

The main title is centered in a dark blue rectangular box with white text. The text reads 'Supply Chain Issues in the « New Normal »'. The background of the slide is a teal gradient with a world map and various icons representing supply chain elements like factories, gears, and a forklift, connected by a network of lines and dots.

# **Supply Chain Issues in the « New Normal »**

# Supply Chain Management

## What is SCM?

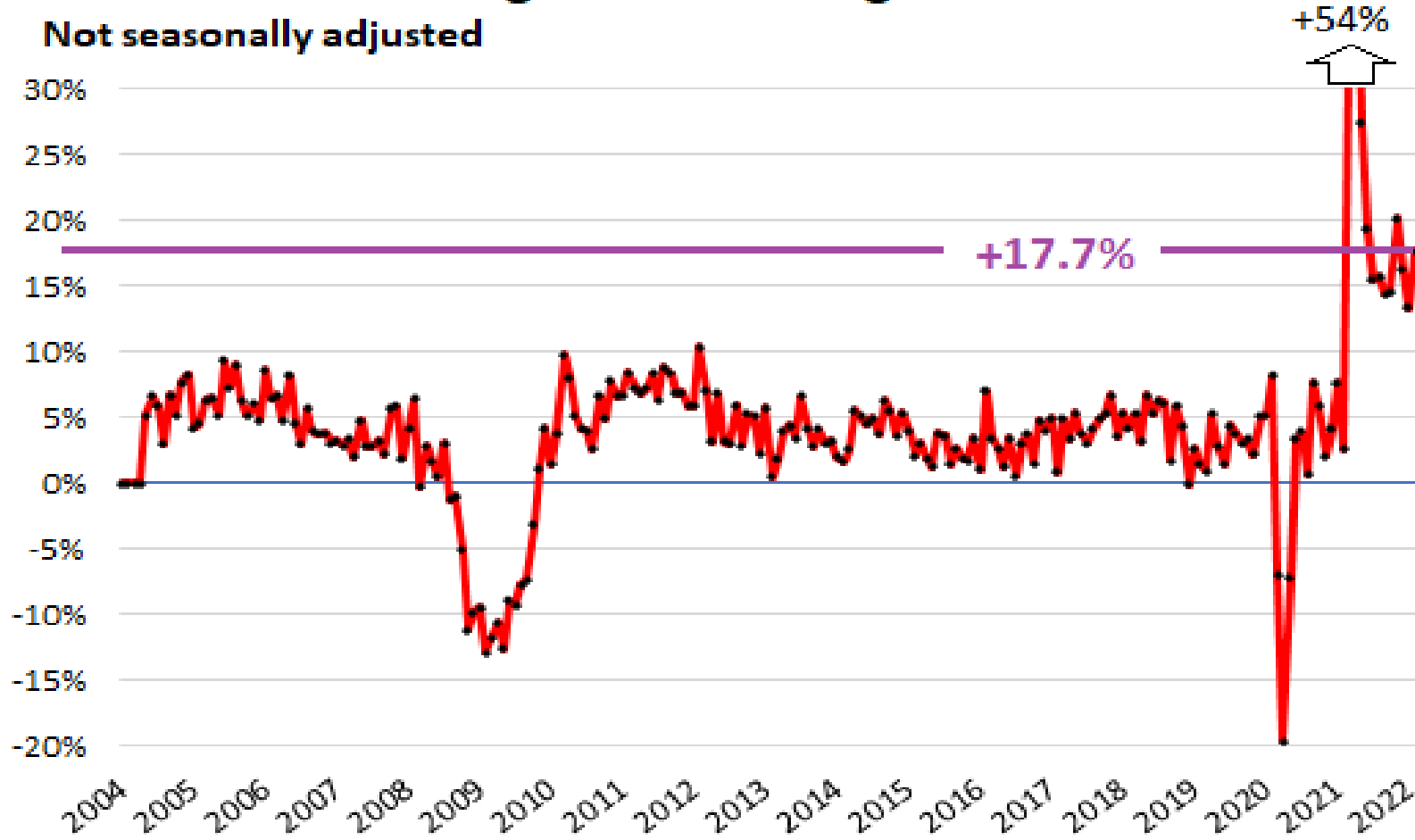
The sequence or system of organizations or operations that work together to design, produce, and deliver a product or service to a market, extending from the extraction of raw materials to the distribution of finished products or services



# Change in Retail Sales

## Retail Sales % Change from Year Ago

Not seasonally adjusted



Source: Census Bureau

WOLFSTREET.com

- Prior to COVID-19, 85% of cosmetic sales were in-store <sup>1</sup>
- Online sales may increase ~30% by 2023 <sup>2</sup>
- How do we translate the experiential purchase experience to at home event?

