

WOMEN'S EMPOWERMENT PRINCIPLES

APRIL 2021

WEPs IN ACTION



PRINCIPLE 2

Treat all women and men fairly at work – respect and support human rights and nondiscrimination

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CASE STUDY: NATURA & CO CLOSING THE GENDER PAY GAP GLOBALLY

LESSONS LEARNED

- Experience at Natura &Co has demonstrated the importance of measurement and data analytics to evaluate and track progress. Having regular reviews enables actors to set and meet their targets.
- Regular public reporting and transparency on the gender pay gap helps companies advance their equal pay measures and encourages other companies to set ambitious targets.
- A successful equality culture is achieved by setting ambitious targets and working to ensure we train and educate all employees on issues involving equal pay and unconscious bias.

CONTEXT

Natura &Co is a global, purpose-driven, multichannel and multi-brand cosmetics group which includes Avon, Natura, The Body Shop and Aesop. Natura &Co posted net revenues of R\$ 36.9 billion (about US \$6.7 billion) in 2020, and also officially became the world's largest certified B Corporation.

The four companies that form the group are committed to generating a positive economic, social and environmental impact. For 130 years Avon has stood for women: providing innovative, high-quality beauty products which are primarily sold to women, through women.

Founded in 1969, Natura is a Brazilian multinational in the cosmetics and personal care segment, and a leader in direct sales. The Body Shop, founded in 1976 in Brighton, England, by Anita Roddick, is a global beauty brand that seeks to make a positive difference in the world. The Australian beauty brand Aesop was established in 1987 with the aim of creating a range of superlative products for skin, hair and body. The group employs 35,401 people, of which 22,400 are women, and it provides earning opportunities to a global network of 6 million women.

In June 2020, Natura &Co launched its 2030 Commitment to Life, focusing on:

- Protecting human rights
- Tackling the climate crisis and protecting the Amazon
- Encouraging circularity and regenerative solutions

In 2020, 48 per cent of the Group's leadership and 35 per cent of its board members were women. Natura &Co is fully committed to the principles of equal pay and fair recruitment. In particular, the group is committed to ensure equitable pay for all employees, regardless of gender, race, religion, sexual orientation, age disability or status as a parent.

ACTION

Among the group companies, Avon is, historically, the champion of the Women's Empowerment Principles. Nevertheless, Natura, The Body Shop and Aesop are also strong supporters of these principles and each has been working to enshrine them in its operations. In particular, the companies are working towards educating associates on the importance of diversity and inclusion in the workplace, as well as gender parity. Similarly, close attention is paid to ensure parity in recruitment, retention, sourcing and procurement processes.

At the end of 2020, Natura &Co took steps to explore and address equitable pay. The Group partnered with Mercer, a leading HR consulting firm, to conduct a comprehensive independent pay equity analysis, embracing all four businesses, including group function associates. It studied demographic data on 35,401 employees across 73 countries, focusing on areas including pay, role, grade, country, gender and race.

At group level, the study showed that the **raw pay gap**¹ between women and men's pay is 13 per cent. This means that, if we compare the average salary of all employees, women are paid 87 per cent of the amount paid to men. As a female-dominated beauty business it will therefore be more likely have a raw gap due to the high proportion of women employed in customer-facing roles. Nonetheless, it is at the low end of typically reported pay gaps.

To better understand the raw pay gap, this number was analyzed in more detail. Firstly, we removed the statistics for the 11,405 employees whose rates of pay cannot vary, for example those who have roles in stores or factories with a fixed hourly rate. The raw pay gap was then 15.3 per cent across associates whose rates of pay vary. This gap is predominantly driven by the large proportion of women who are in most of our customer-facing roles; however, these roles are important to us as they provide flexible opportunities for women.

Under its commitment to human rights, the Group aims to ensure that, by 2023:

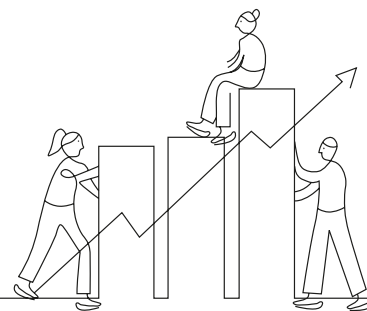
- 50 per cent of leadership and board roles are filled by women
- The gender pay gap is closed
- A living wage or above is provided for all employees

Then we examined the **explained pay gap**.² Natura &Co can account for a large percentage of the 'explained' factors in pay, which is the estimated difference due to legitimate and justifiable reasons such as seniority, role or function, location and other factors such as contract type.

The most significant reasons for the explained gap at Natura &Co are role and location. Some 5.9 per cent of the gap is accounted for by role – the level of the position in terms of an assigned grade and the type of role, job family and job title.

