ERP PROJECT—COVID19 WORKSTREAM

Crafting
a stronger future in a post-COVID world

Ulrike Glatt | Fatih Koyuncu | Vildan Oenpeker-Cerci | Greta Rose | Christof Vollstedt | Jason Wood

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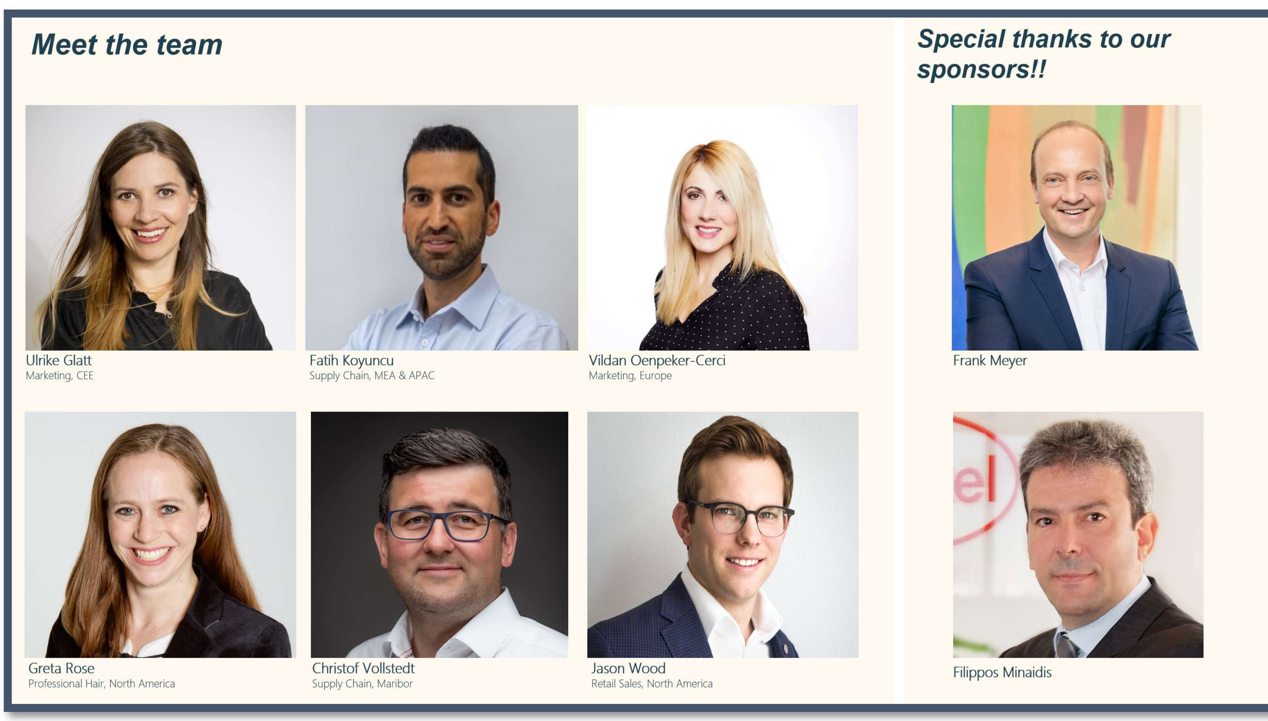
INTRODUCTION

This document outlines our observations of the COVID19 impact in three distinct chapters: 1) Consumers, Customers, Markets 2) Portfolio & Supply Chain, 3) Organization & Culture. We will highlight in depth the key findings in each of these areas and recommend bold actions to accelerate purposeful growth and better prepare for the post-COVID future.

Meet the Team: Our team is made up of cross-function experts with perspectives representing Marketing, Sales, & Supply Chain from diverse markets including MEA, APAC, North America, & Europe.



COVID Impact: In Q1 2020, COVID19 reshaped our world in ways we never would have expected. The pandemic began to influence all walks of life, creating new norms, new opportunities, and new ways of thinking. Major cities globally were forced to quarantine, beginning an era of solitude and confinement.

As a result, consumers panicked. They attempted to stock up on all essential items, creating a shock to the retail landscape in multiple categories across food, consumables, health & beauty, and household goods. This resulted in empty shelves, driving more panic and chaos. Manufactures in these categories reacted with increased supply, new brands, and focused product offerings, however their supply continues to fall short. Shelves in key categories, on key equitable items remain depleted, ~8 months later.

Businesses worldwide were forced to change their operating models. Small, non-essential businesses (including all Salons) were forced to close for over 4 months. Businesses of all sizes were negatively impacted, driving the global markets down and beginning a global recession. This financial stress, accompanied with the stresses of health, safety, and isolation create widespread stress on individuals all over the world. This stress naturally spread beyond individuals, shifting to all of society, to the authorities and all organizations, to all markets and all consumers, and to the systems and processes that keep the world moving forward.

However, we also recognized that we were all suffering, and stressing, together. We witnessed solidarity throughout all communities, which began to transcend the pandemic itself. We discovered new forms of heroes in our frontline workers—doctors, nurses, teachers, emergence medical workers, firefighters, police, truck drivers, manufacturing personnel, and so many more. We began to celebrate and appreciate them for their commitment, service, and support through these challenging times. There were also positive results from quarantine and people working from home. CO2 & pollution levels dropped in metropolitan cities globally, reducing emissions in some cities by over 75%. This has created a renewed perspective and focus on sustainability and environmental health. Consumers have begun to hold themselves more accountable to contributing to the positive impact on our environment, making them more aware, more thoughtful, and more driven than ever before to protecting our planet.

Overall, COVID has impacted our world and our consumers in many ways. Consumers have created new habits and new perspectives. People have established new ways of working, shopping, consuming, communicating, thinking and overall living. Our company will need to evolve and react to better prepare for future, through a more resilient, more flexible supply chain. We will also take this opportunity to evolve our organizational principles and build a stronger Henkel culture.

CHAPTER 1: CONSUMER, CUSTOMER, MARKETS

COVID-19 has been short term hit but it will have an enduring long term impact on society, authorities and governments, consumers and individuals. We are attempting to understand the long-term behavioral shifts and societal impacts that can be derived from the short-term impacts to be prepared for the "new normal" and live after the global pandemic.

KEY FINDINGS:

Historical case studies have shown that crises have been driving long term behavioral shifts. This global pandemic situation has triggered 5 main types of behavioral responses among individuals and consumers:

- **Anxiety driven responses** like stockpiling of essential and long-life items (not to forget the worldwide OOS of toilet paper!). In beauty care supply this phase was triggered by shortage of hand soaps and hand disinfectant. The avoidance of public spaces and one-stop shopping as well as reduced travel resulted in higher media consumption.
- **Purpose driven responses** like donations, supporting of local business and increased volunteering has been seen. At the same time, the greater sense of community and social responsibility as well as the appreciation of public services.
- **Health driven responses** like increased personal hygiene by washing hands and wearing masks. Increased physical exercise (very often online guidance) and higher consumption of natural products as well as focus on health benefits like immunity.
- **Economic driven response** which focuses on consumer essential and a move towards value products, reduced demand for consumer durables and luxury items and reduction in subscriptions (e.g. gyms)
- **Reimagined habits and social norms** seen by greater use of ecommerce and increased 'at home' activities like DIY home beauty solutions e.g. home coloration and home spa facial masks.

Recreational shift to working from home and rise of virtual learning and living – with the result of Increased streaming and video gaming as well as higher digital savviness in all age groups.

These behaviors have manifested into significant shifts in short to mid-term **consumption patterns:**

Consumption patterns changing by higher focus on groceries and massive reduction of spending on Travel, shopping, transportation, restaurants, and health & beauty – specific reduction of styling and deo category.

Category shifts noticed a shift towards paper products, durable and frozen food, fresh food and cosmetics – in particular Hygiene products like soaps and hand disinfectant, home colorants and hand care.

Channel shifts manifested in massive growth of online shopping and e-commerce as well as growth in Discount and small proximity stores – one stop shopping. Drug store channels partly closed during lock down.

