

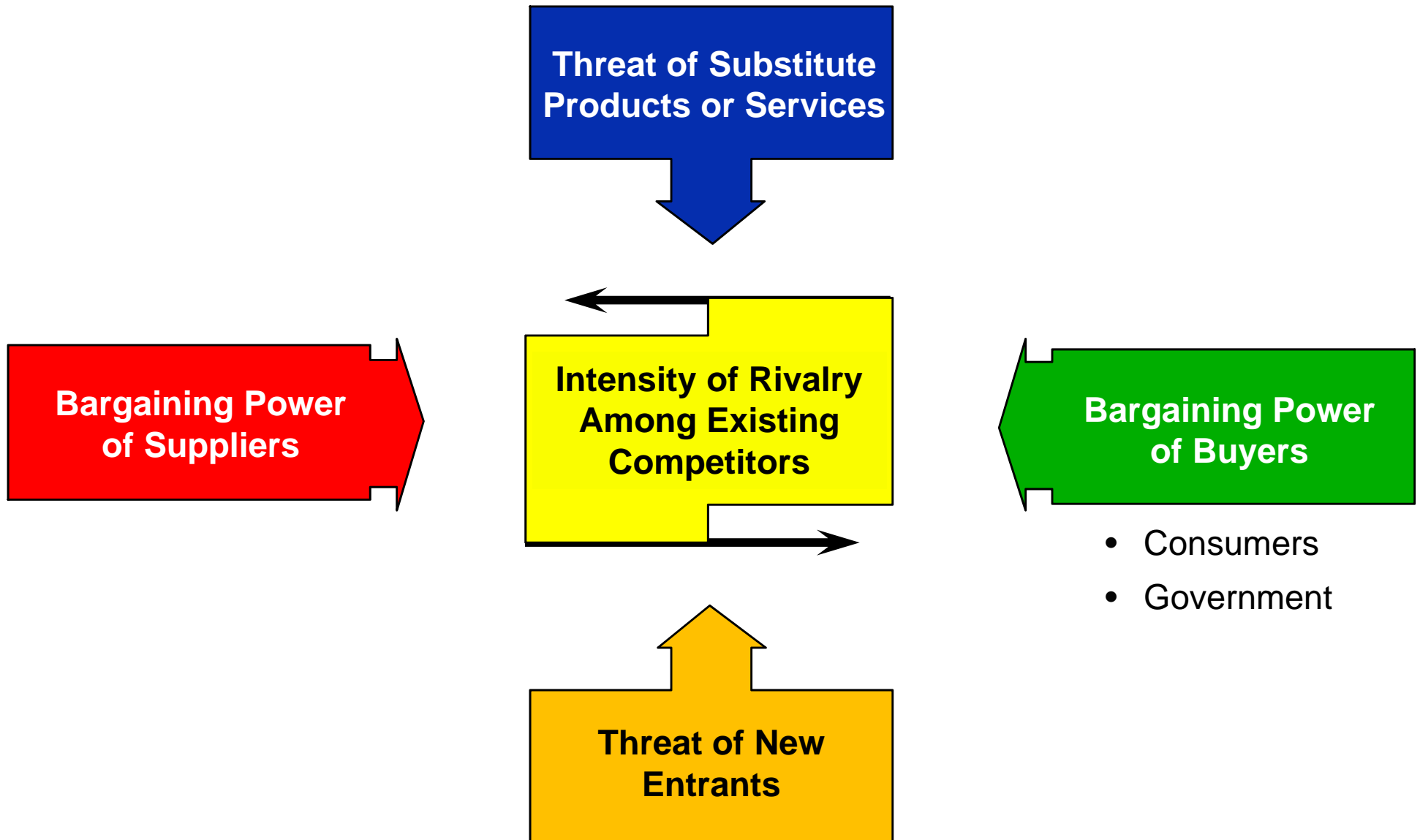
Strategic Positioning in a Challenging World: Creating Shared Value

