

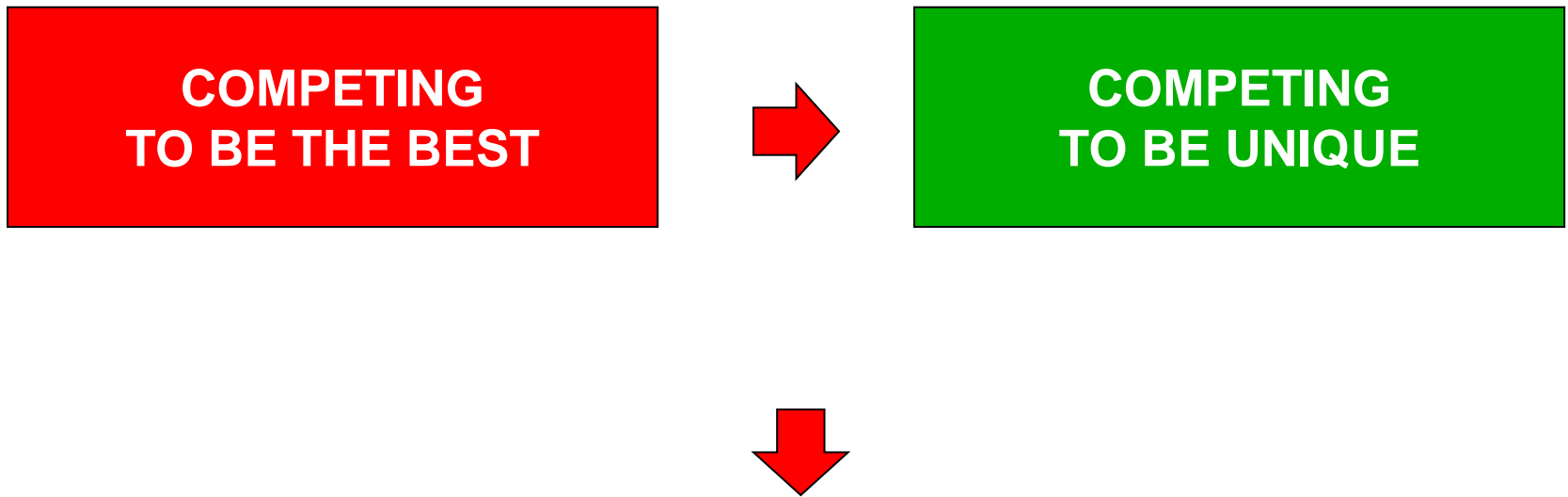
Strategy and Shared Value: Innovation and Growth in an Era of Constrained Resources

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Thinking Strategically



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

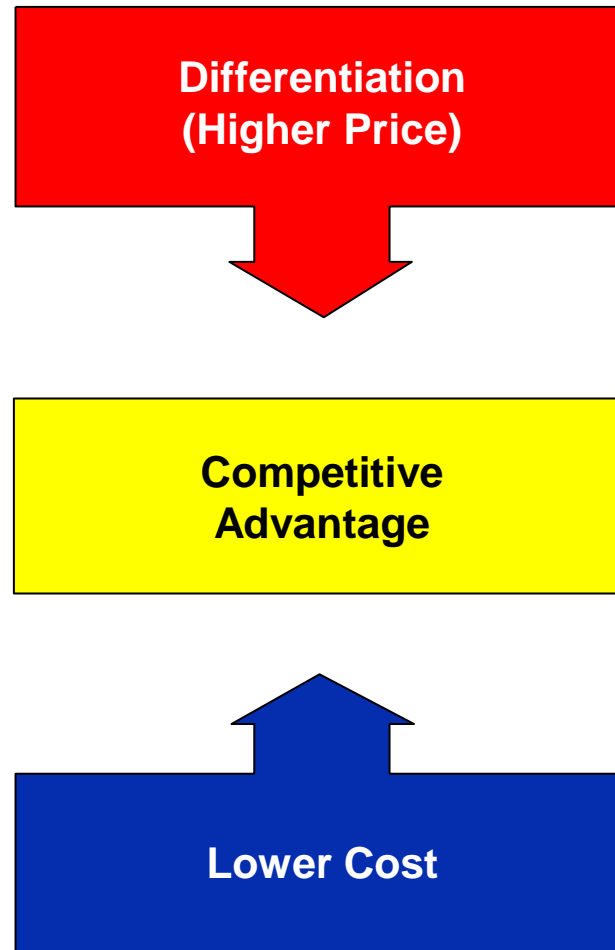
What Do We Mean by a Strategy?

