

A person wearing a blue and white striped shirt is standing behind a wooden table, preparing vegetables. In the foreground, there are several red tomatoes, a green bell pepper, and a sliced orange bell pepper. To the left, a glass bowl contains a salad of tomatoes, peppers, and greens, with a wooden fork resting in it. The background is slightly blurred, showing a kitchen setting.

# Save A Lot Retail Partner Webinar







February 18, 2021



# Agenda

- Status Update
- Introductions
- Wholesale Pricing and Transport Model
- Closing

# December RP Webinar Status Updates

Initiative	Committed	Delivered	Status
Service Level Reports	January Week 1	January Week 1	
Instacart Rollout Phase 1 Corporate Expansion Phase 2 Retail Partner Expansion Phase 3 Open Subscription Slots Phase 4 Curbside Expansion	Q1 2021	December Week 3 January Week 1 February Week 1 March Week 1	
Pricing Rollout Pilot & Webinar Pilot RP 1 Launched Pilot RP 2 Launched Pilot RP 3 Launched Pilot RP 4 Launched	Q1 2021	August Week 1 November Week 1 January Week 1 February Week 1	
Remodel Program	January Week 1	January Week 1	
Marketing - Brand Amplifier	February Week 1	February Week 1	
Shared Services Pilot	January Week 1	January Week 1	

# Introductions



Mark Hutchens, Chief Financial Officer

- More than a decade of experience in the role of CFO at companies such as Service King, Papa Murphy's and Bloomin' Brands; his shared vision for prioritizing Retail Partner profitability and experience of building best in class shared services will add invaluable expertise to our team.



Travis Hubbard, Vice President of Retail

- Broad industry experience, most recently from Advantage Solutions, where he served as VP-Southeast, and was responsible for the development and implementation of sales and marketing initiatives for all retailers in his region from market leaders such as Publix to regional independents like Sedano's-Miami. Over 30 years of grocery experience with Harris Teeters & Ahold in operations, buying and procurement roles.



Tom Burkemper, Vice President of Merchandising Center Store

- Tom has over 25 years of merchandising experience with notable senior leadership roles at 7-Eleven and Anheuser-Busch where he achieved an extensive track record of success in the areas of center store merchandising and category management.



Larry Gatta, Senior Advisor – Merchandising Center Store

- Larry has over 20 years of senior leadership experience in retail including 11 years in discount retail with Dollar General Corporation. Larry was instrumental in the roll out of National Brands, consumable & non-consumable grocery, and fresh perishables for their 16,500 stores from a DSD model to self-distribution creating a notable increases in sales and profitability.



# Wholesale Pricing and Transport Model

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# Reminder: our objectives

## Enhance our Retail Model

- Increase Customer Profitability – COGS / Incentives
- Shift Emphasis to “Service & Sales”
- Enable Retailers to Run Great Stores – Simplify Operations

**4.0%**

## Grow Save A Lot

- Increase Trips from Existing Shopper Base
- Neighborhood Value Grocer
- Add New Doors
- Increase RP Purchase Volume

**2.0% + 2.0%**

## Perpetually Fuel System Growth

- Shift to Lowest Landed Cost Mindset
- Target Aggressive Annual COGS Reductions
- Leverage DSD Buying Power
- Build Trading/Close-out Capabilities

**\$20 – 40 M**

## Reduce Enterprise Costs

- Reduce Cost To Serve in Distribution – Cube, Net Trans, Productivity
- Prioritize Value Accretive Technology
- Simplify Organization

**4.0%**

# To meet these objectives, we need to address issues in our current system

## Transparency

- ✗ Pricing strategy lacks clarity and inhibits collaborative planning
- ✗ Prices vary across markets due to accumulated exceptions

## Efficiency

- ✗ Transportation fee structure does not incentivize RPs to reduce system supply chain costs
- ✗ Structure lacks clarity for RPs on what they can do to lower their costs and help the system

