



# Arnott's Cost Recovery Program

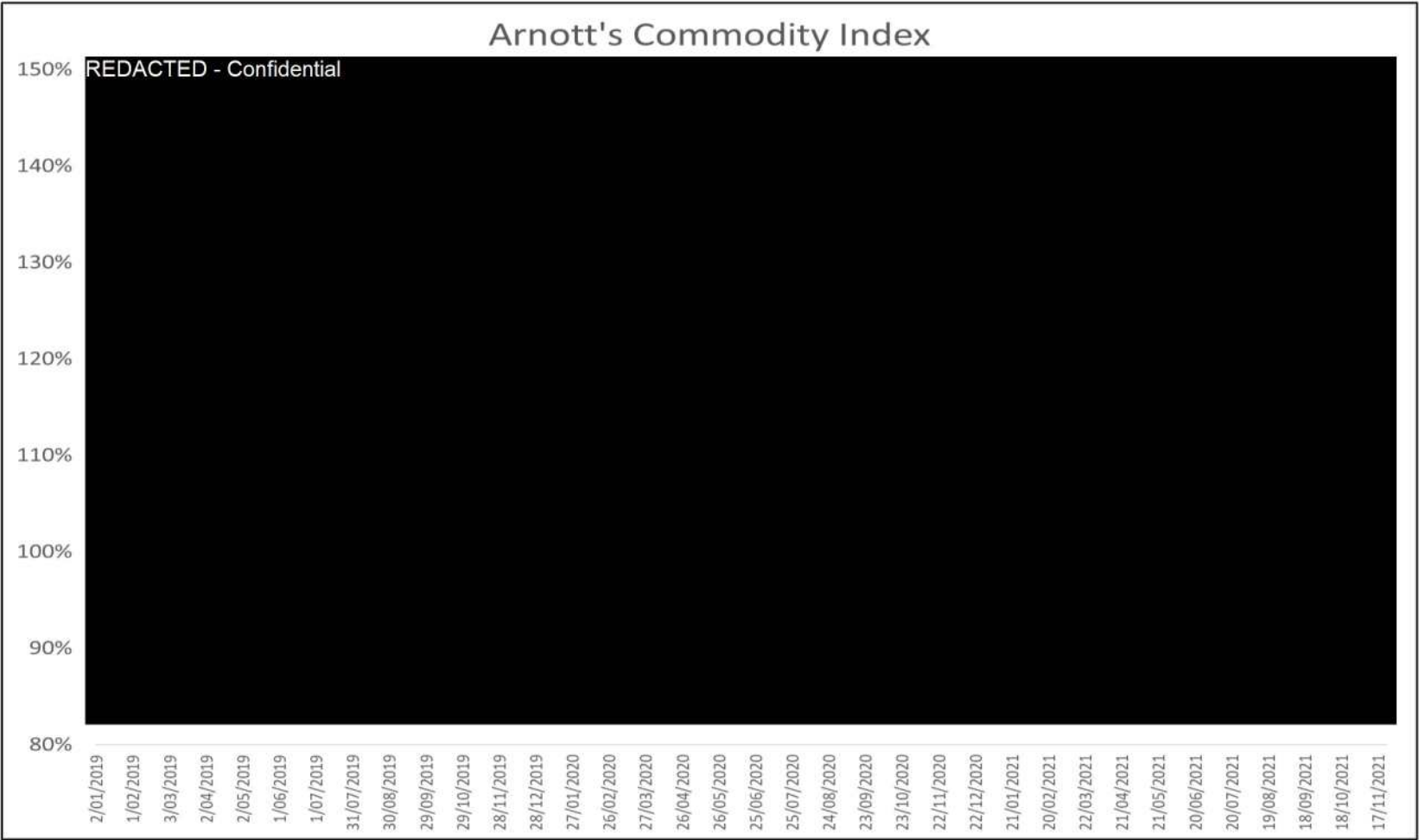
March 10th, 2022





# Commodity impact assessment: Cost of goods increases are unavoidable and significant

We have a solid plan to grow, however our cost position has significantly moved and at this stage has an additional +8.7% / \$30M COGS impacting total portfolio.



**Top commodity inflation:**

Fats and Oil	REDACTED %
Dairy	Confidential %
Sugar	Confidential %

**New News as of 7/3/22**

Dairy REDACTED

Wheat REDACTED (linked to Russia/Ukraine sanctions)



# High level cost recovery approach: Two main pathways explored

## 1. Reduction in investment / costs out to recover cogs increases across the business:

- Reduction in promotional funding / customer investment / brand investment to recover cost of goods.
- Divestment required across the total portfolio
- Highly elastic / high volume on deal segments forecast significant declines.
- Whilst reducing promotional funding will recover input costs, the under-utilisation of fixed assets requires further cost saving initiatives e.g. reduction in brand investment / innovation / research and development and co-operative payments.

**This approach is not recommended given it doesn't provide shopper value and doesn't benefit Coles or Arnott's.**

## 2. Targeted price adjustments across selected parts of the portfolio that will recover quicker and deliver positive results for the category, Coles and Arnott's.

- Approximately 69% (RSV) of the portfolio subject to price adjustment. **This approach does however mean that some parts of the portfolio will have a larger price adjustment to offset parts of the portfolio that do not have a price adjustment.**
- Significant growth plan projected for the category.
- Portfolio that still offers shopper value statements, increased promotional investment, and maintains Coles promotional % margin.
- Facilitates sweet tiering, renovation, value creation and innovation within demand spaces where we know consumers are willing to pay more for value added benefits eg reduced sugar.
- TAG continues to invest in brand-building initiatives that drives basket penetration, frequency and spend to deliver retailer value growth.

