



Associated Wholesale Grocers, Inc.

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Kansas City • Springfield • Oklahoma City • Memphis • Nashville • Gulf Coast • Nebraska • Great Lakes

Dear Vendor:

This letter and the attached guidelines are intended to clarify our post payment review process for all divisions of Associated Wholesale Grocers, Inc. and Valu Merchandisers Company. These guidelines, effective for transactions beginning January 1, 2018, supercede all previous guidelines and should provide you a complete comprehensive explanation of our expectations.

In addition to these guidelines, obvious errors such as duplicate payments, payments to wrong vendors, extension errors, etc. will still be billed to you, as usual.


Sincerely,

Dan Funk
Executive Vice President, Merchandising and Marketing

A rectangular box with a stippled background and a thin border. Inside the box, the text "Associated Wholesale Grocers, Inc." is centered. To the left of the text is a vertical line that is open at the top and bottom.

Associated Wholesale Grocers, Inc.

**Standard Post Payment Review
Guidelines for Bakery, Dairy, Deli,
Meat and Produce**

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This is an overview of Post Payment Review Guidelines that will be used by Associated Wholesale Grocers, Inc. across all operating divisions.

These guidelines will establish a consistent company-wide policy, provide the vendor community with our expectations, and will serve as our post payment review guidelines.

These guidelines are effective January 1, 2018 and supersede any previous guidelines for all activity from January 1, 2018 and beyond. Previously published guidelines will still be in effect for all activity up to and including December 31, 2017.

Promotional Offers: Notification Period Required

- An established notification period for promotions prior to the first order date. All promotional offers must be submitted through DemandTec.
- Guideline:
 - Require promotion submission at least 14 days (30 days for Bakery) before the first order date of the promotion. If not received, all orders placed 7 days prior to the first order date are due the allowance.
 - If promotions are accepted by AWG within 14 days (30 days for Bakery) of the promotion start date, the AWG category manager must specify late acceptance of the promotional offer as authorization for the exception to policy.

Buyers, when aware of an upcoming promotion, adjust their purchase order quantities in anticipation of future allowances.

The late notice of a promotion does not allow our buyers the opportunity to adjust their order quantities and qualify for the promotional allowances.

Without proper notice, orders are placed without allowances. When prices are reduced during the performance period, merchandise is sold at the promotional price for which AWG has paid full price.

EXCEPTION: When no orders are placed within 7 days of the first order date of the deal, the allowance will be due on one order only up to 2 weeks prior to the first order date of the deal.

NOTE: This policy does not apply to food show, web blasts, special requests, back-to-back deals, or accruals.

Promotional Offers: Changes to Existing Deals

- All promotional deals published to AWG or VMC retail members are considered final.
- Any changes to deals after publication must result in the same or lower unit cost than previously published.

Promotional merchandising and pre-booking of associated product is a key element of success for AWG retail members. Changes to published deals disrupt the planning process and could result in a noncompetitive situation and add administrative cost.

Price or deal changes on previously published promotions will be accepted only if the same or lower unit cost is offered.

Promotional Offers: Large Purchases Before & After Deal

- Large orders in promotional quantities indicate the buyer had some expectation that an allowance would be available.
- Guideline:
 - Orders 2.5 times or greater than the size of a turn order placed within 7 days before the first order date of a deal qualify for the promotional allowances.
 - All orders placed within 7 days after the last order date of a deal qualify for the promotional allowances.

A quantity minimum of 2.5 times a turn order has been established as the definition of promotional quantity or a large purchase.

As expected, AWG will audit to make sure all orders within a promotional period have received the promotional discount. In addition, the audit will ensure that any order 2.5 times or greater than the size of a turn order placed within 7 days of the first order date of a promotion receives the allowance offered. All orders placed within 7 days after the last order date of a promotion will be restocking items sold on promotion and will qualify for the allowance.