- 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...”
- Strategy is more than a **particular action**
 - “Our strategy is to merge...”
 - “... internationalize...”
 - “... consolidate the industry...”
 - “...double our R&D budget...”
- Strategy is not the same as **vision / values**
 - “Our strategy is to serve our customers and communities meeting the highest standards of integrity...”

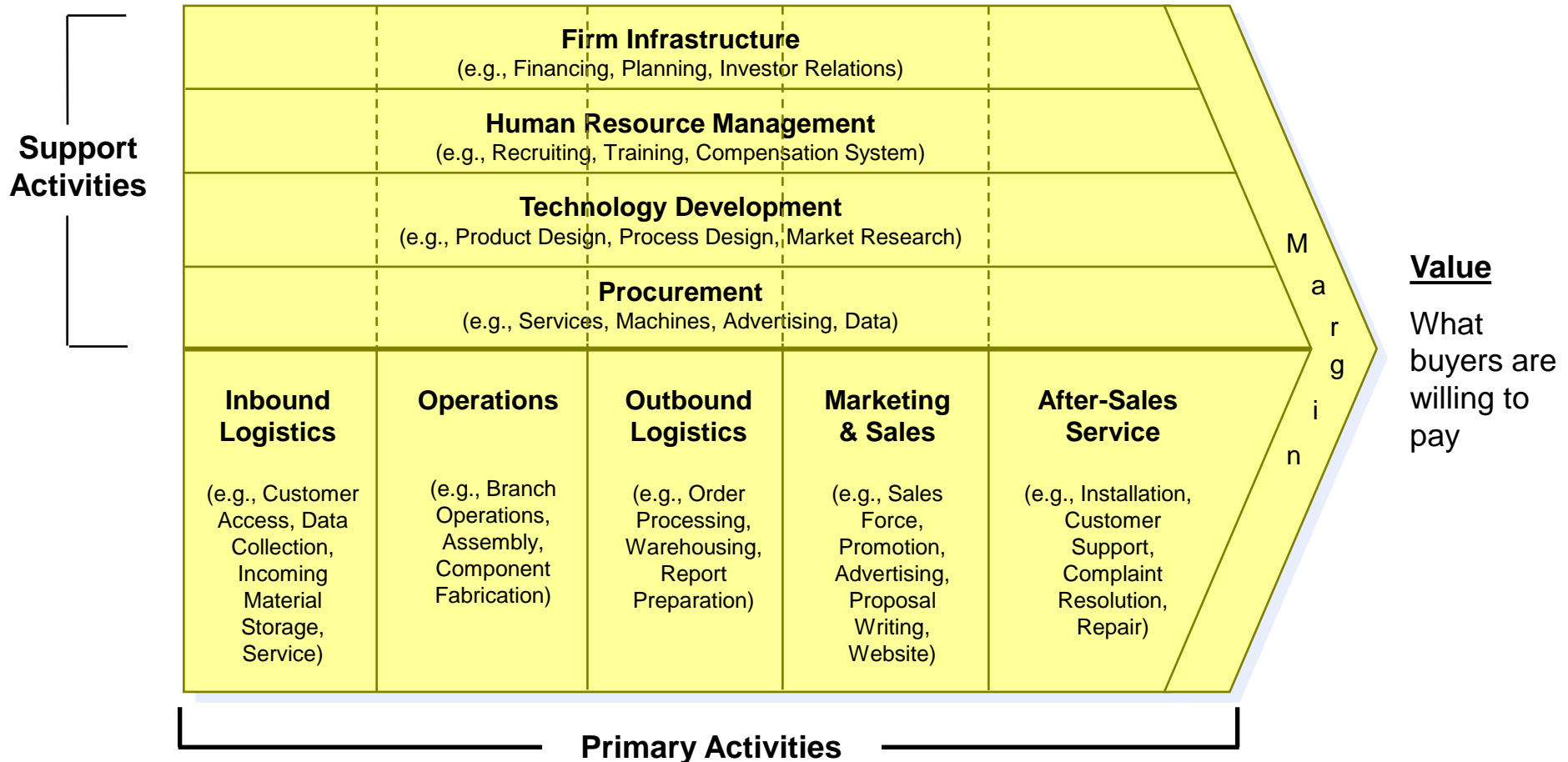


- Strategy defines the company’s **distinctive approach** to competing and the **competitive advantages** on which it will be based

