

# Digital Transformation (DX)

Kao promotes DX as a way to accelerate our transformation into a *Global Sharp Top* Company. With the power of diverse data and digitalization, which enables communication that is not limited by place or time, we will upgrade our *Yoki-Monozukuri* (heartfelt UX co-creation), which is the origin of our corporate activities, and contribute towards realizing a prosperous and inclusive society.

## Social issues

The rapid evolution of digital technology has resulted in easier access to information and promoted the development of various digital tools, and this has dramatically changed the lifestyles and purchasing behavior of consumers. In response, companies must apply digital technology to swiftly meet customer needs, promote innovation, and construct sustainable business models. Meanwhile, corporate activities themselves are undergoing upheaval, which include streamlining business operations with digital technology and data, improving business processes, and instigating work-style reform.

In the future, we can expect further evolution of AI and IoT, along with advancements in the application of big data. Therefore, securing a competitive advantage by constructing sustainable business models that have adapted to the development of the digital society, along with agile UX improvement activities, will be crucial.

## Policies

For Kao, Digital Transformation (DX) offers a multitude of opportunities for business growth, strengthening competitiveness, improving business efficiency, and reforming work-styles.

In this increasingly fast-moving digital society, we will promote DX within the following three policies to accelerate Kao's transformation into a *Global Sharp Top* Company:

- (1) User experience (UX) Centric: Through applying digital elements, we will understand consumers more deeply and further advance what we learn from them. In turn, this will be reflected in products and services for agile improvement.
- (2) Co-creation: We will promote co-creation with internal and external stakeholders by applying the strengths of digital elements that transcend various boundaries.
- (3) Problem 1st: Without making DX our goal, we will first clarify problems to solve before incorporating technology and applying data.

## Strategy

### Risks and opportunities

#### Risks

In an environment where the digital society continues to advance, delays in promoting DX may hinder sustainable growth and put a damper on competitiveness due to delays in responding to consumer needs, lost opportunities for innovation, and decreased efficiency in corporate activities. Furthermore, as the evolution of AI and IoT is expected to accelerate, speeding up corporate activity reform to apply digital technologies and data will be more important than ever.

#### Opportunities

Applying digital technology enables development of new business models, reinforces competitive strengths in the market, and also results in promotion of

innovation. As a result, direct benefits such as higher corporate value and profitability can be expected. Moreover, we can expect digitalization to dramatically improve operational efficiency, reduce costs, and increase productivity. Additionally, incorporation of elements such as remote work boosts work-style flexibility. This is expected to raise employee satisfaction and contribute to attracting quality human resources.

## Strategy

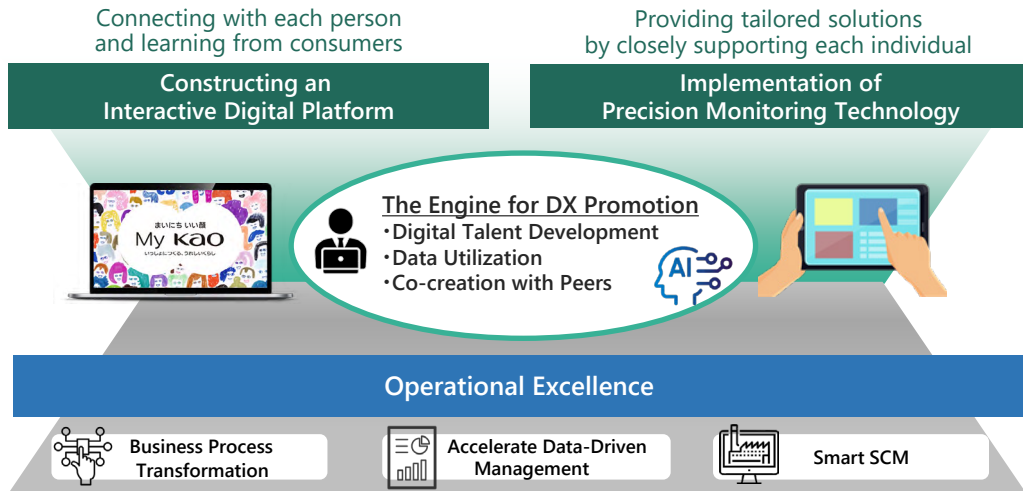
### Staying close to consumers through the power of digitalization

Based on changes in consumer lifestyles and purchasing behavior due to the rapid evolution of digital technology, along with trends among platformer/retailers, Kao recognizes the urgency in establishing business models that connect directly to consumers, and will foster digitally capable personnel and use digital technology to evolve *Yoki-Monozukuri* that stands with each and every consumer.

