

RE: Summary of CPI validation

From: Aleksandra Drazic <[REDACTED]@coles.com.au>
To: Beccy Thompson <[REDACTED]@coles.com.au>
Cc: Cost Price Increase Requests <costpriceincreaserequests@coles.com.au>; Via Lavdas <[REDACTED]@coles.com.au>
Date: Fri, 29 Apr 2022 11:30:56 +1000
Attachments: Summary Arnotts.xlsx (230.96 kB)

Hi Rebecca

I have updated the commodity indexes to April 22, and the revised analysis indicates a increase of 4.6% which now creates a gap of \$14M. There is improvement in the analysis as we have seen further increases in the commodity prices.

The major difference as supplier has outlined is the methodology used and also labour/overheads piece that was included in supplier submission. The labour/overheads piece is approximately just under █% impact according to supplier.

The alternative analysis which looks at P2P sees the total impact that supplier is requesting. This is not the standard methodology that we are using to assess the CPIs. Therefore if we are to accept increase based on P2P basis we need to make sure that we communicate to supplier that this is not our standard approach at assessing CPI's and the only reason why we are accepting on a P2P basis is because majority of commodities have increased in the recent time. Ideally, we would want the supplier to agree in writing that when commodity prices decrease we will review the pricing using the same methodology and any benefits will be shared with Coles.

Let me know if any questions. Thanks.

Aleksandra Drazic

Senior Analyst | Commercial Cost Management

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coles | Good things. Great value.

From: Ryan Bowman <[REDACTED]@arnotts.com>
Sent: Thursday, 21 April 2022 5:43 PM
To: Aleksandra Drazic <[REDACTED]@coles.com.au>; Rebecca Thompson <[REDACTED]@coles.com.au>
Cc: Cost Price Increase Requests <CostPriceIncreaseRequests@coles.com.au>; Via Lavdas <[REDACTED]@Coles.com.au>
Subject: RE: Summary of CPI validation

Thanks Aleks, have a great long weekend.

Ryan Bowman

Customer Director - Coles

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From: Aleksandra Drazic <[REDACTED]@coles.com.au>
Sent: Thursday, 21 April 2022 5:34 PM
To: Ryan Bowman <[REDACTED]@arnotts.com>; Rebecca Thompson <[REDACTED]@coles.com.au>
Cc: Cost Price Increase Requests <CostPriceIncreaseRequests@coles.com.au>; Via Lavdas <[REDACTED]@Coles.com.au>
Subject: RE: Summary of CPI validation

⚠ External Mail

Hi Ryan – thank you for your note.

We will update the indexes to March on commodities that we have the data on. We will share the updated summary with

Rebecca and Via next week as I am on leave tomorrow.

Thanks.

Aleksandra Drazic

Senior Analyst | Commercial Cost Management

L2 M10 800 Toorak Road Hawthorn East Victoria 3123 Australia

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Good things. Great value.

From: Ryan Bowman <**REDACTED** @arnotts.com>

Sent: Wednesday, 20 April 2022 1:57 AM

To: Rebecca Thompson <**REDACTED** @coles.com.au>; Aleksandra Drazic <**REDACTED** @coles.com.au>

Cc: Cost Price Increase Requests <CostPriceIncreaseRequests@coles.com.au>; Via Lavdas <**REDACTED** @Coles.com.au>

Subject: RE: Summary of CPI validation

Hi Beccy and Aleks,

Hope you're well and thanks for your note. I appreciate the clarity you've provided on the methodology the VMO Team use to assess commodity changes, as per your note this is a different process to what we use internally and therefore we're seeing a significant variance in the assessments. The other contributing factor to the variance between the two business is that essentially 15% of the cost composition isn't included in the VMO assessment (other ingredients, overheads and labour). I noted the commodity charts used by the VMO Team contain data to January 22, is it possible to complete a new assessment using March 22 data?

Unfortunately the inflation we're seeing is real, we've already absorbed a significant amount this financial year and since our cost change submission the outlook has continued to worsen at an alarming rate.

