

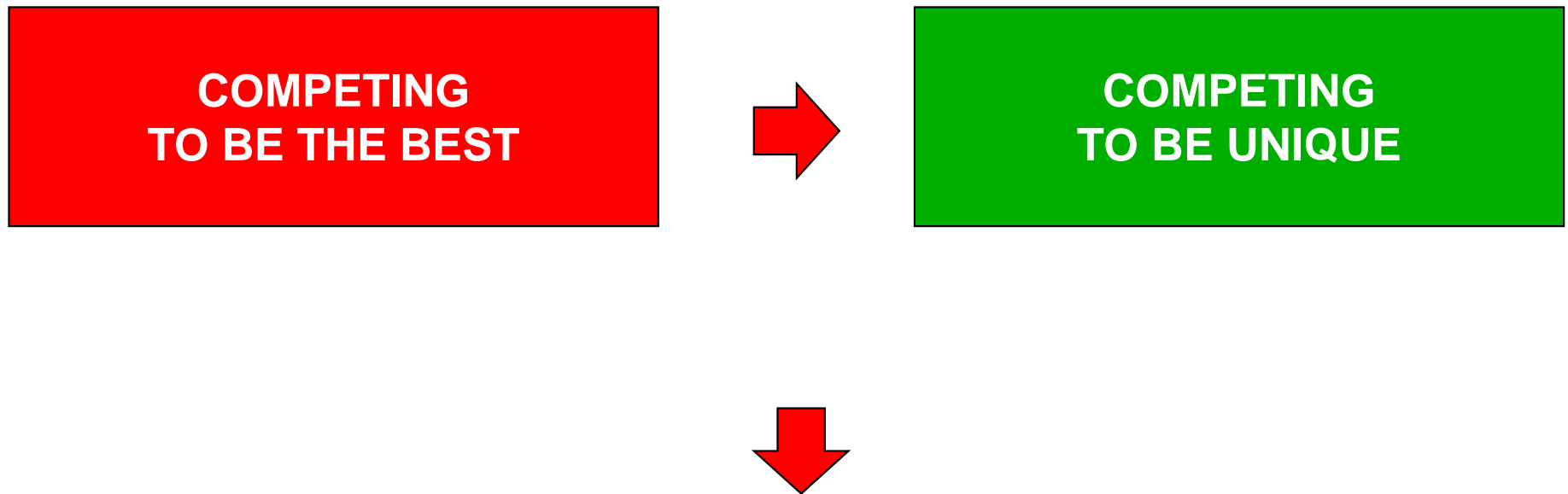
Transforming Strategy: Creating Shared Value

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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...”
 - “Our strategy is to provide superior returns to our shareholders...”
 - “Our strategy is to be the world leader...”
- Strategy is more than **particular actions**
 - “Our strategy is to merge...”
 - “... internationalize...”
 - “... consolidate the industry...”
 - “... outsource...”
 - “...double our R&D budget...”
- Strategy is not the same as **vision / values**
 - “Our strategy is to meet the financial needs and aspirations of our customers...”
 - “Our strategy is to serve our customers and communities meeting the highest standards of integrity...”