Professor Michael E. Porter
Harvard Business School

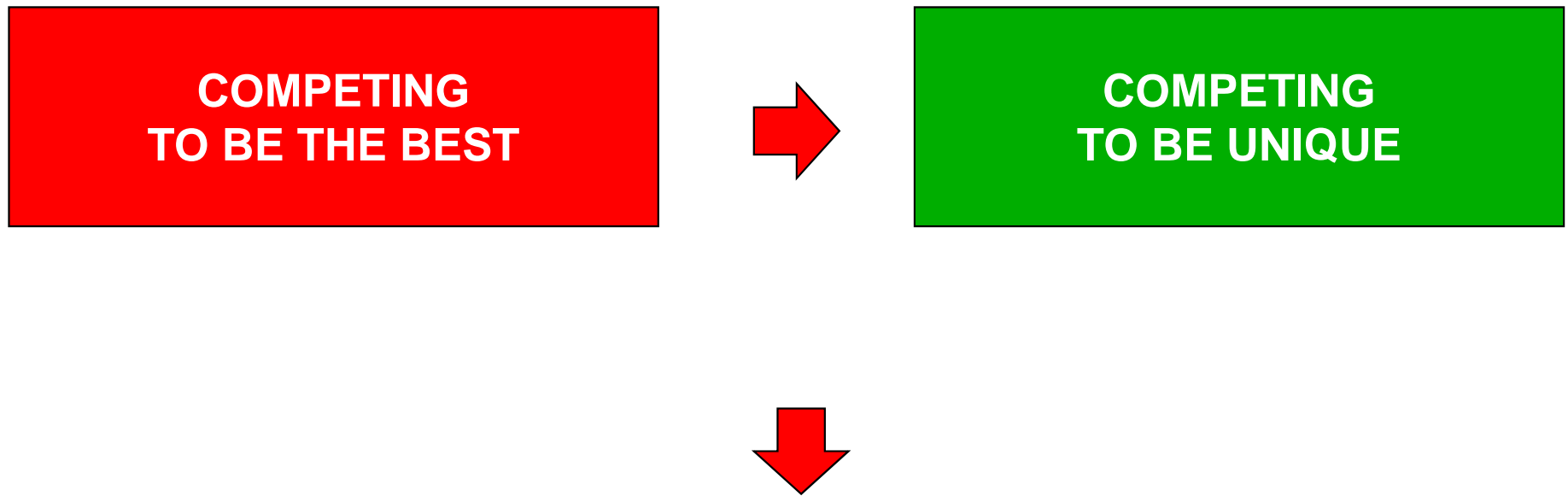
*World Lottery Summit
Montreal, Canada
September 10, 2012*

This presentation draws on ideas from Professor Porter's books and articles, in particular, *Competitive Strategy* (The Free Press, 1980); *Competitive Advantage* (The Free Press, 1985); "What is Strategy?" (*Harvard Business Review*, Nov/Dec 1996); and *On Competition* (*Harvard Business Review*, 2008). No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Michael E. Porter. Additional information may be found at the website of the Institute for Strategy and Competitiveness, www.isc.hbs.edu.