In general, buyers do not and should not place large, promotional quantity orders before the deal. When a normal order is placed immediately after the deal, it will be replacing the inventory carried into the promotion.

A normal turn quantity is calculated using the annual quantity of product purchased where no allowance is involved divided by the number of orders.

NOTE: This policy does not apply to display pallets.

Promotional Offers: Short Shipments

- Orders are placed during a promotional period expecting to receive the allowance.
- Guideline:
 - All shorted product should receive the allowance.

Orders are placed during a promotional period expecting the product to be received with the promotional allowance and be sold to the member stores with the allowance.

Sales are lost when advertised merchandise is not available for sale.

Companies who enforce a short ship policy may receive promotional product before those who do not enforce a short ship policy.

Promotional Offers: Display Pallets

- Items offered in a display/pallet are advertised at the store level and should receive a promotional allowance.
- Guideline:
 - A promotional allowance is expected on all displays/pallets.
 - If a promotional allowance is not offered, a fair allowance will be established through an analysis of past promotions on the product and applied to all purchases of the display/pallet.

Displays/pallets are intended to be placed in the aisles and advertised at the store level.

An allowance is expected on all displays/pallets in order to support the store promotion of the merchandise.

Promotional Offers: Non-Notification of Deal

- When a vendor fails to notify AWG of a deal, the allowance will be extended to other orders.
- Guideline:
 - Promotional time period is established through invoice examples.
 - Orders placed 1 week prior to the first established promotional order date will qualify for the allowance.
 - Orders placed 1 week after the last established promotional order date will qualify for the allowance.

When a vendor fails to notify AWG of an allowance, we are unable to participate in the promotion.

A promotional period will be established through invoice examples. The first occurrence of the allowance AWG was not expecting on an invoice will be the beginning order date of the promotion. The last occurrence of the allowance AWG was not expecting on an invoice will be the ending order date of the promotion.

EXCEPTION: If no orders are placed within 1 week of the established deal start date, the allowance will be due on one order only up to 2 weeks prior to the start date. If no orders are placed within 1 week of the established deal end date, the allowance will be due on one order only up to 2 weeks after the end date.

Promotional Offers: Case Caps

- Promotional offers should not be restricted by case caps in order to achieve successful performance.
- Guideline:
 - Case caps will not be applicable to any promotional offers made to AWG.

Case caps do not allow AWG to take full advantage of a promotional offer. AWG is passing along the allowance to member stores with no case caps.

NOTE: This policy does not apply to web blasts.

Promotional Offers: New Items

- Promotional offers for new item introductions are due from the first receipt of the new item.
- Guideline:
 - Promotional offers for new items are expected for all orders placed through the last order date of the deal regardless of when ordered.

Promotional offers for new item introductions are expected from the first receipt of the item.

For new item introductions, sometimes orders are placed well in advance and may be placed prior to the first order date for the introductory promotion. Any orders placed prior to the first order date of the promotion will still be due the deal.

Promotional Offers: Family Items

- Promotional offers for items in the same family grouping (list cost, pack, and size) should receive the same deals.
- Guideline:
 - Promotional offers for items in the same family grouping are expected for all similar items.
 - The AWG Category Manager must make notation of any excluded family items as authorization for exception to this policy.

Promotional offers for items in the same family grouping are typically promoted together and are expected to receive the same deals for all similar items.

Any family items excluded from a promotional offer must be noted by the AWG Category Manager as authorization for exception to this policy.

Promotional Offers: Holiday, Seasonal, and Bonus Packs

- Promotional offers for holiday, seasonal, and bonus pack items are due from the first receipt of the item.
- Guideline:
 - Promotional offers for holiday, seasonal, and bonus pack items are expected for all orders placed through the last order date of the deal regardless of when ordered.

Promotional offers for holiday, seasonal, and bonus pack items are expected from the first receipt of the item.

For holiday, seasonal, and bonus pack items, sometimes orders are placed well in advance and may be placed prior to the first order date for the promotion. Any orders placed prior to the first order date of the promotion will still be due the deal.