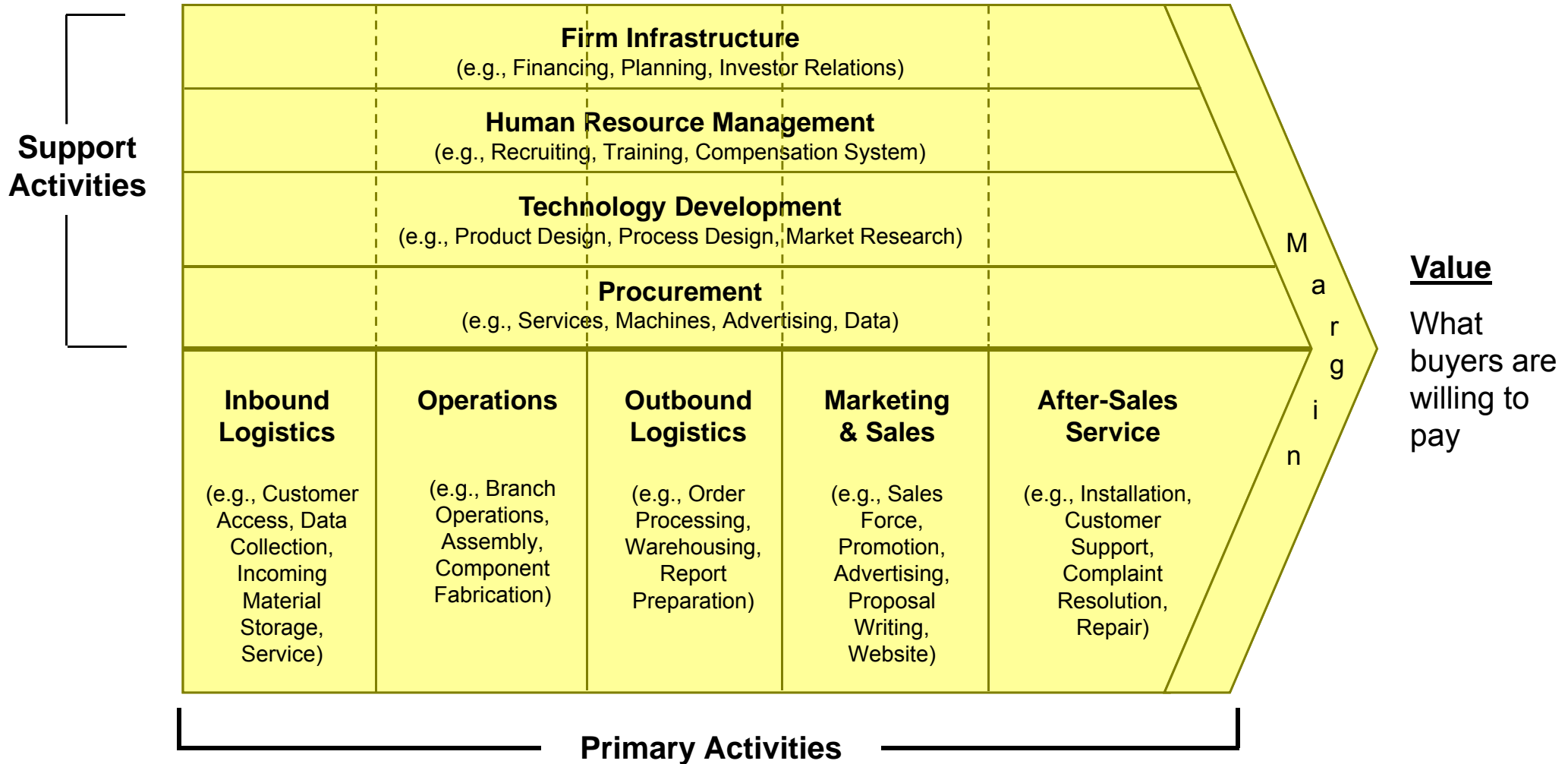


- Strategy defines the company’s **distinctive approach** to competing and the **competitive advantages** on which it will be based

