

FW: Mars Pet Nutrition - Round 2 Promo Plan Review

From: Brian Keane <REDACTED@coles.com.au>
To: Paul Carroll <REDACTED@coles.com.au>
Cc: DEL_Vera Ananina <REDACTED@coles.com.au>; REDACTED@pwc.com
Date: Fri, 05 Aug 2022 16:48:28 +1000
Attachments: MARS Petcare – Promo Depths Round 2 vs Round 1 vf.pptx (1.18 MB); Round 2 vs 1 Mars Pet CPI Analysis Outputs - v3.xlsx (3.95 MB)

Hey Paul,

Will lock in some time to discuss below and attached with you early next week.

Cheers,

Brian

From: Vera Ananina <REDACTED@coles.com.au>
Sent: Friday, 5 August 2022 12:24 PM
To: Brian Keane <REDACTED@coles.com.au>
Cc: Mildred Wong <REDACTED@coles.com.au>; Chris Wylie <REDACTED@coles.com.au>
Subject: RE: Mars Pet Nutrition - Round 2 Promo Plan Review

Hi Brian,

Thank you for your time earlier this morning. We've added the information on Round 2 into the CPI table as discussed and also are showing the incrementality by buckets, so that it is easier to see where the funding is coming from. You mentioned that you are going to probably send this out to Paul, please copy us if possible, otherwise please let us know if we can send it, we will be happy to do this as well.

Best,
 Vera

 Hi Paul,

Thank you for sharing the Round 2 information from Mars Pet. We took a look and the below and attached is the summary on it. Please let us know what time works for you to discuss this, thank you.

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 -	\$RED
CONFIDENTIAL	\$RED
	\$RE
Final Gap	(\$5.4m)

Round 2 provides +\$RED additional funding to Round 1 (\$RED). And We have also incorporated the optimum Masterbrand event offer and Online Promotions for H1FY23 that come up to \$RED. So in total the expected incremental funding of this offer is \$RED (vs \$RED in round 2).

We tried to map out some of the 5th margin notes from the email from Mars, however, we do not get the result that they are pointing towards, just wanted to flag this with you.

Financial Summary Round 2 vs Round 1

Round 2 vs Round 1 vs Current Plan Comparison

	Current	Round 1		Round 2		
		Metric	Change from Current	Metric	Change from Round 1	Change from Current
Sales	\$268.3M	\$302.9M	12.9%	\$302.9M	0.0%	12.9%
Volume	68,671,008	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	26.4%	\$REDACTED	-5.4%	21.5%
Total Supplier Funding as a % of Sales	REDACTED%	REDACTED%	1.1pts	REDACTED%	0.4pts	1.5pts

- The Round 2 plan delivers +\$REDACTED (+14.5%) increase in 5th Margin vs the current plan and \$REDACTED (+1.1%) increase vs the Round 1. 5th Margin percentage increased from REDACTED% in the Round 1 up to REDACTED% in the Round 2
- Total Supplier Funding is increasing by +\$REDACTED (+22.5%) vs the current plan and +\$REDACTED (2.2%) vs the Round 1. The driver is increased non-promotion funding (BSCW) that is partially offset by decreasing unit deals across majority of the packs

Round 2 vs Round 1 Comparison

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	76 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

- Overall, no major changes to estimated Sales, Volume and ASP apart from Dry Dog category driven by an estimated increase in volume Pedigree Dry 8kg promo group by +1.8% and decrease in ASP of -1.5% due to base RRP dropping from \$28.83 to \$28.00
- Significant positive changes can be noted for Dry Cat, Wet Dog and Cat treats
 - Dry Cat – 5th margin is at REDACTED% (+66bps) still slightly below Dry Dog margin of REDACTED%. This positive dynamics is driven by Supplier funding per unit increasing by \$REDACTED-\$REDACTED 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
 - Wet Dog – 5th margin growth by +1.6% vs Round 1. Positive change is driven by increase of funding for some promo groups (the largest increase +\$REDACTED for the largest group of 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 \$REDACTED-\$REDACTED for 3/5 promo groups
- Significant Dry dog funding per unit increase of +\$REDACTED is driven by the largest promo group Pedigree Dry 8 kg (+\$REDACTED supplier funding per unit)