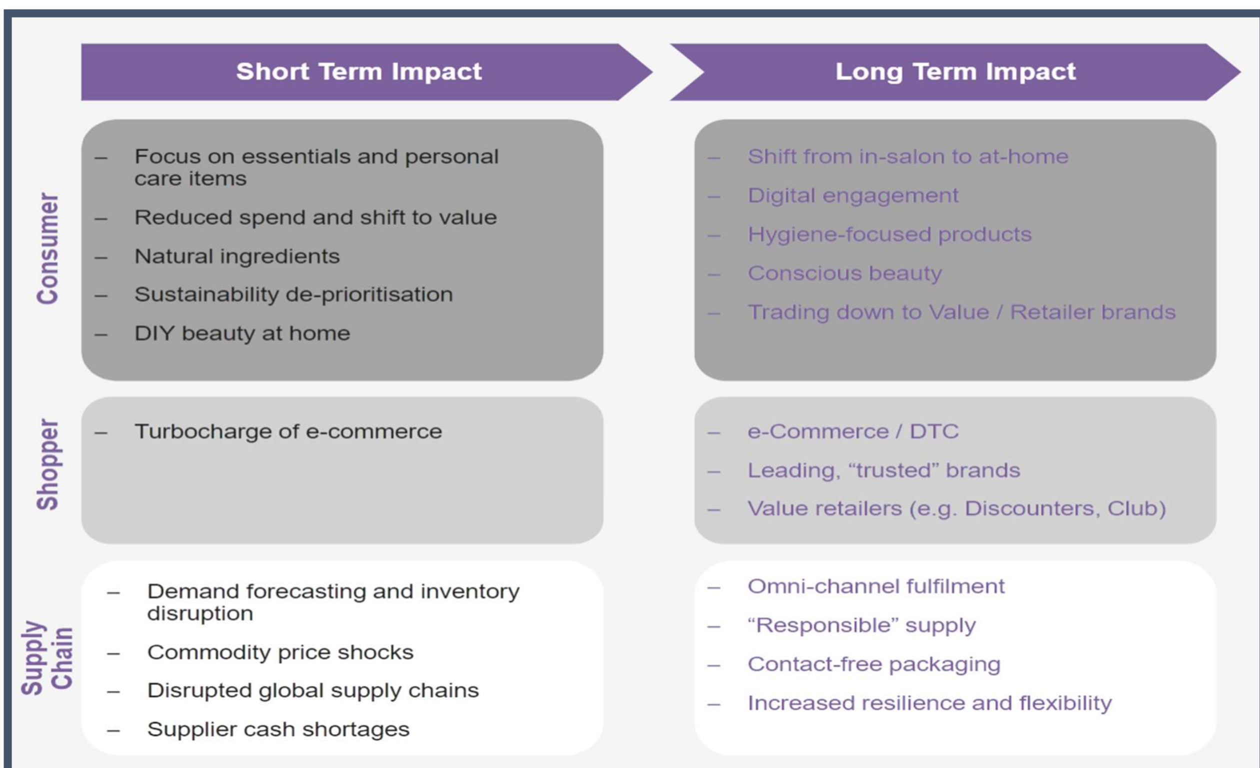
Reliance on trusted brands is increasing in uncertain crises times - revival of traditional brands and harder starting position for new launches. Furthermore, revival of local/regional brands and products.

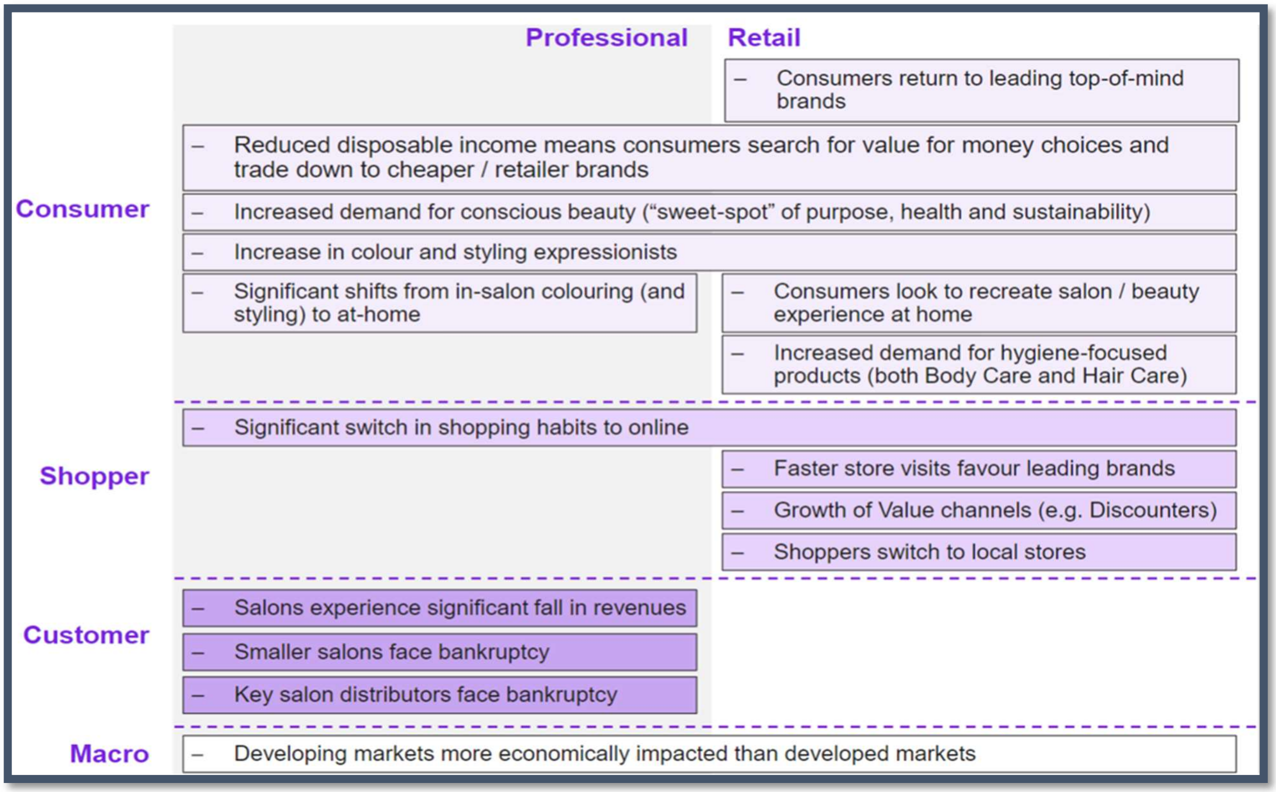
Even though the time needed for changing behavior of individuals vary greatly, testing found that on average it would take nine weeks for an individual to solidify a new habit. Therefore, the latest view on driving force of behavioral shifts for COVID-19 indicate significant, long term change will likely be the result.

Driving forces in the COVID-19 crises are the estimated 12-18 months crises duration, the possible U or W shaped recovery scenario, the unprecedented scale of global economic stimulus as well as the technological adoption level and new consumer/industry changing situations.

Therefore, following shifts can be foresee taking place within the next 5 years:

COVID-19 will impact the beauty industry across the value chain in both the short and long term and both retail and professional business stream:





MARKET SHIFTS & IMPLICATIONS:

As we evaluate the impact on long term market shifts from COVID, we consider the following key factors that will influence / shape the future.

1) **Post-crisis world**. More indebted, less global, more digital. Trends towards localizing mindset & process as well as creating digital connectivity will be at an all-time high. Ecommerce has accelerated growth, and consumers across all markets are looking for a new way of buying.
2) **Health crisis turning into financial crisis**. Consumers leading to favor value for money offers and require certain levels of trust and transparency (high equity, clear conscience). We have seen a shift in buying through the pandemic to first choose trusted, high equity brands in essential categories. However as economic conditions are impacted further, experts expect that the paradigm shifts from high equity to high value (combination of price and equity).
3) **Low touch economy**. Continued growth as COVID crisis behaviors become norms. Examples include accelerated ecommerce, contactless grocery delivery or pickup, working from home, exercising at home, etc.
4) **Hygiene market competitiveness**. New brands will enter, attempting to capture opportunity created by increased usage, increased household penetration of the health and hygiene categories. Health becomes the “new beauty”.
5) **Regulatory authorities**. We have seen authorities react different market to market, however what remains consistent is the need to be flexible and open to localized solutions and high barriers for entry.
6) **Natural & Sustainable**. COVID has created more visibility to both environment sustainability and personal health sustainability. Communities are coming together to celebrate our planet, and the

health and wellness of those who occupy it. Brands, companies, and retailers will all build on this momentum and make natural / sustainability a great part of their identity moving forward.

Summarizing shifts in consumer trends and following implications:

Summarizing Customer and Channel shifts and following implications:

Crafting a new business model for the new post-Covid era

Consumer Action 1: Purposeful Brands

Launch of a purposeful and sustainable lighthouse brand in the core of our DNA (Hair) fitting to the emerging needs of post-Covid world and changing consumer behavior

The post-Covid consumer truth will be shaped with self-care at home, community, and green responsibility.

Background:

- **Consumer Values:** In the post Covid world, trust, and purpose matter more than ever. Consumers, particularly the younger ones, want brands that understand them and share their values.

