

The New Competitive Advantage: Creating Shared Value

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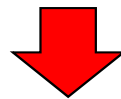
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The Role of Business in Society

- 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 **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

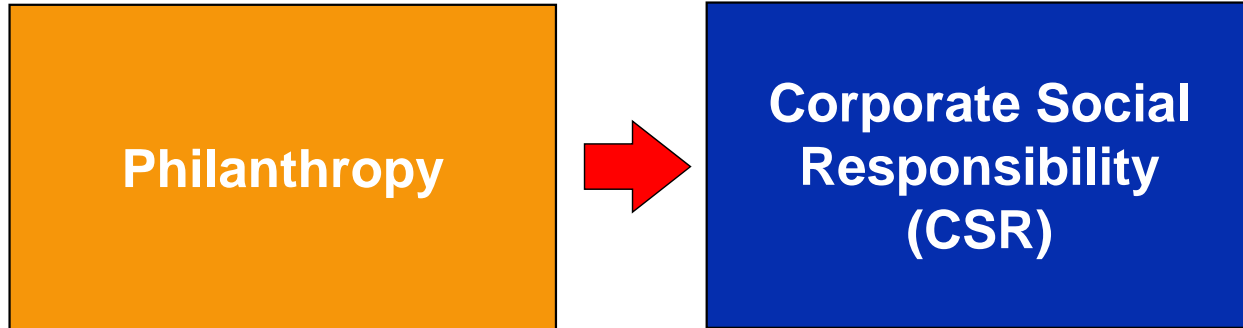
Evolving Approaches

Philanthropy

- Donations to worthy social causes
- Volunteering

The Role of Business in Society

Evolving Approaches



- Donations to worthy social causes
- Volunteering

- Compliance with community standards
- Good corporate citizenship
- “Sustainability”

The Role of Business in Society

Evolving Approaches



The Concept of Shared Value

What Shared Value IS

- Using **capitalism** to address social problems
- Addressing social problems tied **directly** to the business
- Creating solutions that are **scalable** and **self-sustaining**

What Shared Value is NOT

- Sharing the value **already created** (philanthropy)
- Acting based on strong **personal values** and **ethical standards**
- **Balancing** stakeholder interests
- Avoiding **harm** and protecting **reputation**

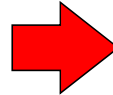
Moving to Shared Value

Fair Trade



Fair Trade

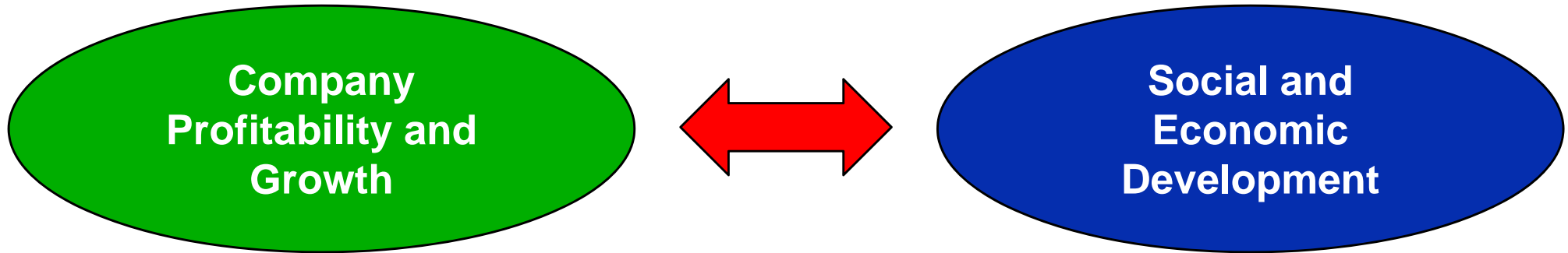
- Paying a **higher price** to farmers for the same products
- **Certification** as a fair trade company



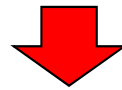
Transforming Procurement

- Collaborate with farmers to **improve quality and yield**
- Supporting investments in **technology** and **inputs**
- Higher prices for **better quality**
- Higher yield increases **quantity** produced

Business and Society: Why the Disconnect?