- Important to note that the above supplier funding increases are driven by BSCW component, while most of the promo groups are facing declining unit deals

Key Changes in Promotion Plan for Round 2 vs Round 1

Attached ppt showcases the largest promo groups and their changes by subcategory

- 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
- The largest discount decline can be noted for Pedigree Dry 8 Kgs with mechanic discount decreasing from 23.7% to 21.4%/ 32.4% to 30.4%
- 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

Modelling Adjustments

Please note that we are using the pre-existing tool for this analysis (new tool release in progress), however, given it was confirmed by Finance that BSCW should apply to all volume and not only to base weeks we thought it would be important to make this change for both Round 2 and Round 1 calculations to make them comparable. This is especially the case as Mars is transferring some of the unit deal funding into BSCW bucket.

We suggest to find a time to talk through this Round 2 analysis. Please let us know what time would work for you.

Best,
Vera

From: Vera Ananina

Sent: Thursday, 4 August 2022 8:34 PM

To: Brian Keane <REDACTED@coles.com.au>

Cc: Mildred Wong <REDACTED@coles.com.au>; Chris Wylie <REDACTED@coles.com.au>

Subject: RE: Mars Pet Nutrition - CPI

Hi Brian,

We have looked at the Round 2 for Mars. The comparison of Round 2 and 1 and summary are below but first we just wanted to raise some questions we have on Mars email that we would like to discuss with you tomorrow if possible before we share it with Paul. I'll send an invite shortly, we can move the time if it does not work for you.

Thank you very much!

Best,
Vera

Important callout: we are using the current tool for this analysis, however, given it was confirmed by Finance that BSCW should apply to all volume and not only to base weeks we thought it would be important to make this change for both Round 2 and Round 1 calculations to make them comparable. This is especially the case as Mars is transferring some of the unit deal funding into BSCW amounts.

---- Extract from Mars email

This proposal progresses your 5th margin by +47bps from RED % (\$RED) to RE % (\$RED), and is made up of the below key initiatives – *our numbers for 5th margin are different*

- +RED of incremental direct margin transfer (detailed in the attached trade plan template) – *We think this refers to the increase in BSCW (offsetting unit deals decline)*
- +REDA of incremental investment to support the Optimum Masterbrand Event in 14/9 – *We haven't been able to map this bucket of investment with the trade plan that we received. It probably goes on top*

of the overall investment?

- 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.
- +\$REDA of incremental 5th margin (and \$1.3m RSV) for the commitment to an online only promotional program for FY23H1 promotions – We believe that we don't have a view on online sales in the trade plan
- +\$REDAC margin through price – we cannot see \$RE, we can see \$RED if we compare 5th margin Round 2 with current. However, if we understand correctly, \$RED of this margin is part of "direct margin transfer"

Promotional Margin Tiering – we struggle with identifying this in the file especially considering the brackets in the table

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ASP	\$3.91	\$4.32	10.5%	\$4.32	0.0%	10.5%
5 th Margin \$	\$RE	\$RED	13.2%	\$RED	1.1%	14.5%
5 th Margin %	RE%	RE%	0.1pts	RE%	0.4pts	0.5pts
Total Supplier Funding	\$RED	\$RED	19.8%	\$RED	2.2%	22.5%
Non-Promo funding	\$ACTE	\$ACTE	1.5%	\$ACTE	22.8%	24.7%
Promo funding	\$CONF	\$CONF	28.4%	\$CONF	-5.4%	21.5%
Total Supplier Funding as a % of Sales	R%	RE%	1.1pts	RE%	0.4pts	1.5pts