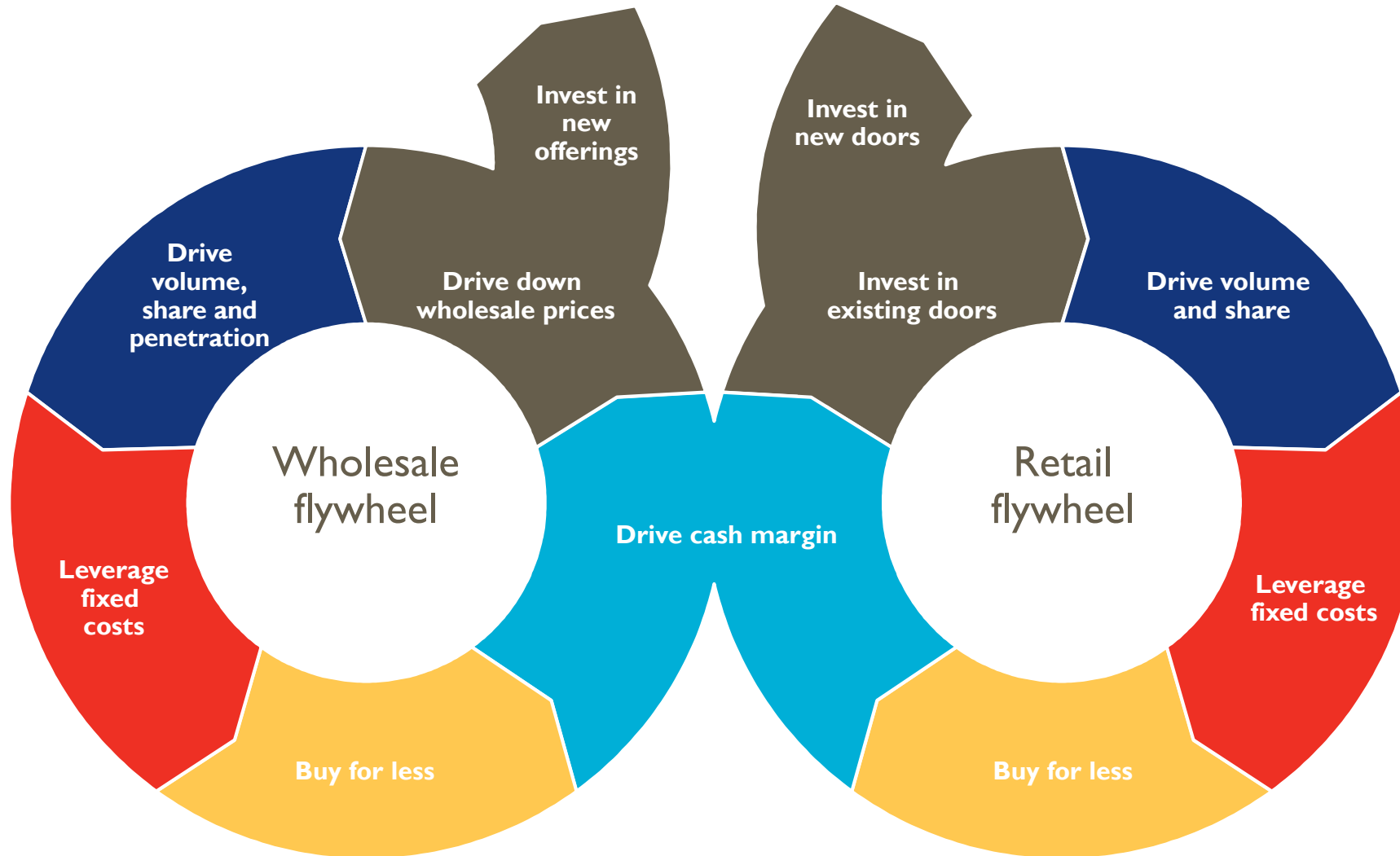
## Subsidies

- ✗ SKVI subsidies resulting in disparate treatment of RPs
- ✗ High subsidies in transportation do not drive focused improvement opportunities

## Retail program

- ✗ Too much focus on PCR
- ✗ Complex retail pricing that doesn't get us close enough on key items

# RP profitability is critical to Save A Lot's performance – this idea is at the heart of our “double flywheel” approach



- Maximize transparency to drive trust
- Remove hidden subsidies
- Reward RPs who drive the system's total buying power
- Treat transportation as a pass-through, not a profit center, with efficiency gains passed on as we move to a cost-per-case mindset



