

Arnott's Trade Plan Summary & Feedback

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Hi Becky,

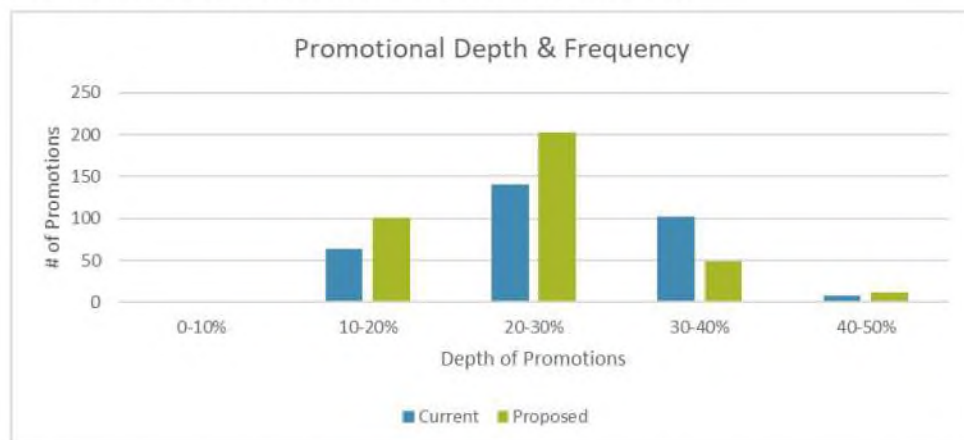
Following up from our chat yesterday afternoon I have summarised the key callouts from the Arnott's updated Trade Plan:

Summary:

- Promotional Depth has been reduced, Arnott's have almost halved the number of promotions between 30-40% and has shifted this into lower depth promotions.
- Arnott's have offset COGs increase by increasing supplier funding by circa [REDACTED] ([REDACTED]/unit). Pleasingly this increased support has been focussed on Shapes to allow competitive pricing. However, there are some individual SKU's that have effectively had a double Cost increase due to lower supplier funding/unit.
- Sao is forecast Constant Volume (a 9.5% sales increase) although receiving a ~10% increase in ASP.

1) Promotional Depth:

Graph below is a look into promotional depth by % off Shelf Price:



- Promotional Depth has shifted - Arnott's has proposed to halve the number of promotions in the 30-40% range 102 down to 49. These promotions has been redistributed across lower depths (10-30%).
- Overall number of promotions has actually increased by 50, however this is driven mostly by Salada going on Down-Down for 48 weeks at a ~14% discount (ASP forecast to increase 7.5%). This Down-Down is classed as a promotion.
- Increase of 4, 40-50% promotions driven by 2 extra weeks of "Shapes" and "Kids"

2) Supplier Funding by SKU:

Below Table highlights key SKU's with increases/decreases in Supplier funding:

	COGS/Unit	Supplier Funding/Unit	ASP/Unit	5th Margin/Unit	Change in COGS	Change in Net COGs
Shapes	-\$ 0.20	[REDACTED]	\$0.05	[REDACTED]	(5.7m)	(1.1m)
Assorted Creams	-\$ 0.34	[REDACTED]	\$0.54	[REDACTED]	(0.6m)	(0.7m)
Plains	-\$ 0.13	[REDACTED]	\$0.21	[REDACTED]	(1.1m)	(1.2m)
TOTAL	-\$ 0.23	[REDACTED]	\$0.22	[REDACTED]	(21.3m)	(13.2m)

- Shapes – large increase in Supplier Funding to offset COGs increase, meaning net COGs impact is only \$1.1m. This means a lower increase in ASP to remain competitive.
- Assorted Creams – As well as a COGs increase, a decrease to supplier funding which means it is effectively a double CPI. However, low value SKU so only has a ~\$[REDACTED] impact.
- Plains have small decreases in supplier funding/unit of \$[REDACTED]
- Overall Arnott's is increasing ASP (8.5%) by less than the actual COGs increase (10.7%). This means 5th Margin rate increases are driven by both ASP and Supplier Funding rather than all ASP.
- The result of this trade plan is circa \$8.5m reduction in the COGs impact. Due to the CPI Cost is forecast to increase \$21.3m, however due changes in supplier funding and promotional activity the Net Cost Impact is forecast to be \$[REDACTED]

3) Forecasting & Data Integrity:

- Sao – Forecasting no change to volume although increasing ASP by almost 10%. Increasing Shelf price and reducing promotional depth, is there another reason why volume may stay constant? (5th margin is actually below category average so this would pull down forecasted 5th).
- Looking through the provided slide deck I couldn't find anything specific to Sao to understand why this might occur.
- No change in volume although a price increase seems unrealistic unless anything else has changed, this may be inflating sales forecast as it is predicting an incremental \$377K in sales.

Thanks,

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