %	[REDACTED]%	[REDACTED]%	0.1pts	[REDACTED]%	0.4pts	0.5pts
Total Supplier Funding	\$[REDACTED]	\$[REDACTED]	19.8%	\$[REDACTED]	2.2%	22.5%
Non-Promo funding	\$[REDACTED]	\$[REDACTED]	1.5%	\$[REDACTED]	22.8%	24.7%
Promo funding	\$[REDACTED]	\$[REDACTED]	28.4%	\$[REDACTED]	-5.4%	21.5%
Total Supplier Funding as a % of Sales	[REDACTED]%	[REDACTED]%	1.1pts	[REDACTED]%	0.4pts	1.5pts

Group Name	5th Margin \$		5th Margin %		Total Supplier Funding		Total Supplier Funding as a % of Sales		5th Margin/Unit		Supplier Funding/Unit
	New	% Change	New	Change (BPS)	New	% Change	New	Change (BPS)	Change +/-	Change +/-	
Dry Cat	[REDACTED]	2.2%	[REDACTED]	66 bps	[REDACTED]	3.4%	[REDACTED]	66 bps	\$0.06	\$0.06	
Dry Dog	[REDACTED]	0.7%	[REDACTED]	18 bps	[REDACTED]	4.0%	[REDACTED]	16 bps	\$0.00	\$0.13	
Wet Cat	[REDACTED]	0.7%	[REDACTED]	21 bps	[REDACTED]	1.3%	[REDACTED]	21 bps	\$0.01	\$0.01	
Wet Dog	[REDACTED]	1.6%	[REDACTED]	49 bps	[REDACTED]	2.3%	[REDACTED]	49 bps	\$0.01	\$0.01	
Cat Treats	[REDACTED]	2.3%	[REDACTED]	100 bps	[REDACTED]	8.3%	[REDACTED]	100 bps	\$0.04	\$0.04	
Dog Treats	[REDACTED]	0.4%	[REDACTED]	16 bps	[REDACTED]	0.8%	[REDACTED]	16 bps	\$0.01	\$0.01	
Drinks	[REDACTED]	-	[REDACTED]	0 bps	[REDACTED]	-	[REDACTED]	0 bps	\$0.00	\$0.00	
Litter	[REDACTED]	(0.0%)	[REDACTED]	(0 bps)	[REDACTED]	0.3%	[REDACTED]	2 bps	-\$0.00	\$0.00	
Wash & Grooming	[REDACTED]	-	[REDACTED]	0 bps	[REDACTED]	-	[REDACTED]	0 bps	\$0.00	\$0.00	
Grand Total	[REDACTED]	1.1%	[REDACTED]	36 bps	[REDACTED]	2.2%	[REDACTED]	41 bps	\$0.02	\$0.02	

- * Dry Cat – 5th margin is at 12.8% (+66bps) This positive dynamics is driven by your supplier funding per unit increasing by \$0.04 - \$0.04 for four out of five promo groups. Optimum Dry Cat 800g was the only exception that had decrease in supplier funding/unit and 5th margin. **Can you please explain why or is this an error?**
- * Wet Dog – 5th margin growth by +1.6% vs Round 1. Positive change is driven by increase of funding for some promo groups (particularly Mydog Tray SVMS 6x10 which translates to increase of 5th margin \$ by +4.7%)
- * Cat Treats – 5th margin growth by +2.3% driven by increase of supplier funding per unit by \$0.04/\$0.04 for 3/5 promo groups

Key Changes in Promotion Plan for Round 2 vs Round 1

Attached ppt showcases the largest promo groups and their changes by subcategory. Please shout if you think we have mistranslated this data.