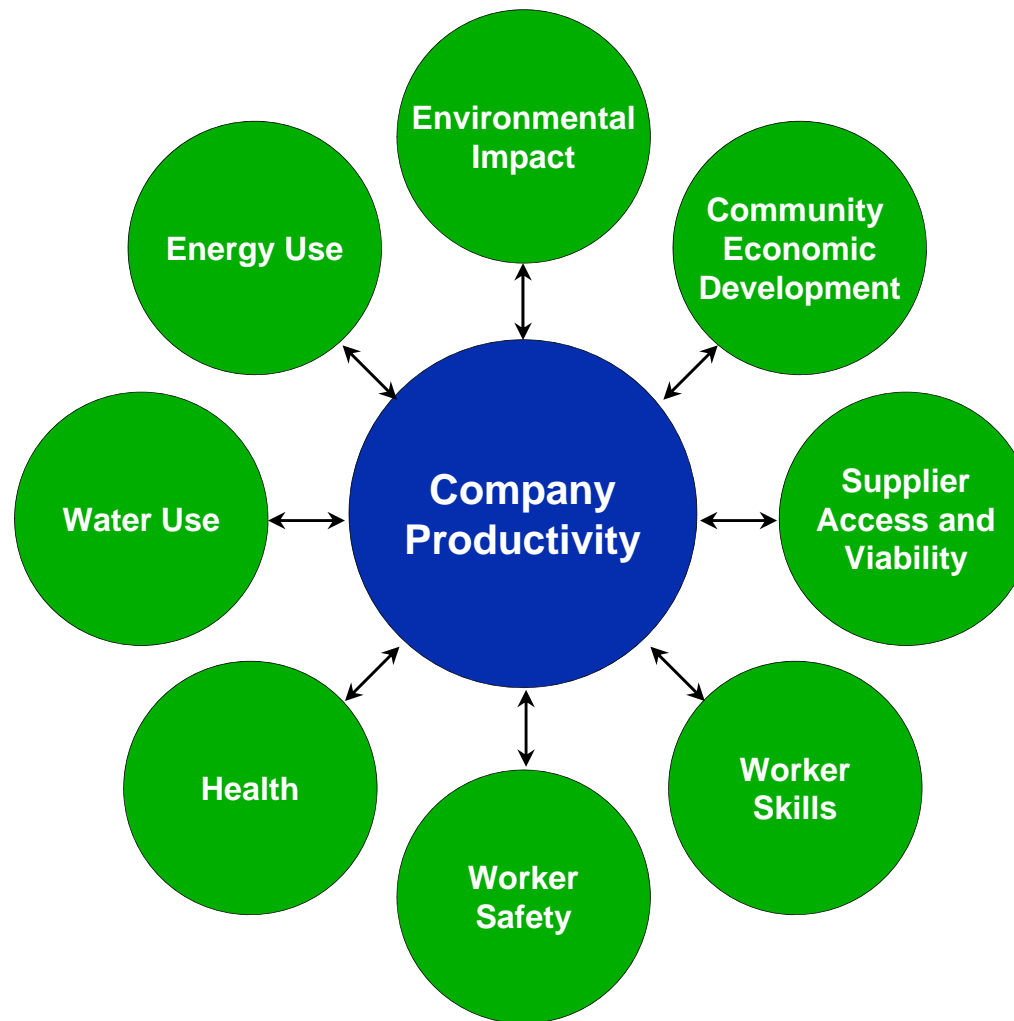


- Many companies (and investors) adopted a **narrow model** of economic value creation
 - Meeting **conventional** needs of **conventional** customers
 - Optimizing within **narrow company boundaries**
 - Profit improvement through **outsourcing** and **globalizing**
 - Driving revenue through **acquisitions** instead of new business creation
 - Societal issues are treated as **outside the scope of the business**



- Huge **societal needs** go unmet
- **Growth** and **innovation** suffer

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 your industry

II: **Redefining productivity** in the value chain

- Change practices in the value chain to drive productivity by **better utilizing resources, employees, and business partners**

III: Enabling **local cluster development**

- Improving the **available skills, suppliers 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