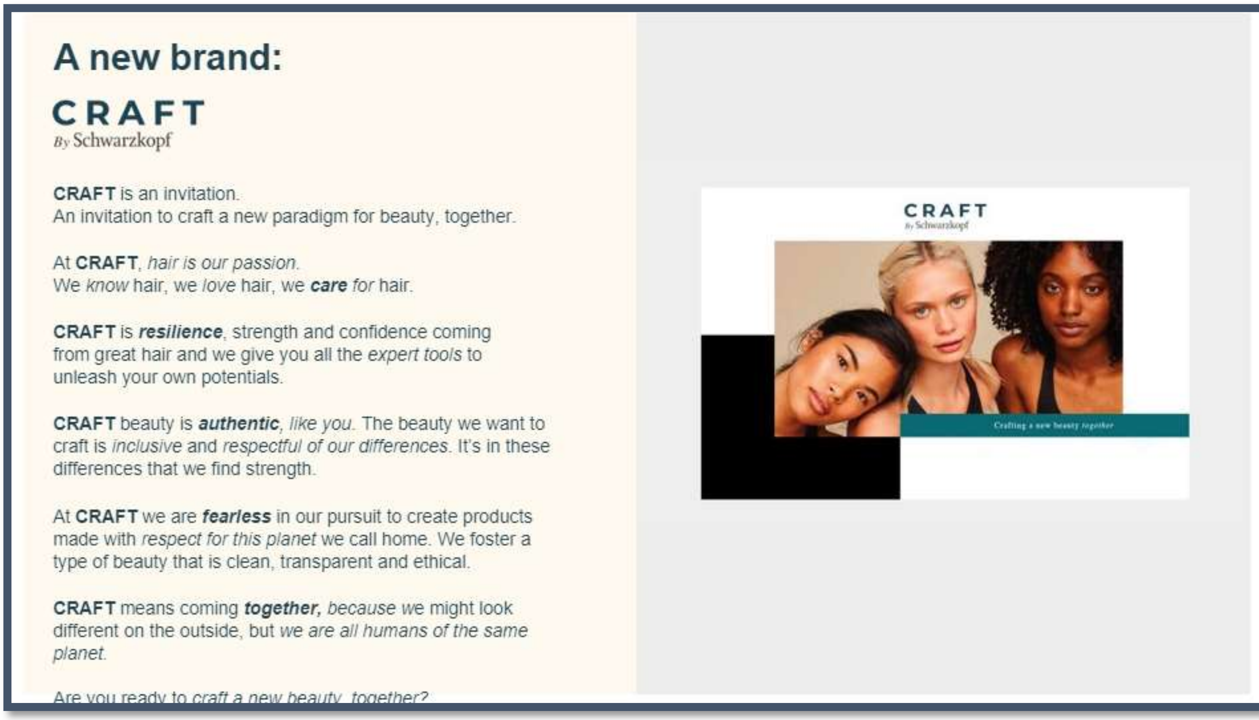
- **Consumer Behaviour:** Post-Covid will continue to shape new consumer and shopper behaviours. Due to the lockdowns and salon closures, self-care at home has significantly increased. Consumers looked for solutions outside of salon and this year's new reality empowered the consumers to experiment and become self-stylists (colouring & caring), which will continue in new normal as a part of DIY trend. (Source: BCG, Kearney, New Normal after Crisis White papers)

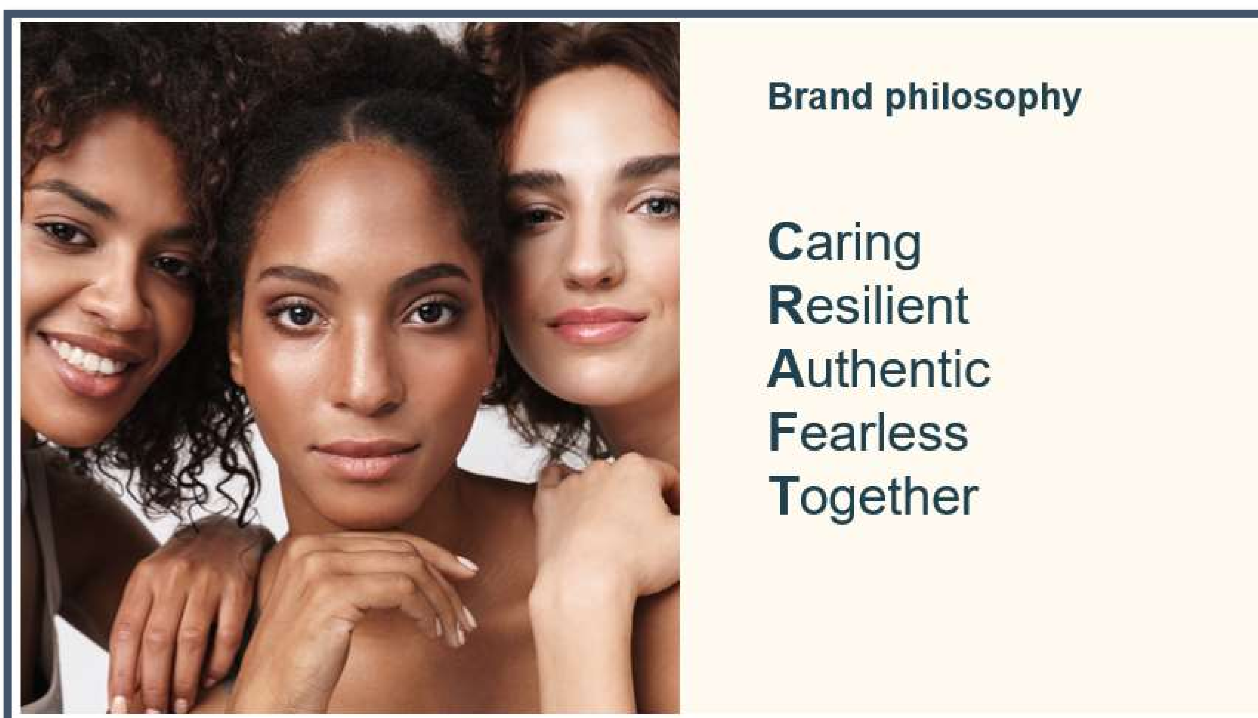
- **Shits in segments:** What we saw in the weeks / months after COVID began were;
    - Salon shoppers first traded into premium ROOT products to hold off recoloring.
    - Once they realized recoloring was eminent, they traded into premium (L'Oreal, Schwarzkopf, Madison Reed in select channels). Insight of a) assume premium = best quality, b) still affordable proposition vs the salon experience.
    - Traditional color shoppers are almost recession proof, yet there is an emerging need for going for premium vs. classical retailer offers to have in-house indulgences.

- **Purpose & Planet:** Consumption will become more responsible and the need for clean beauty and transparency will be the new norm (Mintel 2020). We will see a deeper desire for good and safe for me but also respecting planet with utmost priority (Takasago, The New Normal Beauty, Aug. 2020)

According to a survey on sustainability by Kantar Worldpanel in 2019, more than half of Chinese consumers pay close attention on "sustainability", which is mainly out of their concern on health.

As the outbreak of Covid-19 is somewhat considered as the revenge from the nature, in the future, we expect consumers will show more care towards Mother Nature. This alongside the continuing education from media and brands abut sustainability means that products with environmental friendly elements will gain more preference among consumers which will likely inspire the beauty industry to integrate sustainability into brand strategy, and focus more on products with "nature" and "healthy" concepts.





Product Philosophy

Circular
Raw
Aesthetic
Fair
Transparent

The CRAFT *Product Philosophy*

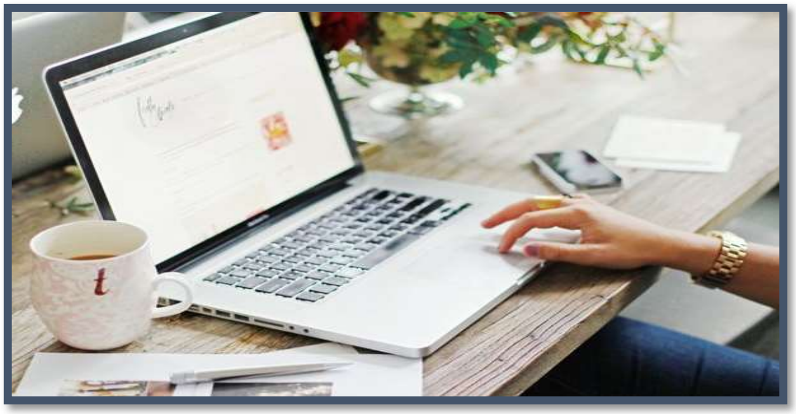
We believe high-quality beauty should not come at the expense of the planet, that's why we have created a new line of products that leave no trace behind.

Zero waste is our approach to a new type of beauty.

Our products are created to leave nothing behind *no plastic, no waste, no single-use.*

Together with our partners and suppliers we care about the full cycle of the product, from sourcing sustainable ingredients to offsetting our production carbon footprint through sustainable initiatives, so to ensure a **100% circular approach.**

Market Action 2: **ACCELERATE DIGITAL / ECOMM / D2C CAPABILITIES**



- Post-Covid created changed consumer &shopper behaviors, media consumption and general digital savviness due to usage of digital channels & devices for working, education, communication, entertaining and shopping.
- All **age breaks are seeing digital upskilling** due to being forced to use services for daily tasks and staying in touch. Companies as well as individuals have been forced to rethink, retool, and adapt to move forward. COVID-19 has created the need to learn faster, be more agile, adaptable, and emotionally resilient in the face of the unknown.
- **Online Gaming** is spiking – and empowering gamers to help and feel more in control Steam, the cloud-based PC gaming service, reported more than 20 million users online, shattering their previous records.
- With **no-touch policies** in place, stores closed and people in isolation, have increase their online efforts. Online beauty brands should continue to publish content, but avoid launches and promotions, which may be insensitive, and focus on content that informs or entertains, such as livestream tutorials, beauty hacks and live chat. If possible, bricks-and-mortar beauty brands should bring their services online. Livestreaming and live chat with sales assistants will help them stay in touch with consumers in lockdown or while stores are closed.
- During the coronavirus pandemic, businesses big and small are looking for ways to offer customers a **touch-free experience**. That means cash and credit cards are out and touch-free payments are in. At restaurants, paper menus are out, and digital menus are in. Many of these contactless technologies are built around **QR codes** — shorthand for Quick Response codes. These boxy, square-and-dot-filled designs have been around since the mid-1990s, but they are making a huge comeback during the COVID-19 pandemic. This time all age groups are confronted with them and learn how to use. Even before the coronavirus changed how we do just about everything, mobile wallets like Apple Pay, Google Pay, Samsung Pay and other tap-to-pay methods were more secure than credit cards because they mask users' personal data through a process called tokenization. If an establishment is hacked, your credit card number is safe because it was never exposed.
- With people self-isolating and travel and public gatherings reduced or banned, brands must **reprioritize marketing activations**. OOH (out-of-home) advertising at cinemas, airports and

billboards, for example, should be replaced by digital content, including websites, video, social and news.