Drivers of Industry Competition



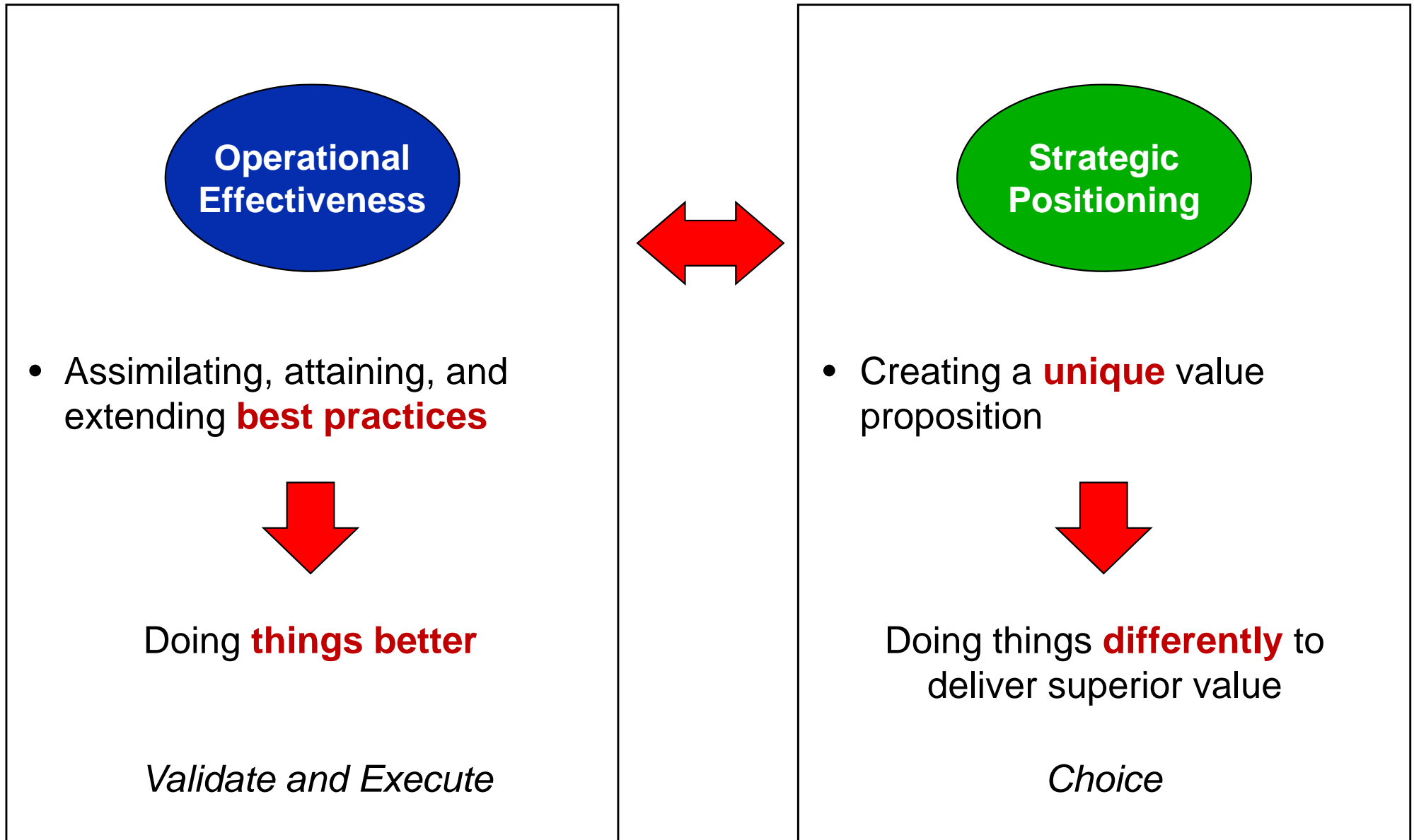
Thinking Strategically



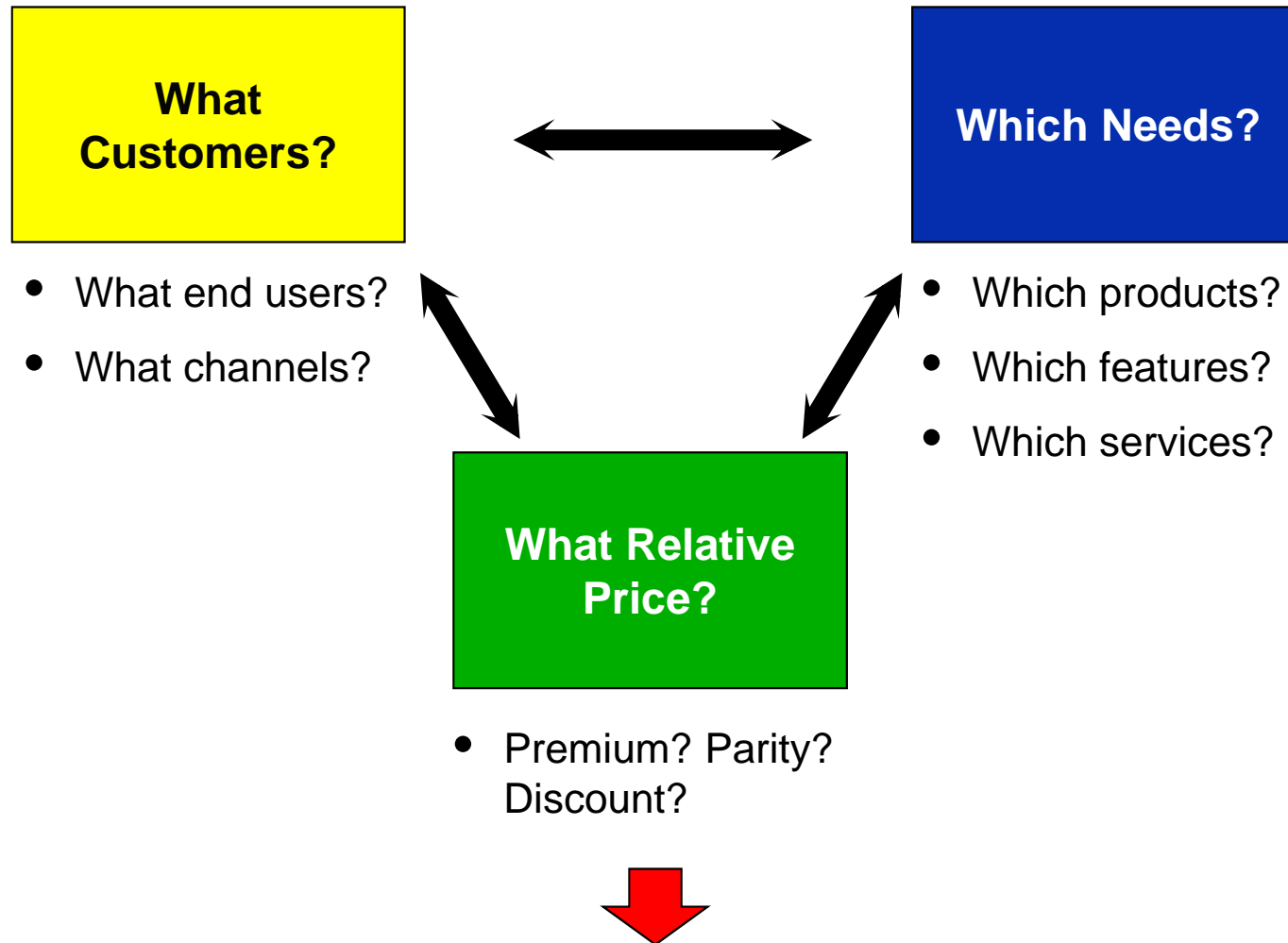
The worst error in strategy is to compete with rivals on the **same dimensions**