**This approach is recommended given it creates shopper value and creates value for Coles and Arnott's.**

# Arnott's continues to invest in brands, local manufacturing and driving consumption moments



*A portfolio of highly expandable and complimentary products driving shopper basket size.*

*\$<sup>REDAC</sup><sub>TED</sub> marketing media spend .... Continued investment & innovation behind well loved iconic Australian brands – focus on driving category growth against key pillars.*

*Commitment to Australian manufacturing and local sourcing of quality ingredients.*

*Create delicious moments with a plan to build a sustainable food system, protect the land we rely on and connect our communities via 'make', 'source' and 'connect' strategy.*



## The Arnott's Group is unique: Aussie Sourced, Made & Loved. Significant Australian Eco-System



- The Arnott's Group is headquartered in Sydney, Australia and **employs approximately 2,000 people across the country.**
- We have manufacturing operations in **New South Wales, Queensland, Victoria and South Australia.**
- The Arnott's Group is committed to local manufacturing, with **more than 99% of the products we sell in Australia made in Australia.**
- We source local and imported ingredients for our Australian manufacturing sites from about **140 suppliers directly.**
- **Locally sourced key ingredients** include flour and grains from the Darling Downs, Northern NSW, Riverina and South Australia, dairy products from Victoria, Tasmania and NZ, sugar from North Queensland, and eggs from NSW.
- The Arnott's Group is the **largest buyer of soft wheat in Australia** and we recognise the key role we can play in sustainable sourcing and in supporting Australia's local growers and industry.
- In addition to purchase and consumption, The Arnott's Group is committed to **supporting our local growers through research and development.** Since the late 1990's, The Arnott's Group has invested significantly in **soft wheat research.** The variety breeding program aims to **increase yields, improve water efficiency and drought resistance,** and maintain and improve disease resistance.



Made in Bahrain  
and in Egypt



Made in Turkey  
and England



Made in  
Indonesia



Made in Czech  
Republic



Made in France





## Savoury and Sweet REDACTED % of biscuits, across both segments Arnott's under-index in price per kilo

- From a category perspective, sweet price per kilogram is \$REDACTED versus chocolate \$REDACTED and savoury \$REDACTED representing considerable headroom.
- Arnott's price indexes are the lowest within the largest volume categories: Savoury PI:82 and Sweet PI:86
- Unlocking the full potential of the sweet biscuits' category requires key demand driving initiatives, reminding consumers of Arnott's heritage of Australian made products using real ingredients and quality to deliver superior taste versus competitive sets.

### Total Market: MAT To 02/01/22

REDACTED - Confidential

Chocolate Biscuits

Sweet Biscuits

Savoury Biscuits

■ Arnott's Volume

■ Competitors Volume

○ Arnott's Price per kg

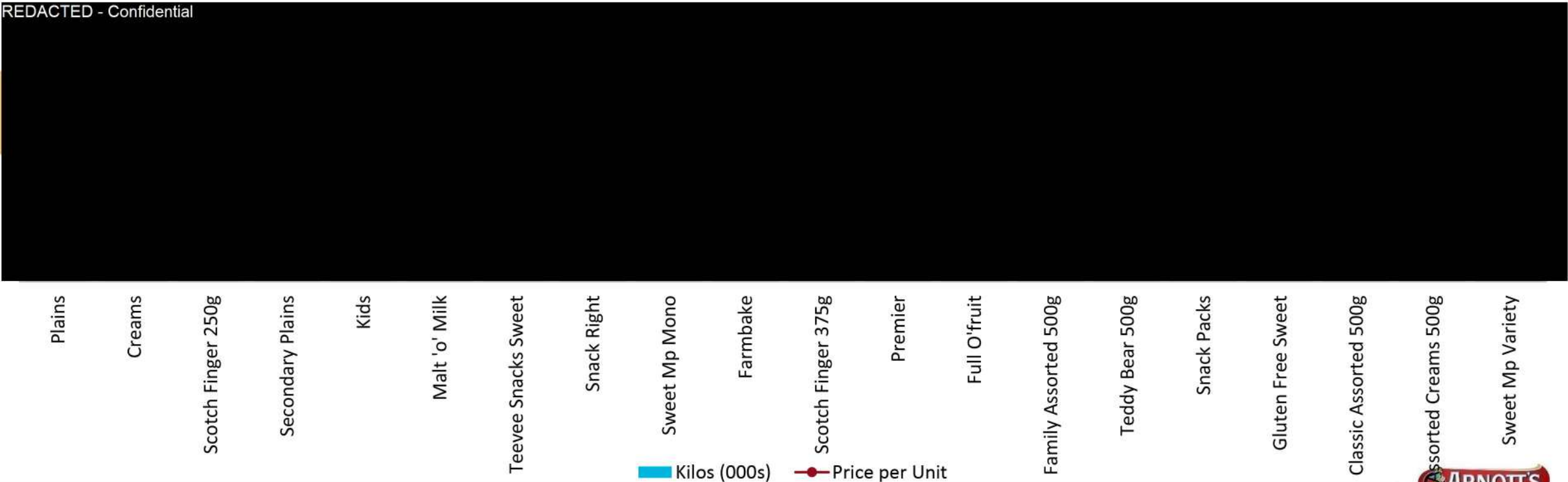
○ Competitors Price per kg

Arnott's ave unit pricing does not reflect strategic hierarchy or full value of brands within the market

coles

- Looking at Arnott's portfolio, the creams' portfolio is significantly under-priced versus Scotch Finger, secondary plains, kids from an average sell price point of view, and under-priced versus costs of goods.
- Shopper Purchasing Behaviour: The top drivers within the purchase decision hierarchy are:
  - Ticketing:** The importance of promotions to stimulate demand.
  - Brand:** The importance of brand to inspire confidence in offering.
  - Flavour and Origin:** Wide spectrum of offer from plains to creams (reasons to pay more) and product sourcing.

Total Market: MAT To 02/01/22



Within the Arnott's sweet portfolio, there is an opportunity to reduce shopper confusion with stronger tiering.

Creams \$3.00



Sec Plains \$3.00



Kids \$3.00



Scotch \$3.00



Scotch \$3.30



Sec Plains \$3.30



Kids \$3.50



Creams \$3.50



Current

Proposed



## The sweet main fixture is difficult to shop, trade up, pricing and promotional blocks are not evident



### Key Jobs to be Done:

- Improve shopability and navigation of fixture.
- Clear merchandise blocks representing good, better, and best, to encourage shopper trade up.
- Packaging used to convey brand strength, reasons to pay more and points of differentiation.
- Shelf prices to reflect Arnott's trade up and premiumisation strategy, and noting how highly elastic and expandable the portfolio is with high levels of volume sold on deal, **the right promotional program.**