- As restrictions on movement are relaxed, we are expecting to see a big influx of shoppers newly upskilled as they have been trying out new beauty DIY applications at home. They will return as **new expert consumers** to retail. Brands should ensure they are prepared for this new world with reassuring hygienic environments and trained staff. They should also consider experiential events and pop-ups to help stimulate and inspire the shopper and get financials back on track. Without a doubt, the coronavirus outbreak will change the beauty landscape, with many behaviors adopted by consumers beyond the crisis. Brands should work closely with their customers to reassess their needs and concerns and develop products and retail environments – on- and offline – accordingly.

eCommerce has become a lifeline for many consumers and consumer behavior is “sticky” and will stay around on much higher level. As consumers seek out brands, they have been confronted by the lack of availability—the dreaded “out of stock”—and settling on non-preferred brands instead. Some consumer-packaged goods companies are seeing increase in traffic across the category as well as traffic direct-to-brand. Consumers that traditionally rejected online ordering are now embracing it; China has seen a 54 percent increase in online shopping. Globally, 40 percent of consumers use online shopping subscriptions and another 36 percent said they would turn to subscriptions in the future. This presents a huge missed opportunity for brands without **direct-to-consumer (DTC) e-commerce capabilities**. The brands that have managed to pivot quickly have taken advantage of the opportunity and are now changing the retail landscape

Direct-to-consumer e-commerce can meet consumer needs in the short-term, but it can also deliver several measurable benefits in the long-term:

- More control over how products are sold
- Collection of rich customer data to develop better products and relationships
- Enhance brand image via total brand immersion
- Build loyalty by cultivating connections, intimacy, and community
- Improve new product trials and launches, offer wider assortment
- Control, shape and personalize the end-to-end customer experience

Direct sales companies of yesterday relied on door-to-door or catalog sales **–** despite digital adaption, they mainly operating still mostly in **offline models.** Today's **Direct sales network marketing** distributors can reach millions of potential recruits around the world on social media like Facebook, Instagram and other social networks and even private messages. This provides the unique opportunity to deliver a contempory, location independent and empowering working model!

"As we move into the coming decade, your customers will be acting on your behalf anyway, driving interactions themselves. You can either stand on the sidelines, or you can take an active role by empowering them." https://hbr.org/2020/01/turn-your-customers-into-your-community

The past decade brought many of the technical tools that were necessary to build communities. In the next decade, collaboration with customers will become both easier and more vital. To not just respond to this shift but to embrace it.

As we look to a future when the Covid-19 crisis has abated, brands have the power to unite us, inspire us and forge a new way forward by creating a strong sense of belonging. Consumers in 'new normal' have greater sense of community and social responsibility (Social Media Listening Aug 2020; Kearney, New Normal after Crisis White papers)

A community is only a community if people keep showing up. Thus, if companies want to build communities, they too will need to keep showing up. They need to be consistent. The ROI of community investments cannot be measured as immediately or evidently as other tactics like digital advertisements. But beware: Organizations who do not make real sustained investments, putting resources and time into nurturing relationships with their most passionate people, simply won't succeed at building a community. They will get out what they put in.

For many organizations, **cultivating a community will mean cultivating a new capacity**. This is a democratic, not autocratic, route to building customer relationships. It requires trusting instead of controlling, and commitment instead of flightiness. Inspiration can be taken from organizations like LEGO, TEDx, and Twitch.

CRAFT
By Schwarzkopf
The Community Brand
CRAFT Prosumer
Hair lovers / Self-stylists and craftsmen
Empowered self-serving sales(wo)men
education, inspiration, consultancy, techn. knowledge, skills courses,…)
CRAFT Consumer
We invite everyone who shares our values & wants to CRAFT their own beauty
CRAFT Community
Accessible to all who want to be part of the community
Virtual & real live community

CHAPTER 2: PORTFOLIO & SUPPLY CHAIN

COVID-19 has taken the world by surprise. It has exposed serious flaws in supply chains. But the global pandemic is not the first crisis coming suddenly. In the last decade several of organizations have been rocked by unforeseen supply-chain vulnerabilities and disruptions. That's why it is probably not too pessimistic to assume that after the crisis will be before the crisis.

To prevent our organization from being totally surprised when the next disaster strikes, we should consider establishing regular executed stress tests for our whole company with focus on the resilience of our own supply chain.

A major reason for problems occurred during the pandemic is the lean global supply chain that has been deployed widely in order to reduce costs through efficient allocation of production to low-cost regions; just-in-time methodologies and holding lower levels of inventory throughout. These strategies rely on forecasting based on historical data and do not typically consider any major disruptions. While Henkel is conducting a yearly risk assessment where natural disasters and other risks are considered, these unforeseen events are considered as very low probability.

During this pandemic, we have discovered that these strategies of more lean might not always work. A holistic approach to learn where vulnerabilities are lying and where a backup plan is required, lead us to develop the strategy of introducing a stress test that enables a sophisticated way to understand exposure to risk associated with unlikely events and to share best practices between all involved facilities.

Beyond supply capabilities, we should also proactively manage our portfolio to ensure that we are ready for the next crisis. In this section we will briefly highlight opportunities for portfolio steering, and thoughts on how to come out of the next crisis more prepared and stronger as a result.

Portfolio Action 1: **BALANCE**

We have seen through the pandemic that balance is the key to success. Categories have reacted with drastic differences in consumption. Hand soap & sanitizers are growing 20-80% in the market, while hair color and shower products are growing between 5-20%. At the same time, other categories have suffered more severe declines, with hair care down between 0% and -5%, and styling down between -5% and -20%. Lastly, with the closure of salons, we have seen drastic declines in our professional portfolio, with businesses down between -20% and -80%, creating a major void in our overall beauty care growth. We will not know what the next pandemic is, and what categories will be most impacted, therefore we can best prepare for the next one by striving for a more diverse portfolio.

Additionally, we have seen that category growth (and declines) has been driven (offset) by price favorability. Brands who have been able to drive differentiated trade up through larger sizes, premium equity, and higher unit retail have emerged as growth leaders. Consumers have resorted back to high equity brands, which they trust will get them through the pandemic.

Actions:

1) Develop Body portfolio globally, striving for greater portfolio share of high equity, cleaning heritage brands such as dial, fa, etc.
2) Diversify professional markets. Today's professional business is largely represented in North America. Drive growth throughout global markets to avoid future regional-focused crisis.
3) Strengthen price tiers. Focus on optimizing AUR (average unit retail) while maintaining recession-ready value perspective.

Portfolio Action 2: **NEVER OUT PRODUCT LINES**

As demand in certain categories have increased drastically, our ability to react and supply this demand has been challenged. A key finding throughout this process is that we do not currently prioritize product lines as crisis-ready, therefore inventory, materials, capacity, etc are all held to the same strict standard of optimization and profit efficient, just in time model.

Reacting quickly to disruption requires a flexible ecosystem of suppliers and partners that can handle sudden shortfalls or even produce new products. That means setting up alternative manufacturing sites and assembly nodes and making the most of Industry 4.0 tools to optimize cost, improve visibility across the network and accelerate reaction times

Supply Chain can stay a step ahead by improving the ability to rapidly analyze internal data and external sources of big data. That means harnessing machine learning and artificial intelligence for predictive analytics. Those tools can deploy early warning technologies, model risk scenarios and develop preprogrammed responses. Increased risk of disruption also requires updated planning parameters and objectives, since old assumptions are no longer valid.

The Covid-19 outbreak has exposed just how vulnerable supply chains have become. What long passed for adequate flexibility is now subpar. Companies that begin investing today in a resilient supply chain will be best positioned to weather the next event that obstructs the global flow of goods.

To check the resilience of our supply chain we have confronted our supply chain with a stress test to minimize the risk of disruption amid crisis.

Supply Chain Action 1: **STRESS TESTING**

Our stress test methodology is based on two central elements. One is the factor time to recover (TTR), the time it would take for a facility in the supply chain, e.g. a manufacturing site or a logistic hub, to be restored to full functionality after a disruption. The second factor is the time to survive (TTS), the maximum duration that our supply chain can fulfill demands after a facility disruption.

During regular stress tests, different scenarios will be applied and the factors TTS and TTR for each facility can be quantified. By doing so we can identify our ability to recover from a disaster. If for example the TTR for a given facility is greater than the TTS, the supply chain will not be able to fulfill demands unless a backup plan exists. The backup plan can be for example a redundant capacity for a standard portfolio in another factory or a critical packaging item, which can be replaced easily by another supplier.

Actions:

1) Develop different scenarios for stress testing the supply chain and quantify TTS and TTR for the key findings
2) Quantify firstly the cost of disruptions for each measure and secondly prepare a mitigation plan for the most critical parts of the supply chain

For the stress test we have identified five key pillars of supply chain (Planning, Materials, Manufacturing, Transportation and Organization. From those we have been deep diving on the two main pillars of Material Supply and Manufacturing.