- * Most of the promo groups discount levels remained the same in Round vs Round 1, however, as noted above, the funding scheme changed with majority of groups now funded by BSCW with lower unit deals and hence lower promotion contribution levels. **On the most part I am ok with this.**
- * The largest discount decline can be noted for Pedigree Dry 8 Kgs with mechanic discount decreasing from 15% to 14%/15% to 14%. **Again I am ok with this given the funding per unit increase of +\$0.04 and we maintain the call out on rounded %**
- * For some promo groups the shift to BSCW does not outweigh the decline in unit deals. The key examples for these are in Dog Treats - Pedigree Dentastix 28, Schmackos Dog Treats 500g, Greenies Dog; as well as Optimum Dry Cat 800g, Optimum Dry Dog 7kg, Temptations 85g and 180g. **These areas remain area of focus for round 3.**

In light of our mutually agreed partnership, it's my ambition to get to the end of this discussion with no impact to Mars range on shelf (outside of inflight range reviews)- similar to Feb CPI. This will require Mars to find \$1.5M worth of incentives (gap to VMO) that specifically focus on **market share, customer and gap to target margin**. Whilst I intend to keep the conversation between us positive and optimistic, please let me know if Mars would find it helpful for internal conversations to understand which lines Coles will choose to step away from and no longer range if Coles was to accept the proposal based on where it is today.

I would be more than happy to pick up a conversation with you tomorrow to explain all the above and focus you on where to target next in order to keep the conversation moving along? Please let me know when you are free

Kind regards,

Paul Carroll (he/him)
Senior Category Manager-Pet
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I respectfully acknowledge the Wurundjeri People, Traditional Owners and Custodians of the Country I live and work on. I pay my respects to Elders past, present and emerging and acknowledge their continuing connection to waters, skies, seas and country.

From: Conkling, Justin <PEDAC@effem.com>

Sent: Friday, 29 July 2022, 2:36 PM

To: Paul Carroll <PEDAC@coles.com.au>; Brian Keane <PEDAC@coles.com.au>

Cc: Chad Burke <PEDAC@coles.com.au>; Nankervis, Luke <PEDAC@effem.com>

Subject: Mars Pet Nutrition - CPI

Hi Paul & Brian,

Following on from my previous note, I've attached a commercial offer with respect to our upcoming cost price increase (effective 12th September 2022).

This proposal progresses your 5th margin by +47bps from 12.8% (\$0.04) to 13.3% (\$0.05), and is made up of the below key initiatives:

- * +\$0.01 of incremental direct margin transfer (detailed in the attached trade plan template)
- * +\$0.02 of incremental investment to support the Optimum Masterbrand Event in 14/9
- * We have considered the challenges with re-slotting the Optimum Masterbrand event, currently planned for 14/9 (week of CPI go-live). Given the volume of promotions included in this event & the subsequent implications of trying to re-slot elsewhere in the half, MARS will agree to margin maintain packs at their old promotional price for week commencing 14/9 only.
- * +\$0.02 of incremental 5th margin (and \$1.3m RSV) for the commitment to an online only promotional program for FY23H1 promotions
- * +\$0.02 margin through price

We have reviewed the margin tiering for all pack-groups across base & promotion. Currently promo margins are inconsistent across the range, with selected promotional margins accretive to baseline. We'd like to align on the below promotional funding structure. A mutual benefit here is promotional margins will now be more predictable across the MPA range. We have also addressed the margin on selected half price promotions for Dog Treats (e.g Schmackos 500g).

Promotional Margin Tiering

- * Hi-lo: margin will be highest on baseline and tier down for each promotion, example below:

Base	12.8%
Promo 1 (20% off)	12.8%
Promo 2 (30% off)	12.8%

- * Down Downs: base/price establishing margin will now be more in line with Down-Down margin

RRPs

A reminder that the attached spreadsheet references the RRP for each product. In some cases where Coles have moved above RRP, these will not align to white ticket prices.

The above represents a significant investment from Mars in a time where inflation is having a significant impact on our business.

Let us know if you'd like to setup time to meet where we can take you through the detail of the proposal.

Best regards,

Justin

Justin Conkling (he/him)
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Petcare

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