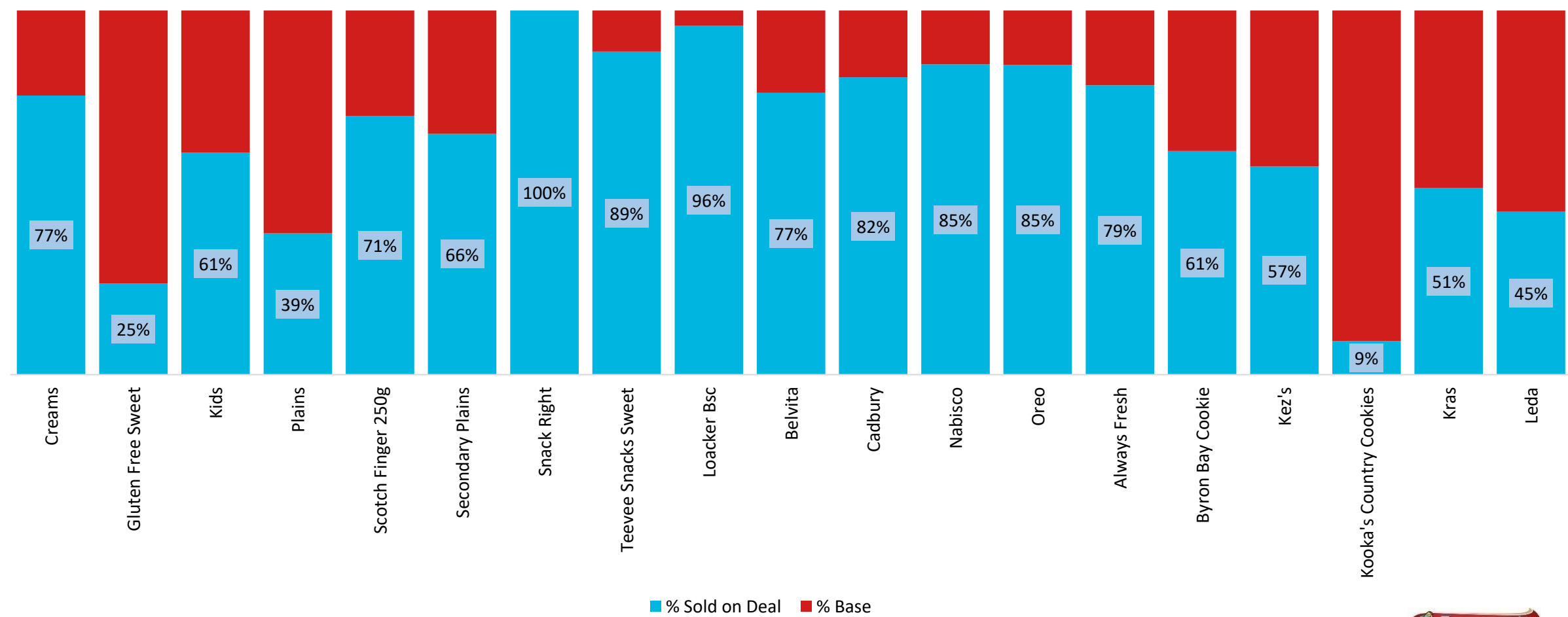


# Unlocking value within sweet portfolio requires the right segment hierarchies.

- Portfolio is highly elastic and expandable with significant volume sold on deal. .
- Creating **stronger segment and price tiers** will enable greater retail sales value growth for customer whilst maintaining customer % margin.

## Total Market: MAT To 02/01/22

Volume Sold on Deal



# We have plans to drive relevance, value and focus back into the largest volume segment.

## FROM

- A brand existing in people's memories
- Over-indexing with older couples and retirees
- A design focused on red and white

## TO

- A brand that is **relevant** for me today
- **Broader** consumer appeal including **families**
- A design heroing **taste, real ingredients & quality**

### Re-invigorate Arnott's Icons



#### RE-ENERGISE ARNOTT'S

With comms & new pack design.



#### EXPAND INTO NEW SEGMENTS

New Sweet Café bringing the out of home experience in home.



#### UNLOCK OCCASIONS

Texture (wafer) and pack format (MP, Adult Portion Control)



#### Y&F HERO

Comms & NPd support



### Build Young and Fun



#### INNOVATE TO BRING THE FUN

Leverage collabs, X&O's & Wafer Bites.



#### EXPAND PACK & CHANNEL

Via multipack & OTG formats



### Deliver BFY



#### RESTAGE SNACKRIGHT

As a contemporary BFY vehicle with 3.5+ HSR guardrail



#### DRIVE PROPOSITION SUPERIORITY

Via compelling claims against key consumer trends



#### LAUNCH NPD AGAINST KEY BIG BETS

Sugar, GF, Kids & Adult Permissible



## Build a Brand for the Next Chapter in our History

Contemporise

Energise With Colour

Drive Taste & Ingredient Story

Create a Brand that can be Extended



# Sweet Relaunch: Key Insights

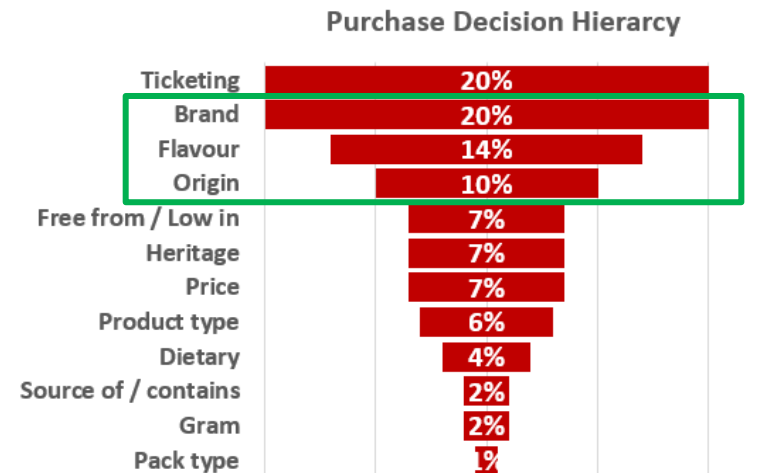
## Consumer Perceptions Qual Research, May 21'



Some packaging disruption required to resocialise the biscuits into contemporary love affairs.