Comprehensive list of Constraints & Solutions, by supply chain pillar:

Supply Chain Action 2: **PRODUCT POOLING**

Also, this topic of Product Pooling might have been discussed already in the Supply Chain in fact it has not been considered for implementation. We need to raise this strategical point for mitigation supply chain risk again and use the crisis to bring it up to the attention again: Product pooling is per definition the practice of meeting demand for multiple distinct products with a “universal” product capable of satisfying the needs of all customers. The pooling benefits of serving the demand with less product variety. That can help supply chain to maintain customer service level or enable to adapt quickly to demand changes by providing consumers a simpler menu of purchasing options. Product pooling can be especially interesting in combination with “Product-Never-Out" category. With these defined products we should strictly limit the degree of variability between countries and markets. By minimizing the variants, we enable Supply Chain to react much quicker on demand volatility as we can use same components and use agile capacities in our and 3PM factories. Already during product design not only marketing should decide on design of the product, but also the outcome of a stress test should be considered: if stress test turns out that for that product with that combination of components no back-up plan exists, a design change should be considered according the guideline: unique vs. Interchangeable.

Actions:

1. Run a stress test with different scenarios on strategical products and their BOM commodities used and check alternatives for achieving higher risk mitigation
2. Identifying and agreeing together with the markets design strategies considering the outcome of stress tests, considering the use of exchangeable raw ingredients and components

Supply Chain Action 3: **FLEXIBILITY & DEMAND READINESS**

For the future of a risk resilient supply chain we identified that the approach of using Third Party Manufacturers should be reviewed holistically. This review should consider rethinking the Make vs. Buy strategy and roles and responsibilities involved in this process. Of course, we would keep the principle, that Make-or-buy decisions are done based on a comparison of the costs, but it should be challenged if always the total cost of such a decision for the whole company have been considered. In order to balance the decision, what is in house and what is outsourced it shouldn’t be a pure procurement decision, the manufacturing and planning strategy must be aligned.

Actions:

1. The Make vs. Buy strategy must be the result of the alignment between Procurement, Manufacturing and Planning, therefore either a council has to be created to put these streams together or all functions have to be integrated into Supply Chain with one reporting line
2. 3PM contracts should be reviewed and challenged if they are in line with the strategy of the new Make vs. Buy council and bring it together with the learnings from the stress test, e.g. creating back up plans for specific capacities or product lines

Supply Chain Action 4: **SUPPLIER RELATION MANAGEMENT**

In our supply chain we have long taken for granted our supplier partnerships. But how good that relationship is or was, has shown during the crisis. A depth of our supplier relationships is critical to the health of our businesses. A crisis like the one we are going through now has forced us to immediately, and critically, examine our partnerships with our suppliers. In future we should extend the risk assessments into our supplier relationship management strategy and develop business continuity plans with them. These risk assessments should not only cover ongoing review of our global supply-base setup in terms of geography but also economic and political risk analysis of the countries in which our suppliers are located. We should also review the setup of our suppliers, i.e. how many intermediary's does our supply chain contain and how far away are suppliers located. Many of these reviews we have already in place but we need to bring them together, especially in regard to consolidate data records across our organization into a single platform and also eliminate manual processes. Our teams will need to have a direct pulse on supplier viability and the inherent risks suppliers pose to the business. Local procurement or local planning teams must become strongly involved in business continuity planning and will be expected to vocalize considerations and what-if scenarios the organization should be planning to mitigate.

Actions:

1. Review the Risk Assessment of Suppliers first and second tier, take especially focus on economic and political risk analysis of the countries in which our suppliers are located
2. Bring together all data record about the performance and evaluations of suppliers into one platform in order to improve the evaluation process
3. Identify a group of executing the risk assessment effectively and responsible and choose the right members in it, e.g. involve also local members like procurement or regional planning in this council

For CRAFTING our Supply Chain to come back to a zone of appropriate resilience more resilient we have developed a model of stress testing which can applied pre- and post-disruption to become ready before the next crisis.

2) PLANNING

Issues faced in COVID:

- Minimal leverage of technology
- Scenario planning - What product to focus on.

Where to focus:

- Getting closer to consumer - Sell out data and predictive analysis
- Implement demand sensing tool and use to its fullest potential.
- Moving away from monthly planning cycle to weekly/daily planning
- End to end visibility in Supply chain

3) MANUFACTURING Environment

Issues faced in COVID:

- Single sourcing for big countries
- Capacities couldnt be used due to lack of commodities exchangability
- Missing standardization of portfolio and technology

Where to focus:

- Centre of gravity analysis
- Diversification of production locations
- Accepting more regional capacities and redundancies
- Visibility of spare capacities and fast track development
- Parallel registration of products

4) MATERIAL Supplier Base

Issues faced in COVID:

- Imported raw materials with high lead time
- Single source on critical materials

Where to focus:

- Determine risk exposure (TTS) through portfolio / supplier matrix
- Diversified supplier base - Create second/third tier suppliers
- Product- Design considers stress test outcome: Unique vs. Interchangeable
- Produce critical packaging materials inhouse

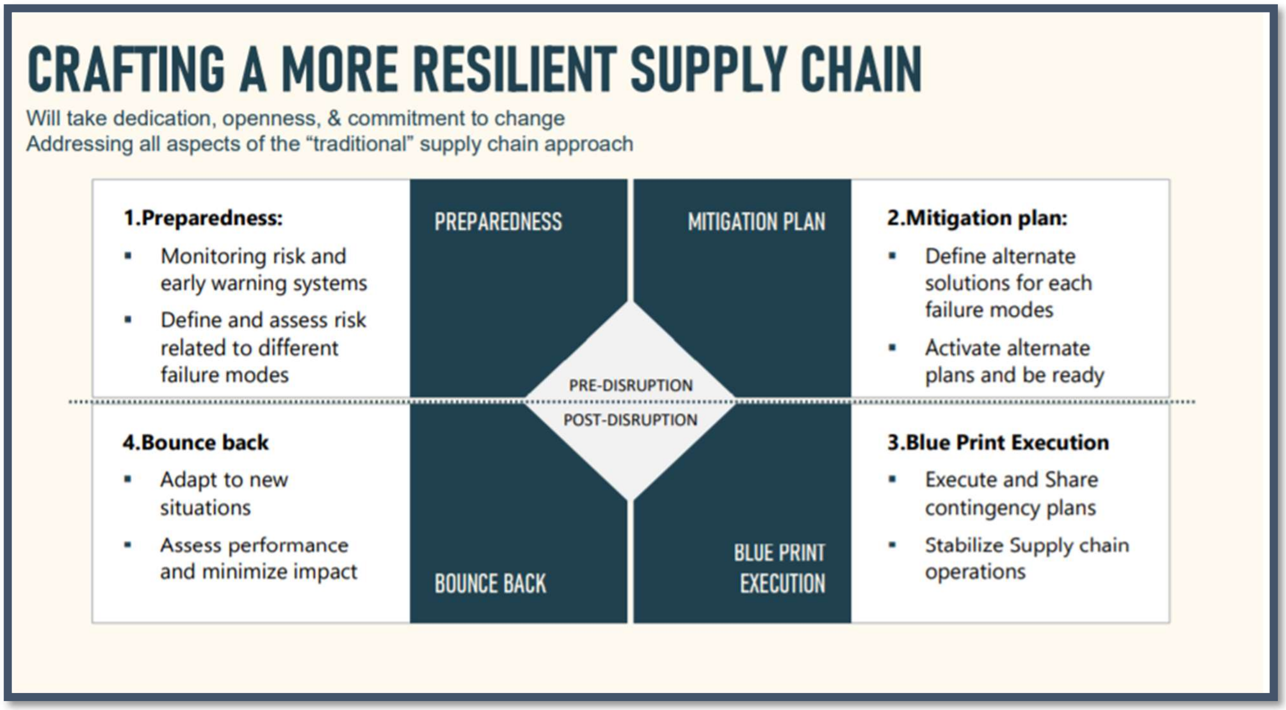
5) TRANSPORTATION

Issues faced in COVID:

- Finished goods movement to different regions and customers
- Movement of finished goods from factory to warehouses and customers

Where to focus:

- Scenario planning in case of crisis
- Creating temporary hubs to move goods to different regions.
- Contracts for % of dedicated fleets
- Create reliable second tier transport suppliers – involve empathy
- Consider Employee saftey of supliers


CRAFTING A MORE RESILIENT SUPPLY CHAIN
Will take dedication, openness, & commitment to change
Addressing all aspects of the "traditional" supply chain approach
1.Preparedness:
Monitoring risk and early warning systems
Define and assess risk related to different failure modes
PREPAREDNESS
MITIGATION PLAN
2.Mitigation plan:
Define alternate solutions for each failure modes
Activate alternate plans and be ready
PRE-DISRUPTION
POST-DISRUPTION
4.Bounce back
Adapt to new situations
Assess performance and minimize impact
BOUNCE BACK
BLUE PRINT EXECUTION
3.Blue Print Execution
Execute and Share contingency plans
Stabilize Supply chain operations

CHAPTER 3: ORGANIZATION & CULTURE

Sustaining and strengthening our organization and company culture through the Coronavirus pandemic is key in navigating Henkel through this crisis.

Throughout the globe, our colleagues are working from home and may never return to their Henkel office in the way they once knew it. This means they may not be receiving the same direction, guidance or coaching from leaders, and basic organization and culture is about guiding the actions and decisions of all employees at all levels to a true North.