Achieving Superior Performance

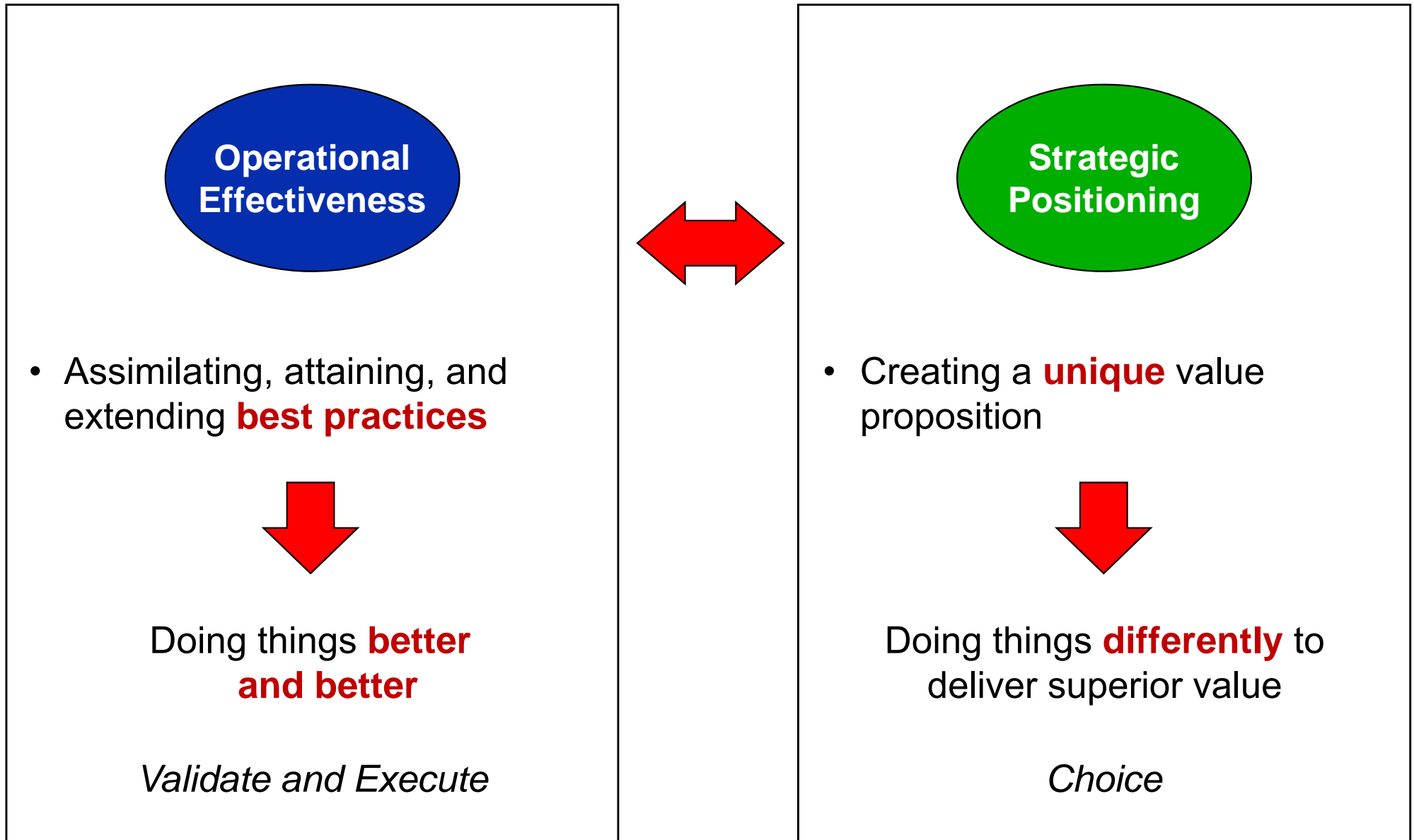


Defining the Value Chain



- The value chain is the **set of activities** involved in delivering value to customers
- All competitive advantage **resides** in the value chain. Strategy is manifested in **choices** about how activities in the value chain are configured and linked together