# How do we capture the opportunity and meet our objectives?

## Retail Price Optimization



- Save A Lot will provide SRP recommendations based on each store's unique competitive situation and customer needs
- RPs will have final say on their pricing decisions, and will have the tools to make them

## Wholesale Price Book



- Provide the best possible cost on each item, every day, with a single cost book
- In Grocery, Cooler and Freezer, focus on RP GIG
- In Produce and Meat focus on right spec and lowest possible cost
- Maintain SKVI program but stop selling below acquisition cost

## Transport



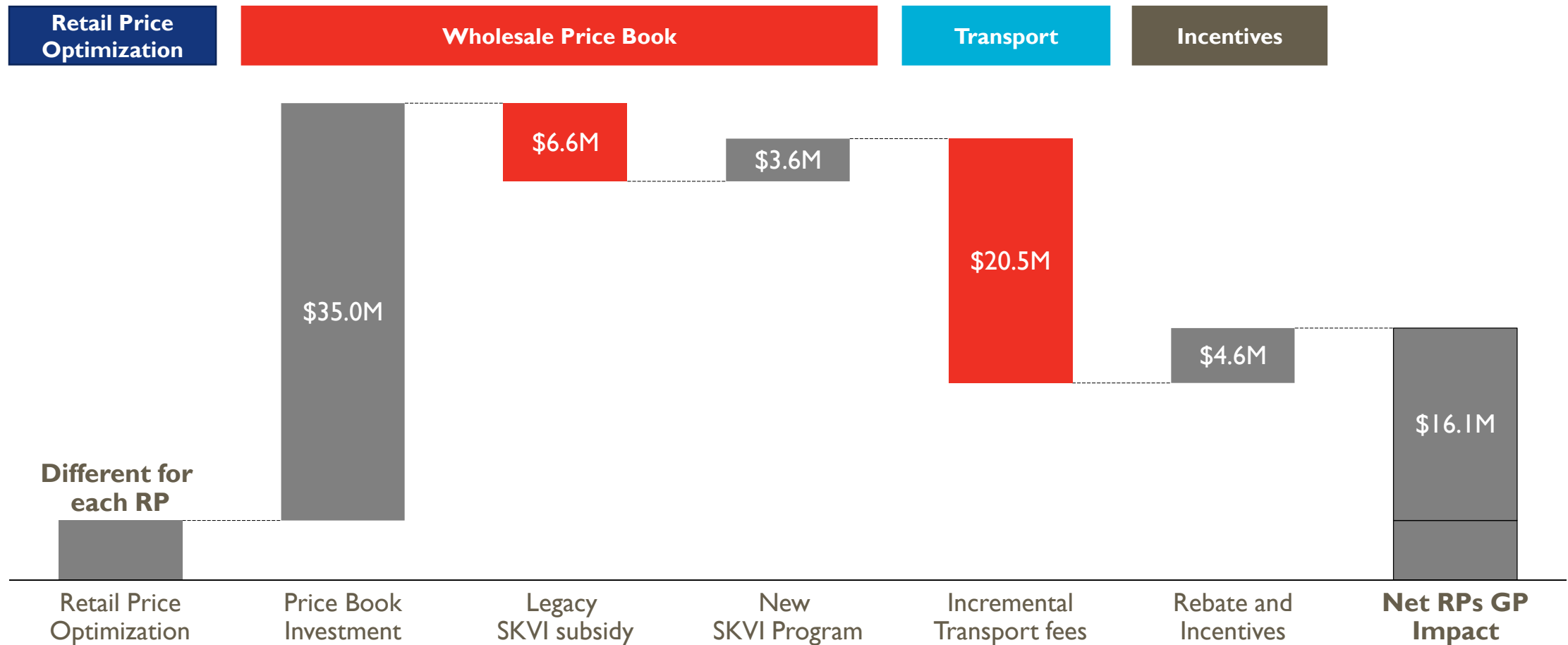
- Simplified fee structure across the entire enterprise that focuses on efficiency of loads and trailer utilization
- Focus on maximizing trailer cube utilization to yield the lowest possible cost per case