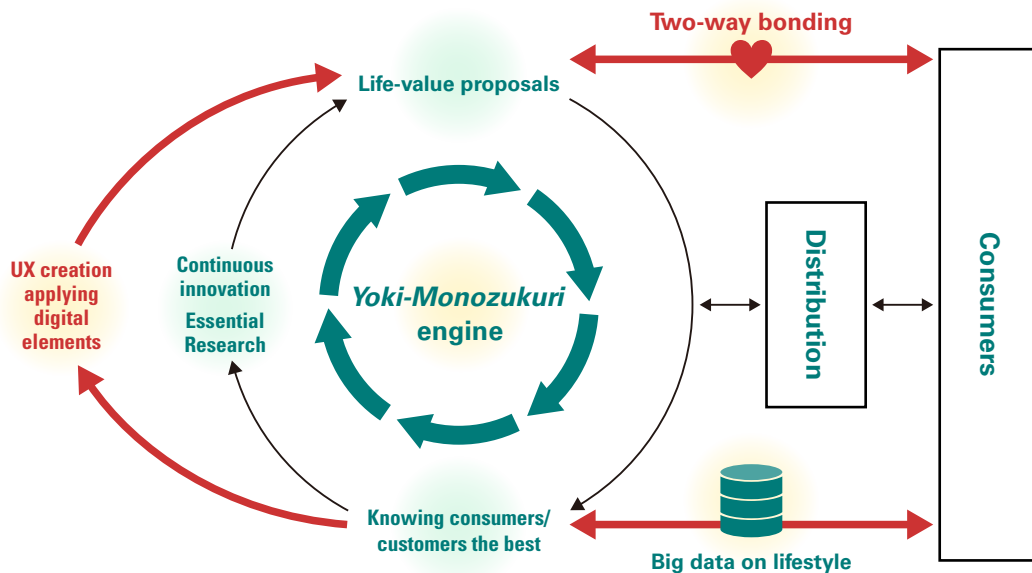
While making steady progress in streamlining corporate activities, we will accelerate our transformation into a *Global Sharp Top* Company through deepening business models from mass-focused business models to business models from an ESG perspective that meets diverse values by utilizing digital technology and big data.

# Digital Transformation (DX)

## Utilization of DX to transform *Yoki-Monozukuri*



## Upgrading *Yoki-Monozukuri*

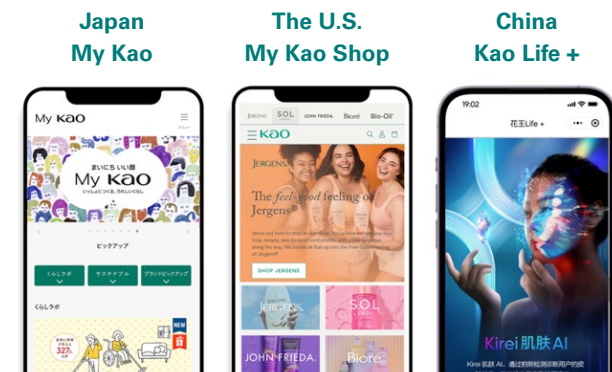


## Connecting with consumers around the world via a two-way platform

Kao has been proceeding with establishing an interactive digital platform called “My Kao,” which directly connects Kao to each consumer. It is owned media that provides reliable information and thoughts behind product development communicated from the manufacturer, while also serving a role as a new marketing foundation.

By offering community functions and establishing a mechanism in which various divisions in the company can hold direct dialogue with consumers, agile *Monozukuri* and marketing become possible, and providing personalized UX (user experiences) contributes to achieving a Kirei Lifestyle for each consumer.

