

RE: Arnotts CPI Update

From: Ryan Bowman <[REDACTED]@arnotts.com>
To: Becy Thompson <[REDACTED]@coles.com.au>
Cc: Cost Price Increase Requests <costpriceincrease@arnotts.com>; Adrian Yik <[REDACTED]@arnotts.com>; Robert Cannone <[REDACTED]@arnotts.com>; Cameron Teale <[REDACTED]@arnotts.com>
Date: Thu, 05 May 2022 15:28:22 +1000
Attachments: Coles CPI Model - May 12 2022 (Final - V4 - 05.05.22).xlsx (132.07 kB)

Hi Becy,

Thanks for your note and I hope the Grocery Team meeting went well today. Agree that yesterday was a great session, I'm confident we'll create a robust JBP that can create value for both businesses.

Please see below in blue responses to your proposal, attached is the updated model with the further enhancements included and below is the updated financial projection.

	RSV Inc gst			5th Margin			5th %			Volume			Funding		
	Current Tactics	Proposed Tactics	% Change	Current Tactics	Proposed Tactics	% Change	Current Tactics	Proposed Tactics	Actual Change	Current Tactics	Proposed Tactics	% Change	Current Tactics	Proposed Tactics	% Change
TOTAL	\$248,442,837	\$267,109,496	7.51%	\$[REDACTED]	\$[REDACTED]	[REDACTED]%	[REDACTED]%	[REDACTED]%	[REDACTED]%	97,140,789	96,705,300	0.45%	\$[REDACTED]	\$[REDACTED]	[REDACTED]%

I can be available anytime to discuss further.

Kind Regards,

Ryan Bowman
Customer Director - Coles

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From: Rebecca Thompson <Becy.Thompson@arnotts.com>
Sent: Thursday, 5 May 2022 8:16 AM
To: Ryan Bowman <[REDACTED]@arnotts.com>
Cc: Cost Price Increase Requests <CostPriceIncreaseRequests@arnotts.com>; Adrian Yik <[REDACTED]@arnotts.com>; Robert Cannone <[REDACTED]@arnotts.com>
Subject: Arnotts CPI Update

External Mail

Hi Ryan,

Thanks for your time yesterday it was a great session and I am really excited about the plans we will start to build together to ensure long term growth for both businesses.

I have had the final validation back from my VMO team and the revised analysis based on the new data shared indicates that we can accept a 4.6% increase. This is again based on the methodology used by Coles as an average over time and is excluding the Labour and overheads (10%) which is not accepted as part of Coles policy.

However the alternative analysis from a P2P perspective using the new data shows full validation for the increase (Minus the labour and overheads), and given the current market conditions we are willing to work with you to accept an increase of 7%. Given this is not the normal Coles validation process we would like to see in writing that once commodity prices start to decrease the benefits will be shared with Coles – please confirm. I'm unable to confirm this request. Commodities are volatile and as recently discussed we're currently experiencing significant inflation and expect this will continue for an extended period of time. Arnott's objective is to balance the commodity volatility with our key priorities of driving category value, providing our consumers great value offers, investing in demand-driving initiatives with our key customers, and investing in our brands.

As previously discussed the remainder of the ask of [REDACTED] based on Labour and overheads is not usually accepted by Coles as it is not Coles policy. However based on our relationship and the understanding of the current climate we are willing to work through a plan on how we can accept the full cost increase of 10.7%. Thank you for all the input you have had on the plan so far, I feel we are getting really close to closing this out and being in a good place post CPI. However to close this off and accept the full 10.7% we would need to have the following agreed:

We have discussed at length around the plan for EDV on Jatz and Savoy at Christmas, we still stand by this plan and will need your support to execute. We believe this is the right thing for the customer at this time, and we want to work with you to ensure we shout about your brand, the value and execute this well. I understand your concerns on volume but I am willing to work with you to see what else we can do in Jatz and Savoy to ensure growth in FY23 whether that is at Spring racing, Easter and of Course at Christmas. Our position remains unchanged on Jatz at Christmas. For all the reasons we've discussed we believe a high/low program will provide your customers the best shopper value and it will create the most value for Coles and Arnott's. Similarly it will play a key role in achieving the 2% volume target you shared yesterday.

The second point is around the volume particularly in the 3 areas of concern I had pointed out in my last email. Again I hear your concerns on these bundles however I also have concerns based on the 5th margin impact to the category and again with such a planned decline not setting ourselves up for success. Please can you look at these bundles 1 last time and come back with an improved position protecting 5th and increasing volume. I understand your volume concerns on Creams, Kids and Scotch Finger, and this is an area where we've made significant improvements/enhancements to the plan since our original discussion. I've discussed internally and received approval to upgrade 2 X Creams \$3.00 RRP frequencies to a \$2.50 RRP which will drive a further 200bps of volume.

The last point is on the Shapes 5th margin – Thank you so much for your increased funding yesterday but based on the position of Shapes vs cat average please can you re-look at my original ask. I have revised the funding changes shared earlier in the week, new increases are below which equate to circa \$[REDACTED] (bps) of 5th margin expansion:

- Funding increase of \$[REDACTED] per unit for \$2.50 and 2 for \$5 RPP tactics.
- Funding increase of \$[REDACTED] per unit for \$1.75 HP RPP tactics.
- Funding increase of \$[REDACTED] per unit for \$2.00 and 30% Off RPP tactics.

I know we are against the clock now, but if we can get the final position back to me by close of play today I will come back with how and when this will all be actioned based on promo impact and your timelines.

Finally not CPI related, but I also need your support to close out the MDI for this year. I believe we have a small gap which Alanna is working through, but any help to close this off so that we finish the year in a relatively good place would be appreciated. We're happy to assist. Our original straight commitment in the uncompleted JBP was \$[REDACTED] even though not all of the associated initiatives were supported throughout the year we're supportive of holding to \$[REDACTED]. In the financials you shared yesterday the straight projection was \$[REDACTED]. Cam will work with Alanna on bridging to \$[REDACTED]. Please note, the \$[REDACTED] excludes our \$[REDACTED] investment in the current Kitchen Aid activation, we exclude it as it doesn't get recognised in the BDP scorecard but our understanding is that it still benefits the category P&L.

Thank you!! I am in an all day strategy session today, but please txt me for anything urgent otherwise I look forward to hearing from you.

Becy Thompson
Senior Category Manager
Biscuits

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