## Incentives



- Move away from focus on PCR and focus on contribution to SAL buying power and growth

# While there will be changes, overall we are investing in RP profitability

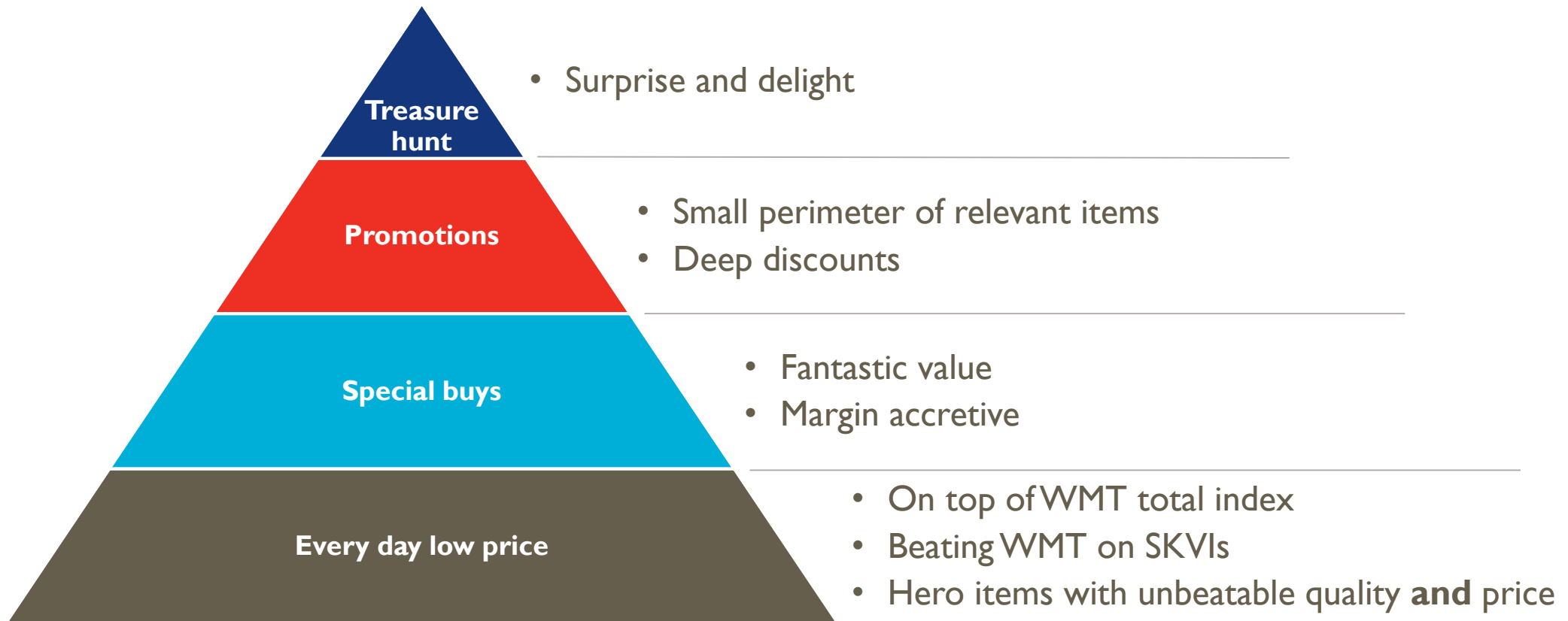


Baseline data is LTM as of 12/31/2020

# Agenda

- **Retail Price Optimization**
- Wholesale price book
- Transport
- Incentives

# EDLP will remain the foundation of our commercial strategy, supplemented by customer facing activities (EDLP+)



**Getting our retail pricing right is foundational**

# Reminder: in STL we optimized our retail prices, getting closer to competition on items that matter most to our customers

## Retail Price Zones

St Louis DMA

Price Zone
Aldi Aggressive
Walmart Aggressive
Aldi Non - Aggressive
Walmart Non - Aggressive

Most Aggressive  
↓  
Least Aggressive

## Zone Assignment:

Stores assigned based on competitive scrapes of their local market and most **relevant** competitor.