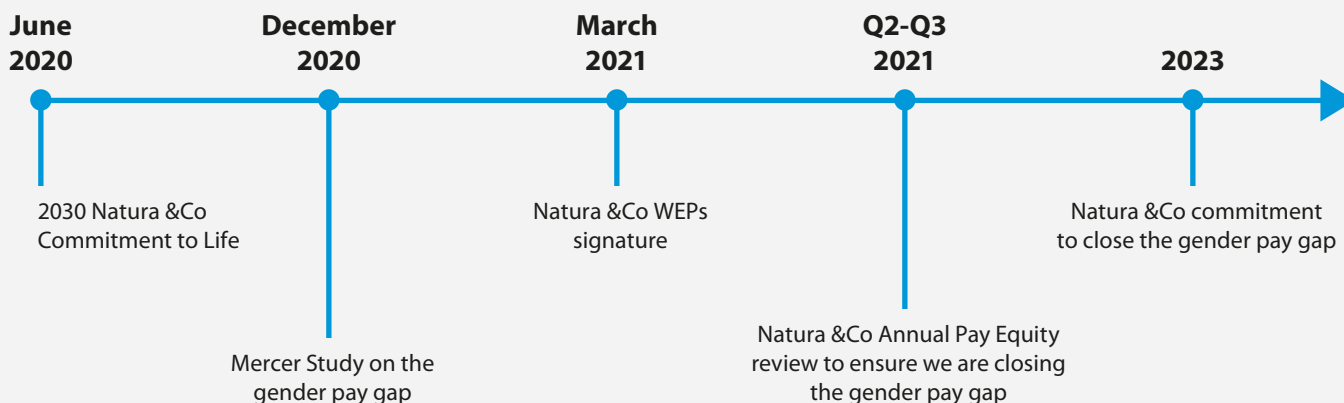
The nature of the business means a high proportion of roles are customer-facing, and more than 70 per cent of those are held by women. This is attributable to the explained role-based gap. Some 7 per cent of the explained gap is accounted for by geography – country, town or city – where rates differ. Consequently, the remainder represents the **unexplained pay gap**³ – 0.9 per cent.

This means Natura &Co is just 0.9 per cent away from what is considered to be pay equity for the same job, same location and same responsibility. While, typically, a gap below 1 per cent is often considered negligible, Natura &Co believes that any gap is unacceptable and is committed to closing the gap and achieving 100 per cent pay equity by the end of 2021 before the target date in 2023.



1. The raw pay gap is the difference between the average (the mean and median) of all women's pay and the average of all men's pay irrespective of role, location and experience.
2. The explained pay gap includes pay drivers that provide legitimate reasons for variations in pay such as countries, cities or towns having different rates of pay and cost of living, or certain functions or job families commanding a higher salary, or the fact that people with more experience tend to be paid more.
3. The unexplained pay gap reflects the residual pay gap that cannot be explained by legitimate factors and may be due to pay inequities by gender or race/ethnicity.

TIMELINE



CHALLENGES

Conducting a compensation review on a global scale was a particular challenge due to the size of the Group, its structure and number of markets. Natura &Co needed a solid partner, such as Mercer, to validate and provide quality assurance of the study to ensure best practice methodology was used.

Data analytics are crucial to measure the benefit and impact of diversity and inclusion policies. The lack of previous analysis represented an issue for measurement purposes but also for target identification. This study will enable Natura &Co to track and measure progress up to the completion of its equality targets.

The nature of the industry also represented a challenge. Knowing that the vast majority of our workforce are women, figures were expected

to reveal a considerable raw gap. However, by examining in detail the driving factors of the explained gap, the data shows a small unexplained gap.

Another important challenge was breaking down the raw pay gap while identifying the different drivers of the explained gap and understanding how they play in the different regions where the group operates. Further analysis was needed to complete the study and reveal final numbers.

In addition, communication around the raw gap also proved to be challenging. Transparency is key to Natura &Co; clear and detailed messages were crafted to present the results to all associates.

RESULTS

Although an unexplained pay gap of 0.9 per cent seems insignificant, for Natura &Co any gap is unacceptable. The group is committed to achieving 100 per cent gender pay equity globally, across all 73 countries by the end of 2021, well ahead of the original deadline. To that end, it will continue to monitor the unacceptable unexplained gap; conduct regular pay equity reviews; identify any unexplained gaps and examine bonus and incentive payments to understand any gender gaps.

In addition, Natura &Co is committed to:

- Supporting talent mobility and enabling women leaders to get exposure to both mature markets and developing markets
- Providing opportunities for women leaders to grow internally
- Ensuring all staff have exposure to developmental opportunities
- Recruiting experienced women leaders.

Finally, the Group will monitor for any bias in how it works and manages its people.

Across businesses Natura &Co has a strong supply of skilled, capable women, ambitious for themselves and ambitious for their businesses. The group is determined to fully utilize a talent pool overflowing with

educated, experienced women as well as to give every employee the opportunity to progress and to do the work that they want to do.