Achieving Superior Performance

Operational Effectiveness Is Not Strategy



Defining the Value Proposition



- A novel value proposition often **expands the market**

Strategic Positioning

IKEA, Sweden

Value Proposition

- Young, first time, or price-sensitive buyers with design sophistication
- Stylish, space efficient and compatible furniture lines and accessories at very low price points

Distinctive Activities

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

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

The Role of a Company in Its Communities

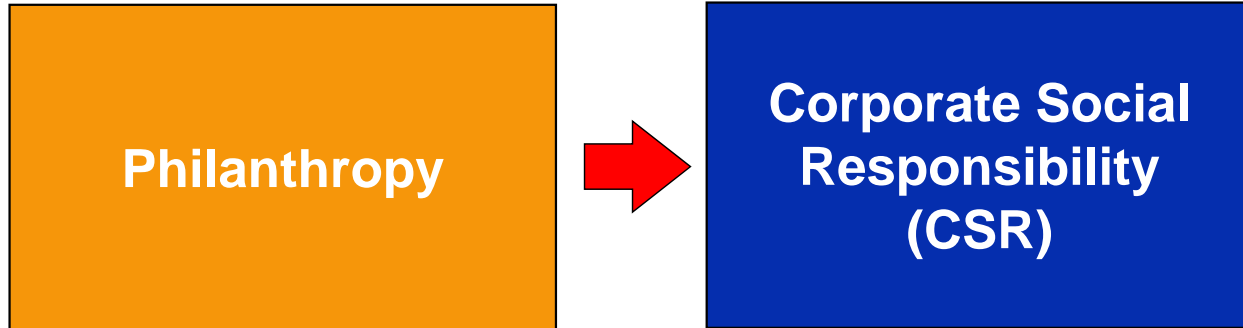
Evolving Approaches

Philanthropy

- Donations to worthy social causes
- Volunteering

The Role of a Company in Its Communities

Evolving Approaches



- Donations to worthy social causes
- Volunteering

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

The Role of a Company in Its Communities

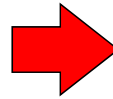
Evolving Approaches



Moving to Shared Value

Novartis

CSR



CSV

- **Donate drugs** to lower-income populations
- **Same products**, but free or at a discounted price
- Reach patients through **existing** health systems



- **Reduced revenue** at the same cost

- Implementing a new drug distribution 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



- **Expanded revenue** and **profitable** business model

Levels of Shared Value

I: Reconceiving **products, needs,** and **customers**

- Meeting **societal needs** and reaching **unserved** or **underserved customers**

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

- How the organization **better uses resources** across the value chain, including employees, to improve fundamental productivity

III: Enabling **local cluster development**

- Improving available **skills, suppliers,** and **supporting institutions** in the region

Reconceiving Products and Markets

- Design products and services to **address societal needs**
 - E.g., environmental impact, safety, health, education, nutrition, living with disability, housing, financial security
- Open **new markets** by serving unmet needs in underserved communities
 - Often requires **redesigned products** or different **distribution methods**
- Businesses have the potential to be more effective than governments and NGOs in **creating** and **marketing** solutions to community problems



- New needs and new markets open up opportunities to **differentiate, innovate,** and **grow**
- A new generation of **social entrepreneurs** is capturing these opportunities, often faster than mainstream businesses