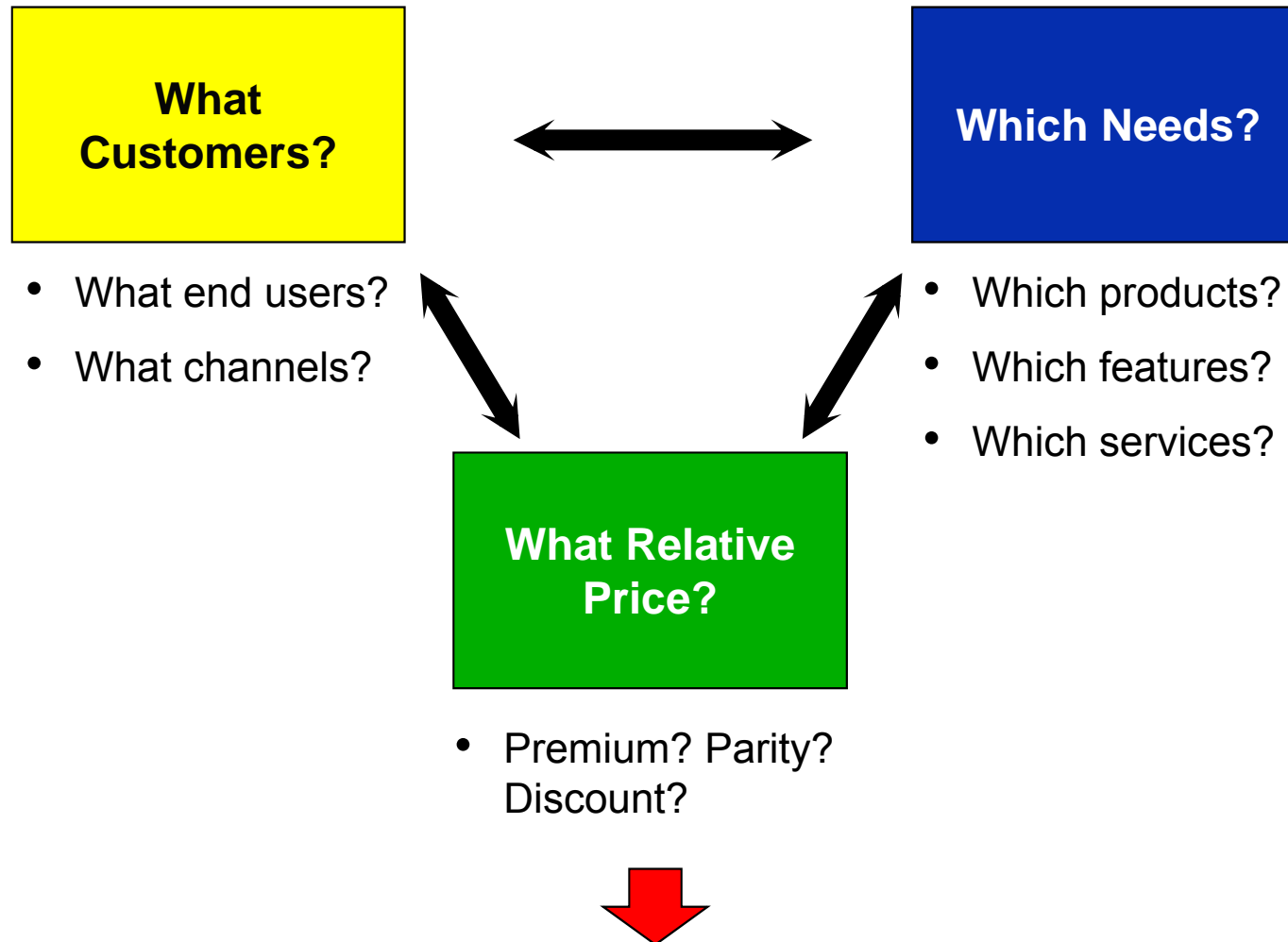
Operational Effectiveness Is Not Strategy



What Creates a Successful Strategy?

- A **unique value proposition** compared to competitors

Defining the Value Proposition



- Finding a unique value proposition usually involves a new way of **segmenting** the market
- A novel value proposition often **expands the market**

Strategic Positioning

IKEA, Sweden

Value Proposition

- Customers who seek quality and sophisticated design, but at a very low price point
- A wide array of stylish and space efficient furniture and accessories, but minimal customer service

What Creates a Successful Strategy?

- A **unique value proposition** compared to competitors
- A **distinctive value chain** embodying choices about how the organization will **operate differently** to deliver on its value proposition

Strategic Positioning

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- Customers who seek quality and sophisticated design, but at a very low price point
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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

What Creates a Successful Strategy?

- A **unique value proposition** compared to competitors
- A **distinctive value chain** embodying choices about how the organization will **operate differently** to deliver on its value proposition
- Making clear tradeoffs, and choosing what **not to do**

Making Strategic Tradeoffs

IKEA, Sweden

IKEA

Product

- Low-priced, modular, ready-to-assemble designs
- No custom options
- Furniture design driven by cost, manufacturing simplicity, and style

Value Chain

- Centralized, in-house design of all products
- All styles on display in huge warehouse stores
- Large on-site inventories
- Limited sales help, but extensive customer information
- Long hours of operation

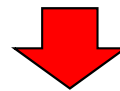
Typical Furniture Retailer

Product

- Higher priced, fully assembled products
- Customization of fabrics, colors, finishes, and sizes
- Design driven by image, materials, varieties

Value Chain

- Source some or all lines from outside suppliers
- Medium sized showrooms with limited portion of available models on display
- Limited inventories / order with lead time
- Extensive sales assistance
- Traditional retail hours



- Tradeoffs create the need for **choice**
- Tradeoffs make a strategy **sustainable** against imitation by established rivals
- An essential part of strategy is choosing what **not** to do

What Creates a Successful Strategy?