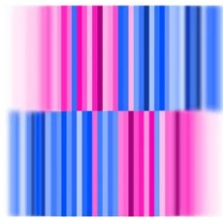
The concept of a two-way platform is being promoted globally. In Japan, My Kao was launched in December 2022, followed by My Kao Shop in the U.S., and Kao Life + in China, and we are gradually expanding functions for these platforms.



# Digital Transformation (DX) GRI 2-28

## Accelerating creation of new arenas through co-creation that transcends corporate boundaries

In March 2024, Kao and istyle Inc., jointly established the RNA Co-creation Consortium, which is centered on Kao's unique sebum RNA monitoring technology. We have welcomed leading companies in their respective fields as coordinators to integrate their data and research expertise to enable the industry as a whole to create mechanisms that enable consumers to select sustainable products and services with higher levels of satisfaction than before and accelerate creation in new arenas.



**RNA共創  
コンソーシアム**  
RNA Co-creation Consortium

## Promotion of operational excellence through digital utilization

Kao has accumulated a large quantity of data acquired through its activities up to this point. This data will be evolved into intelligence to be used for decision-making, to speed up management and optimize value chains. Furthermore, we will also continue to improve and create efficiency for workflows in various operations in our efforts to maximize company-wide profits.

Some major activities that are to be promoted include business process reform, the acceleration of data-driven management, and smart SCM. We will also maximize our use of various digital and AI tools across the company to promote these activities.

## Fostering DX human capital which will act as the engine for strategy promotion

We have been actively promoting citizen developers\*<sup>1</sup> to be a powerful engine for DX strategies. Along with this, we have also introduced the DX Adventure Program to promote the improvement of digital skills in all employees. We will reinforce efforts to discover and foster DX human capital to accelerate new value creation and the transformation of business processes across the company and business divisions. The visualization of skills through the introduction of the Open Badge digital certificate will also contribute to boosting employee motivation. This program has started in Japan and will be expanded globally from 2024 onward.

\*1 Activities to promote *Genba*-driven business improvement with employees who are not IT specialists using low-coding/no-coding as citizen developers

## Social impact

Kao has been shifting towards a sustainable business model (a shift from quantity to quality) against the backdrop of environmental protection and social responsibility. From a DX perspective, we will contribute to the shift from a conventional mass-production/mass-consumption model toward a business model rooted in ESG that is consistent with diverse values through the evolution of digital technology and various data applications. This initiative will contribute to promoting sustainability and further innovation.

One example is the sale of stagnant stock through an outlet launched within our e-commerce site in 2023. This has helped to reduce product waste and CO<sub>2</sub> emissions.

## Contributions to the SDGs



## Business impact

First of all, we anticipate operating a two-way platform that will result in improved products and services through consumer dialogue, increased lifetime value through personalized CRM, and a contribution to good financial results. Moreover, direct connections with consumers are expected to reduce marketing costs including those for advertisements and research. Additionally, the platform will help to bring down our e-commerce sales costs, and launching an online outlet will reduce the number of unsold products discarded.

Next, the newly established RNA Co-creation Consortium will seek the further participation of companies that support the initiative to create systems that will enable consumers to select sustainable products and services with higher levels of satisfaction than before based on RNA information. At the same time, we will strive to attain sustainable consumption cycles that are people- and environmentally friendly through balancing supply and demand by eliminating situations in which consumers are not able to find ideal products that fit their needs. In this way, having supporting companies maximize the use of Kao's technology aims to improve business results for Kao and related companies, and also to help improve the wellbeing of society as a whole and of all consumers.

# Digital Transformation (DX)

The improvement of business processes and work styles through the effective and timely introduction of digital tools also can be said to be the results of operational excellence. Furthermore, the spread of citizen developer activities are expected to reduce cash outflows through *Genba*-responses for long-tail projects. These initiatives will provide positive impacts on businesses through organization-wide efficiency and the improvement of business processes.