As previously detailed, we reviewed a variety of options to manage through the commodity inflation including a heavily reduced program, we've avoided this strategy as it didn't drive shopper value and didn't create value for either business. The strategy we're endeavouring to implement provides a strong platform for Coles to drive a significant value message in the market and hence our promotional funding is increasing at a significantly higher rate than COGs.

Happy to discuss further at our Thursday meeting.

Kind Regards,

Ryan Bowman

Customer Director - Coles

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From: Rebecca Thompson <**REDACTED** @coles.com.au>

Sent: Wednesday, 13 April 2022 8:13 AM

To: Ryan Bowman <**REDACTED** @arnotts.com>; Aleksandra Drazic <**REDACTED** @coles.com.au>

Cc: Cost Price Increase Requests <CostPriceIncreaseRequests@coles.com.au>; Via Lavdas <**REDACTED** @Coles.com.au>

Subject: RE: Summary of CPI validation

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Hi Ryan,

Apologies for the delay coming back to you on this. I have put a meeting in for next Thursday so discuss the CPI outcome again with yourself and Via, but in the meantime please see below the response on your questions from the VMO team.

1. A different methodology is used by Arnott's to calculate impact. Arnott's is looking at P2P change 2017 vs current price, and 2019 vs current price. In our assessment we have looked at the average commodity movements since last cost price change as we believe this is the fairest method (this method is used to ensure both commodity increases and commodity decreases have been taken into consideration). I have summarised the commodity movements that we have

applied in our analysis. i.e. Commodity movements since July 17 to current, and Jun 19 to current

Cost Component (CCT)		
	Jul-17	Jun-19
RL62 - Wheat APW del Melb AUAUD/MT	21.0%	-9.8%
LU26 - Rapeseed oil RBD Toronto CA AUD/MT	35.3%	64.2%
SUGN - Sugar #11 ICE NY (DH-3) AUD/MT	10.4%	16.1%
WMPN - WMP NZX NZ (DH-3) AUD/MT	12.6%	11.1%
SMPN - SMP NZX NZ (DH-3)AUD/MT	41.2%	24.1%
1X11 - Butter auction fas NZ/AUAUD/MT	-12.0%	-2.8%
COCL - Cocoa bean London ICE (DH-3) AUD/MT	23.1%	-1.2%
SZ129 - Pulp NBSK cif port EurAUD/MT	28.5%	-2.0%
2O05 - PP spot cfr CN AUD/MT	18.4%	-1.2%
2O02 - LDPE spot cfr CNAUD/MT	12.2%	18.2%
2Y15 - Aluminium CN AUD/MT	22.8%	18.2%
Freight - ABS Road Freight Index	4.1%	1.1%
Electricity - ABS Australia	-2.1%	-5.1%
Gas and other household fuels	2.0%	0.5%

2. When we look at cost composition breakdown we base this % breakdown of Coles List Price which means there is also supplier margin included. We have made some assumption around supplier margin. For instance if our assumption is that **10%** is margin then we would need to adjust the input components i.e. Wheat Arnott's input **10%**, Adjusted for margin **10%**. This has had some impact to our difference, but not as large as point 1 around different methodologies that are used
3. Labour cost increases will be considered to the extent that they have been implemented by the supplier to meet the requirements of the Coles Ethical Sourcing Policy and any applicable laws. Cost increase requests based on changes to the following input costs will not be considered:
 - a. marketing costs;
 - b. fixed costs; and
 - c. any other overhead costs.

The reason why labour and above components are not taken into consideration is that we believe these components should be offset by improvement in operational efficiencies as we do in Coles, and usually these are outlined in EBA's, when it comes to improvement of labour efficiencies.

As mentioned previously if the price indices do not correlate with the price trends experienced by Arnotts, you can supply additional documents to the team to review prior to the meeting next week, but as it stands we are still validating the 3.8% of the 10.7% ask.

Please let me know how you would like to proceed.