- A **unique value proposition** compared to competitors
- A **distinctive value chain** embodying choices about how the organization will **operate differently** to deliver on its value proposition
- Making clear tradeoffs, and choosing what **not to do**
- Integrating activities across the value chain to **fit together** and **reinforce each other**
- **Continuity** of strategic direction

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



We need a **new model**

The Role of Business in Society

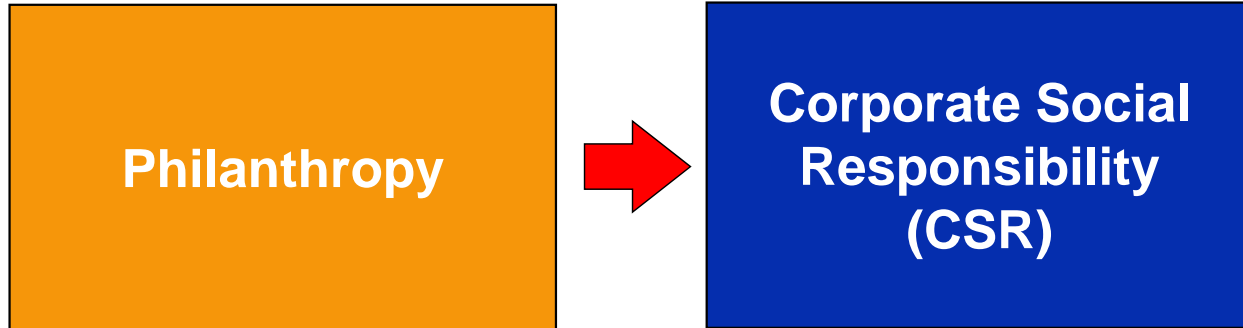
Evolving Approaches

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



What Shared Value is NOT

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

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**

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

- Changing practices in the value chain to **address social needs** while **improving productivity**

III: Enabling **local cluster development**

- Improving the **skills**, **supplier base**, **regulatory environment**, and **supporting institutions** available in the communities in which a company operates to drive its productivity and growth while improving community prospects

Creating Shared Value in Products and Markets

Becton Dickinson Health Worker Safety

Becton Dickinson pioneered the global effort to **protect health workers from needle stick injuries**, which harm workers while spreading HIV/AIDS, hepatitis B and C

- Redesigned syringes to prevent accidental sharps injuries
- Invested ~\$1 billion in product development and manufacturing capacity



- Achieved substantial **reduction in health worker injuries**
- Largest source of **company growth** over past 30 years
- Annual revenues of **\$2 billion**, representing 25% of total company revenues, at higher margins