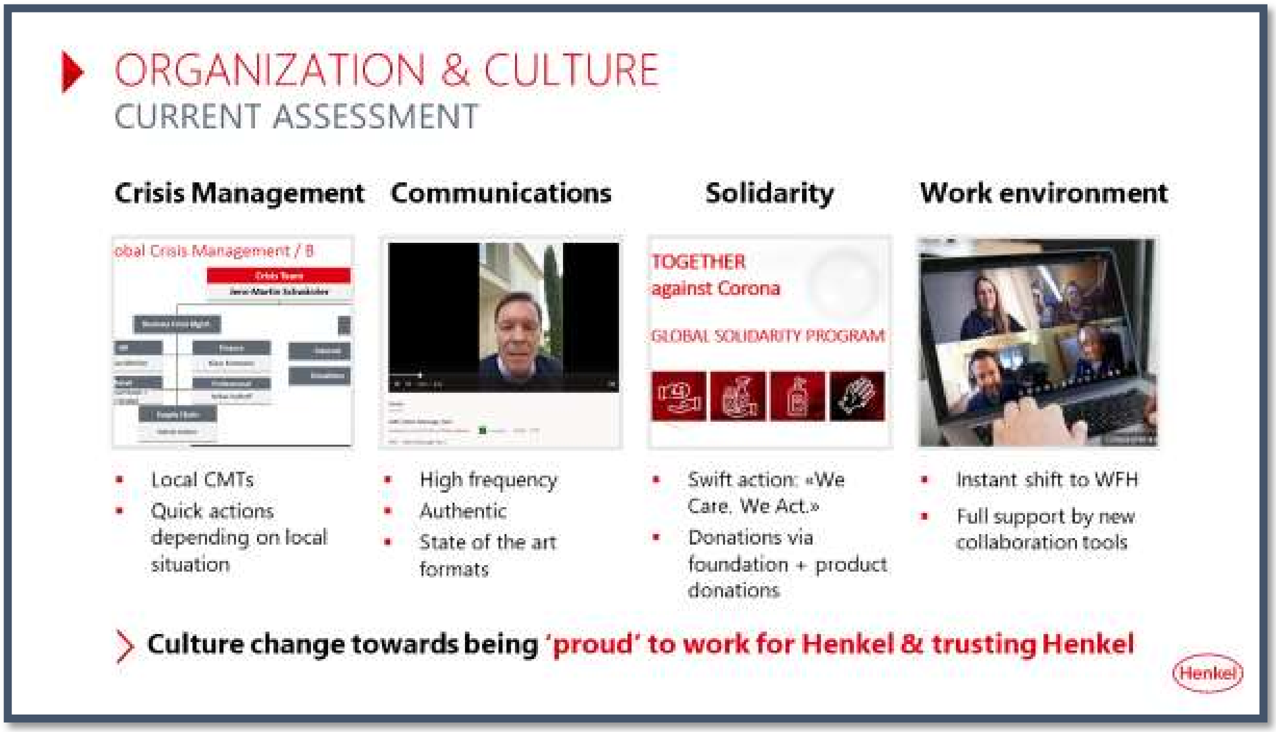
So how do we manage, maintain, and leverage our organizational strength and culture of Henkel? The following are the four factors that we are looking at in this analysis:

1. **Crisis management**
2. **Communication**
3. **Solidarity**
4. **Work environment**

Culture is a residual out of those factors. If we do things right in the above dimensions, culture will be positively impacted and, thus, help us emerging with strength out of this global crisis.

KEY FINDINGS:

When evaluating the above factors, Henkel has done a decent job in navigating through the pandemic thus far and revived company culture with stringent positive actions on the above mentioned four fields. Learnings and best practices are summarized in the below section.



1. **Crisis Management**

On the positive side, local crisis management teams (CMT) were quickly in place for most sites once it became clear we are facing this health crisis across the globe in every single country. Generally speaking, those crisis teams were empowered to take quick action depending on the local situation. HR processes and guidelines were quickly in place to support the local CMTs. As the CMT members are widely know across the organizations, approachability was a big positive in dealing with the quick changes everybody had to make.

As area for improvement we could consider that local CMTs were not fully empowered, but some global or decisions on regional level were decreasing the decision power of local teams, which did not always cater to the specific needs of all offices in a region / country as the micro-situation or competitive landscape might have been different than perceived on a bigger level in the region or country, e.g. regarding office closures or communication of re-opening plans. Also the composition of the CMTs does not seem to be ideal in some countries / sites with not representing the office well, but only existing of management, e.g. without functional influence.

2. **Communications**

A clear strength was the communication approach towards the crisis after a few days passed to develop a plan. Both top management and local management did send coherent messages, using state of the art communication with a balanced mix of video & email messages as well as regular town halls on all levels. The communication was valued by many employees as very transparent and authentic.

On the flip side, it became clear that our internal corporate communications team is now scoped to support a crisis in these large dimensions. Some non-headquarter sites or CMTs rather felt left alone in communicating to their employees, especially for the essential sites which needed to keep

production and logistics open this posed a challenge of no inhouse communications support – external agency support is more difficult for such a situation without clear briefing from the communications department.
Also items quickly became bureaucratic when for example social media posts were not in brands' hand anymore but needed Corporate Communications and Legal department approval – with time being of the essence this was a bottleneck in being agile in all our communications channels and addressing all stakeholders.

3. Solidarity

The topic of solidarity has often been considered as one of the strengths of Henkel, grounded in Henkel's Core Values. However, in light of this crisis, the solidarity approach and especially the broad communication of these generous and quick actions were at a remarkable level and left great impact with employees and also customers. Not only the generous financial donations by the Fritz-Henkel-Foundation, local donations funds, and also vast product donations were highly recognized, but also the promise to secure bonus at 70% min was very much appreciated by all teams. Having this financial security so early into the crisis made a big difference for many and this was highly welcomed, especially in connection with the target setting of how to navigate the crisis vs. competition. In many regions this was also going hand-in-hand with a an unspoken promise of job security as no mass furloughs or firings have been conducted in the first weeks or months as we had seen it from competitors or customers in our industry. How we treat our employees is very important – and how we interact and contribute to our community is also essential; overall, we have sent a very strong message with our actions. We Care. We Act.

The only – minor – remark in terms of potential for improvement is the speed of obtaining global approval for larger donation requests and also of receiving updated guidelines for COVID-related donations. However, in the bigger scheme of things, solidarity was clearly an aspect where Henkel's overall crisis management was outstanding.

4. Work Environment

It was impressive for almost everybody to see how quickly all of our organizations were able to shift practically instantly to a complete work from home (WFH) environment. The DX team supported with a very quick roll out of MS teams as efficient collaboration tool to make this change happen and guided well through this transition. Remarkable as well was the experience of fully committed employees, no matter what challenges there were with a WFH setting and no / limited personal interactions being possible.

Nevertheless, at times this limited personal interaction led to communication deficits or to teams and individuals feeling isolated and cut off personally from the rest of the organization. A clear watch out in a complete WFH setting which we experience for a few months by now in most of our regions. While interaction was supported via MS teams via video chat, other collaboration tools for efficient team work like Mural, Teams or Slack were are not offered and there seems to be little flexibility in using those sometimes very sophisticated collaboration applications.

➔ **Resulting Cultural Shift**

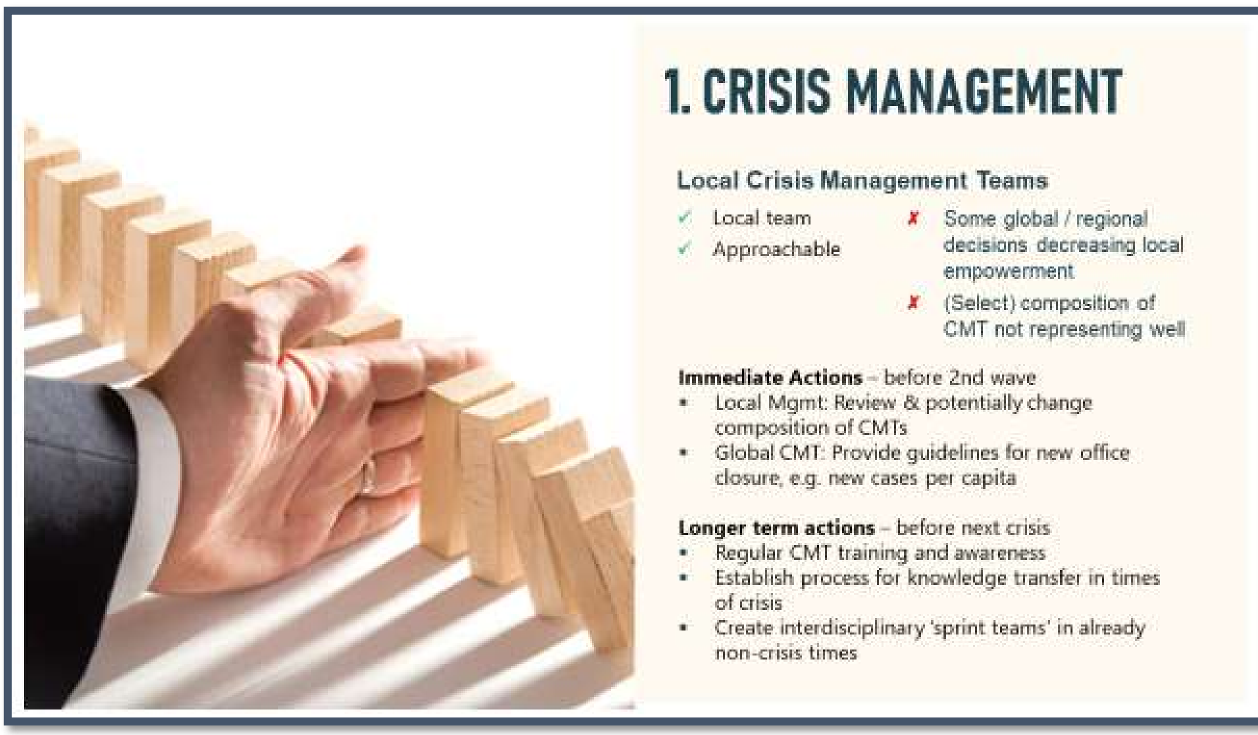
All in all, the positives within the above dimensions clearly outweighed the improvement potential. By demonstrating those positives inside and out, we experienced an encouraging shift of our company culture. So far, we have managed well to leverage this unique opportunity to shape, reinforce and leverage our company culture to create a terrific impact on our organization. We experience many colleagues stating that they are proud to work for Henkel (being a 'Henkelaner') and that they fully trust Henkel navigating us through this crisis.