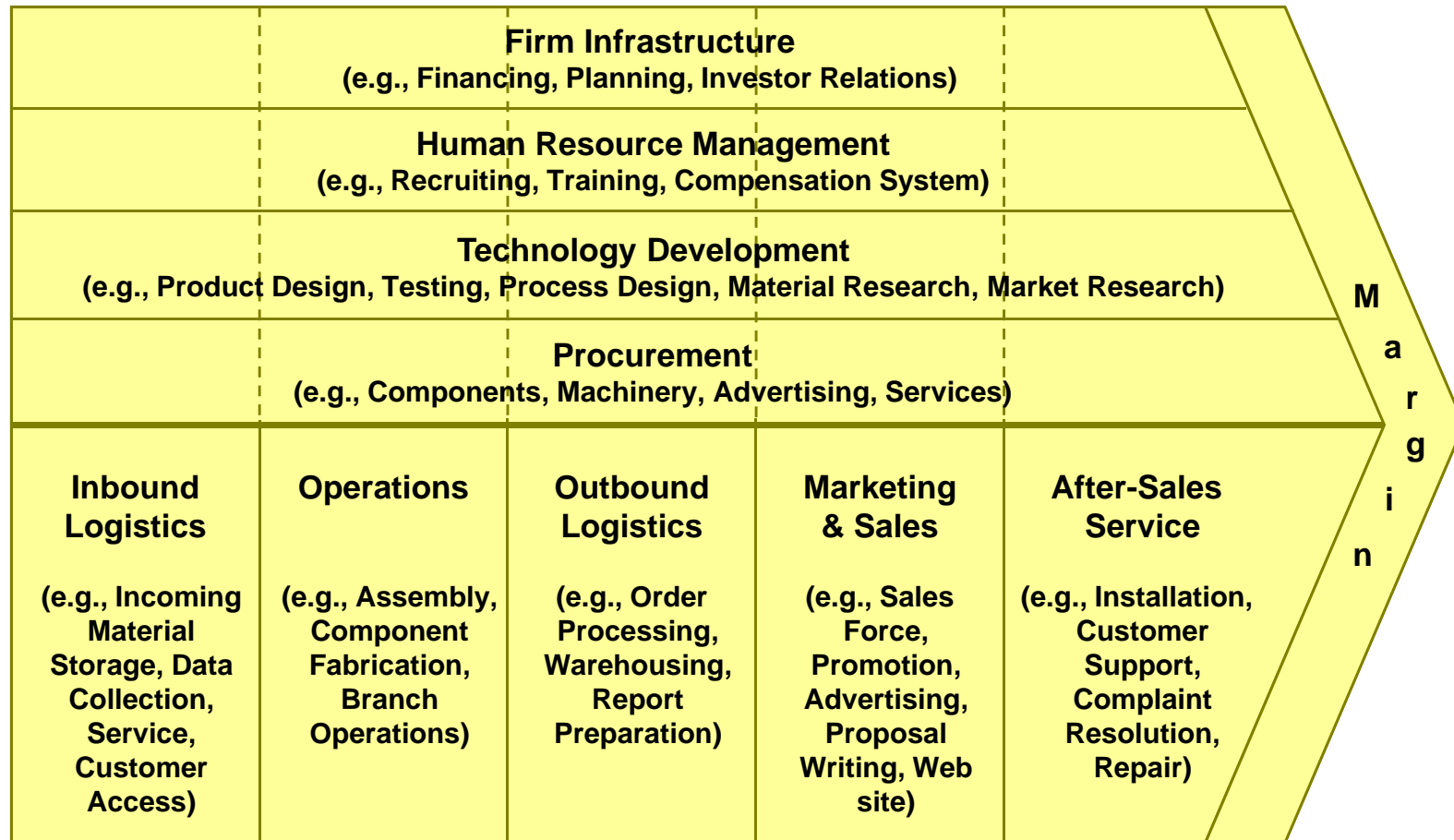
Creating Shared Value in Products

Intuit SnapTax

SnapTax provides low-income consumers with access to tax preparation services over the phone and enables rapid refunds

- **15 minutes for \$15**, electronic filing included
- Data extracted from **mobile phone photos** of W-2s via optical character recognition
- **Debit card** option for direct deposit of refunds for unbanked households
- **Simple IRA option** to enable use of refund for retirement savings