Creating Shared Value in Products and Markets

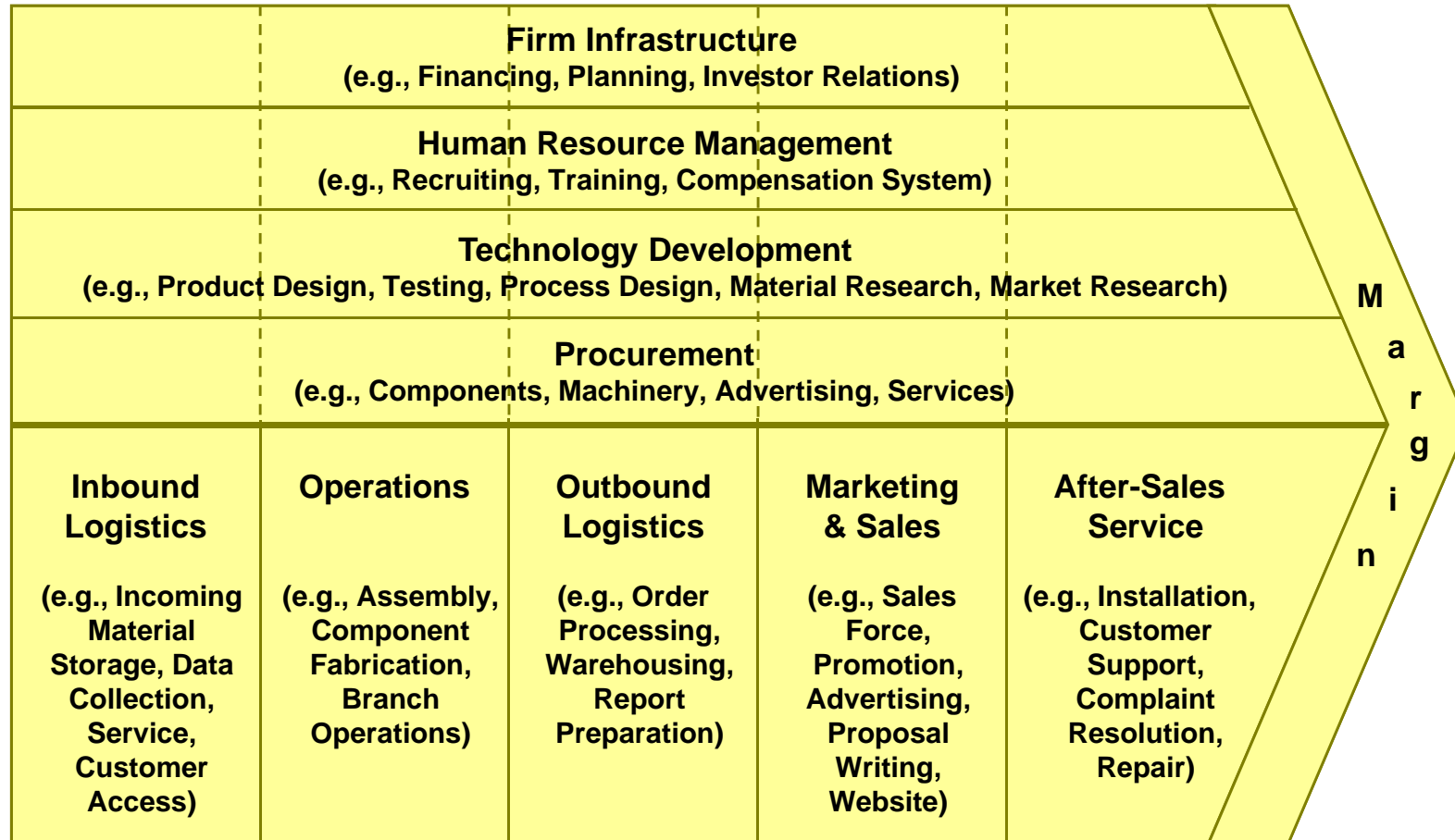
DeBeers

- DeBeers aided in developing the Kimberley Process, a **certification process** for **conflict-free diamonds**
- Governments and companies must meet **extensive requirements** for certification, including an audit trail that can be traced back to the original diamond mine
- **All** DeBeers diamonds are Kimberley certified
- DeBeers also launched the **Diamond Development Initiative** to improve working and social conditions for artisanal diamond miners most vulnerable to exploitation



- Conflict diamonds are now **less than one percent** of the global market, down from fifteen percent in the 1990's
- DeBeers has been able to **improve acceptance of diamonds** and better link diamond sales to **country prosperity**
- Certification adds a **social dimension** to the product

Redefining Productivity in the Value Chain



- Purchasing that **enhances supplier capabilities** and **efficiency**
- **Energy** and **resource** efficiency
- Minimizing **logistical intensity**
- Improving employee **health** and **safety**
- Enhancing the productivity and wages of **lower income** employees
- Strengthening **local distribution** channels
- Recruiting that represents the **diversity of customers** and the **communities** where a company operates