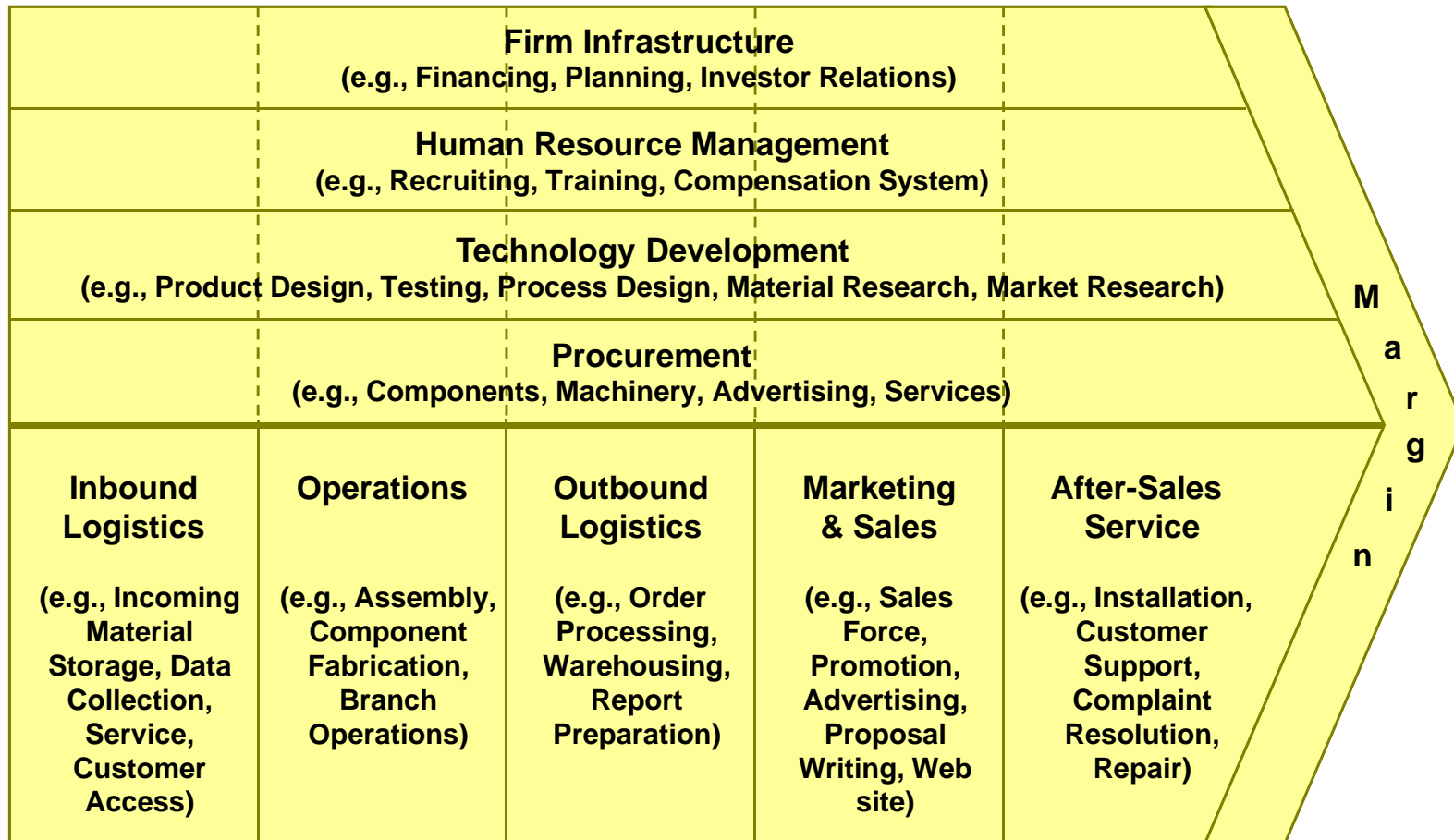
Creating Shared Value in Products and Markets

- 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
- Location of facilities
- Minimizing logistical content
- Strengthening local distribution channels
- Enhancing the productivity of lower income employees and improving their wages
- Improving employee health and safety