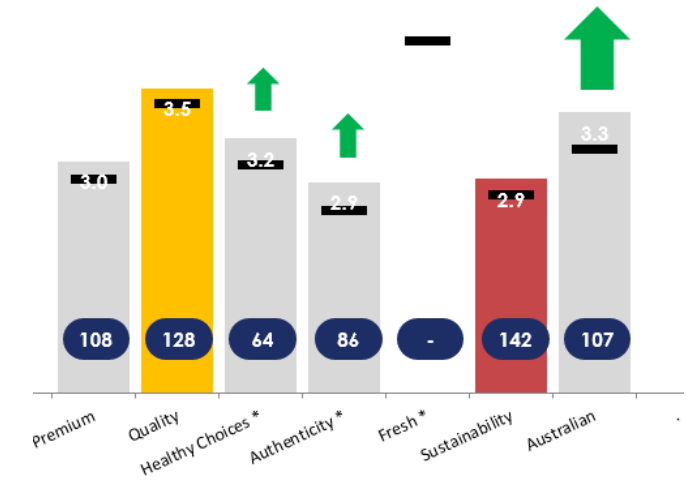
- Plain traditional packaging is classic but a little boring. Classic, traditional colour tones (as if the packaging hasn't ever really changed).
- Very little variation in packaging semiotics.
- Limited call out for key product attributes.
- Some confusion in relation to specific imagery representation.
- Arnott's branding overshadows sub-brands.

## Purchase decision hierarchy Virtual Shop (Quant research, Sept 21')



- Top 3 attributes account for 55% of the drivers of shopper choice
- Brand plays an important role. Arnott's strength is variety
  - › Shoppers look for Yellow Tickets (important heuristic that signals value)
  - › Look for Brand of choice
  - › Flavour = Spectrum of Plain to Creamy / Delicious

## Shopper Intelligence, Sept 21'



- **Australian Made** is significantly more important to today's shoppers, particularly in Sweet & Plain Biscuits, as is **Quality**

Arnott's will increase claims and messaging on all communications including packs focusing on Australian manufacture and ingredients.

Occasion: Morning Snack

Wholesome Morning

Shared Morning Treat



**CORE PLAINS**

Focus on Simple, Wholesome Ingredients

**Claims:**

- Baked in Australia
- No Artificials or Preservatives

**BOP:**

- Serving suggestions

**SECONDARY PLAINS**

Wholesome ingredients, delivering + flavour

**Claims:**

- Baked in Australia
- No Artificials or Preservatives

**BOP:**

- Serving suggestions
- Recipes

**CREAMS (INCLUDING FANCY)**

Taste, Deliciousness, Quality ingredients

**Claims:**

- Baked in Australia

**BOP:**

- Serving suggestions

**ASSORTED**

Heroing Arnott's favourites, Unmatched Variety

**Claims:**

- Baked in Australia

**BOP:**

- Serving suggestions

# Create a platform of Assortments that's differentiated, scalable and leans into Arnott's unmatched variety!

## CORE PACK REFRESH



## INTRODUCING HIGH TEA! COMING IN JULY!

Impress your friends and family with a selection of Arnott's finest biscuits for entertaining



**Biscuits:** Monte Carlo, Shortbread Cream, Raspberry Shortcake & Scotch Finger

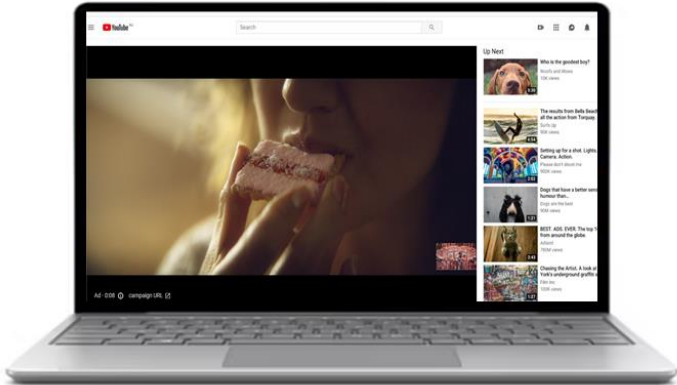
Note: Packaging refresh is WIP: below indicative.

All Rights Reserved. 2021. Strictly Confidential. Retail pricing is at the sole discretion of the retailer. All modelling is for indicative purposes only.



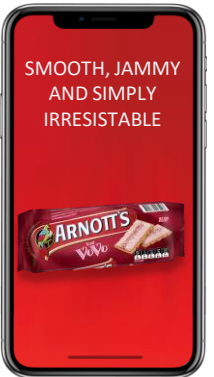
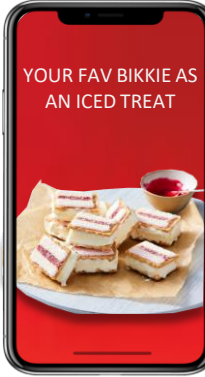
# Total portfolio campaign with continued media investment

## DRIVE EMOTIONAL CONNECTION WITH ARNOTT'S



YouTube + Catch up TV

## EDUCATE & RECRUIT NEW CONSUMERS



# Drive in-store conversion through off location and points of disruption within path to purchase

## EDUCATE & RECRUIT NEW CONSUMERS



Magazine, online & catalogues

## CONVERT IN STORE



Off locations displays

# Sweet CPI / relaunch enables different tiering and creation of a significant treating promotional program

Arnott’s recommended retail price adjustments will be limited to \$0.50c or less. Indicative pack refresh: WIP.





## Sweet CPI / relaunch enables different tiering and creation of a significant promotional program

Arnott's recommended retail price adjustments will be limited to \$0.50c or less and supported with a strong promotional program.

Key Promotional Group	Current Bench Price	Recommended Retail Price	Projected ASP	ASP Change	Promotion Tactics (excludes 30% Off)	Promotional Frequency
Plains	\$2.30	\$2.50	\$2.19	11.3%	\$2.00	26
Secondary Plains	\$3.00	\$3.30	\$2.55	8.3%	\$2.00/\$2.50	28
Scotch Finger	\$3.00	\$3.30	\$2.55	8.9%	\$2.00/\$2.50	29
Creams and Kids	\$3.00	\$3.50	\$2.77	23.5%	\$2.50	28
Kids	\$3.00	\$3.50	\$2.76	19.5%	\$2.00/\$2.50	28
Family Assorted	\$5.00/\$4.50 DD	\$5.00	\$4.50 DD	12.5%	\$4.50 DD	52
Assorted Creams	\$5.50	\$6.00	\$5.31	13.1%	\$4.80	20
Sweet MPs 8s	\$4.00	\$4.50	\$3.76	11.5%	\$3.00/\$3.50	20
Sweet MPs 15s Variety	\$6.00/\$5.00 DD	\$6.50/\$5.50 DD	\$5.50 DD	10%	\$5.50 DD	52

*A portfolio of highly expandable and complimentary products driving shopper basket size.*

**\$ REDACTED** marketing media spend ....Continued investment & innovation behind well loved iconic Australian brands – focus on driving category growth against key pillars.