Shared Value in the Value Chain

Intercontinental Hotels Group

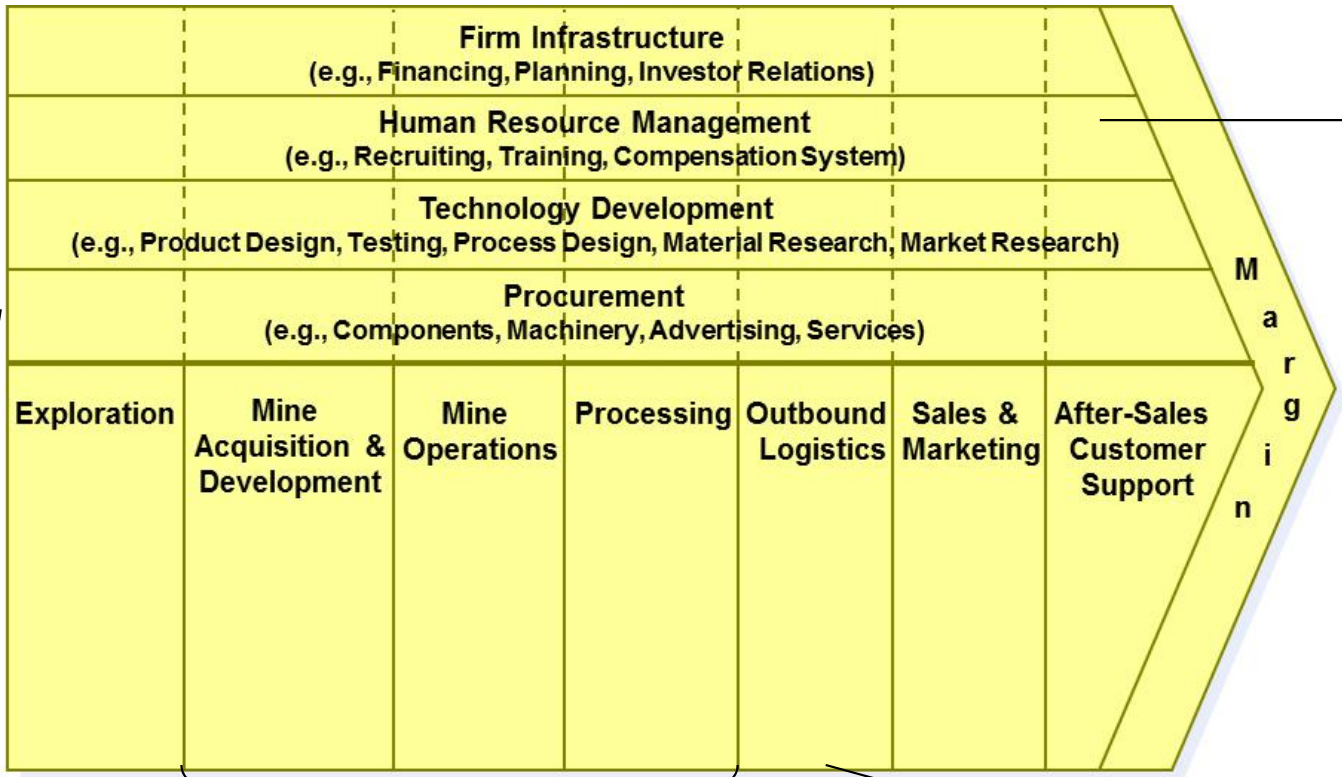
- IHG introduced the **GreenEngage program** in 2009 to address its environmental footprint
- **Energy** represents the **second highest cost** in a hotel, with water and waste also significant
- The program identified a **wide array of options** for improvement and tools for each franchise to assess return
- More than 1,900 IHG hotels are using the Green Engage **online tool** to continue to improve performance



- IHG hotels have achieved **energy savings of up to 25%**
- The effort has **improved engagement** with consumers and corporate clients

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

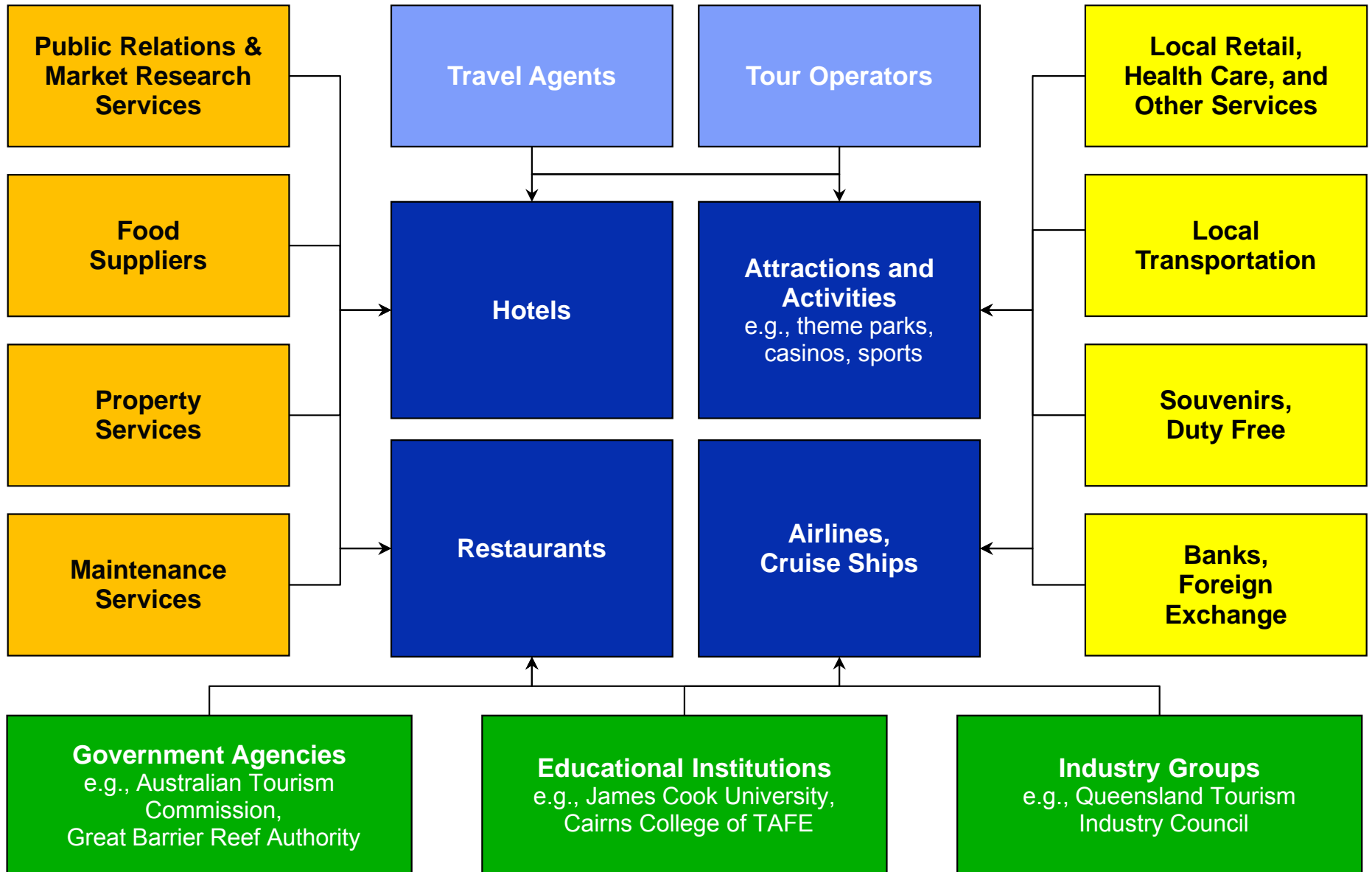
- Companies, working individually and collaboratively, can catalyze major improvements in the **local business environment** in the regions in which they have major operations
 - E.g., supplier availability, supporting institutions, infrastructure, and regulating framework
- Building a **strong local cluster** improves company productivity and growth while raising regional competitiveness