## Pricing Tactics

Pricing Tier	Aldi Index	Walmart Index	STL Pre Test Index	STL Post Test Index	% of Sales
SKVI	105	100	113	100	5.7%
Tier 1	105	100	105	100	13.1%
Tier 2	Same index as Tier 1, as long as SAL and Retail Partner margins can support the retail		109	106	13.3%
Non Tier	Optimized - Revionics		108	109	33.8%
<b>Total</b>			<b>108</b>	<b>105</b>	<b>65.9%</b>

## Tier Assignment:

- Weighted ranking based on:
  - 25% Sales \$
  - 25% Sales Units
  - 50% Basket Penetration
- Top 20% of sales dollars (~200 items) to Tier 1
- Next 20% of sales dollars (~400 items) to Tier 2
- Basket Penetration ranking validated using Revionics Elasticity and Category Cannibalization metrics



# Since our last update, we continue to see very positive results

Metric	Post Test vs Pre (Y/Y)
Units	<b>+900 bps</b>
Sales	<b>+350 bps</b>
Customer Count	<b>+470 bps</b>
Units per Transaction	<b>+440 bps</b>

## Summary of Performance Data

- After a successful fourteen-week test, we implemented the new retail price program in all stores
- The “Post Test” period is the 15 weeks since the test ended
- St. Louis comps are +8.6%

**Our experience confirms what we all know – changing customers’ price perceptions takes time and commitment**

# Agenda

- Retail Price Optimization
- **Wholesale price book**
- Transport
- Incentives

# We are moving to a simpler model, where most of the items will be priced from a fixed book network-wide and fresh will be cost+ by DC



Single WS  
Price book

- Provide the best possible cost on each item, every day
- Dramatically simplify the pricing mechanism, moving from Zone to one single book
- Capture relevant regional price differences on fresh and commodity items
- Zone I will receive incremental support until the fixed book converges with Zone I cost in the aggregate

## How it will work

Fixed WH price  
across DCs

Same published warehouse book price across DCs for all stores (e.g., Grocery, Freezer, Cooler) **published once per month**

**88%**  
of items

Exception-based  
local DC price

Different WH Price by DC where inbound freight is a relevant part of the total cost, e.g., Canned Tomatoes

**<1%**  
of items

Cost+ WH price by  
DC

Mark-up on DC-specific landed cost to reflect market condition e.g., Fresh Meat and Produce, Cheese, SKVIs

**11%**  
of items

# The current SKVI program will end, but we will still support our RPs' ability to drive traffic with these items



- Protect system buying power
- Applied to a defined item set only: bananas, gallon milk, sugar, eggs
- SKVIs will be managed on a Cost+ basis

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## How it will work

- We fundamentally believe that the Milk basket is worth protecting
- SAL will not sell products below acquisition cost
- All RPs will buy SKVIs at the published wholesale price, creating transparency
- If an RP has to lower their retail to beyond 50% of SRP GIG, SAL will provide wholesale price support via scan down to acquisition cost
- The program requires weekly price scrapes and POS data sharing

# RPs will have access to Growth and Competitive support



- Support RPs on offense and on defense – Grand Openings and remodels + Competitive GOs and remodels
- SAL will channel investments where needed to support specific competitive events

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## How it will work

- Program available to all RPs
- RP will work with Regional Director to identify opportunity or threat and formulate action plan
- Investment will be awarded by scan for each unit sold at the agreed Retail Price or agreed procurement plan
- Investment is awarded for a defined period on a defined set of items



# Agenda

- Retail Price Optimization
- Wholesale price book
- **Transport**
- Incentives

# We are increasing transport fees, moving away from a system that has not produced the right outcomes for SAL or our RPs



## Transport costs

- Operate transportation as a 'net-zero' cost operation; eliminate hidden subsidies
- Single, simple fee structure across the entire enterprise that focuses on efficiency of loads and trailer utilization
- Maximize trailer cube utilization while migrating to a cost-per-case mindset
- Incremental fees will be re-invested in lower COGS

