

# Strategic Digital Transformation (DX)

We are promoting a strategic digital transformation (DX). By making the power of digital technology our ally so as to enable us to communicate at anytime and anywhere, we deliver *Yoki-Mono* (good products) value to our customers on a timely basis and in customized ways and provide solutions that enhance the creativity to our employees.

## Social issues

With such significant changes in the global social and economic environments expected, it is hoped that a society will emerge where everyone can play an active role, free from various restrictions such as region, location, age, and disability going forward.

Also, since the global COVID-19 pandemic in 2020, many people have become aware of the new value and potentials of digital technology, and their daily lives have changed significantly as a result of the adoption of non-contact and remote digital technology in many social activities.

Until now, we have used various leading-edge technology in all stages of the supply chain and implemented DX with a focus on increasing operational efficiency. Going forward, we hope to implement DX using the most recent leading-edge technology, pursue value that can be provided only by a company that is involved in the lives of people throughout their lifetimes, and create a new lifestyle culture in cooperation with various partners.

## Policies

### “WakuWaku Transformation”

By combining Kao’s manufacturing strengths and advanced technologies, we aim to become a “WakuWaku (Exciting) Creative Company” that creates new ways of living.

Through the power of DX, we will create a corporate culture that is “excited about changing society and excited about changing ourselves,” we will enhance the level of value we provide to all stakeholders (employees, customers, shareholders and society), and will continue with initiatives that enable employees to do fulfilling work and meet external expectations even in 2030.

## Strategy

### Risks and opportunities

#### Risks

Falling behind in DX will cause inferiority against competitors in sales, as well as pose risks of not fulfilling our social responsibilities, including delays in ESG activities. In promoting DX, it is essential to comply with laws and regulations, including personal information protection, and to take measures against risks of information breach. In addition to handling personal information with meticulous care and building and monitoring robust systems, we collaborate with our in-house Legal, Global to comply with local laws across the globe.

#### Opportunities

Two perspectives are essential for Kao’s growth—our value propositions conducive to solving social issues, and how the value propositions should be designed to achieve this? While maintaining our commitment to *Monozukuri*, we will continue to place even greater emphasis on delivering optimal value to each and every customer.

In addition, we will actively collaborate with external partners to pursue optimal solutions for our customers and end users.

### Strategy

#### ‘Transforming from a manufacturing company to a UX creation company’

Our goal is not only to sell products but also to deliver the best experiences and devise new ones.

Through DX, Kao aims to become a company that delivers the best experience to customers by staying close to them every day and throughout their lives—in other words, become a “UX” creator. Kao’s unique “UX” and “best experience” approaches comprise two routes: “monitoring” and “solution matching.”

Through monitoring, customers can visibly see their own physical condition and changes in it, or the makeup and hairstyle that suits them, or the state of hygiene in their homes, then find the best solution that suits them, and experience the joy of encountering such a solution. This is what Kao considers “UX,” and this “UX creation” is what Kao aims for through the means of DX.

This also means we will apply DX to “aim for a ‘World of Precision’ where people can share truths and where many genuine elements can contribute to encountering the best,” which was presented in the “Precision Life Care Concept” in March 2022.

Going forward, we will not only be a *Monozukuri* company, but also a company that creates “the best experience,” or “UX.” In other words, we will transform ourselves from a manufacturing company to a UX creation company.

# Strategic Digital Transformation (DX) GRI 3-3

## Social impact

Kao continues to research various aspects of daily life. In doing so, we have developed a Virtual Human Body Generative Model with Preferred Networks, Inc. using multiple monitoring technologies developed through the accumulation of such research to combine products and services tailored to an individual's condition. To provide optimal life care to each of these customers, we will accelerate our efforts to resolve social issues by proposing optimal solutions to unsolved problems in life, lifestyle, and ecology as Precision Life Care in collaboration with a multitude of private enterprises and government agencies.



**Kao and PFN Co-Develop Virtual Human Body Generative Model**  
<https://www.kao.com/global/en/newsroom/news/release/2022/20220228-001/>



### Precision Life Care Concept Briefing

- Presentation  
<https://www.kao.com/content/dam/sites/kao/www-kao-com/global/en/investor-relations/pdf/presentations-fy2022-plc-01.pdf>
- Explanatory Video  
<https://www.irwebcasting.com/20220316/2/9ddc26fe7c/mov/main/index.html>

In December last year, we also launched My Kao, a platform to connect directly with customers, and created a new system that enables us to accumulate large amounts of data related to various health and hygiene issues (*Kurashi* Big Data) on a daily basis. We will return this accumulated data to society through participation in industry, government, and academic projects and the dissemination of white papers, and will also support activities that help various kinds of consumers lead richer and healthier lives.