- 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

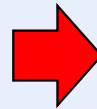
- **10,000 new jobs** created
- Significant increase in **income** for SME employees and owners
- **Spillover effects** of these new businesses on their communities

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

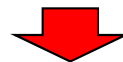
Whole Foods Markets

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

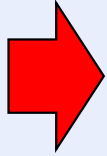
Distinctive Activities

- 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	<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
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** not only opens up **new opportunities** for growth and profitability, but also **motivates** and **attracts** employees, customers, 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**

The Role of Leaders in Strategy

- Drive **operational improvement**, but clearly distinguish it from **strategy**
- Lead the **process of choosing** the company's unique position
 - The CEO is the chief strategist
- **Communicate** the strategy relentlessly to all constituencies
 - Strategy creates **alignment** and **motivation**
- Maintain **discipline** around the strategy, in the face of many distractions
- Decide **which** industry changes, technologies, and customer needs to respond to, and how the response can be **tailored** to the company's strategy
- **Measure progress** against the strategy using metrics that capture the implications of the strategy for serving customers and performing particular activities
- **Sell the strategy** and **how to evaluate** progress against the strategy to the financial markets



Commitment to strategy is tested every day

Backups

Creating Shared Value in Products

Dow Chemical Insect Control

The Spinetoram™ Family of insect control products are derived from a **biological organism** that provides control of a broad spectrum of insect pests in a variety of crops

- Natural degradation through UV light and soil microbes
- Low solubility in water
- Favorable toxicological profile
- Carries lowest human hazard label

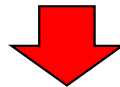


- Applied in **lower quantities** than conventional insecticides
- **Low impact** on **beneficial insects**
- **Double-digit revenue growth** since launch in 2010

Creating Shared Value in Products and Markets

Regions Bank

- Regions product suite, called **Regions Now Banking**, is designed to meet the needs of unbanked and under-banked customers in Regions' service area
 - These represent an estimated **25% of consumers**
- Now Banking is a line of **user-friendly banking solutions** targeted at unbanked and under-banked customers:
 - Lower cost check cashing
 - Regions Now card, a pre-paid debit card
 - Money transfers and expedited bill pay services
 - Includes web-based financial education



- Now Banking provides customers with **security**, **reasonable fees**, and a **path** to a fuller banking relationship
- Now services are **profitable** and **expand demand** for the Bank's more traditional banking products and services