Redefining Productivity in the Value Chain



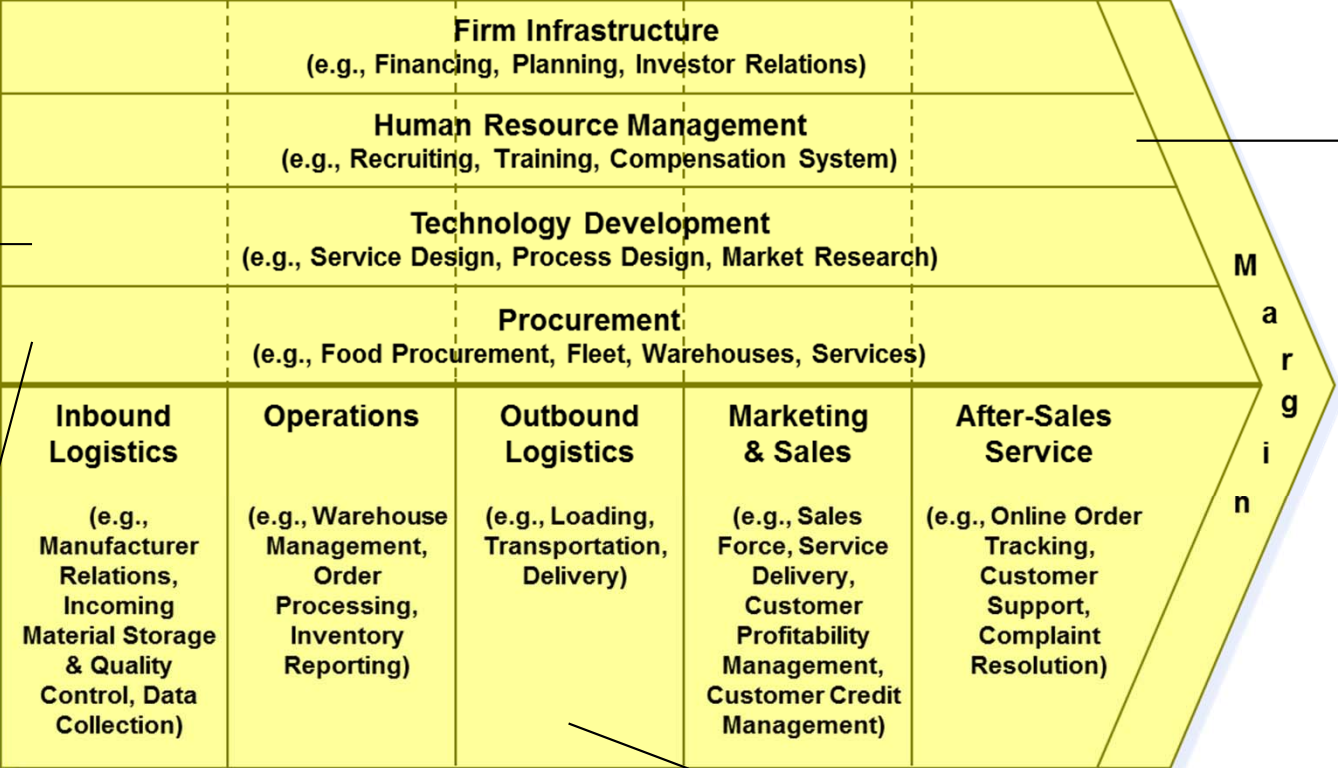
- Shared value purchasing
- Energy use
- Resource use
- Location of facilities / supply chain
- Logistical efficiency
- Productivity of lower income employees

Identifying Opportunities for Shared Value in the Value Chain

Food Services

- Research on nutritional value
- Less or more biodegradable packaging
- Enhancing research partnerships with colleges and universities

- Value adding procurement practices with farmers and other vendors
- Vendor education and training



- Recruiting from disadvantaged communities
- Diversity
- Employee education and job training
- Employee health
- Compensation and benefits that provide sustainable wage for low income workers

- Energy and water use
- Worker safety
- Limiting emissions and waste
- Minimizing use of hazardous materials