RECOMMENDATIONS

The WEPs are a key tool for any company planning action on gender equality. They help in sharing good practice on company-wide equal pay measures. They also help to monitor progress along the WEPs Journey towards full equality and should be supported by any business.

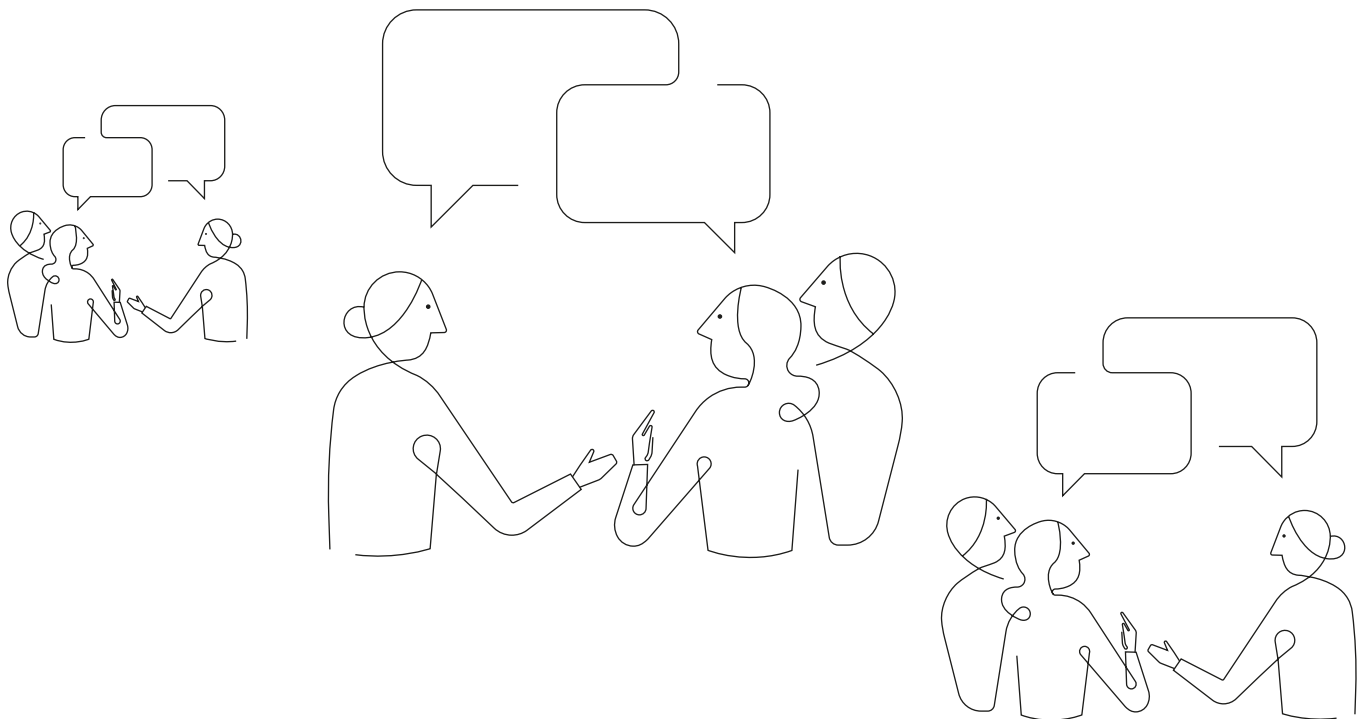
Commitment to the WEPs is a key internal and external step to trigger action. It will put an organization on a clear path towards gender equality and women's empowerment in the workplace, marketplace and community.








As a WEPs signatory, Natura &Co is eager to see other companies follow suit, particularly those among its immediate competitors in the wider consumer goods industry.


Natura &Co also calls on other companies to take bold commitments for diversity and inclusion. We should all aim to go beyond 50 per cent. Transparency should also be a key driver of progress; companies should be encouraged to disclose their data and share their journey towards equity.

THE ROLE OF WEPs


The WEPs are setting a level playing field to ensure equality in the workplace. Each company should adopt them as minimum standards but should also aim at going further to fully implement them while supporting and empowering women. Natura &Co supports women by providing earning opportunities and delivering beauty for the world.



- Principle 1  Establish high-level corporate leadership for gender equality.
- Principle 2  Treat all women and men fairly at work- respect and support human rights and nondiscrimination.
- Principle 3  Ensure the health, safety and well-being of all women and men workers.
- Principle 4  Promote education, training and professional development for women.
- Principle 5  Implement enterprise development, supply chain and marketing practices that empower women.
- Principle 6  Promote equality through community initiatives and advocacy.
- Principle 7  Measure and publicly report on progress to achieve gender equality.

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