Achieving Superior Performance Within an Industry

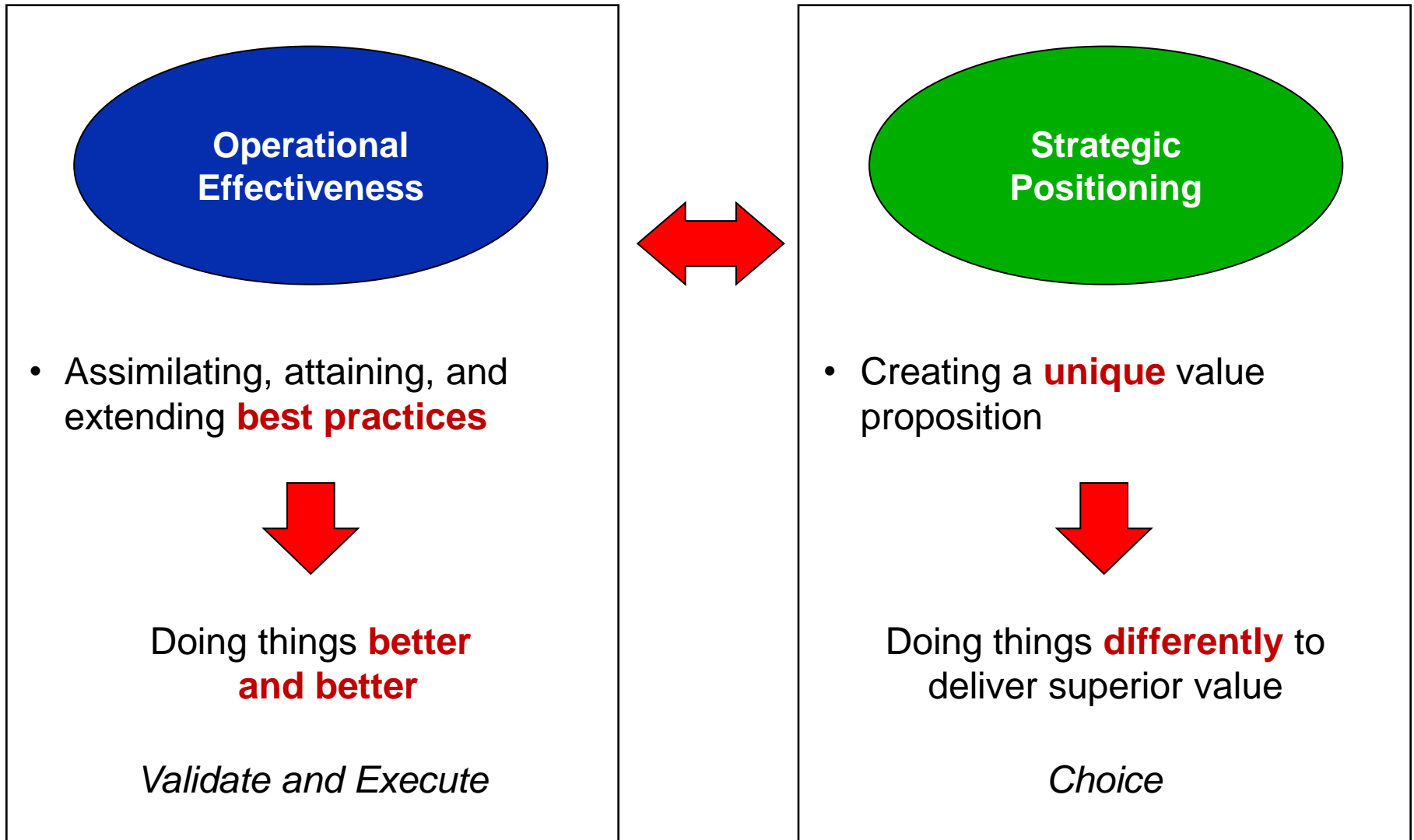


Defining the Value Chain



- The value chain is the **set of activities** involved in delivering value to customers
