Shared Value and Strategy

Professor Michael E. Porter
Harvard Business School

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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” initiatives
- Mitigating risk and harm
- Improving trust and reputation

**Creating Shared Value (CSV)**
- Addressing societal needs and challenges with a **business model**
  - And making a profit

How do we connect shared value to company strategy?
Thinking Strategically

The worst error in strategy is to compete with rivals on the same dimensions.
What Do We Mean by a Strategy?

• Strategy is different than **aspirations**
  – “Our strategy is to be #1 or #2…”
  – “Our strategy is to grow…”

• Strategy is more than **particular actions**
  – “Our strategy is to merge…”
  – “… internationalize…”

• Strategy goes well beyond **mission / values**
  – “Our strategy is to serve our customers and communities while meeting the highest standards of integrity…”

• Strategy is the set of choices that define a company’s **distinctive approach** to competing, and the **competitive advantages** on which it will be based
Levels of Strategy

Corporate Strategy

• Strategy for the **company overall**
  - What **portfolio of businesses** to compete in
  - Capturing **synergies** across business units

Business Strategy

• How to compete in each **distinct business**
Achieving Superior Profitability

- Differentiation (Premium Price)
  - Competitive Advantage
    - Lower Cost
      - Operating Cost
      - Utilization of Capital
The value chain is the **activities** involved in delivering value to customers.

*Strategy* is reflected in the **set of choices** about how activities are configured and linked together.
Operational Effectiveness Versus Strategic Positioning

**Operational Effectiveness**

- Assimilating and extending **best practices**

  Getting to the **productivity frontier**

**Strategic Positioning**

- Creating a **unique** competitive position

  Doing things **differently** to deliver distinctive value to customers
Tests of a Successful Strategy

- A unique value proposition compared to competitors
Defining the Value Proposition

- What Customers?
  - What end users?
  - What channels?

- Which Needs?
  - Which products?
  - Which features?
  - Which services?

What Relative Price?
- Premium? Parity? Discount?

- A novel value proposition often expands the market
- Finding a unique value proposition often involves identifying new needs or a new way of segmenting
Tests of a Successful Strategy

- A *unique value proposition* compared to competitors

- A *distinctive value chain*, involving clear choices about how the company will *operate differently* to deliver on its value proposition
Strategic Positioning
IKEA, Sweden

Value Proposition

- Customers with smaller living spaces, **style** and **design conscious**, limited budget
- A wide line of **stylish, functional** and **good quality** furniture and accessories, but limited ancillary services
- **Very low** price points

Distinctive Activities

- Wide range of styles which are **all displayed** in huge warehouse stores with **large on-site inventories**
- **Modular**, ready-to-assemble, easy to ship furniture designs
- **In-house** design of all products
- IKEA designer names attached to related products to inform **coordinated** purchases
- **Self-selection** by the customer, with minimal in-store service
- **Extensive customer information** in the form of catalogs, mobile app, website, explanatory ticketing, do-it-yourself videos, online planning tools, and assembly instructions
- **Self-delivery** by most customers
- Suburban and urban locations **with large parking lots**
- **Long** hours of operation
- **On-site**, low-cost restaurants
- **Child care** provided in the store
Tests of a Successful Strategy

- A unique value proposition compared to competitors
- A distinctive value chain, involving clear choices about how the company will operate differently to deliver on its value proposition
- Making clear tradeoffs, and choosing what not to do
## Making Strategic Tradeoffs

### IKEA, Sweden

<table>
<thead>
<tr>
<th>Product</th>
<th>Typical Furniture Retailer</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Low-priced, modular, ready-to-assemble designs</td>
<td>• Higher priced, fully assembled products</td>
</tr>
<tr>
<td>• No custom options</td>
<td>• Customization of fabrics, colors, finishes, and sizes</td>
</tr>
<tr>
<td>• Furniture design driven by style, compactness, manufacturing cost and assembly simplicity</td>
<td>• Design driven by image, materials, varieties</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Value Chain</th>
<th>Value Chain</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Centralized, in-house design of all products</td>
<td>• Source some or all lines from outside suppliers</td>
</tr>
<tr>
<td>• All styles on display in huge warehouse stores</td>
<td>• Medium sized showrooms with limited portion of available models on display</td>
</tr>
<tr>
<td>• Large on-site inventories</td>
<td>• Limited inventories / order with lead time</td>
</tr>
<tr>
<td>• Limited sales help, but extensive customer information</td>
<td>• Extensive sales assistance</td>
</tr>
<tr>
<td>• Long hours of operation</td>
<td>• Traditional retail hours</td>
</tr>
<tr>
<td>• No delivery included</td>
<td>• Delivery part of product</td>
</tr>
</tbody>
</table>