Promotional Offers: Loss On Deal

- When AWG incurs a loss on a promotion of \$100 or more, the deal will be protected.
- Guideline:
 - Orders placed after the last order date and also received within the ship dates will be billed until the loss is recovered.
 - Orders placed prior to the first order date will be billed until the loss is recovered.

AWG will gladly handle the administration of vendor promotions, but we do not expect to subsidize these promotions.

Any deal loss of \$100 or more will be protected from selling product at the promotional price for which AWG has paid full price.

Orders placed after the last order date and also received within the ship dates will first be reviewed and billed until the loss is recovered.

If still in a loss position, orders placed prior to the first order date will be billed until the loss is recovered.

Any remaining loss can be explained by prior deal gains or billed back if created by differences in the deal allowance being offered on the current deal versus the prior deal.

Promotional Offers: Vendor Managed Inventory

- Vendors participating in vendor managed inventory agreements will adjust their purchase order quantities in anticipation of future allowances.
- Guideline:
 - For vendors participating in vendor managed inventory, all orders placed 7 days before the first order date of a promotion are due the allowance.
 - For vendors participating in vendor managed inventory, all orders placed 7 days after the last order date of a promotion are due the allowance.

Vendors participating in vendor managed inventory agreements are expected to adjust their purchase order quantities in anticipation of future allowances.

All orders placed 7 days before the first order date and 7 days after the last order date are due the allowance regardless of order size or deal profitability.

Swell/Leaker/Spoils/Damage Allowance Offers

- Swell, leaker, spoils, damage, and any other allowance offered on a percentage of cost basis will be calculated on the gross invoice amount before subtracting any other allowances.
- Guideline:
 - The allowance amount is calculated on the gross invoice amount, prior to the deduction of promotional allowances, freight allowances, and other line item or invoice level allowances.
 - The same swell/leaker allowance is expected in all divisions.

The industry standard is to calculate swell, leaker, spoils, damage, and any other allowances offered on a percentage of cost basis on the gross amount of the invoice before subtracting any other allowances.

Pricing and Promotions – Order Date Versus Ship Date

- All AWG pricing and promotions are based upon the purchase order date issued by AWG.

All AWG pricing and promotions are based upon the purchase order date issued by AWG. There are no exceptions to this policy.

Pricing and Promotions Across Divisions

- All divisions are to receive the same list cost adjusted for bracket pricing and freight.
- All divisions are to receive the same promotional deals, including number of promotions and value of promotions, for **regular promotions** throughout the year.

AWG has a commitment to our member stores to offer the same cost, no matter which division they are buying from. In order to fulfill this commitment, we must receive the same pricing and promotional structure across all divisions.

Price Increases: Notification Period Required

- Buyers want the opportunity to buy-in at the lower price before the price increase takes effect.
- Guideline:
 - 30 day notification required. If not received, old pricing is extended by 30 days from notification date and calculated using order date and list price.
 - No price increases will be allowed during a promotion.

A late notification of a price increase does not allow for our buyers to adjust orders prior to a price increase.

All buyers would order large buy-in quantities prior to a price increase in order to create inventory appreciation.

Our competition, due to their guidelines, may have received the price increase with sufficient time to place buy-in orders.

EXCEPTION: Notification period required for bacon only is 14 days.

Price Increases: Short Shipments

- All orders placed prior to the price increase will be protected at the lower cost.
- Guideline:
 - Protect all items effected by the price increase that are short shipped at the lower cost.

All orders placed before the effective date of the price increase are to be protected at the lower cost.

Order quantities that are not filled by the vendor are due the lower price upon arrival.

Price Declines: Inventory Protection

- Product purchased prior to a price decline is owned at a higher cost and should be protected against devaluation.
- Guideline:
 - Inventory on-hand and product on order will be protected at the lower cost.

Inventory depreciation occurs when inventory is owned at a higher cost than the current pricing of the merchandise.

