

## RE: Mars Pet Nutrition - CPI

**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>; Emma Bates <[REDACTED]@coles.com.au>  
**Date:** Sun, 21 Aug 2022 20:32:38 +1000  
**Attachments:** MARS Petcare – Promo Depths Round 2 vs Round 1 vf.pptx (1.18 MB)

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 3<sup>rd</sup> 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 1<sup>st</sup> and 2<sup>nd</sup> proposals for Coles to accept a CPI beyond 6.1% on 12<sup>th</sup> 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 - CONFIDENTIAL]       | \$RE      |
|                                 | \$DA      |
|                                 | \$CTE     |
| 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 5<sup>th</sup> margin by +50bps from [REDACTED]% (not [REDACTED]%-[REDACTED]% as Justin has suggested) .
- \* Mars funding to Coles is increasing +\$[REDACTED]/+22.5% , 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                                  | \$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 \$                          | \$RED      | \$RED      | 13.2%               | \$RED      | 1.1%                | 14.5%               |
| 5th 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                      | \$ACTED -  | \$DACTE    | 1.5%                | \$ACTED -  | 22.8%               | 24.7%               |
| Promo funding                          | \$CONF     | \$CONF     | 28.4%               | \$CONF     | -5.4%               | 21.5%               |
| Total Supplier Funding as a % of Sales | RE%        | RE%        | 1.1pts              | RE%        | 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         | REDAC         | 2.2%     | REDA         | 66 bps       | REDAC                  | 3.4%     | REDA                                   | 66 bps       | \$0.06          | \$0.06                |
| Dry Dog         | TED -         | 0.7%     | DACTE        | 18 bps       | CTED -                 | 4.0%     | DACTE                                  | 76 bps       | \$0.00          | \$0.13                |
| Wet Cat         | CONFIDENTIAL  | 0.7%     | DACTE        | 21 bps       | CONFIDENTIAL           | 1.3%     | DACTE                                  | 21 bps       | \$0.01          | \$0.01                |
| Wet Dog         | CONFIDENTIAL  | 1.6%     | CTED -       | 49 bps       | CONFIDENTIAL           | 2.3%     | CTED -                                 | 49 bps       | \$0.01          | \$0.01                |
| Cat Treats      | CONFIDENTIAL  | 2.3%     | DACTE        | 100 bps      | CONFIDENTIAL           | 8.3%     | DACTE                                  | 100 bps      | \$0.04          | \$0.04                |
| Dog Treats      | CONFIDENTIAL  | 0.4%     | D - CO       | 16 bps       | CONFIDENTIAL           | 0.8%     | D - CO                                 | 16 bps       | \$0.01          | \$0.01                |
| Drinks          | CONFIDENTIAL  | -        | CONFIDENTIAL | 0 bps        | CONFIDENTIAL           | -        | CONFIDENTIAL                           | 0 bps        | \$0.00          | \$0.00                |
| Litter          | CONFIDENTIAL  | (0.0%)   | CONFIDENTIAL | (0 bps)      | CONFIDENTIAL           | 0.3%     | CONFIDENTIAL                           | 2 bps        | -\$0.00         | \$0.00                |
| Wash & Grooming | CONFIDENTIAL  | -        | CONFIDENTIAL | 0 bps        | CONFIDENTIAL           | -        | CONFIDENTIAL                           | 0 bps        | \$0.00          | \$0.00                |
| Grand Total     | \$            | 1.1%     | REDA         | 36 bps       | \$                     | 2.2%     | REDA                                   | 41 bps       | \$0.02          | \$0.02                |

- \* Dry Cat – 5<sup>th</sup> margin is at RE% (+66bps) This positive dynamics is driven by your supplier funding per unit increasing by \$RE - \$RE 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 – 5<sup>th</sup> 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 5<sup>th</sup> margin \$ by +4.7%)
- \* Cat Treats – 5<sup>th</sup> margin growth by +2.3% driven by increase of supplier funding per unit by \$RE - \$RED 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 23.7% to 21.4%/ 32.4% to 30.4%. **Again I am ok with this given the funding per unit increase of +\$RED 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 \$RED 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  
Homecare | Non-Food

M [REDACTED]  
E [REDACTED]@coles.com.au  
A 800 Toorak Road, Hawthorne East, Victoria 3123, Australia

**coles** | Value the Australian way



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 <[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 12<sup>th</sup> September 2022).

This proposal progresses your 5<sup>th</sup> margin by +47bps from [REDACTED]% (\$[REDACTED]) to [REDACTED]% (\$[REDACTED]), and is made up of the below key initiatives:

- \* +[REDACTED] of incremental direct margin transfer (detailed in the attached trade plan template)
- \* +[REDACTED] 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.
- \* +\$[REDACTED] of incremental 5<sup>th</sup> margin (and \$1.3m RSV) for the commitment to an online only promotional program for FY23H1 promotions
- \* +\$[REDACTED] 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 Schmacks 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](http://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.*

*CONFIDENTIALITY. This email and any attachments are confidential and may also be privileged. If received in error, please do not disclose the contents to anyone, but notify the sender by return email and delete this email and any attachments from your system. Pricing is at the sole discretion of the retailer.*