**My Kao Release**  
<https://www.kao.com/jp/newsroom/news/release/2022/20221215-001/>  
 (Japanese)

## Contributions to the SDGs



## Business impact

Further business expansion is expected through the Digital Transformation (DX) of business divisions (via data-driven marketing and UX) and expansion of Kao fans and direct sales EC by enhancing the My Kao platform.

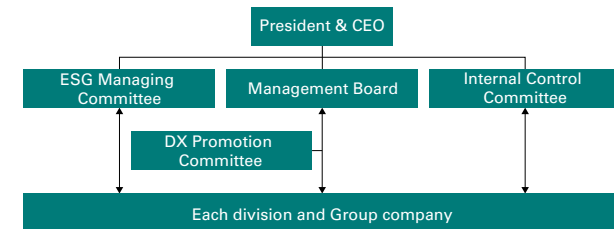
In addition, in proposing and implementing strategies and tactics to radically improve the efficiency of business processes through employing digital technology, we aim to improve the profit structure by boosting business efficiency and adding value to our business results.

## Governance

### Framework

Effective January 2023, three DX-related divisions (Strategic Innovative Transformation, Co-Creation, and part of the Retail Marketing Innovation function of Kao Group Customer Marketing) have been integrated to form DX Strategy, a new company-wide division.

Under the Board of Directors' supervision, the DX Promotion Committee formulates Kao's DX strategies, makes investments, and manages opportunities for specific DX initiatives. The DX Promotion Committee is chaired by the Managing Executive Officer in charge of DX Strategy and advised by the President & CEO. Important matters are deliberated on by the Management Board and reported to the Board of Directors.



**P18** Our ESG Vision and Strategy > Governance

# Strategic Digital Transformation (DX) GRI 3-3, 404-2

## Education and promotion

The Digital Skills Learning Service provides a wide range of learning opportunities for all employees, from basic DX knowledge to specialized ICT-related content, via the intranet. In addition, all leaders and above, including executives, must take a DX literacy course to gain knowledge and foster awareness of how DX is applied in practice. Furthermore, we hold monthly DX Study Meetings to provide information on various case studies, topics, and cutting-edge trends both inside and outside the company. A large number of employees actively participate in each session, leading to the spread of a wide range of DX-related knowledge.

In the Consumer Products Business, we offer a more practical learning program on digital for young employees in the business units. Specifically, we train data analysts with knowledge and skills related to more advanced analysis, as well as provide education and self-study opportunities for the qualification of Web Analyst from the Web Analytics Consultants Association.

## Collaboration with stakeholders

We regard our suppliers as important stakeholders, not merely as customer-vendor relationships, and we aim to develop relationships that can transform companies and create social value together.

We will also work on “co-creation” with our customers. Specifically, we plan to create various “communities” within My Kao through two-way communication with customers, and to work together with them to develop unprecedented products and services. Kao researchers will communicate with My Kao members and work together to devise solutions that have never existed before and attain “happy lifestyles created together.”

## Risk management

We have designated “stagnation and delay of digitalization and DX” as a company-wide key risk, and will conduct risk management while promoting the strategy as one of our top management priorities.

As Kao Corporation, the secretariat of the Risk & Crisis Management Committee (Risk Management & RC Promotion) conducts risk surveys on comprehensive and specific themes for DX Strategy, identifies key risks, and reviews countermeasures. In the case of cross-organizational and common risks, the relevant divisions work together to strengthen their response and, where appropriate, the responses are treated as major company-wide risk issues.

**P33** Our ESG Vision and Strategy > Risk Management

## Targets and metrics

### Mid- to long-term targets and 2022 results

#### Mid- to long-term targets

As the social structure is undergoing major transformation, how we all consume must also shift from the model of “eliminate” and “spend.” Kao will also progress by shifting away from merely amassing standards and toward business models and services aimed at realizing diverse forms of happiness for consumers. To this end, we will promote LX (Life Service Transformation) unique to Kao that utilizes digital technology.

As a specific initiative, from the perspective of value chain optimization, we will implement “Wastefulness—*Mottainai*, never today, nor tomorrow.” with the power

of digital technology to reduce both opportunity loss and disposal.