To remain competitive, we lower the price to our member stores which was purchased at a higher cost.

When protection is not offered, AWG is placed in a negative profit position.

Bracket Pricing

- The combining of purchase orders shipped, ordered, or received on the same day can result in a lower bracket price.
- Guideline:
 - Use ordered, shipped, requested arrival, or receipt date to determine the best bracket price.
 - The best bracket price will be expected when the product is picked up.

Bracket pricing is offered to provide lower pricing for larger quantity orders.

The vendor should combine orders to achieve the best bracket price for AWG.

Pricing – Vendor Managed Inventory

- Vendors participating in vendor managed inventory agreements will adjust their purchase order quantities in anticipation of future price increases.
- Guideline:
 - For vendors participating in vendor managed inventory, all orders placed 7 days after the effective date of a price increase are due the lower price.

Vendors participating in vendor managed inventory agreements are expected to adjust their purchase order quantities in anticipation of future price increases.

All orders placed 7 days after the effective date of a price increase are due the lower price regardless of order size.

Slotting Allowance

- A slotting allowance is charged to vendors introducing new product into our warehouse to cover the administrative costs associated with setting up the new item.
- Guideline:
 - Slotting will be charged in accordance with AWG policies in effect at time of introduction.

Slotting allowances were developed industry wide to help cover the administrative costs of setting up a new item.

Slotting allowances are presented with new items and are in addition to any promotional allowances.

In/Out Fees or UPC/Pack Size Changes

- An in/out fee or conversion fee is charged on in/out items and UPC/pack size changes in order to cover administrative costs associated with these items.
- Guideline:
 - Each in/out item and UPC/pack change item will be charged according to the AWG policy in effect at the time.

The in/out fee and conversion fee were developed industry wide in order to offset the administrative costs associated with in/out items and UPC/pack changes.

Cash/Trade Discount Offers

- Cash discount will be calculated on the gross invoice amount.
- Guideline:
 - The discount amount is calculated on the gross invoice amount, prior to the deduction of promotional allowances, freight allowances, and other line item or invoice level allowances.
 - For vendor delivered orders, terms will be calculated from the later of receipt of goods, invoice date, or invoice receipt date.
 - For pickup orders, terms will be calculated from the later of product pickup date, invoice date, or invoice receipt date.
 - The same cash/trade discount is expected in all divisions.

The industry standard is to deduct cash/trade discounts on the gross amount of the invoice.

Terms are calculated based upon envelope date.

For vendor delivered orders, envelope date is defined as the later of receipt of goods, invoice date, or invoice receipt date.

For pickup orders, envelope date is defined as the later of product pickup date, invoice date, or invoice receipt date.

Terms offered must be consistent across all AWG divisions and departments.

Extended Terms

- Extended terms are offered in conjunction with new items, seasonal items, new divisions, etc.
- Guideline:
 - All offers of extended terms should be taken and accepted. If the invoice is paid early, the vendor will be charged early payment interest at a reasonable rate of interest (prime plus 2%) for the number of days paid early.

Interest for early payment will only be charged in instances where the terms per the vendor invoice are incorrect.

Freight: Short Shipments

- Orders are placed to meet freight criteria. When merchandise is not shipped, AWG still incurs the freight expense.
- Guideline:
 - All shorted product should receive the freight allowance.

Freight allowance will be charged for the full quantity ordered for all pickup orders.

Returned Goods

- Returned goods should be billed to the vendor.
- Guideline:
 - All returned product will be billed to the vendor based on the gross cost of the product unless it can be 100% ascertained that the product was purchased on deal, in which case the vendor will be based on the net cost of product.
 - Cash discount will never be repaid on returned product.

When the product is returned to the vendor, the product should be billed at the gross price.

If it can be 100% ascertained that the product was purchased on deal, then the vendor will be billed back on a net cost basis (gross cost less allowances received).

Under no circumstances will cash discount be repaid on returned product.