# We have plans to drive incremental occasions across Savoury and accelerate consumption.

## GROWTH AMBITION

- Engage new users through **Better For You** by building the 'Light Lunch Occasion' and 'BFY' Snacking offers
- Build '**Premium**' offers to excite and delight consumers for premium entertaining occasions
- Grow '**Young and Fun**' by engaging new users with exciting new textures and next level flavour activations

### Drive Y&F in Flavoured Snacks



#### EXCITE THE CORE

Brand engagement and scale flavour news



#### ENGAGE NEW USERS

Excite new users into flavoured snacks with texture



#### DRIVE OCCASIONS

Strengthen Multipack and expand usage



### Accelerate growth in BFY



#### ENGAGE new users – via light lunch occasion

Drive awareness for Light Lunch and build health credentials



#### DRIVE Occasions through Portion Control

Launch PCP range of Crispbreads and on the go solutions



#### BUILD BFY Snacking offers for Kids and Adults

Launch BFY ranges for Adults (Snackright) and Kids (Bluey) > 3.5 HSR



### Accelerate growth in Entertaining



#### DRIVE ENGAGEMENT and Occasions in Core

Elevate 'Aussie Made' and drive access to occasions



#### Embed the launch of Arnett's Premium

Attract new consumers via Arnett's Premium range



#### Launch 180 Degrees

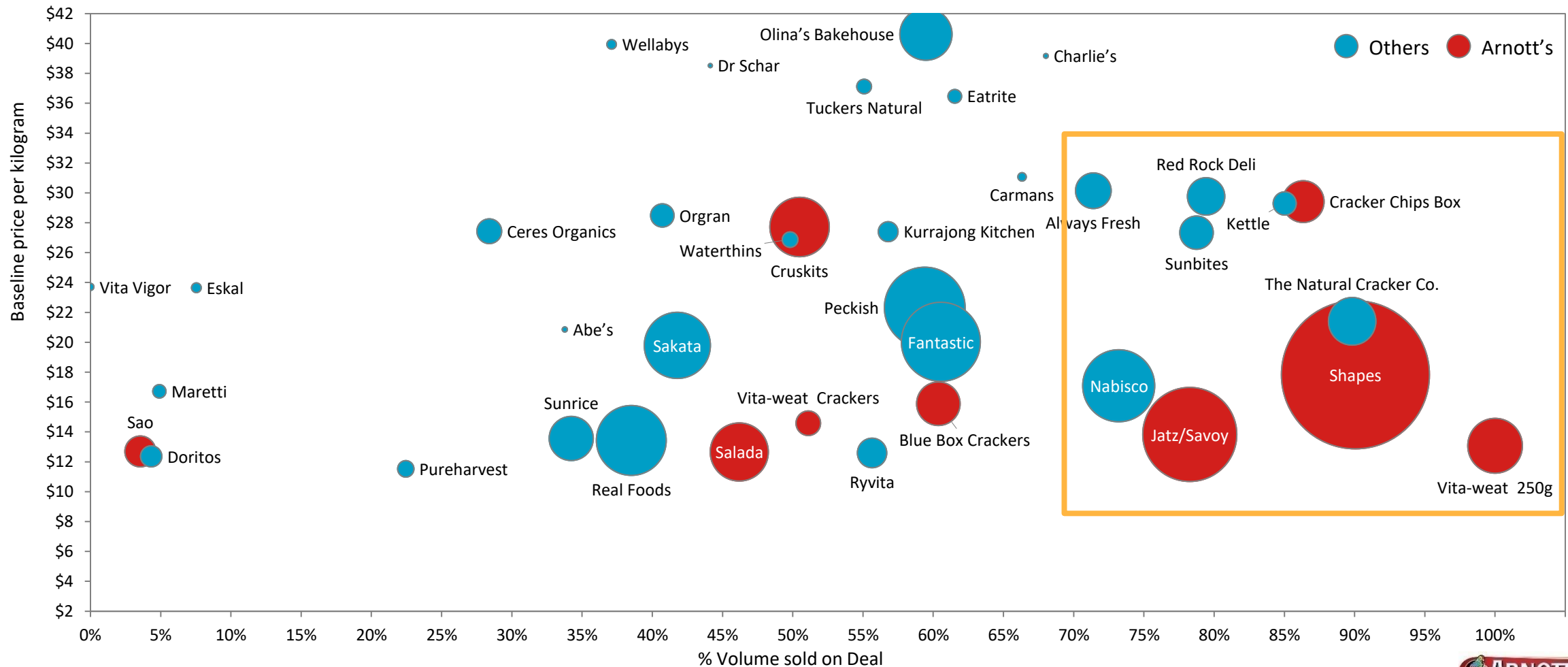
Drive growth in premium entertaining through 180



Execute with excellence against key events throughout the year (Footy Finals / Christmas / BNI)

## Our cost of goods' recovery within savoury is targeted towards high volume on deal lead brands that will recover quickly.

- Arnott's savoury portfolio baseline price per kilogram is below key competitive sets despite having a higher volume sold on deal.
- Within flavoured snacks, Shapes has the lowest shelf price versus key competitors (Red Rock \$4.00, The Natural Cracker Company \$3.50 and In a Biskit is \$3.20 for 160g packsize.)
- Adjusting price whilst holding volume on deal is critical for recovery of cost of goods.