In addition, under the slogan of “Leave no one behind,” the entire company will promote enhancements in web accessibility with the aim of providing digital information in ways accessible to all.

Based on its ESG strategy, the Kirei Lifestyle Plan (KLP), Kao is strengthening its environmental and social initiatives with the aim of achieving sustainable and enriched lifestyles from the consumer perspective. Through our initiatives in web accessibility, we will ensure more people in various circumstances will be able to easily find the information they need to choose and use our products.

Our target level is Level AA of the Web Content Accessibility Guidelines (WCAG) 2.1 published by the World Wide Web Consortium (W3C).

### 2022 results

#### Lunasol reduces disposal volume


We launched an initiative beginning last year to predict sales based on both advance online and offline sales in order to reduce the volume of discarded cosmetic products. Disposal of unsold products causes environmental impact including the release of CO<sub>2</sub> during processing, and it is possible to reduce the environmental impact from disposal by reflecting advance sales trends in production plans.

(*Lunasol*: Amount of discarded product (inventory value + returned goods value + discarded packaging material, etc.) Approximately one-fifth of actual disposal in 2020)

# Strategic Digital Transformation (DX)

## Promotion of web accessibility

We have created our own Kao Accessibility Guidelines that target WCAG 2.1 Level AA. We are working to modify and update our current website in accordance with these guidelines, and will also endeavor to ensure that any new websites we create in the future will also comply with these guidelines. In addition, we will periodically review the content of this guideline for improvement. Moreover, we have conducted in-house training on the importance of web accessibility and how to respond in accordance with the Kao Web Accessibility Guidelines, and have started creating websites in compliance with the guideline.

 [Web Accessibility Policy](https://www.kao.com/global/en/web-accessibility/policy/)  
<https://www.kao.com/global/en/web-accessibility/policy/>

## Reviews of 2022 results

We are making steady progress toward our goals, thanks in part to heightened awareness within the company as our activity policy becomes more widespread.

# Strategic Digital Transformation (DX)

## Main initiatives

### Start of the Precision Life Care Concept

Kao possesses many unique technologies that help protect against, prevent, and diagnose diseases in human life, including our RNA monitoring\* technology that predicts potential disease onset based on RNA, and technology that detects changes in the body based on walking conditions. By cross-multiplying data analyzed with a high degree of accuracy using these technologies on a digital life platform, it will be possible to make more precise predictions of health conditions and to offer suitable recommendations on current measures. This is what Precision Life Care proposes. We will grow our digital life platform by also having many partners utilize Kao's monitoring technology in addition to Kao.

#### \* What is RNA Monitoring?

RNA monitoring is a technology that collects and analyzes RNA (ribonucleic acid), which reflects the daily fluctuations of skin conditions, from facial sebum. While DNA is unique to a person and does not change throughout his or her life, RNA, a copy of DNA, is subject to change due to external factors including diet, UV rays, and stress. Therefore, RNA helps to understand skin conditions that change day-to-day due to various environmental factors. In addition, Preferred Networks' deep learning technology, which excels in AI-based deep learning, enables predictions on a person's future skin and health condition when the data obtained from analyzing RNA is analyzed at an advanced level. We will leverage this technology to promote joint research on early diagnosis of diseases including Parkinson's disease.

### Start of My Kao

In December last year, we began operating My Kao, an interactive digital platform that connects directly with consumers. This is Kao's first interactive digital platform that brings together Kao's DX knowledge and assets to co-create the Kirei-Life of each customer.

My Kao has four functions: Know, Experience, Buy, and Create. In addition, by connecting with customers

through One-ID and gaining a deep understanding of them, we will provide various kinds of UX (customer experience). As of December 2022, in addition to providing useful information for daily life based on knowledge acquired through consumer research and manufacturing, Kao will launch Kao Beauty Brands Play Park, an interactive beauty-related community site, and My Kao Mall, an e-commerce function that will start with cosmetics, within My Kao. We will continue to expand services.



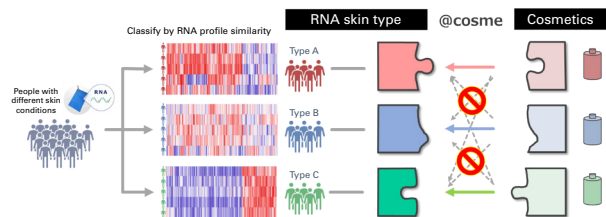
My Kao  
<https://my.kao-kirei.com> (Japanese)

### Evolution of the cosmetics business through sebum RNA monitoring

From 2022, we are working with Istyle Inc., which operates @cosme, to develop a service that creates encounters with cosmetics that suit the individual. This is a matching system that enables users to encounter cosmetics that suit them based on their RNA skin type, which is categorized using sebum RNA monitoring technology.