Action #1: **Crisis Management improvements**

1) **Actions needed NOW – before Wave 2**
   a) With respect to the local CMTs, in some regions or countries it might be beneficial to review and challenge the composition of the CMT as mentioned in the above section. The following questions should be elaborate on:
      - Are the right stakeholders at the table? Is HR at the table? Are other functions included?
      - Do the employees feel well represented in terms of their needs? Do employees feel their concerns are heard by the CMT members?
      - Is seamless communication from the CMT participants to employees guaranteed?
   b) With many offices still being closed or in a Phase 1 reopening only, it would be beneficial to receive a global guideline on office re-opening, but especially on office re-closure. Across the globe we seem to deal with different sensitivity levels on the pandemic KPIs, e.g. threshold for cases per 100k inhabitants per day required for office closure / opening. In case there will be further guidelines, it would be good to communicate those now. Otherwise a full empowerment of the local organizations will work sufficiently well, but with global COVID toolkits, guidelines, etc., it will be good to provide guidance in case there is any.

2) **Actions to be implemented LONGER TERM – before the next crisis hits**

a) To ensure CMTs in all offices and regions are effectively established and trained, the CMTs should regularly regroup in a non-crisis situation. There should be theoretical trainings and structured best practice sharing of handling other incidents, e.g. cyber-attack in another region.
b) As elaborated above crisis processes and information flow did not always go smooth, especially in the first weeks of the pandemic. Establishing a process for knowledge transfer in times of crisis will be essential to keep all CMTs up to date and to enable them to effectively navigate through the crisis.
c) As we want to use any crisis to emerge with strength, thus additional projects, the creation of interdisciplinary 'sprint teams' would be beneficial. Those teams should be defined, meet and potentially even cooperate on one or the other project or knowledge exchange before any kind of crisis. In times of crisis, these teams could easily be activated to work on new projects effectively from one day to another without losing important time to define project team members, introduce those, lay ground rules. etc. This would for example allow product launches at record speed during crisis times, but those 'sprint teams' could be employed for many initiatives when needed.



Action #2: **Communications improvements**

1) Actions needed NOW – before Wave 2

a) As mentioned below not all sites felt well supported by our internal Corporate Communications team, hence, a check-in being done by the Corp Comms team with each site is recommended now – before a second wave and potential new challenges hit. In such a discussion the comfort level for communication in a potential second wave and challenges / solutions should be discussed.

b) Corporate communications teams have done a fantastic job in sending out regular briefings from global and regional management and with the pandemic continuing this is even more important to stay connected to all employees. Though, mixing up formats and limiting to the essentials in the communication will help.

2) Actions to be implemented LONGER TERM – before the next crisis hits

a) The overall set up of our Corporate Communication team and the support structure relying mainly on agencies should be critically reviewed considering a new crisis appearing. Offering more inhouse support should be carefully evaluated in terms of preparedness consideration for a new crisis.

Action #3: **Solidarity improvements**

1) Actions needed NOW – before Wave 2

a) As mentioned in the above section on learnings and best practices, Henkel's solidarity efforts were clearly very well executed. However, to prepare for a second wave of the pandemic, the management board could already evaluate now if and potentially how many additional funds will be provided once a second wave hits. Global and local regular funds are largely depleted considering this ongoing pandemic and we still see such high need for basics like food. Having a decision on additional funds will enable planning and would also be a well-received message by employees.

2) Actions to be implemented LONGER TERM – before the next crisis hits

a) Once we are over the Coronavirus pandemic, it will be important to keep the momentum of our citizenship and employee engagement. This is crucial as the impact on company culture also largely depends on how we interact and contribute to our community. Donations committees across most regions have been merged to pool funds and assess COVID basic needs donations holistically for the region. It will be management's responsibility to revert back to regular donations committees while keeping the momentum of our engagement.

Action #4: **Work environment improvements**

1) **Actions needed NOW – before Wave 2**
   a) After working from home for more than 6 months we see many employees feeling personally isolated, struggling with dual responsibility of work and kids at home or other challenges resulting from work from home (WFH) and being home all the time. It is key that both local managers and HR teams develop a program to stay in touch with employees and to continue to motivate them.
2) **Actions to be implemented LONGER TERM – before the next crisis hits**
   a) Increased flexibility around work from home (WFH) will be the 'new normal'. We do not only see this at tech giants like Twitter who announced that staff can stay home permanently, but also more Henkel-like companies like Telefonica in Duesseldorf have announced that they will continue an increased WFH arrangement. For Henkel some advantages could be:
      - Adding 1-2 days work from home will increase employer attractivity (or at least have Henkel come on par)
      - It will decrease office costs over the years by increase desk sharing ratios and closure of smaller sites

- It will also increase flexibility for the next big crisis, may it be another pandemic, or a national hazard, geopolitical issue, cyber-attack, quality, material or compliance crisis.

However, increasing WFH arrangements will need careful evaluation for every region and country

- A legal assessment will need to be conducted: What about liability for WFH? What about anchoring this in future offer letters? What are WFH restrictions in specific countries?
- IT security needs to be thoroughly checked: What are limitations? Do we need to restrict the personal space, e.g. no Alexa in the home office?
- Financial questions will need to be answered: What about equipping the home office? What about costs for internet or power?

Thinking outside the box will be important for this analysis. For example, non-obvious functions like Supply Chain could also perform critical tasks from home, even more cost effective, like a machine acceptance or certification with only one person travelling and dialing others in or even fully remote.

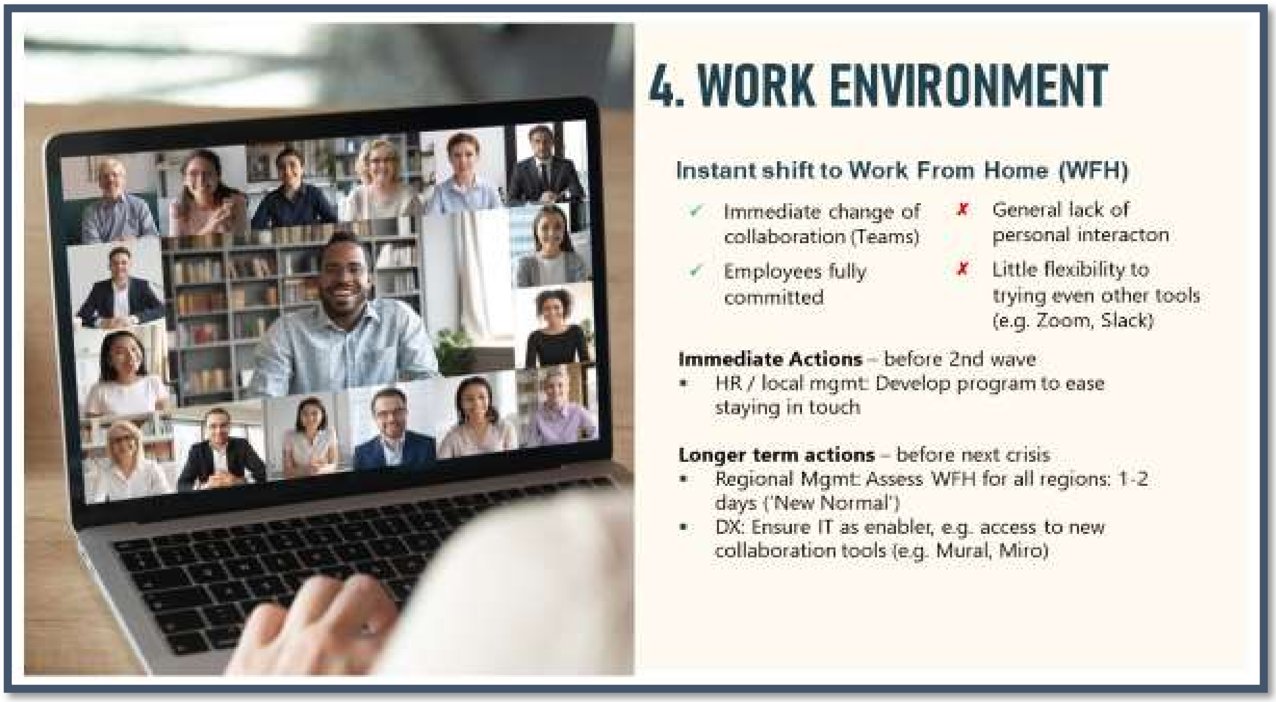
Real estate impact: Implementing a WFH policy with structured 1-2 days per week for most employees will also have an impact on our real estate and office footprint. Overall, less office space will be needed due to less people in the office on an average day. Some smaller offices might even fully be eliminated with WFH and occasional travel to physical meetings.