- Minimizing logistical impacts

Improving the Business Environment in the Company's Major Locations

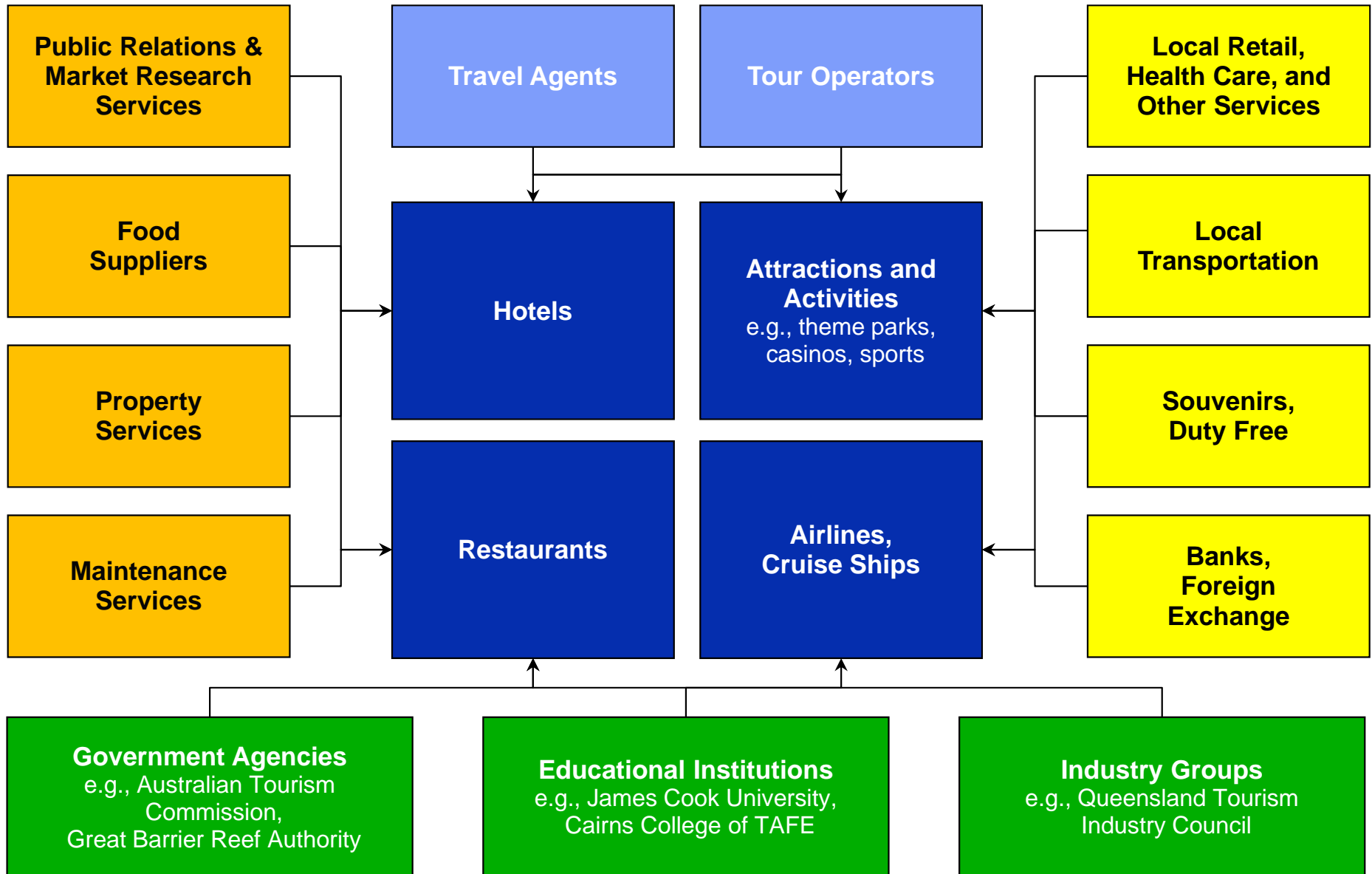
- A strong local cluster improves **company productivity and growth**
 - Local suppliers
 - Supporting institutions and infrastructure
 - Related businesses
- Companies, working collaboratively, can catalyze major improvements in the cluster and the **local business environment**