Thanks

Beccy

From: Ryan Bowman <REDACTED@arnotts.com>
Sent: Friday, 1 April 2022 6:53 PM
To: Aleksandra Drazic <REDACTED@coles.com.au>
Cc: Cost Price Increase Requests <CostPriceIncreaseRequests@coles.com.au>; Rebecca Thompson <REDACTED@coles.com.au>
Subject: RE: Summary of CPI validation

Hi Aleks,

Hope you're well and thanks for your note. I appreciate you reviewing the detail I've supplied and I can be available anytime for a Teams meeting.

Have a great weekend,

Ryan Bowman
 Customer Director - Coles

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From: Aleksandra Drazic <[REDACTED]@coles.com.au>
Sent: Friday, 1 April 2022 5:19 PM
To: Ryan Bowman <[REDACTED]@arnotts.com>
Cc: Cost Price Increase Requests <CostPriceIncreaseRequests@coles.com.au>; Rebecca Thompson <[REDACTED]@coles.com.au>
Subject: RE: Summary of CPI validation

⚠ External Mail

Hi Ryan – just letting you know that we are currently reviewing your comments and will come back to Rebecca on this next week, who will share information with you.

We can then set up a meeting via Teams to discuss.

Aleks

From: Ryan Bowman <[REDACTED]@arnotts.com>
Sent: Monday, 28 March 2022 6:59 PM
To: Cost Price Increase Requests <CostPriceIncreaseRequests@coles.com.au>
Cc: Rebecca Thompson <[REDACTED]@coles.com.au>; Adrian Yik <[REDACTED]@arnotts.com>; Cameron Teale <[REDACTED]@arnotts.com>
Subject: FW: Summary of CPI validation

Hi VMO Team,

Hope you're well. Thank you for your feedback on our cost change submission and for supplying the commodity charts used in your assessment. We've completed a review of the commodity charts you supplied and would appreciate your guidance/insights on how a 3.8% increase was deemed to be justified, we can be available for a face to face meeting or virtual etc.. If possible can you also please send through your commodity break-down by sku, this will assist us in better understanding the 3.8%.

As expected there is a variance between the Arnott's submission and the VMO assessment given our varied buying patterns and contractual agreements with our suppliers, for the majority of commodities this appears to have resulted in Arnott's securing a lower cost and we've been transparent with our true cost change – as per slide 2 in the attached.

Thank you for sharing that Coles policy is to exclude labour and overheads, combined they make up circa 14% of the cost composition and we've seen significant inflation in both commodities, can you please supply some context on the rationale for them to be excluded?

In slides 3 and 4 in the attached I've applied the commodity changes to the cost composition. Even with a 0% increase applied to Other Ingredients, Labour and Overheads (combined make up circa 14% of the cost composition), the Coles VMO increase appears significantly higher than the Arnott's submission for both the 2017 and 2019 products.

It would be appreciated to discuss this further, I look forward to hearing from you.

Kind Regards,

Ryan Bowman
 Customer Director - Coles

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From: Rebecca Thompson <[REDACTED]@coles.com.au>
Sent: Thursday, 10 March 2022 4:03 PM

To: Ryan Bowman <REDACTED@arnotts.com>

Cc: Adrian Yik <REDACTED@arnotts.com>; Cost Price Increase Requests <CostPriceIncreaseRequests@coles.com.au>; Via Lavdas <REDACTED@Coles.com.au>

Subject: Summary of CPI validation

External Mail

Hi Ryan,

Thank you for your time earlier today.

As discussed currently 3.8% of your ask can be validated of the request of 10.7%. **R**% of the ask cannot be accepted as this is based on overheads and Labour and it is Coles policy not to accept these cost increases. The remainder of the CPI can not be validated by the team – I have attached a summary for you to review.

Next Steps:

If the prices seen in our market indices do not correlate to the price trends experienced by Arnotts, you 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.

As well as the above, based on our feedback earlier today, please can you review the funding levels and promo strategy and re-send the tactics template. We emphasised the importance of volume and value to Coles and would like you to come back with a proposal that talks to this, and gives us the confidence that we will grow volume and customers whilst remaining competitive in the market.

Hope that all makes sense, please reach out if you have any questions.

Thanks

Beccy

Beccy Thompson
Senior Category Manager
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