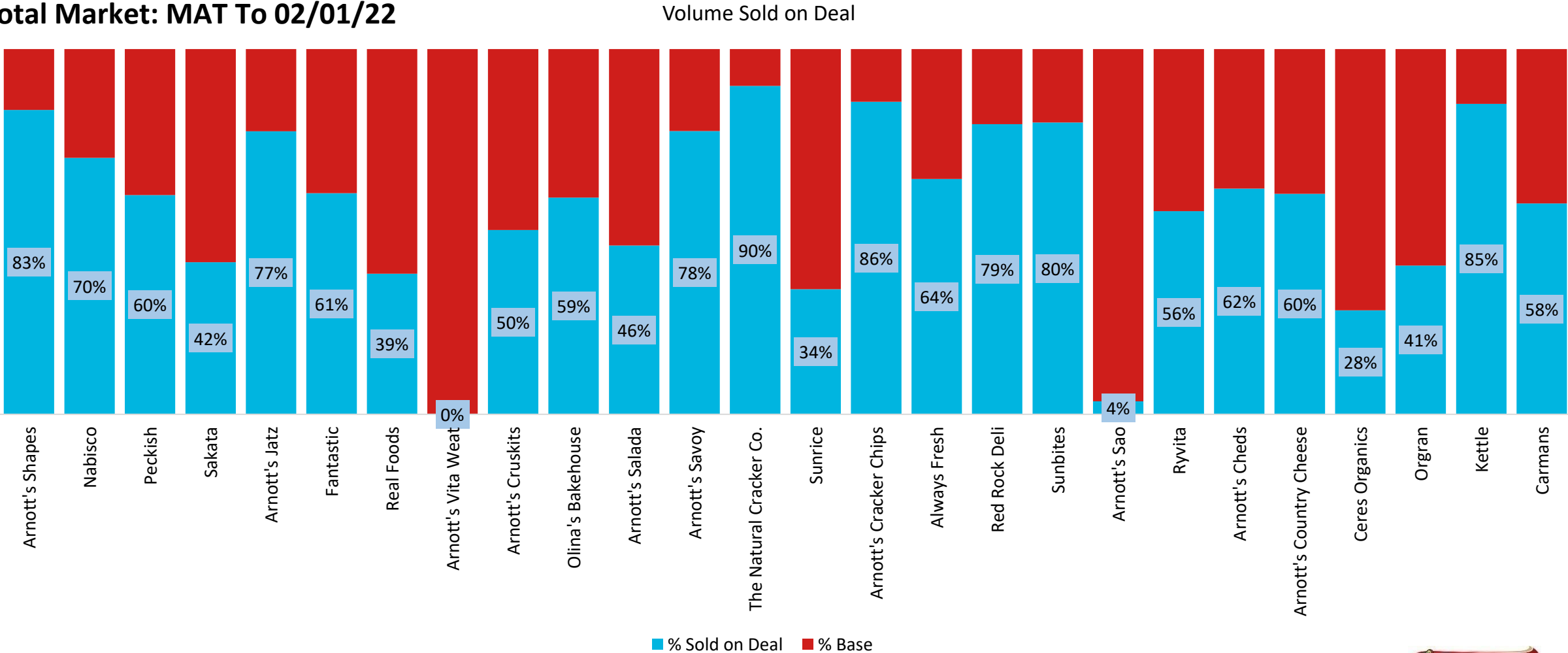




# The savoury portfolio, similar to sweet, is highly elastic and expandable with significant volume sold on deal.

- Portfolio is highly elastic and expandable with significant volume sold on deal.
- Creating **higher price tiering** to discount from will enable greater retail sales value growth for customer whilst maintaining Coles % margin.
- There exists opportunity to create larger bundles, using lead brands such as Shapes to drive penetration of other parts of the portfolio.

## Total Market: MAT To 02/01/22

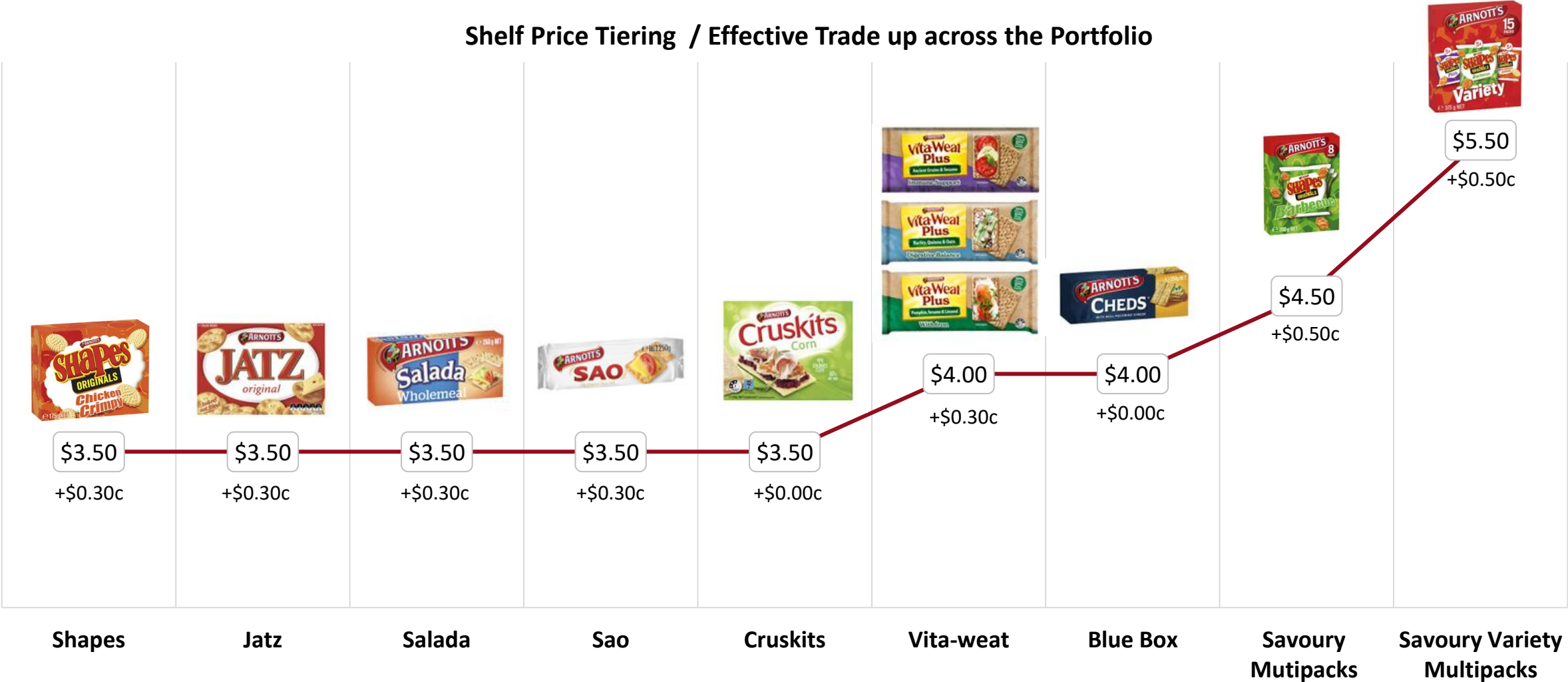


Savoury price adjustment limited to selected key promotional groups enabling greater bundling.

Arnott’s recommended retail price adjustments will be limited to \$0.50c or less.