- Tradeoffs create the need for **choice**
- Tradeoffs make a strategy **sustainable** against imitation by established rivals
Tests of a Successful Strategy

- A **unique value proposition** compared to competitors
- A **distinctive value chain**, involving clear choices about how the company will **operate differently** to deliver on its value proposition
- Making clear **tradeoffs**, and choosing what **not** to do
- Integrating choices across the value chain so that activities **fit together** and **reinforce each other**
- **Continuity** of strategic direction, with continuous improvement in realizing the unique value proposition

- The essence of strategy is making **choices**
Adding a Social Dimension to Strategy

• Shared value opens up new **customer needs**, new available **markets**, new **value chain choices**, new ways to address **external constraints**

• Shared value leads to **new ways of thinking** about the business

• This creates new **value propositions**, new opportunities for **strategic positioning**, and new potential sources of **competitive advantage**

• Incorporating **social dimensions** into the value proposition enables differentiation and/or reducing cost

• These social dimensions often make a strategy **more sustainable** versus conventional cost and quality advantages
Shared Value and Strategy

**Discovery Health**

- Discovery’s **health plans** are paired with the **Vitality Wellness Program**, which rewards healthy behavior through incentives such as discounted health club memberships and discounts on healthy food purchases.

- Clinical studies show that Vitality members are **healthier, live longer** and have **lower healthcare costs**.

- Discovery’s unique value proposition is based on shared value, through **health for its subscribers** at low cost.

  - Vitality is now the **world’s largest wellness program** of its kind, with 3.3 million members globally.

  - Discovery is one of the world’s **fastest growing** and most **profitable** health insurance companies.
Redefining the Value Proposition
CVS Caremark

• Drugstore retailer CVS has redefined its value proposition around shared value
• Pharmacists and nurse practitioners now have an expanded role of working closely with patients, clients and health care providers to improve health outcomes
• CVS operates a large network of in-store clinics as a convenient alternative to traditional doctor’s offices
• CVS became first pharmacy to stop selling all tobacco products, forgoing $2 billion in annual revenue, and launching a national smoking cessation program

New Vision
We strive to improve the quality of human life

New Mission
Helping people on their path to better health
Levels of Strategy

Corporate Strategy

- Strategy for the **company overall**
  - What **portfolio of businesses** to compete in
  - Capturing **synergies** across business units

Business Strategy

- How to compete in each **distinct business**
Defining Opportunities for Shared Value in the Corporate Portfolio

Nestlé

• Opportunities to create shared value are inevitably tied closely to a company’s particular set of businesses
Leveraging Shared Value across Businesses

Discovery

- Discovery Health (1992)
- Discovery Insure (2011)
- Discovery Invest (2007)
- Discovery Life (2001)
- Discovery Card (2004)

Vitality Wellness Program (2001)
Redefining the Corporate Portfolio
Danone

• In the late 1990’s, Danone realized that it had drifted away from its origins as a manufacturer of healthy foods

• The company sold off its beer, meat and cheese business units

• Refocused on dairy and water

• Acquired new businesses in medical nutrition and baby foods

• Created Innovation Committees in each business unit to provide “healthy food for as many people as possible”

New Vision
The ‘dual economic and social’ project, creating economic value by creating social value

New Mission
Bringing health through food to as many people as possible by refocusing on four complementary business lines and expanding into fast-growing new regions
Investors and Shared Value

- Investors have been increasingly seen as a negative force in social progress by focusing narrowly on short term profit maximization.

- Investors are being challenged to incorporate societal issues into investment behavior.

- There is a growing appetite for investment vehicles focusing on businesses that contribute to addressing social issues.

- The question is how?
Investors and Society

Starting Point
- Economic Purists
  • Social factors are irrelevant to security analysis
  • Taking social factors into account is inconsistent with fiduciary responsibility and will sacrifice financial returns

CSR Investing
- Ethical Investing
  • Negative screens that exclude “bad” industries or companies
  • Unrelated to company financial performance
- Sustainability Investing
  • Rank companies on comprehensive sets of ESG criteria
  • Many ESG factors are not material to the company’s social or economic performance

Shared Value Investing
- Impact Investing
  • Invest in profit making businesses with a core social purpose
  • Mostly private equity
  • Limited number of “pure play” companies
- Shared Value Investing
  • Identifying companies that are improving economic value through addressing social problems and opportunities
  • All companies can create shared value
  • Shared value focuses on opportunities that are material to economic performance
  • A natural extension of traditional investment analysis
The Purpose of Investing

• The fundamental purpose of investing is to **allocate capital** to companies who can earn an **attractive return**
  - Investors create societal value by **selecting** companies that will use capital well, **monitoring** their performance, and **intervening** to improve that performance

• Investing in companies that **create shared value** multiplies the social impact of capital allocation

• Shared value investing will drive **faster adoption** of shared value strategies across every industry