- The Round 2 plan delivers +\$RED (+14.5%) increase in 5th Margin vs the current plan and \$RED (+1.1%) increase vs the Round 1. 5th Margin percentage increased from RE% in the Round 1 up to RED% in the Round 2
- Total Supplier Funding is increasing by +\$RED (+22.5%) vs the current plan and +\$RED (2.2%) vs the Round 1. The driver is increased non-promotion funding (BSCW) that is partially offset by decreasing unit deals across majority of the packs

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	New	% Change	New	Change (BPS)	New	% Change	New	Change (BPS)	Change +/-	Change +/-
Dry Cat	REDACTED - CONFIDENTIAL	2.2%	REDACTED - CONFIDENTIAL	66 bps	REDACTED - CONFIDENTIAL	3.4%	REDACTED - CONFIDENTIAL	66 bps	\$0.06	\$0.06
Dry Dog	REDACTED - CONFIDENTIAL	0.7%	REDACTED - CONFIDENTIAL	18 bps	REDACTED - CONFIDENTIAL	4.0%	REDACTED - CONFIDENTIAL	76 bps	\$0.00	\$0.13
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Drinks	REDACTED - CONFIDENTIAL	-	REDACTED - CONFIDENTIAL	0 bps	REDACTED - CONFIDENTIAL	-	REDACTED - CONFIDENTIAL	0 bps	\$0.00	\$0.00
Litter	REDACTED - CONFIDENTIAL	(0.0%)	REDACTED - CONFIDENTIAL	(0 bps)	REDACTED - CONFIDENTIAL	0.3%	REDACTED - CONFIDENTIAL	2 bps	-\$0.00	\$0.00
Wash & Grooming	REDACTED - CONFIDENTIAL	-	REDACTED - CONFIDENTIAL	0 bps	REDACTED - CONFIDENTIAL	-	REDACTED - CONFIDENTIAL	0 bps	\$0.00	\$0.00
Grand Total	\$	1.1%	REDACTED - CONFIDENTIAL	36 bps	\$	2.2%	REDACTED - CONFIDENTIAL	41 bps	\$0.02	\$0.02

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Please note that we are using the pre-existing tool for this analysis (new tool release in progress), however, given it was confirmed by Finance that BSCW should apply to all volume and not only to base weeks we thought it would be important to make this change for both Round 2 and Round 1 calculations to make them comparable. This is especially the case as Mars is transferring some of the unit deal funding into BSCW bucket.

We suggest to find a time to talk through this Round 2 analysis. Please let us know what time would work for you.

Best,
Vera

From: Brian Keane <**REDACTED**@coles.com.au>
Sent: Tuesday, 2 August 2022 8:26 AM
To: Vera Ananina <**REDACTED**@coles.com.au>
Cc: Chris Wylie (AU) <**REDACTED**@pwc.com>; Kim Doanpham <**REDACTED**-@coles.com.au>
Subject: FW: Mars Pet Nutrition - CPI

Hello Vera,

Please see below and attached revised trade plan from Mars, we can we discuss in our 10.00 am catch up today, however I believe will require a rework.

Regards,

Brian

From: Conkling, Justin <**REDACTED**@effem.com>
Sent: Friday, 29 July 2022 2:36 PM
To: Paul Carroll <**REDACTED**@coles.com.au>; Brian Keane <**REDACTED**@coles.com.au>
Cc: Chad Burke <**REDACTED**@coles.com.au>; Nankervis, Luke <**REDACTED**@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 RE % (\$RED) to RE % (\$RED), and is made up of the below key initiatives:

- +RED of incremental direct margin transfer (detailed in the attached trade plan template)
- +REDA 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.
- +REDA of incremental 5th margin (and \$RED RSV) for the commitment to an online only promotional program for FY23H1 promotions
- +REDAC 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	R %
Promo 1 (20% off)	E %
Promo 2 (30% off)	D %

- 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)

Customer Development Director - Coles

Mars Petcare Australia

M: REDACTED

E: REDACTED@effem.com W: www.mars.com.au



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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