

## Mars Pet - New Trade Plan Summary & Analysis

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**Date:** Tue, 19 Jul 2022 16:23:51 +1000  
**Attachments:** Mars Petcare 20220617 - CPI Analysis Attachment v3.pptx (444.93 kB); Mars Pet CPI Analysis Outputs - v7.xlsx (14.8 MB)

Hi Paul,

We're sending through Mars Pet Promo Plan analysis (promotional changes summary in ppt attached; detailed Excel attached to this email). Please let us know when is a good time for you to meet to talk about it in more detail.

### Summary:

1. Mars CPI request results in 13.8% (\$29.4m) COGS impact vs the last 12 months. CPI team validated only 6.1% of the increase (\$13.0m) with Gap of -\$16.4m. Incremental funding for the new promo plan is at the level of \$[REDACTED], addressing significant part of the CPI gap (57%)
2. The plan shows redistribution of the level of support towards larger promo groups within subcategories, supported by additional unit deal investment (thus supplier contribution stays on par with the current plan). As a trade-off smaller promo groups show shallowing promotional support and lower unit deal investment on average
3. The new promo plan shows strong positive 5<sup>th</sup> margin \$ and % dynamics (+13.3% vs current; +13bps to [REDACTED]%). Supplier funding shows positive overall performance (+26.5% in \$ or 160bps for %), the increase is prioritised for larger promo-groups within subcategories (the most significant % funding drop is shown by Dine Perfect Portions -121 bps to [REDACTED]%)
4. The promo plan shows positive volume growth for the largest categories – Wet and Treats. Given that ASP growth is at 10.5% which is higher than inflation levels, there is a possibility that this volume may not be achieved, hence this promo plan results will be less promising. Also RRP provided is the ones submitted by Mars Pet (for some groups lower than white tags), hence actual funding contribution and margin levels may be lower than in this analysis

### Recommendation

Overall this is a strong plan that prioritises increased support for larger promo groups (thus taking some funding away from some smaller groups).

The positive difference of this promo plan vs other plans we have seen is that the supplier is working towards keeping similar funding contribution levels overall, which means more dollar unit deal investment into larger promo groups on average. This is offset by less support for some other smaller promo groups, however even among those most have increase in supplier funding per unit (the biggest loss in unit deal is demonstrated by Schmackos 1Kg -\$0.63, Pedigree Dentastix 56 -\$0.37, Optimum Dry Dog 7 kg -\$0.12).

There are a couple of suggestions that may be considered while working with the supplier on this:

- \* Given that Optimum Dry Dog 7 Kg and Pedigree Dentastix 56 have significant sales and show "double CPI" (Cogs/ unit increase with supplier funding per unit decline). Consider possibility of revisiting promotional depth / frequency play for these two packs
- \* EDV weeks number declined from 52 to 48 for some promo groups (e.g. Whiskas Osho Pouch 24x85gr, My Dog Tray MP 24x100, etc.). Consider what impact this change might have on operations and if it needs to be addressed
- \* For some cases the promo depth declined to just less than 20% (e.g., to 19.9%), which is below catalogue featuring cut-off. Given that affected promo groups are mostly smaller promo groups (that have some decline in funding) consider bringing the level of discount back at least to 20% (e.g., Pedigree can 700gr 21.1%→19.9% and extra 2 weeks; Pedigree Dentastix 7 from 23.1%→19.9% with additional 3 weeks)

The attached pack and excel have more in depth information on changes in promo mechanic depth and frequency. They can be reviewed to determine other potential action steps depending on sub-/ category priorities.

