

ICMAD

Independent Cosmetic
Manufacturers And Distributors

Members Helping
Members

COVID-19

ICMAD Members Helping Members Webinar Series:

Contract Manufacturing Impacts

March 31, 2020

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To support its members during the COVID-19 crisis ICMAD is providing an open forum where members can discuss challenges they are facing in their businesses and ask questions and share possible solutions with other members on the challenges they are experiencing in their respective businesses as a result of the crisis, and to share information on topics of mutual interest, such as seeking SBA loans. Because many of our members are competitors we want to make sure that in the interests of trying to help each other there is not an inadvertent violation of federal or state anti-trust laws. When sharing information on the site there should be no discussion or agreements made with respect to product pricing or pricing strategies and no discussions or agreement should be made between competitors that would in any way reduce competition in any market or market segment. As for instance two competitors agreeing to restrict their marketing and sales activity to enable each of the competitors to gain greater market power in their market segments or in a particular geographical area.

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Agenda:

- Introduction
- State of Contract Manufacturing: Status & issues
- Managing and adapting
- How to prepare for recovery: what will manufacturing look like after COVID-19
- Open Forum Discussion
- Conclusions

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Sharing a Contract Manufacturing Perspective
on the Impact of COVID-19

Greg Torchiana

Topics

- Working the Supply Chain... Backwards
- Assessing Internal Capacity Constraints
- Assessing External Constraints
- Product Development
- Tips to Make CM's More Productive for Your Brand

Contract Mfg. Supply Chain



- Our “normal approach” is the standard PO to Delivery process, following the steps from left to right. Convert brand POs into finished good deliveries to their respective 3PL/warehouses.
- The “Covid-19 approach” requires us to assess the supply chain from the selling channel backwards

Selling Channels: Which Orders are Real?

Selling Channel	Current Shipping Rate Under CV-19	Orders Canceled	Orders Delayed
Direct to Consumer	125% *	0%	0%
Walmart, Target, Pharmacies	75%	0%	25%
Specialty Retail (Sephora, Ulta, Spas)	0%	25%	75%
Major Retail (Nordstrom, Macy's)	0%	75%	25%
QVC and HSN	75%	0%	25%
Export	0%	75%	25%
Net Result	60-65%	10-15%	20-25%
* All Retailers having "direct to consumer" web buying are merged into this "still viable" selling channel			

- With limited resources, the last thing a CM wants to do is convert a customer PO that can't be shipped or sold. Knowing which sales channels are viable, becomes a critical variable to help CM's determine where to apply their precious resources.

Internal Constraints: Employee Availability

- 25% of our Employees are now Work from Home:
 - Purchasing, Sales, Accounting, Customer Service, Planning & Scheduling
- The remaining 75% have new operating rules to limit close contact:
 - (1) Producing on every other Filling Line or Kettle
 - (2) Staggering arrival and departure times
 - (3) Staggering breaks and lunches
 - (4) Spreading out QC lab personnel with temporary benches in vacated offices
 - (5) Canceling 2nd shift to conduct more intensive cleaning & sanitizing
- Even with these changes, the availability of our operating team employees remains our capacity constraint today

Internal Constraints: Awareness of Cash Flow

- PO to Delivery: Majority of Products Range from 8 – 12+ Weeks of Lead Time
- 8-12 Weeks Ago, every Customer PO became Ingredient and Component Orders
- 4-5 weeks ago, the ingredients arrived. 2-3 weeks ago, components arrived
- Today, those ingredient invoices are due. Components invoices due soon.
- Unfortunately, Brands delaying/cancelling orders now does not reduce the CM responsibility to pay invoices that are due to their vendors

External Constraints: 3rd Party Vendors

CM's are focused on internal worksite and operating processes, but remain dependent on outside companies to sustain manufacturing beyond this first few weeks

- 3rd party labs used for micro and assay testing of bulk and finished goods
- Suppliers of ingredients and Components:
 - On Allocation: Alcohol, Ethanol, Carbopols
 - Selective Ingredients Delays: Imports from EU and Japan
 - Selective Ingredient Orders Stopped: Some Distributors in NJ-PA-NY-CT closed sites
 - Component Supply from China >> magnitude than ingredients

Product Development: The forgotten activity

- When this pandemic ends, we all want our new product pipelines to flow freely. Keeping PD active is critical to future success
- R&D and Regulatory Affairs are also impacted by employee availability
 - Sample submission, regulatory reviews, dossiers, pilot trials
- Many 3rd Party testing sites used for tests like PET compatibility, RIPT, Drug Stability, and Micro Challenge have closed

Tips to Make CM's More Productive

- Alter Expectations: Short staffing reduces responsiveness, increases stress
- Share what you know, as soon as you know it
- Prioritize Orders....and the R&D Projects
- Find Ways to Partner on the Cash Impacts: “We’re In it Together”
- Use any downtime to work on joint projects: PD and Supply Chain Process Improvements

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Wendy McEvoy
Co-President
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QUESTIONS? COMMENTS? CONCERNS?

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Thursday's Webinar: Planning and Adapting For Our Future