Trade Up / Premiumisation Strategy : Savoury Innovation

Shelf Price Tiering / Effective Trade up across the Portfolio



## Savoury price adjustment limited to selected key promotional groups enabling greater bundling.

Arnott's recommended retail price adjustments will be limited to \$0.50c or less and supported with a strong promotional program.





Key Promotional Group	Current Bench Price	Recommended Retail Price	Projected ASP	ASP Change	Promotion Tactics (excludes 30% Off)	Promotional Frequency
Shapes	\$3.20	\$3.50	\$2.33	3.9%	HP/\$2.50	44
Jatz	\$3.20	\$3.50	\$2.69	5.4%	\$2.50/\$3.00	42
Salada	\$3.20	\$3.50/\$3.00 DD	\$3.00	7.5%	\$3.00 DD	52
Sao	\$3.20	\$3.50	\$3.44	9.4%	NA	2
Vita-weat	\$3.60/\$3.30 DD	\$4.00	\$3.47	5.0%	\$2.50/\$3.00	16
Savoury Mutipacks 8s	\$4.00	\$4.50	\$3.76	11.2%	\$3.00/\$3.50	20
Savoury Variety 15s Multipacks	\$6.00/\$5.00 DD	\$6.50/\$5.50 DD	\$5.50	10.0%	\$5.50 DD	52
Shapes Party Pack	\$5.00/\$4.50 DD	\$5.50/\$5.00 DD	\$5.00	11.1%	\$5.00 DD	52
Jatz Party Pack	\$5.00/\$4.50 DD	\$5.50/\$4.80 DD	\$4.80	6.7%	\$4.80 DD	52



*A portfolio of highly expandable and complimentary products driving shopper basket size.*



# Proposed Changes to Down Down Offers

	<u>Current</u>	<u>Proposed</u>
	\$4.00	\$4.50
	\$5.00	\$5.50
	\$4.50	\$5.00
	\$4.50	\$4.80



**\$5<sup>50</sup>** ea

**EVERY DAY**



THERE IS NO SUBSTITUTE.

ARNOTT'S AUSSIE MADE & LOVED

# Crispbread Proposal – Vita Weat to high/low and Salada to Down Down

Move Vita Weat to high/low to leverage NPD and marketing investment to drive penetration



Leverage shopper comms



Strong Down Down shelf presence



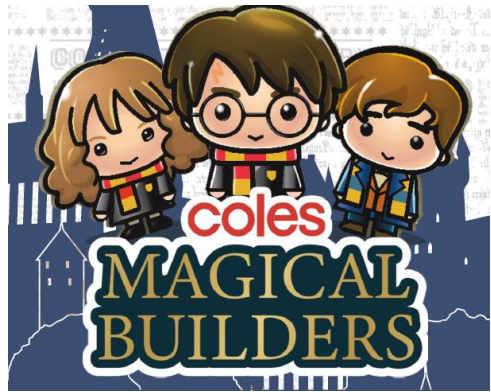
Differentiated ways shopper value will be provided



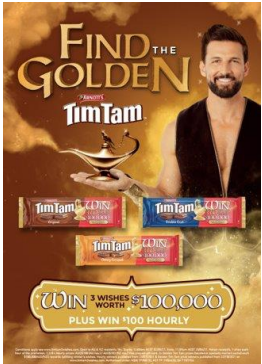
KPG	MAT Promo Frequency
Shapes	44
Jatz	42
Vita Weat	16
Savoury MPs 8s	20
Assorted Creams	20
Primary Plains	26
Creams	28
Secondary Plains	28
Scotch Finger	29
Kids	28
Sweet MPs 8s	20
Tim Tam	42
Family Choc	39
Wagon Wheel	38
Tee Vee Snacks	40
Deluxe	38
Obsession	21
Cruskits	27
Blue Box	28
Cracker Chips	32
Total	606
Weekly Average	11.7



KPG	MAT Half Price Frequency
Shapes	8
Tim Tam	8
Tim Tam Deluxe	7
Family Choc	7
Tee Vee Snacks	7
Wagon Wheel	7
Cracker Chips	7
Choc Obsession	3
Total	54