- Strategy is reflected in **choices** about how activities in the value chain are configured and linked together

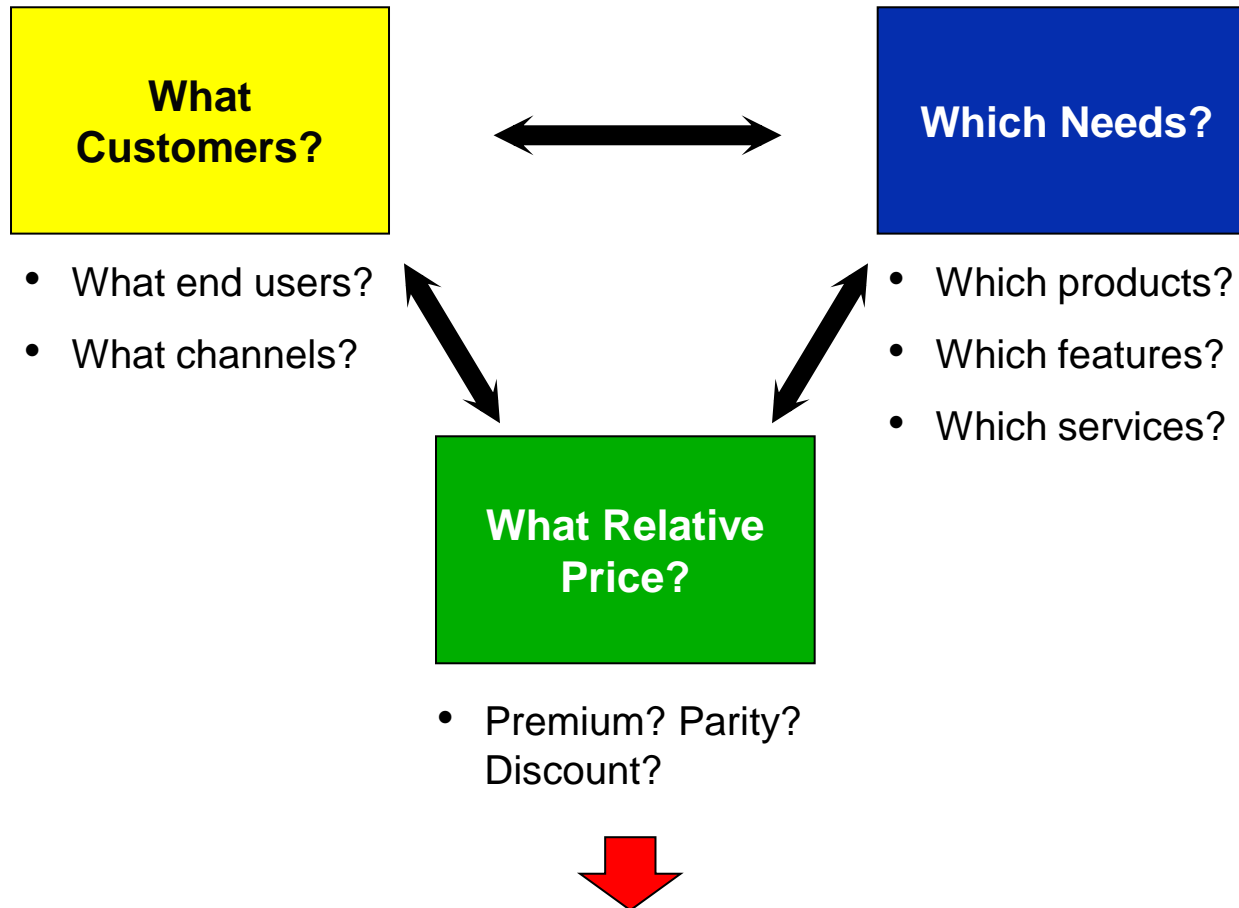
Operational Effectiveness Is Not Strategy



