

Re: Summary of CPI validation

From: Via Lavdas <[REDACTED]@coles.com.au>
To: Beccy Thompson <[REDACTED]@coles.com.au>
Date: Thu, 07 Apr 2022 23:56:33 +1000

Hi!
 I spoke with Aleks today
 My assessment is:
 - we try to have list price proposal reduced excl the labour/overhead component
 - we focus on reworking the business proposal given it was so far from where it needs to be last time with a focus on:
 —volume growth
 —greater value back to customer - big DD play? Greater promotional price strategy? Aldi API alignment focus?
 —improved funding and margin delivery

If they don't budge on the List price at all, we can go back and forth on this and on the justification piece. But given Point to point in fact their ask is justified I feel the bigger picture is how do we build a compelling sales plan that is good for customer and good for both of us.

I can call you at 11am for a quick chat on this tomorrow as I have a small gap between meetings if it suits you

via

Sent from my iPhone

On 6 Apr 2022, at 5:21 pm, Aleksandra Drazic <[REDACTED]@coles.com.au> wrote:

Hi Via and Rebecca

I have looked at the response from Arnott's in relation to their CPI submission. There are following differences in Arnott's calculation and ours. I am happy to meet with Arnott's and discuss below.

1. Different methodology 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

<image004.png>

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 [REDACTED]% is margin then we would need to adjust the input components i.e. Wheat Arnott's input [REDACTED]%, Adjusted for margin [REDACTED]%. 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.

Hope this answers the questions below. Let me know if there are any questions.

Aleksandra Drazic
 Senior Analyst | Commercial Cost Management

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<image001.png>

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]@arnotts.com>; 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 24% 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 24% 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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<image002.png>

From: Rebecca Thompson <[REDACTED]@arnotts.com>
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]@arnotts.com>
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%. **2.9%** 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 Amotts, 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
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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%