## How it will work

#	Description	Cube Range	Nearby Stores (<60 RT miles)	All Other Stores
1	<b>Very small load order</b> fixed minimum delivery fee	<b>0 – 450</b>	<b>\$ 400</b>	<b>\$ 400</b>
2	<b>Split load order</b> fixed charge up to ½ trailer load	<b>450 – 850</b>	<b>\$ 250</b>	<b>\$ 325</b>
3	<b>Full Truckload<sup>1</sup></b> fixed charge for anything > ½ trailer	<b>851 – 1900</b> <b>(Or 43,000 lbs.)</b>	<b>\$ 375</b>	<b>\$ 525</b>
4	<b>Fuel<sup>2</sup></b> passthrough based on total round-trip miles		<b>Per Mile Charge<sup>2</sup></b> <b>(up to a maximum of 400 RT Miles)</b>	
5	<b>Tolls/Fees</b> passthrough charge		<b>As incurred</b>	

1. Multi-Stop Truckload for an RP group will be charged a full truckload with \$25 stop charge per stop
2. Full Truckloads: "(Diesel price x Round Trip Miles) / 6 MPG" Splits: "(Diesel price x 65% of Round Trip Miles) / 6 MPG"

# Agenda

- Retail Price Optimization
- Wholesale price book
- Transport
- **Incentives**

# Our new incentive program rewards purchase volume and growth, back to first dollar



## Rebates & incentives

- Move away from focus on PCR and focus on contribution to SAL buying power and growth.
- RPs have multiple ways to increase your purchases: Increasing penetration, opening new doors, remodel program, commitment to fresh, retail price optimization program

### How it will work

- Retail Partners are assigned a group based on Net WH Purchases
- Each group will receive two type of incentives:
  - A Rebate based on total WH purchases
  - A reward based on WH purchases growth
- Incentive size and growth targets will be different by RP group

	\$M WH Purchase	Rebate % WHp	WhP Growth target %	Reward % WHp
<b>Group 1</b>	300+	0.55%	3.0%	0.25%
<b>Group 2</b>	250+	0.40%	4.0%	
<b>Group 3</b>	200+	0.30%	5.0%	
<b>Group 4</b>	150+	0.25%	6.0%	
<b>Group 5</b>	100+	0.20%	7.0%	
<b>Group 6</b>	75+	0.16%	7.5%	
<b>Group 7</b>	50+	0.13%	8.0%	
<b>Group 8</b>	10+	0.10%	8.5%	
<b>Group 9</b>	<10	-	9.0%	

# We believe this program results in a clear message on how RPs can win on the Save A Lot platform

## **Buy as much as you can from Save A Lot**

- We have created a single wholesale book with an everyday low cost across all DCs
- Picking off items from other vendors will undermine your truck cube-out and incentive
- Grow your purchases through retail pricing, purchase concentration, refurbs and new doors

**The easiest way to increase rebates and hit incentive payments is to drive top line of the existing store network, especially through optimized retail pricing**

## **Localize your assortment and tell us what you cannot buy from us**

- We don't carry it, we don't have the right spec, our prices are off
- Both of us have every incentive to fix these issues

## **Order efficiently to cube out your trucks**



# Our pilot program is underway and we will add more RPs to the program

- We continue to refine the implementation approach as we work through our fourth pilot launch
- Lessons learned from the pilots are being incorporated into our overall rollout approach – this will ensure an approach that is both stable and scalable to a large number of RPs
- We made changes to the program based on feedback from each of first four RP pilots as well as from the SRAC
- We are piloting the GIG calculator with one RP; second pilot will go live in March, and a web-based solution is under development with a planned launch by end of Q1 2021
- Additional pilots planned to validate scalability and to ensure applicability across multiple RP sizes and pricing zones

# Upcoming webinars and support materials will answer questions and help RPs succeed

## Upcoming Deep Dive Webinars (All at 11:00 a.m. CT)

- Retail Optimization – 2/23
- Price Book & SKVI – 2/24
- Incentive Program – 2/25
- Transportation – 2/26

## New Retail Partner Connect page

- We have created a new enablement and training page
- This site will go live tonight and all RPs will have access
- Content will be added in the coming weeks and updated over time

*Note: all webinars and presentation materials, including this kickoff meeting, will be posted to RP Connect*

Your RD & ABP will be contacting you in the near future to walk through all the support resources available within RP Connect

# Thank You!

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