The New Competitive Advantage: Creating Shared Value

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The Role of Business in Society

• Only business can **create prosperity**
• Healthy businesses need a **healthy community**
• There is an ever **growing awareness** of major societal challenges
• Government and NGO’s alone lack **sufficient resources and capabilities** to fully meet these challenges

**BUT**

• More of the public perceives business as prospering **at the expense** of
  the society
• Despite growing corporate citizenship activities, the **legitimacy of business** has fallen

• We need a **new model**
The Role of Business in Society
Evolving Approaches

- Philanthropy
  - Donations to worthy social causes
  - Volunteering

- Corporate Social Responsibility (CSR)
  - Compliance with community standards
  - Good corporate citizenship
  - “Sustainability”

- Creating Shared Value (CSV)
  - Integrating societal improvement into economic value creation itself
    - Driving social improvement with a business model
Moving to Shared Value in Pharmaceuticals

Novartis

CSR

- Donate drugs to lower-income populations
- Same products, but free or at a discounted price
- Reach patients through existing health systems
- Lower revenue at the same cost

CSV

- Implementing a new drug business model for low-income populations (Arogya Parivar)
- New quantity, packaging, patient education, and distribution
- Improvement in local healthcare delivery infrastructure
- Learning about non-traditional customer behavior and new business models
- Higher revenue and profitability
Societal Needs and Economic Value Creation

- **Social** deficits create **economic** cost
- “**Externalities**” shape **internal** company productivity
- Social needs represent the **largest market opportunities**
Levels of Shared Value

I: Reconceiving needs, products, and customers
   – Meeting societal needs through products
   – Addressing unserved or underserved customers in the industry

II: Redefining productivity in the value chain
   – Changing practices in the value chain to drive productivity through better utilizing resources, employees, and business partners

III: Enabling local cluster development
   – Improving the available skills, supplier base, and supporting institutions in the communities in which a company operates to boost productivity, innovation, and growth
Creating Shared Value in Products and Markets
Novo Nordisk in China

- **Product design** that reflects Chinese patient demographics and culture

- **Diabetes training programs for physicians** in partnership with government, NGOs, and opinion leaders to promote the latest thinking on diabetes prevention, screening, treatment, and patient communication
  - The program has trained **55,000 physicians** to date, each treating approximately 230 patients

- New types of **diabetes education programs for patients** focusing on prevention, lifestyle changes, and effective use of insulin products

- Novo’s market share in China increased from **0% to 63%**, and China became the company’s third largest market with revenues of $935 million in 2011
Creating Shared Value in Products and Markets

- Redefine the business around **unsolved customer problems or concerns**, not traditional product definitions
- Identify customer groups that have been **poorly served** or **overlooked** by the industry’s products
- Think in terms of **improving lives**, not just meeting customer needs
- Start with **no preconceived constraints** about product attributes, channel configuration, or the economic model of the business (e.g., small loans are unprofitable)

- Opens up **new opportunities** for customer segmentation, marketing, innovation, and growth
- Businesses have the potential to be more effective than governments and NGOs in **creating** and **marketing** solutions to community problems
Redefining Productivity in the Value Chain

- Shared value purchasing
- Energy and resource efficiency
- Minimizing logistical content

• Strengthening local distribution channels
• Improving employee health and safety
• Enhancing the productivity of lower income employees and improving their wages
Improving the Business Environment in the Company’s Major Locations

• Companies, working individually and collaboratively, can catalyze major improvements in the local business environment

• Building a strong local cluster improves company productivity and growth
  – E.g., Supporting institutions and infrastructure
  – Related businesses

• Local cluster development strengthens the link between a company’s success and community success
Creating Shared Value: Deciding Where to Concentrate

Nestlé

- Opportunities to create shared value are **inevitably tied closely** to a company’s particular businesses
Adding a Social Dimension to Strategy

• Shared value opens up new needs, new markets, new value chain configurations, and new ways of thinking about the business

• This creates new opportunities for strategic positioning and new competitive advantages

• Companies should incorporate a social dimension in their value proposition

• Adding social dimensions makes strategy more sustainable vs. competitors than conventional cost and quality advantages
Shared Value and Strategy  
**Whole Foods Markets**

**Value Proposition**
- Natural, fresh, organic, and prepared foods and health items with excellent service at premium prices
- Cater to specialized nutritional requirements (gluten allergies, vegan, etc.)
- Educated, middle class, and affluent customers who are passionate about food and a healthy lifestyle

**Distinctive Activities**
- Well-lit, inviting supermarket store formats with appealing displays and extensive prepared foods sections
- Produce section as “theater”
- Café-style seating areas with wireless internet for meals and meetings
- Each store carries local produce and has the authority to contract with the local farmers. Company provides low-interest loans if needed
- Nutrition information and education provided to shoppers along with products
- High touch in-store customer service via knowledgeable, flexible, and highly motivated personnel
- Flat compensation structure
- Own seafood procurement and processing facilities to control quality, sustainability and price from the boat to the counter
- Heavy emphasis on environmental sustainability in all activities
- Emphasis on supporting community development

- Whole Foods is the most **economically successful** food retailer in North America
- Successful strategies in the future will embody a significant **shared value dimension**
### Purpose Based Strategic Positioning

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<thead>
<tr>
<th>Traditional Positioning</th>
<th>New Positioning</th>
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<tbody>
<tr>
<td><strong>Nestlé</strong></td>
<td>• Food</td>
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<td></td>
<td>• Nutrition</td>
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<td><strong>Nike</strong></td>
<td>• Shoes</td>
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<td>• Health and Wellness</td>
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<td><strong>Thermo Fisher</strong></td>
<td>• Leader in Serving Science</td>
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<td>• Making the World Healthier, Cleaner, and Safer</td>
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- A **broader sense of purpose** not only opens up **new opportunities** for growth and profitability, but also **motivates** and **attracts** employees, consumers, business partners, shareholders, and the public
The Purpose of Business

• Our purpose in business is to create shared value for society, not economic value for its own sake

• Businesses acting as businesses, not as charitable givers, are arguably the most powerful force for addressing many of the pressing issues facing our society

• Shared value will give rise to far broader opportunities for economic value creation

• Shared value thinking will drive the next wave of innovation, productivity, and economic growth

• A transformation of business practice around shared value will give purpose to the corporation and represents our best chance to legitimize business again