Events and Shopper ASPs



2 for \$5 Super Bundle - \$3.9m RSV

ShapesJatz

CreamsScotch

Sec PlainsKids

Vita WeatCruskits

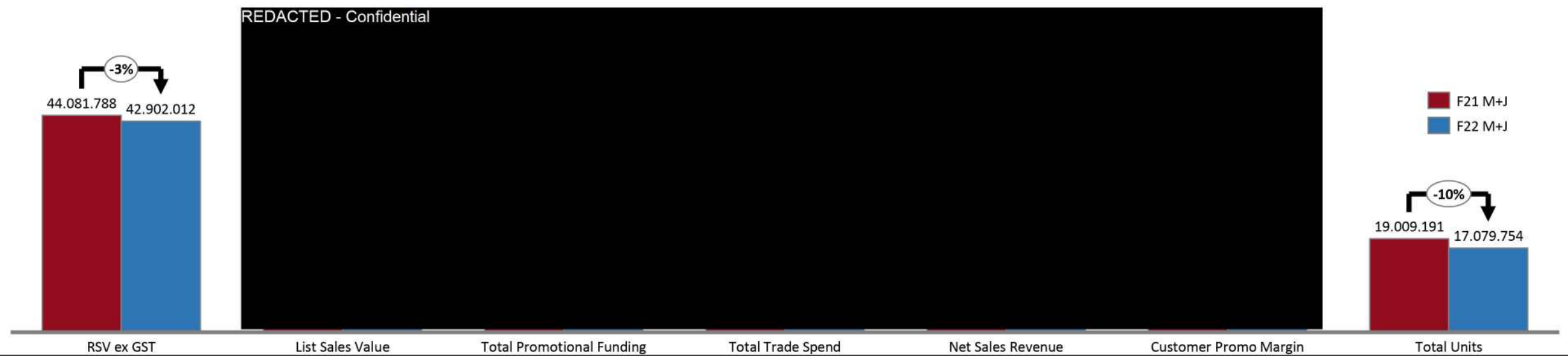




# Coles Financials

# F22 May and June versus LY

## Total Biscuits Portfolio



## Key Promotional Group: Recovery Cost of Goods

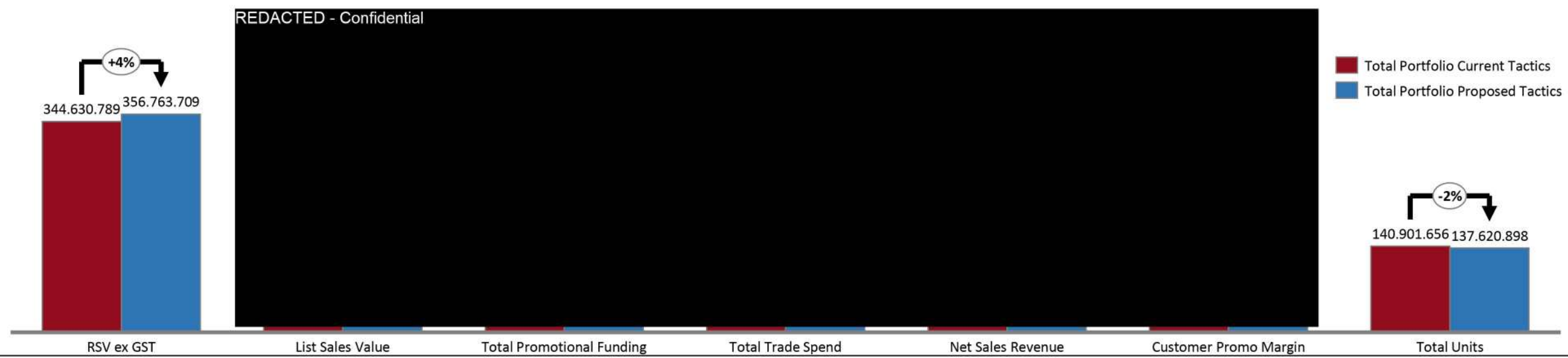






# 52 Week projection

## Total Biscuits Portfolio



## Key Promotional Group: Recovery Cost of Goods





# KPG MAT Financial Projection

	CURRENT TACTICS					PROPOSED TACTICS					ACTUAL CHANGE					% CHANGE			
	RSV inc gst	5th Margin	5th %	Funding	Volume	RSV inc gst	5th Margin	5th %	Funding	Volume	RSV inc gst	5th Margin	5th %	Funding	Volume	RSV inc gst	5th Margin	Funding	Volume
Shapes Party Pack	\$1,163,378	REDACTED - Confidential			258,529	\$1,253,863	REDACTED - Confidential			250,773	\$90,485	REDACTED - Confidential			-7,756	7.8%	REDACTED - Confidential		-3.0%
Jatz Party Pack	\$1,163,378				258,529	\$1,203,709				250,773	\$40,330				-7,756	3.5%			-3.0%
Sao	\$3,994,000				1,270,000	\$4,371,500				1,270,000	\$377,500				0	9.5%			0.0%
Shapes	\$64,031,589				28,521,885	\$64,216,296				27,531,046	\$184,707				-990,838	0.3%			-3.5%
Assorted Creams	\$8,671,410				1,847,528	\$9,219,055				1,736,509	\$547,645				-111,019	6.3%			-6.0%
Creams	\$25,492,812				11,362,656	\$25,046,000				9,042,000	-\$446,812				-2,320,656	-1.8%			-20.4%
Family Assorted	\$3,877,328				969,332	\$4,143,906				920,868	\$266,578				-48,464	6.9%			-5.0%
Kids	\$8,702,776				3,771,023	\$9,026,086				3,272,025	\$323,310				-498,999	3.7%			-13.2%
Plains	\$17,108,555				8,703,307	\$18,261,390				8,343,705	\$1,152,835				-359,602	6.7%			-4.1%
Scotch Finger 250g	\$11,214,831				4,813,753	\$11,996,132				4,724,344	\$781,301				-89,409	7.0%			-1.9%
Secondary Plains	\$17,793,458				7,565,127	\$18,693,563				7,336,653	\$900,105				-228,474	5.1%			-3.0%
Vitaweat	\$12,262,625				3,715,947	\$13,707,104				3,954,359	\$1,444,479				238,412	11.8%			6.4%
Sweet Multipacks Mono	\$9,297,037				2,755,639	\$9,874,735				2,624,143	\$577,698				-131,496	6.2%			-4.8%
Sweet Multipack Variety	\$6,723,630				1,344,726	\$6,656,364				1,210,248	-\$67,266				-134,478	-1.0%			-10.0%
Savoury Multipacks Mono	\$6,995,457				2,071,154	\$7,331,375				1,951,306	\$335,917				-119,848	4.8%			-5.8%
Savoury Multipacks Variety	\$5,828,680				1,165,736	\$5,770,336				1,049,152	-\$58,344				-116,584	-1.0%			-10.0%
Salada Down Down	\$12,791,806				4,544,334	\$13,846,336				4,573,239	\$1,054,530				28,905	8.2%			0.6%
Jatz	\$31,461,615				12,346,801	\$31,062,722				11,566,778	-\$398,894				-780,024	-1.3%			-6.3%
TOTAL	\$248,574,367				97,286,005	\$255,680,470				91,607,919	\$7,106,104				-5,678,086	2.9%			-5.8%

## Current and Proposed Promotional Tactics by RPP – excludes Down Down offers

Savoury	Current							Proposed						
							Total Frequency							Total Frequency
KPG	\$3.30	\$3.00	\$2.50 or 2 for \$5	\$2 or 2 for \$4	30% Off	HP		\$3.50	\$3.00	\$2.50 or 2 for \$5	\$2 or 2 for \$4	30% Off	HP	
Shapes			35	1	3	8	47			34		2	8	44
Jatz			37	2	3		42		5	34		3		42
Sao					2		2					2		2
Vita Weat	52 DD						52 DD		8	8				16
Savoury MPs 8s		16			4		20	10	6			4		20
Salada		1	21		2		24		52 DD					52 DD

Sweet	Current							Proposed						
							Total Frequency							Total Frequency
KPG	\$4.50	\$3.00	\$2.50 or 2 for \$5	\$2 or 2 for \$4	\$1.80	30% Off	HP	\$4.80	\$3.50	\$3.00	\$2.50 or 2 for \$5	\$2 or 2 for \$4	30% Off	HP
Creams			5	23		2	30				26		2	28
Secondary Plains			8	20		2	30				14	12	2	28
Scotch Finger			6	20		2	28				15	12	2	29
Kids			6	21		2	29				24	2	2	28
Assorted Creams	20						20	20						20
Primary Plains					23	3	26					24	2	26
Sweet MPs 8s		16				4	20		10	6			4	20