The structure of offices, especially for new built outs, should cater to this WFH with flexible work arrangements.

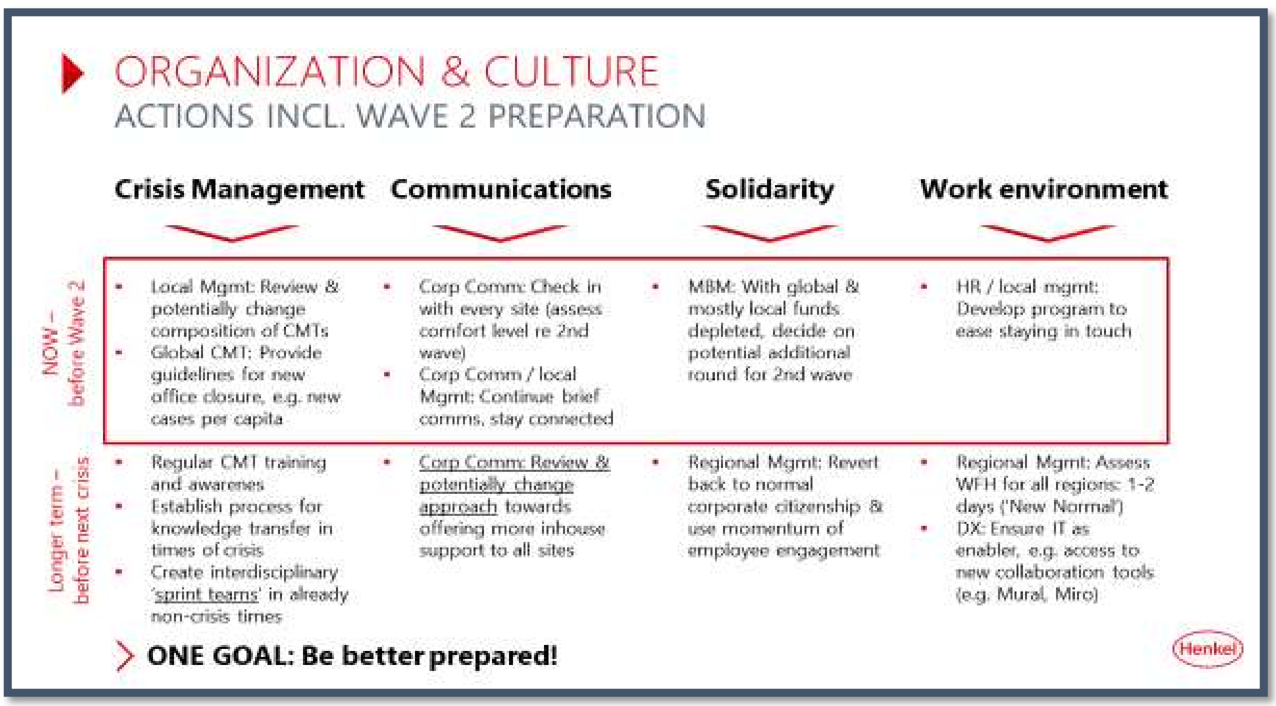
- Open Space: Collaboration in open space will be offering more options in terms of crisis, with e.g. a health crisis, desks that are not individualized allows spacing and seating those, that need to be in the office; for e.g. a crisis, where most staff needs to be in the office, like a major power outage or cyber-attack, more people could fit to desks in an open floor plan and group in conference rooms and workstream areas.
- Non-assigned desks: Having desks not assigned increases options further. Flexibility is increased and for example provided to instantly regroup and seat sprint teams together (see Action in Crisis Management above). Eventually, there will be a large cost savings, by not having desks sit vacant while the employee works from home, but by implementing a sharing ratio that is lower than the currently pursued 0.7.

All in all, this approach of open space and non-assigned desks is already pursued by the Henkel Real Estate team (FCR), however, it is not strictly followed for new build outs. Recommendation would be to implement this strictly for new offices and renovations together with the WFH policy.

b) As IT is a clear enabler while working from home and collaboration across borders, it is key to continuously monitor and extend the offer for collaboration tools. The implementation of new tools such as Mural or Miro will be great to foster productivity and further improve creativity. This will eventually also cater to stronger connections between employees.



Below chart summarizes the actions for short and long term for each of the four dimensions.



Rediscovering our Culture

The pandemic and Henkel's reactions are surely an opportunity to strengthen our Henkel culture. We have already experienced a shift in how our staff feels about Henkel as company. Our staff values Henkel as a transparent and trusted partner. People are proud (again) to be a part of Henkel, to be a 'Henkelaner'.

The above mentioned actions will support building culture in times of crisis, but even more important being prepared for the next big crisis, no matter whether this stems from another pandemic, a national hazard, a geopolitical issue, cyber attack, quality, material availability or compliance issues.

CRAFTing this Henkel culture together with all employees as catalyst will be essential to achieve a culture being **Collaborative, Resilient, Agile, Fulfilled, and Transparent**.

Having our individual employees at the center of this culture and having them drive this development will be important to maintain this cultural change. This strengthened culture and the idea of the 'Henkelaner' can also be exploited towards employer branding purposes. Eventually, the coronavirus pandemic may significantly shift how Henkel is able to respond to the market. For sure, it is an opportunity to strengthen our Henkel.

CONCLUSION

COVID19 has created unique, never seen challenges in business and in life. We will take the opportunities and challenges presented to us, and CRAFT a stronger, bolder, more resilient organization for tomorrow. This will not be easy. It will require bold actions, in order to be better prepared and more agile with the next crisis hits.

1) We will launch **purpose-driven**, consumer-focused innovation and business model; fitting for a post-COVID world
2) We will conduct end-to-end **stress testing** to learn from our opportunities and weaknesses and better prepare for the future.
3) We will develop targeted and strategic **inventory & supply strategies**, to increase agility, connectedness, elevate our ability to seize opportunities as they are presented.
4) We will become more a more **adaptable, crisis ready organization** through our investment in people, communities, office environment, and communication principles.
5) We will grow and evolve our Henkel culture, fostering **trust & transparency** through all associates and all organization functions.

Comprehensive list of actions

Consumer, Customer, Market

- Action 1: **Big idea** shows opportunity and need for new business model with a greenfield approach which is dedicated fully for sustainability, community and purpose and built on our strong heritage (hair) and crafted by Schwarzkopf
- Action points **Product**:
    - value for money choices for commoditized categories and premium in retail due to shift from salons
    - smaller formats for inspiration - bigger formats for longer product reach
    - increased demand for conscious beauty ("sweet-spot" of purpose, health and sustainability)
    - disruption in hygiene – further leveraging the strong dial heritage.
    - services as products - virtual guidance, education and inspiration
- Action points **Promotion**:
    - live interaction / live streaming / D2C communication
    - digital upskilling and savviness of total society – ALL target groups can be reached online!
    - Community
    - QR Codes for added value communication (on pack, POS,…),
- Action points **Price**:
    - value for money & premium offers as daily luxury
    - value added digital services
- Action points **Place**:
    - e-Commerce, D2C, proximity store revival, discount, sales coops & Clubs
    - streaming / sales shows (like Media TV sales)
- Action points **Purpose**:
    - Sustainability & Sustainable brands with purpose - people, purpose, planet
- Action points **People**:
    - connected community - "WE" over "I"
    - JOMO (=joy of missing out)
    - Human behavior is sticky – if changed for a longer period and will last!

Portfolio & Supply Chain

- Action 1: Establish a working group from each SC discipline to further deep dive on the stress test elements using the model
- Action 2: Agree on short-, mid- and long-term actions
- Action 3: Start with product pooling
- Action 4: Create Backup production portfolio regionally and globally
- Action 5: Create Supplier Management role within Supply Chain to foster relationship with key suppliers

- Action 6: Check option of producing critical packaging items inhouse

Organization & Culture

Actions now: Before wave 2

- Action 1: Crisis Management improvements
    - Review of CMT composition
    - Provision of global guidelines
- Action 2: Communications improvements
    - Corporate communication to check in with each site
    - Continued, diversified communications
- Action 3: Solidarity improvements
    - Board decision on additional funds
- Action 4: Work environment improvements
    - Program to ease staying in touch

Actions longer term: Before next crisis

- Action 1: Crisis Management improvements
    - Train CMTs regularly
    - Establish process for knowledge transfer
    - Create of interdisciplinary ‘sprint teams’
- Action 2: Communications improvements
    - Review & potential change of inhouse vs. outsourced Corp. Comm approach
- Action 3: Solidarity improvements
    - Use momentum of citizenship & employee engagement
- Action 4: Work environment improvements
    - Assessment of WFH arrangement (1-2 days per week) + resulting reals estate implications
    - Implementation of additional collaboration tools