In the future, we aim to help maximize customer satisfaction and reduce product waste, which is a problem in the cosmetics industry.

# Strategic Digital Transformation (DX)



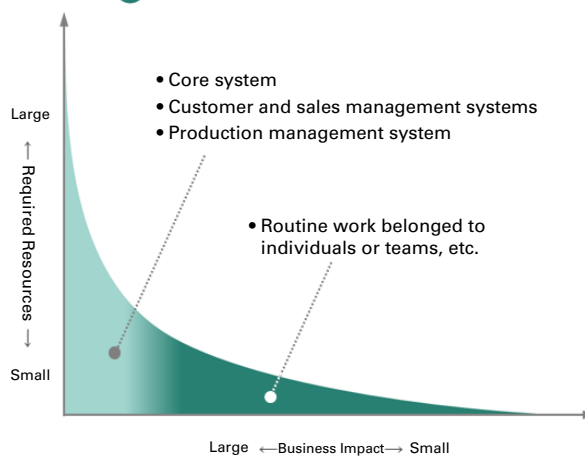
Classify people with different skin conditions into several groups based on RNA skin type  
 Analyze @cosme reviews of people belonging to each RNA skin type group, and estimate cosmetics suitable for that group

## Long-tail DX by citizen developers

We are applying two approaches to pursue better work styles and business processes through DX. Resources are concentrated on projects with significant business impact, such as core systems, and prioritize them for handling. On the other hand, many projects tied to individuals and teams with a limited scope of impact are handled in a grassroots manner by training employees who understand the issues and needs of the field as citizen developers, through reskilling and assisting in the development of low-code applications.

Since the program started in 2021, the number of applicants who want to become citizen developers has continued to rise, and as of February 2023, 673 people have applied. The accumulation of small-scale internal DX (operational efficiency) has produced significant results.

## Two approaches of internal DX



## Complete renewal of Kao's web product catalog

Until now, creating and updating the Kao Web Product Catalog required considerable manual work and procedures, and took approximately one and a half months before information was posted.

Meanwhile, the consultation center receives approximately 3,000 inquiries a month (30% of all inquiries) about stores that carry our products, and we thought that providing a more convenient store search tool would improve convenience and UX.

Furthermore, in March 2021, we fully upgraded our web product catalog, and have continued to improve it since then, in order to provide many people with opportunities to encounter Kao products through multilingual support in preparation for the increase in the number of international residents and visitors to Japan.

## Specific improvements

- Development of an automatic product-page generation system: By building a new automated workflow, we reduced the preparation time from approximately 1.5 months to as little as one day, thereby streamlining the internal page-production process.
- Development of a retailer GPS search function: A unique retailer search function has been developed that maps stores within a 10-km radius of the current location for each SKU searched in the catalog, thereby improving the service as a tool for customers to solve their own queries about retailer information. Currently, the number of store searches is approximately 21,000 per month and is expanding further. This eliminates the stress of customers searching for stores, and in addition, helps to secure a new customer flow to distribution.
- Introduction of multilingual support for Japanese, English, and Chinese: We linked our catalog system to a translation support service to provide multilingual support for our web product catalogs. Increased access by international visitors and improved site recognition and credibility have contributed to the information value of the Kao website.
- Discontinuation of paper product catalogs: By linking to information on product standards for distribution and safety data sheets on chemical substances, we were able to both maintain services for distribution and reduce the production cost of paper product catalogs that would otherwise be distributed.

# Strategic Digital Transformation (DX)

## Employees' opinions

### Ryo Goto

MK Platform Department Head,  
DX Promotion DX Strategy,  
Kao Corporation



Our DX initiatives include improving consumer service through the Kao Group's web product catalog, which is the Kao Group website most utilized by consumers, as well as improving operational efficiency by reviewing operations involved in the production process and creating new workflows.

In addition, in order to respond to inquiries on stores that offer Kao products, we were able to introduce nearby stores using location information and provide detailed product information in multiple languages (Japanese, English, and Chinese) to international residents or visitors to Japan.

The visualization of consumers' current interests from data such as products, locations, and information searched in product catalogs will make it easier to use them in marketing.

We will continue to improve consumer service and contribute to the business.