Identifying Opportunities for Shared Value in the Value Chain

Mining



- Enhancing skill training and technology partnerships with local colleges and universities

- Value added purchasing practices with suppliers
- Local supplier development

- Recruiting from disadvantaged surrounding communities
- Diversity in the workforce
- Employee education and job training
- Onsite housing
- Employee health initiatives
- Compensation and benefit models to support a living wage
- Staff retraining and rehabilitation after mine closures

- Energy and water use
- Limiting emissions and waste
- Low ecological and biodiversity impacts
- Minimizing use and effects of hazardous materials
- Recovering additional materials from “exhausted” mines
- Worker safety practices

- Minimizing logistical and handling impacts

Improving the Business Environment in the Company's Major Locations

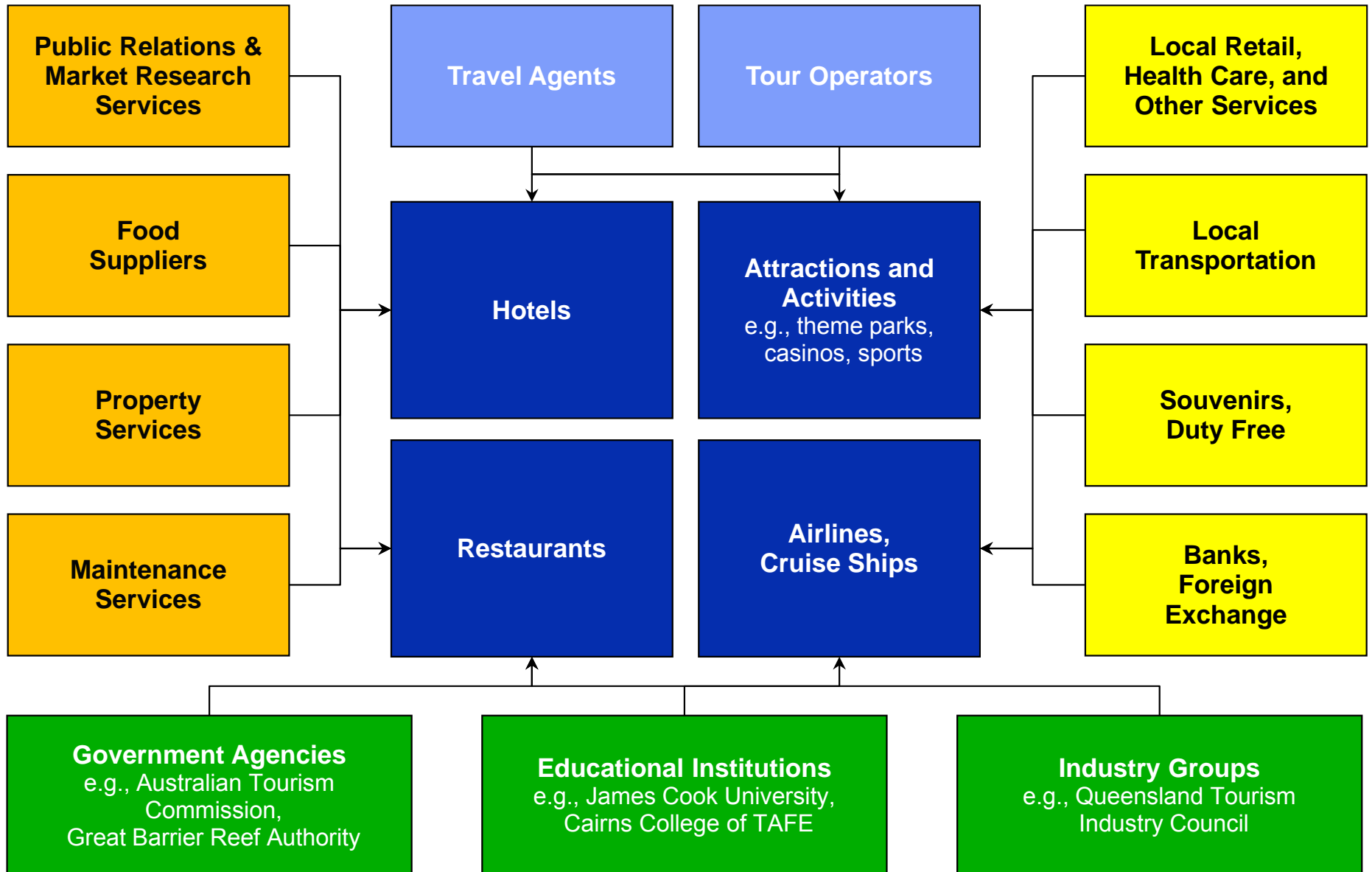
- Companies, working individually and collaboratively, can catalyze major improvements in the **local business environment**
- Building a **strong local cluster** improves company productivity and growth
 - Local suppliers and service providers
 - Supporting institutions and infrastructure
 - Related businesses