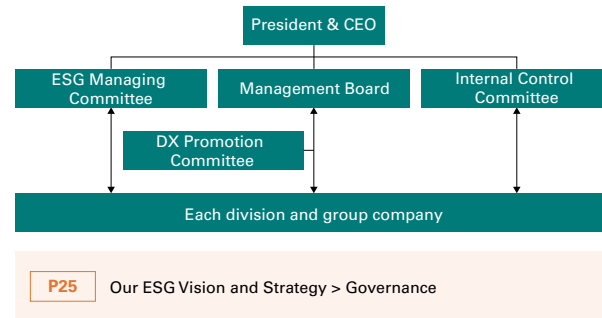
## Governance

### Framework

In January 2023, we integrated three DX-related divisions to form DX Strategy, a company-wide division. Under the supervision of the President & CEO, who is in charge of DX, DX Strategy will lead all aspects of DX activities with Managing Executive Officers supervising the division. In January 2024, we established the Data Intelligence Strategy Center which promotes data intelligence within DX Strategy. Along with the DX Strategy Design Center and the Interactive Platform Center, DX promotion will take place under this structure of these three centers.

Adding to this, checks of strategies and investments related to DX at Kao are reported and resolved at the monthly DX Promotion Committee meetings. 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.

### DX management structure



### Education and promotion

Since 2018, Kao has moved ahead with human capital development that promotes DX. Although up to 2022 we had provided educational programs through a selective method or to those requesting it, from 2023, we have started a new DX educational program targeting all employees on a global scale.

The new DX educational program—the “DX Adventure Program”—started as a training program for all from November 2023, to improve digital skills according to the needs and skill level of each individual and their work divisions. This program comprises three layers and five skill levels, and offers a customized program for each employee.

From 2024, a program to train DX promotion leaders in each division will start, and the plan is to train 300 division DX promoters and 150 company-wide DX promoters by the end of FY2027. This program uses the digital certificate “Open Badge” to visualize employee skills and disclose this information within and outside the company as a way to boost employee motivation.

### DX Adventure Program



# Digital Transformation (DX)

## Collaboration with stakeholders

In terms of co-creation with consumers, we will cooperate with them to develop innovative products and services by establishing various communities on the two-way platform My Kao. For co-creation with external partners, we will move forward by providing value for “Things + Experiences” in a wide range of life situations and contribute to realizing the Kirei Lifestyle for consumers. We launched collaborations with ASAHI BREWERIES, LTD. in December 2023, and with Ajinomoto Co., Inc. in April 2024. We plan to expand partnerships in the future to continue proposing new value for diverse lifestyles.

At the RNA Co-creation Consortium, Kao, which provides the technology, and istyle Inc., which is the largest platform provider specializing in beauty in Japan, have taken upon the role as directors and organized a management committee. Leading companies from various industries, such as KOSÉ Corporation, Matsukiyo Cocokara & Co., Kirin Holdings Company, Limited, Perfect Corp., and Healthcare Systems Co., Ltd. have been welcomed as coordinators for this initiative. We invite the participation of companies from a wide range of industries including beauty, health, and food for sustainable development, not only for Kao but for other industries as well, through problem-solving and value creation via the integration of data and research.

## Risk management

Within the promotion of DX, we have identified the following as major risks and are taking countermeasures for them.

<Major countermeasures>

### **1. Leakage or falsification of personal information**

- Thorough management of handlers of personal information, including employees and business partners, along with regular awareness-raising
- Ensuring that work is conducted in dedicated rooms with guaranteed security

### **2. Online unauthorized access and data falsification**

- Implementation of audits when forming partnerships with contractors and regularly thereafter
- Reinforcement of monitoring systems and construction of a quick response flow in the event of an incident

### **3. Cloud environments and network failures**

- Collaboration with external vendors to reinforce operation and maintenance frameworks
- Continued maintenance of system backup environments

### **4. DX delays due to lack of human capital**

- Promotion of company-wide DX education along with promotion of individual DX human capital development programs tailored to the characteristics of each division
- Reinforcement of external networks and selection of external specialists

### **5. Leakage of trade secrets and compliance violations due to misuse of AI**

- Promotion of awareness and thorough implementation of the “Kao Guidelines for Generative AI Use”
- Use and application of the dedicated system “Kao AI Tools,” which guarantees information protection

**P40** Our ESG Vision and Strategy > Risk management

## Metrics and targets

### Mid- to long-term targets and 2023 results

#### Mid- to long-term targets

Towards 2027, Kao aims to use DX to accelerate its transformation into a *Global Sharp Top Company*, leveraging digital technology and data that will play a role in transforming the dimensions of its corporate activities. To achieve this, we have configured four major outcomes (Key Results) to manage targets.