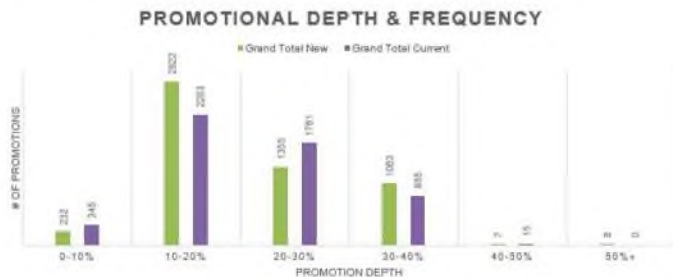
### Details

#### 1. 1. 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)
<b>REDACTED</b>	<b>\$[REDACTED]</b>
<b>Final Gap</b>	<b>(\$7.0m)</b>

The above table has information on COGS increase with CPI request (+13.8% /\$29.4m) and CPI team validated increase of (+6.1% / \$13.0m). The trade plan present increases the funding by +\$[REDACTED] and addresses significant part of the CPI gap (\$16.4m→\$7.0m).

#### 2. 2. Promotional Depth



Note: Attached CPI Analysis ppt has details on changes by largest promo-group. Top-3 subcategories summarised in the email (70%+ of sales)

- \* Overall, an increase of promotional weeks but this is due to a mix of promotional groups both increasing and decreasing promotional frequency. Significant increase in frequency was seen in Pedigree Can 1.2kg (+26 additional weeks) and Dine Perfect portions 75g (+23 weeks with different mechanics)
- \* Wet Dog – overall redistribution of higher promotion levels and funding to higher sales promo groups, with key call outs
  - \* Pedigree Can 700gr – shift of discount form 21.1% to 19.9% (unit deal positive at \$[REDACTED] or +0.35 with positive contribution) for 21 weeks (with additional 2 weeks frequency from 15%). Given the resulting discount is less than 20%, it potentially impacts featuring of this product in the catalogue
  - \* My Dog Tray – frequency declined by 4 weeks from 52 EDV to 48 weeks, discount almost the same at 25%. Need to understand whether there are other implications of such a change
- \* Wet Cat – for larger groups (top-5) higher overall discount level, unit deal and contribution percentage kept; for lower – both higher / shallower discounts, with decline in contribution
  - \* Whiskas Osho Pouch 24x85gr – EDV frequency declined from 52 to 48 weeks (discount 12.8% or +1.2pts); unit deal stable with supplier contribution declining to [REDACTED]%

(vs **R**% in the current plan)

- \* Dine Daily Tray & MVMS – decline in promo frequency (-3 and -4 correspondingly)

- \* Dog Treats – increase and decrease in depth depending on promo group, with supplier contribution staying the same / slightly higher for the largest groups and decreasing for smaller groups
- \* Pedigree Dentastix 7 – decrease in promotion level from 23.1% to 19.9% with additional 3 weeks of promotion. Such decline impacts featuring in catalogue (as under 20%)