- Local cluster development **strengthens the link** between a company's success and community success

What is a Cluster?

Tourism Cluster in Cairns, Australia



Local Cluster Development

Anglo-American

- Anglo American has established Anglo Zimele, a South African enterprise investment fund, for **mining-related small and medium-sized businesses** in South Africa
- As of 2010, the fund had invested in **509 businesses**, which collectively employed 9,514 people with annual revenues of \$215 million

Economic value

- Anglo-American has created reliable, high-quality **local suppliers**
- Local suppliers reduce costs and can improve **service levels** and **product tailoring**

Community value

- **10,000 new jobs** created
- Significant increase in **income** for SME employees and owners
- **Spillover effects** of these new businesses on their communities

Coca-Cola Brazil's Coletivo Program

- Coca Cola Brazil has established **Coca-Cola Coletivo**, a program designed to **increase the employability** of low income youth in Brazilian Favelas
- Through partnerships with local NGOs, Coca-Cola Brazil's Coletivo initiative trains local youth for eight weeks in **retailing, business development, and entrepreneurship**
- Coca-Cola Coletivo also **pairs youth with a local retailer** to get their first job experience, which, in turn, enables retailers to improve their operations with trainee assistance

Economic value

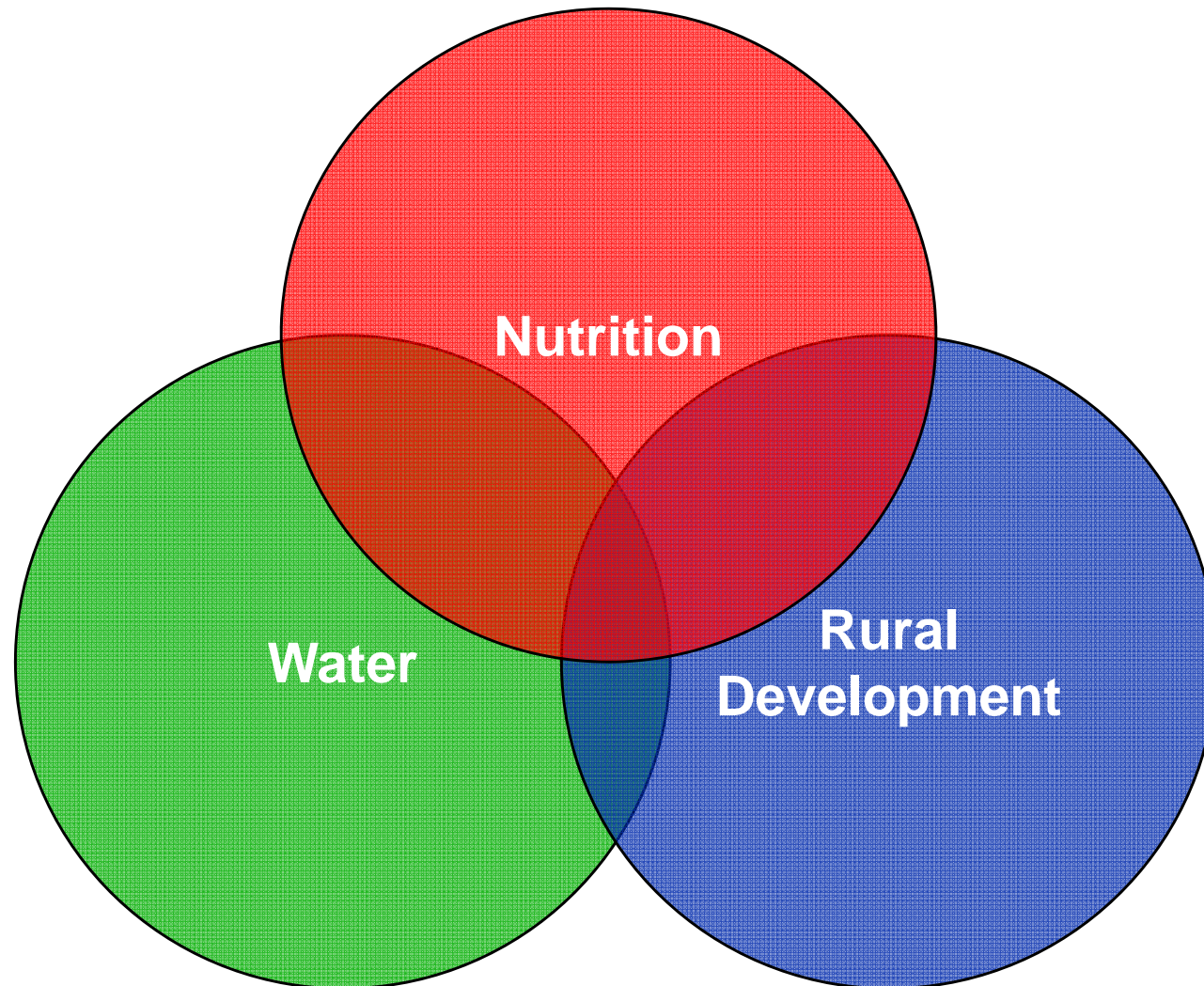
- Through improved retailer operations, Coca-Cola Brazil **increased sales of its products**
- The program also **increased Coca-Cola's market penetration** among the emerging lower-middle income segment

Community value

- Coca-Cola Coletivo graduates gain employment that **raises household income** by 50% on average
- The program operates **160 Coletivos**, training **65,000 youth** per year

Creating Shared Value: Deciding Where to Concentrate

Nestlé



- Opportunities to create shared value are **inevitably tied closely** to a company's particular businesses

Creating Shared Value in Banking