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

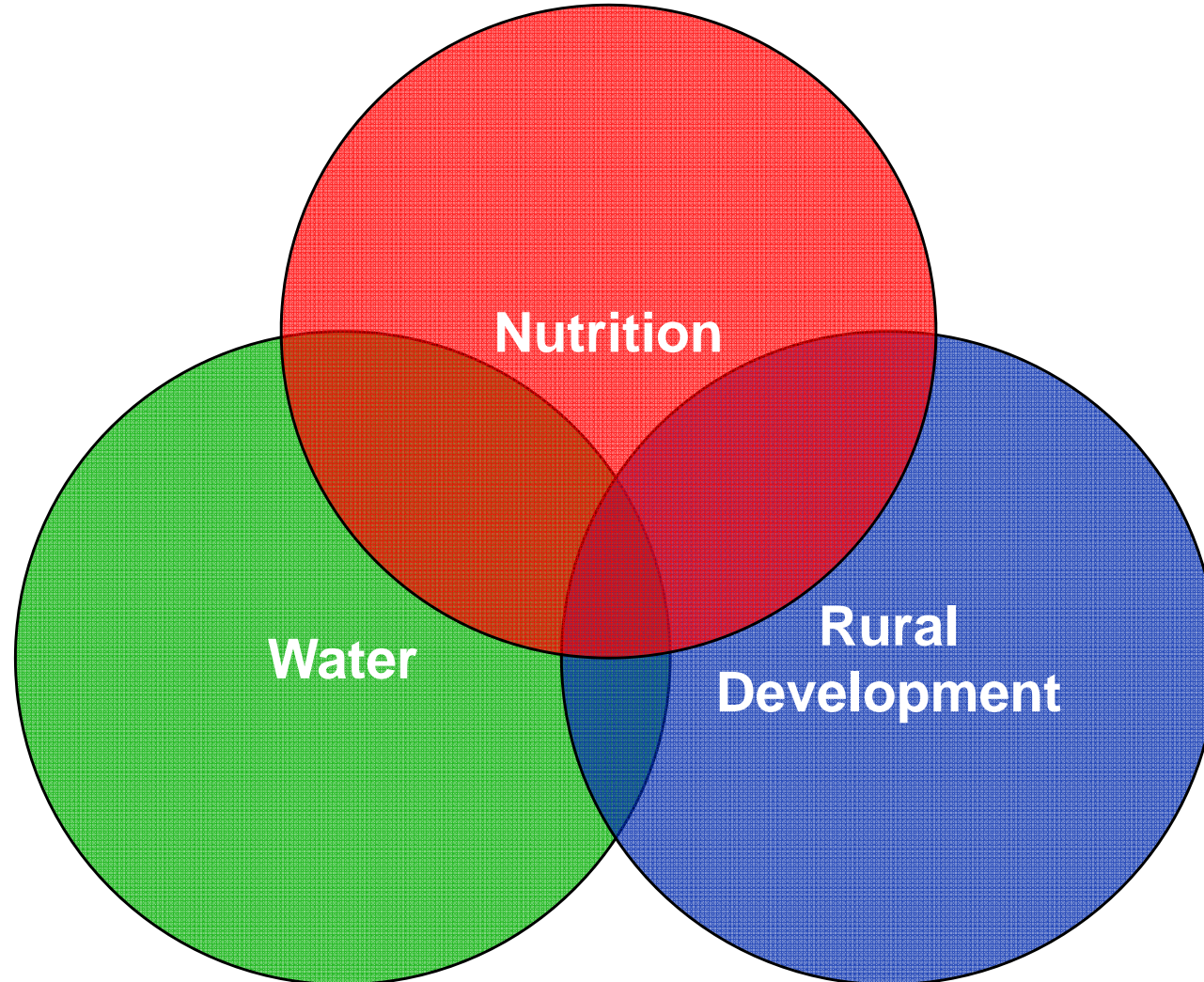
State of Cluster Development

Tourism Cluster in Cairns, Australia



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

Opportunities for Professional Sports Organizations

- Reconceiving customer **needs, products, and markets**
 - Wider participation in the sport
 - Fitness, health, wellness, and personal development
- **Redefining productivity** in the value chain
 - Energy efficiency and waste reduction
 - Workforce development and recruiting
 - Teams and vendors
 - Value-added local procurement
- Enabling **local cluster development**
 - Spur economic development in the areas surrounding stadiums and other team facilities
 - Create a local supplier base for concessions, souvenirs, etc.
 - Anchor other entertainment and real estate developments

Shared Value and Strategic Positioning

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

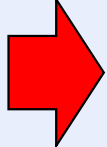
Distinctive Activities

- 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**

Transforming Strategic Positioning

	<u>Traditional Positioning</u>		<u>New Positioning</u>
Nestlé	<ul style="list-style-type: none">• Food		<ul style="list-style-type: none">• Nutrition
Nike	<ul style="list-style-type: none">• Shoes		<ul style="list-style-type: none">• Health and Wellness
IBM	<ul style="list-style-type: none">• Computing / Technology		<ul style="list-style-type: none">• Smarter Planet / Smarter Cities
Thermo Fisher	<ul style="list-style-type: none">• Leader in Serving Science		<ul style="list-style-type: none">• Making the World Healthier, Cleaner, and Safer

- A **broader sense of purpose** motivates and attracts employees, consumers, business partners, shareholders, and the public

The Purpose of a Business

- There is an opportunity to **transform thinking and practice** about the role of the corporation in society
- Shared value gives rise to **far broader opportunities** for economic value creation
- Shared value thinking will drive the next wave of **innovation, productivity growth, and economic growth**
- Shared value will reignite a whole new generation of **management** thinking
- Businesses **acting as businesses**, not as charitable givers, are arguably the most powerful force for addressing many of the pressing issues facing our society
- A transformation of business practice around shared value will give **purpose** to the corporation and represents our best chance to **legitimize business again**