1. <https://www.mckinsey.com>

2. <https://www.businessoffashion.com/articles/beauty/the-state-of-fashion-2022-bof-mckinsey-beauty-global-sector-forecast/>



## CPG vs Cosmetics

	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>P&amp;G Net Sales</b>	\$ 76,118	\$ 70,950	\$ 67,684
<b>P&amp;G Net Earnings</b>	\$ 14,306	\$ 13,027	\$ 3,897
<b>Margin</b>	<b>19%</b>	<b>18%</b>	<b>6%</b>
<b>EL Net Sales</b>	\$ 16,215	\$ 14,294	\$ 14,863
<b>EL Net Earnings</b>	\$ 2,618	\$ 606	\$ 2,313
<b>Margin</b>	<b>16%</b>	<b>4%</b>	<b>16%</b>

## Isopropyl Alcohol (IPA)

- December 2019 ~ \$0.70/lb. with a \$0.02 - \$0.03 variation between Tech and USP grade
- Fast-forward: May 2020 - IPA prices are at an all time high
- \$1.40/ lb. for tech grade and over \$2.00/ lb. for USP grade with bidding wars for specific tankers
- Post hand sanitizing crisis - IPA prices plummeted to \$0.90 and \$0.96, respectively, in July of 2020

# Sustainability and Provenance



Consumers are increasingly turning to natural, sustainable materials with well defined origin.

This presents its own set of problems.

Rain Forest Alliance Palm Oil (RA Palm) will be exiting the market at the end of 2022 → oversaturation with RSPO → RA will need to be replaced with RSPO

- The RA certifies many materials and opted out of palm

Jojoba Oil experienced a global supply crisis in 2009.

The more we turn to natural materials with specific source of supply  
The more vulnerable we are to supply interruption.

# Change in Structure: Cosmetic Industry

The modern US Industry is very young. Largely built by individuals whose names are immortalized as Brands eg. Estee Lauder, Elizabeth Arden, Charles Revson.

Because the Industry was so small relative to the general Chemical, Food, and Pharma markets, a dedicated supply structure was developed. Almost all Technology in the Cosmetic Space is the result of tech transfer from other Industries.

Today, largely because of M&A and increase importance of contract manufacturing, the origins and relations between companies have become obscured. So both on the Supplier and Brand side, who actually makes a product can be very difficult to determine.

This creates higher costs and pinch points that are to large extents artificial.



- Industry Specific Education for Employees
- Market Growth Driven by Indie Brands
- Formalization in Intercompany Relationships
- Consolidation through M&A
- Availability of Data



## Solutions

- ✓ Accurate Forecasts
- ✓ Employee Retention and Training
- ✓ Transparency
- ✓ Redundant/Regional Sourcing
- ✓ Min/Max vs JIT

- We need solutions that integrate information between POS, brands, manufacturers, suppliers, and transportation companies.
- Lack of Accurate Forecasts drive shortages and associated price spikes.
- Transparent forecasts allows adequate inventories to be maintained through out the chain.

# Transparency

- Transparency needs to flow up and down the supply chain.
- Companies need to be able to differentiate distributors from manufacturers.
- Formulation Chemists should have an understanding of how and where the chemicals they are working are made.
- Suppliers need to understand where a Brand intends to manufacture, and sell their products.

# Employee Retention and Training

The Cosmetic Industry is only rivaled by the Fashion Industry in its speed to market.

Many people in this Chemical Industry lack Chemistry Degrees or holistic views of the manufacture, distribution, and sales of cosmetics.

Employees seek flexibility and opportunity for job success, over salary.

Agile thinking needs to be cultivated to create and maintain flexible processes.

# Redundant/Regional Supply

When looking at Provenance related marketing, brands need to build in some flexibility.

There should always be at least two sources of supply for strategic raw materials.

Ideally those sources should not come from the same geographic region.

Formulas that are Core to a brand should have back-up formulas, should sensitive materials become restricted eg. Phenoxyethanol.

## Min/Max vs Just-in-Time (JIT)

Accountants love JIT.

JIT works great until there are shortages.

Realistic Min/Max inventories of strategic materials provide a great cushion to market disruption.

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Thank you!



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