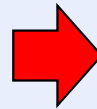
- Reconceiving customer **needs**, **products**, and **markets**
 - Serve **unbanked** and **under-banked** consumers
 - **SME** lending and business services
 - **Real estate** lending with community multipliers
 - Financing affordable housing
 - Other financial instruments that advance environmental and social progress (e.g., Social Impact Bonds)
- **Redefining productivity** in the value chain
 - Local / value-added procurement
 - Hiring and training
 - Energy and resource efficiency
- Enabling **local cluster development**
 - Financial literacy education
 - Leveraging facility locations as anchors
 - Skills development programs with universities and community colleges
 - Leadership in regional competitiveness improvement

New Stakeholder Roles and Relationships

- Shared value thinking is driving **new relationships** between companies, philanthropists, NGOs, and government in addressing social issues

Traditional Roles

- Philanthropists** • Donate to charitable causes
- NGOs** • Receive grants to provide social services
- Governments** • Tax business and regulate business practices; operate social programs
- Companies** • Donate to charitable causes or operate ESG programs



New Roles

- Partner with companies and NGOs to catalyze shared value initiatives
- Enable implementation of new shared value business models
- Partner with companies and NGOs to make platform investments and support shared value strategies
- Partner with NGOs and government to initiate and scale shared value strategies

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

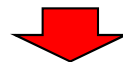
Whole Foods Markets

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

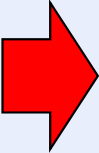
Distinctive Activities

- 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

	<u>Traditional Positioning</u>		<u>New Positioning</u>
Nestlé	• Food		• Nutrition
Nike	• Shoes		• Health and Wellness
Thermo Fisher	• Leader in Serving Science		• Making the World Healthier, Cleaner, and Safer

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