1. Fostering a culture of digital application through training DX human capital: We will accelerate new value creation and transformation of business processes across all divisions by internal adoption of citizen developer activities and further deepening the DX Adventure Program.
2. Acceleration of data application in decision-making: We will support data-driven management by evolving various data accumulated within the company into intelligence that aids decision-making for management and business operations.
3. Construction of a global two-way platform that directly connects to consumers: The platform will play the role of strengthening the functions of owned media to attract Kao fans and as a new marketing foundation to deepen *Yoki-Monozukuri*.
4. Promotion of digital accessibility: We will promote improvement of UX/UI to make websites and online services more accessible to all people, including those with disabilities. Our target level is Level AA under the Web Content Accessibility Guidelines 2.1 published by the World Wide Web Consortium (W3C). [Number of target sites: 700 (global), 100% are scheduled to be completed by the end of FY2027]

# Digital Transformation (DX)

## 2023 results and 2027 targets (Global)

### 1. DX human capital development

(2023 results)

- 1,000 citizen developers
- 30 company-wide DX leaders /  
30 division DX promoters

(2027 targets)

- 3,000 citizen developers
- 150 company-wide DX leaders /  
300 division DX promoters

### 2. Application of data to decision-making

(2023 results)

- Launch of a company-wide promotional project  
(October)

(2027 targets)

- A: 5 (strategic) cases / B: 30 (immediate) cases

### 3. Promotion of initiatives to attract more Kao fans through constructing a two-way platform

(2023 results) \* Within Japan

- 10 million My Kao visitors /  
0.25 million My Kao members

(2027 targets) \* Within Japan

- 30 million My Kao visitors /  
3 million My Kao members

### 4. Promotion of digital accessibility

(2023 results)

- Approximately 30% completed of all 700 target  
websites

(2027 targets)

- 100% completion of target websites

## Reviews of 2023 results

### 1. DX human capital development

- Citizen developers

We are progressing as planned due to endeavors for improving motivation with reskilling and newly establishing an annual award system.

- Company-wide training of DX leaders  
Steady progress is being made through a higher-level training program.

### 2. Application of data to decision-making

A dedicated division has been established in 2024, for full-scale operations.

### 3. Attracting Kao fans by constructing a two-way platform

We are progressing as planned through expanding content and enhancing shopping mall functions.

### 4. Promotion of digital accessibility

We are progressing as planned.

Reference: User rate of Kao website in Japan: Approximately 8.0%  
(Kao's estimation based on Internet Usage, a survey conducted by the Ministry of Internal Affairs and Communications)

# Digital Transformation (DX)

## Main initiatives

### [Deepening Yoki-Monozukuri] Promotion of the My Kao two-way platform

My Kao, launched in December 2022, has steadily been growing in both visitors and members as a two-way platform with consumers, and plays two key roles: the role of owned media to attract Kao fans, and the role of a new marketing foundation that supports Kao's *Monozukuri*. Regarding owned media, we provide reliable and useful information from manufacturing sources and heartfelt content on our thoughts behind product development. Additionally, with the full-scale development of community functions for My Kao, we will strengthen its role as a new marketing foundation and aim for *Yoki-Monozukuri* that grasps the real needs of consumers through direct dialogue. Furthermore, My Kao Mall makes the most of the benefits of direct sales with new marketing challenges such as sales of limited or test products, and initiatives to reduce disposal of unsold products through its outlet sales.