Tests of 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

- A wide line of stylish, space efficient, and high quality furniture and accessories at a very low price point

Tests of 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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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, and minimal in-store service
- 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

Tests of 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

Tests of a Successful Strategy

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- Making clear tradeoffs, and choosing what **not to do**
- Activity choices across the value chain that **fit together** and **reinforce each other**

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- **Continuity** of strategic direction

Linking Strategy to Society

- There is an ever **growing awareness** of major societal challenges
- Business is facing **growing scrutiny** as the cause or a contributor to many of these problems
- Corporate social responsibility efforts are greater than ever, but the **legitimacy of business has fallen**
- Government and NGO's alone **lack sufficient resources and capabilities** to fully meet social 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



The Role of Business in Society

Evolving Approaches



What is Shared Value?

Creating Shared Value:

Addressing a **social issue** with a **business model**

What is Shared Value?

Creating Shared Value:

Social value + Economic value

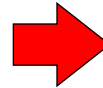
CSR versus Shared Value

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

Social Needs and Economic Value Creation



- **Social** deficits create **economic** costs
- **“Externalities”** affect **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**

- Using resources, energy suppliers, logistics, and employees **more productively**

III. Improving the **local business environment**

- Improving the **skills, supplier base, regulatory environment, and supporting institutions** in the communities in which a company operates

Creating Shared Value in Products and Markets

Jain Irrigation Systems

- **Drip irrigation equipment** for small farmers in Africa and India
- Serves **4 million farmers** worldwide as of 2012