### 3. 3. Supplier Funding and 5<sup>th</sup> Margin

Group Name	Sales		Volume		ASP		5th Margin \$		5th Margin %		Total Supplier Funding		Total Supplier Funding as a % of Sales		5th Margin/Unit	COGS/Unit	Supplier Funding/Unit	Net COGS/Unit
	New	% Change	New	% Change	New	% Change	New	% Change	New	Change (BPS)	New	% Change	New	Change (BPS)	Change +/-	Change +/-	Change +/-	Change +/-
Dry Cat	\$28,928,187	17.0%	3,372,030	(1.8%)	\$8.58	19.1%	RED	17.3%	RED	7 bps	RED	42.8%	RED	242 bps	RE	RE	RE	RE
Dry Dog	\$25,753,054	6.8%	1,286,768	(1.2%)	\$20.01	8.1%	RED	5.9%	RED	(27 bps)	RED	5.0%	RED	(27 bps)	RE	RE	RE	RE
Wet Cat	\$81,871,386	10.5%	25,199,043	0.5%	\$3.25	10.0%	ACT	11.0%	ED	13 bps	ED	41.2%	ED	263 bps	DA	DA	DA	DA
Wet Dog	\$86,219,704	14.2%	28,923,270	4.0%	\$2.98	9.8%	ACT	14.3%	ED	3 bps	ED	27.3%	ED	180 bps	DA	DA	DA	DA
Cat Treats	\$16,512,768	15.6%	3,986,967	4.9%	\$4.14	10.2%	ED	16.5%	ED	32 bps	ED	32.0%	ED	144 bps	CTE	CTE	CTE	CTE
Dog Treats	\$52,352,838	13.6%	6,403,957	2.3%	\$8.18	11.1%	ED	14.3%	ED	23 bps	ED	16.3%	ED	43 bps	CTE	CTE	CTE	CTE
Drinks	\$1,060,360	3.8%	291,000	(6.7%)	\$3.64	11.3%	CONFIDE	3.9%	CONFIDE	1 bps	CONFIDE	-	CONFIDE	596 bps	D -	D -	D -	D -
Litter	\$10,057,430	20.8%	669,619	(1.2%)	\$15.02	22.3%	CONFIDE	20.8%	CONFIDE	(1 bps)	CONFIDE	21.6%	CONFIDE	3 bps	ED	ED	ED	ED
Wash & Grooming	\$163,469	9.8%	9,464	-	\$17.27	9.8%	CONFIDE	9.9%	CONFIDE	2 bps	CONFIDE	-	CONFIDE	0 bps	-	-	-	-
Grand Total	\$302,919,197	12.9%	70,142,119	2.1%	\$4.32	10.5%	CONFIDE	13.3%	CONFIDE	13 bps	CONFIDE	26.5%	CONFIDE	160 bps	-	-	-	-

Note: split by promo-group available in the attached excel file

- \* 5<sup>th</sup> margin \$ is growing (+13.3%) with positive 5<sup>th</sup> margin % (+**R**%; +13bps vs current). Driven by increase in ASP (+10.5%) combined with increase in total supplier funding (+26.5%), which shows supplier investing more in promotions through +160bps increase in total supplier funding as % of sales
- \* In terms of 5<sup>th</sup> margin %, the subcategory showing the largest negative 5<sup>th</sup> margin % (-27bps) and supplier funding (-27 bps) change is Dry Dog, Pedigree 8kg is #1 by sales and is the driver of margin percentage decline (-56bps to **R**%), with other groups remaining stable in the new vs current plan. Promo group that has the largest 5<sup>th</sup> margin % decline is Dine Perfect Portions (-121bps to **R**%), however it is still higher than Wet Cat average
- \* Although on total level all the other subcategories show positive supplier funding % dynamics, within some of these categories there is a clear shift between support from smaller to larger promo-groups (e.g., Dog Treats, Dry Cat, Wet Dog, Wet Cat)
- \* 5<sup>th</sup> margin / unit has positive dynamics or stable across all promo groups
- \* There are a number of Double CPIs that have been identified

Promo Group	Est. Sales	COGS/unit chg	Supplier Funding/unit chg
OPTIMUM Dry Dog 7kg	\$6,452,271	RE	RE
PEDIGREE Dentastix 56	\$3,195,272	DA	ACT
SCHMACKOS Dog Treats 1kg	\$1,149,545		ED

### 4. 4. Data integrity and forecasting

- \* Suggested ASP increase is at 10.5% which is higher than expected inflation levels, this puts into question the growing forecasted volumes across certain subcategories. These are Wet cat (+0.5%), Wet Dog (+4.0%), Cat treats (+4.9%) and Dog treats (+2.3%). These categories show 10% or more ASP on total level and most promo groups show significant ASP increase on promo level as well. Hence, there is possibility that volume is not achieved and actual performance is worse than based on provided projections (would bring down supplier funding, 5<sup>th</sup> margin results)
- \* Information provided is based on Mars RRP, which for some groups is lower than white tags (since February 2022). Given this we need to take into account that actual funding contribution percentage as well as 5<sup>th</sup> margin may be lower than in this analysis

Attached is the worksheet with the analysis. We suggest to find a time to talk through this analysis and the summary. Please let us know what time would work for you.

Best,  
Vera