### [Deepening Yoki-Monozukuri] Launch of My Kao Mall OUTLET

At Kao, we use limited resources effectively for *Monozukuri* and are progressing with a system that produces and delivers only the absolutely necessary quantity of products that best suit each individual. As part of these efforts, we are promoting initiatives to reduce product disposal by incorporating demand forecasting and reviewing methods at product switches.

However, in reality, there was stagnant inventory left over at plants and distribution centers, including outdated products left due to improvements and package changes, along with product inventory left due to discontinuations and efforts made to ensure a stable supply.

In this environment, as a part of ESG-driven management, we launched the My Kao Mall OUTLET on our e-commerce site and started selling these products, regarding which we had no choice but to discard them before, at a discounted price. With this, we are helping to achieve a recycling-based society by reducing product disposal and CO<sub>2</sub> emissions.

## My Kao Mall OUTLET

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# Digital Transformation (DX)

## [Operational excellence] Promotion of company-wide application of generative AI

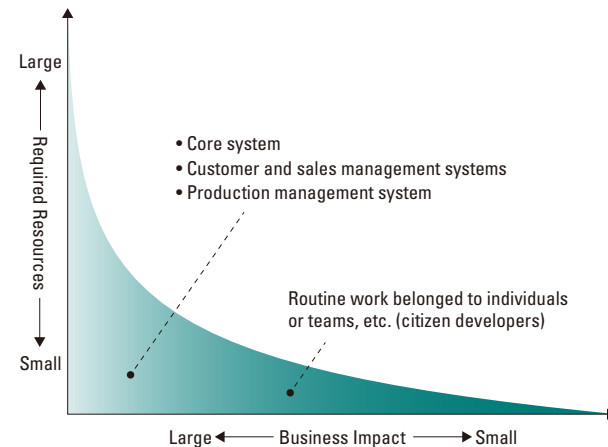
In May 2023, Kao introduced the company-wide use and application of a generative AI tool that guarantees the protection of in-house confidential information. With this, an environment has been created in which employees are now able to use generative AI with peace of mind. Furthermore, formulation and full application of the “Guidelines for Generative AI Use” prevents misinformation and acts as a security measure while also preventing copyright infringement and ethically inappropriate use. In the six months since the introducing of this tool, users have increased from 1,700 to 17,000. As a result, the tool has been applied in various categories and work efficiency has improved. There is also a growing movement of sharing information, such as effective prompts, within the organization.

From FY2024, we will make efforts to boost efficiency even further by incorporating generative AI into business processes. Some examples are the development of algorithms with check functions that comply with laws such as the Pharmaceutical and Medical Device Act and the Act against Unjustifiable Premiums and Misleading Representations, and promotion of more efficient legal checks. These initiatives are expected to accelerate and refine business processes associated with legal and regulatory compliance, and prompt more effective advertisement expressions.

## [Engine for DX promotion] Grassroots DX by citizen developers

Kao has two approaches for system development to boost business efficiency. One is a large-scale project led by Enterprise Information Solutions. Another is having non-manager employees who are not IT specialists use low-coding/no-coding as citizen developers to promote *Genba*-driven business improvements. Kao fully encourages these activities, and by the end of 2023, there were 1,000 citizen developers active at each *Genba*, acting as the driving force of Kao’s DX promotion. Since 2023, we have been running the Citizen Developer Expo, which will recognize outstanding endeavors in our efforts to boost motivation and case-sharing within the company through offering awards. Our future goal is to train 3,000 citizen developers by the end of 2027.

### Development of systems to streamline business efficiency



### Employees' opinions

#### Citizen development initiatives through reskilling

**Kaoru Matsushita**  
DX Promotion Division,  
DX Strategy Design, DX Strategy,  
Kao Corporation



After reaching the mandatory retirement age, I transferred to my current division as a senior partner. Presently, I use low-code developing tools as a citizen developer to create applications. Some of my signature applications include the “Infectious Disease Report Application” and the “Digital Work Status Display”.

When developing applications, I work within a team with members who want to renew current work operations based on Excel or email, or want to challenge themselves to a workflow incorporating new ideas, or want to try application development with their own hands.

I believe there are still many employees who want to learn something new and apply this knowledge to their work, so I hope to play a key role in promoting company-wide reskilling.