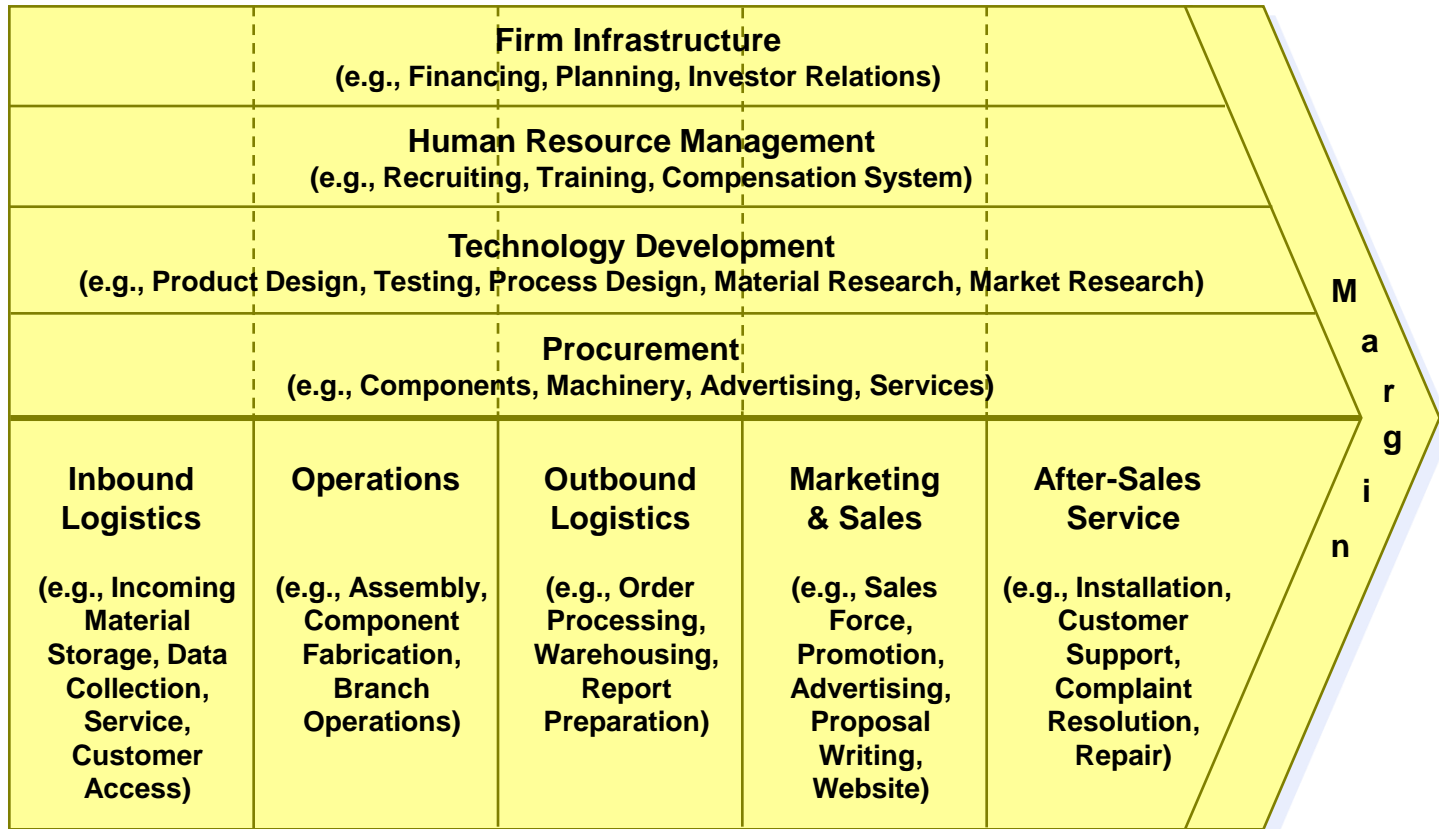


- Reduces **water use** by over 40%
- Enables **higher crop yields** that improve food security while raising farmers' income
- Jain has built a **\$820 million** business that is rapidly growing

Discovering the Shared Value in Products

- Rethink 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
- 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)

Redefining Productivity in the Value Chain



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

Shared Value in the Value Chain

Intercontinental Hotels Group

- **Energy** represents the **second highest cost** in a hotel, with water and waste also significant
- IHG introduced the **GreenEngage program** in 2009 to address its environmental footprint as an efficiency improvement opportunity
 - A **wide array of options** for improvement and tools for franchisees to assess return
- More than 1,900 IHG hotels are using the Green Engage **online tool** to enhance performance

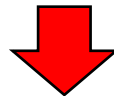


- IHG hotels have achieved **energy savings of up to 25%** so far
- The effort has **improved engagement** with consumers and corporate clients

Shared Value in the Value Chain

Fibria Brazil

- Fibria, a large manufacturer of pulp for paper, utilizes **planted eucalyptus trees** rather than native and old growth forests
- The company also encourages **small-scale producers** near its mills to plant eucalyptus in conjunction with other crops, assisting them with technical training and inputs
 - **4000 households** have significantly increased their income



- Fibria achieves far greater efficiency versus old growth forest production, with eucalyptus yielding **30 times higher** yield per acre of wood pulp
- Small scale producers contribute 27% of the **raw material** volume utilized in Fibria mills, improving efficiency

Improving the Local Business Environment

Cisco Networking Academy

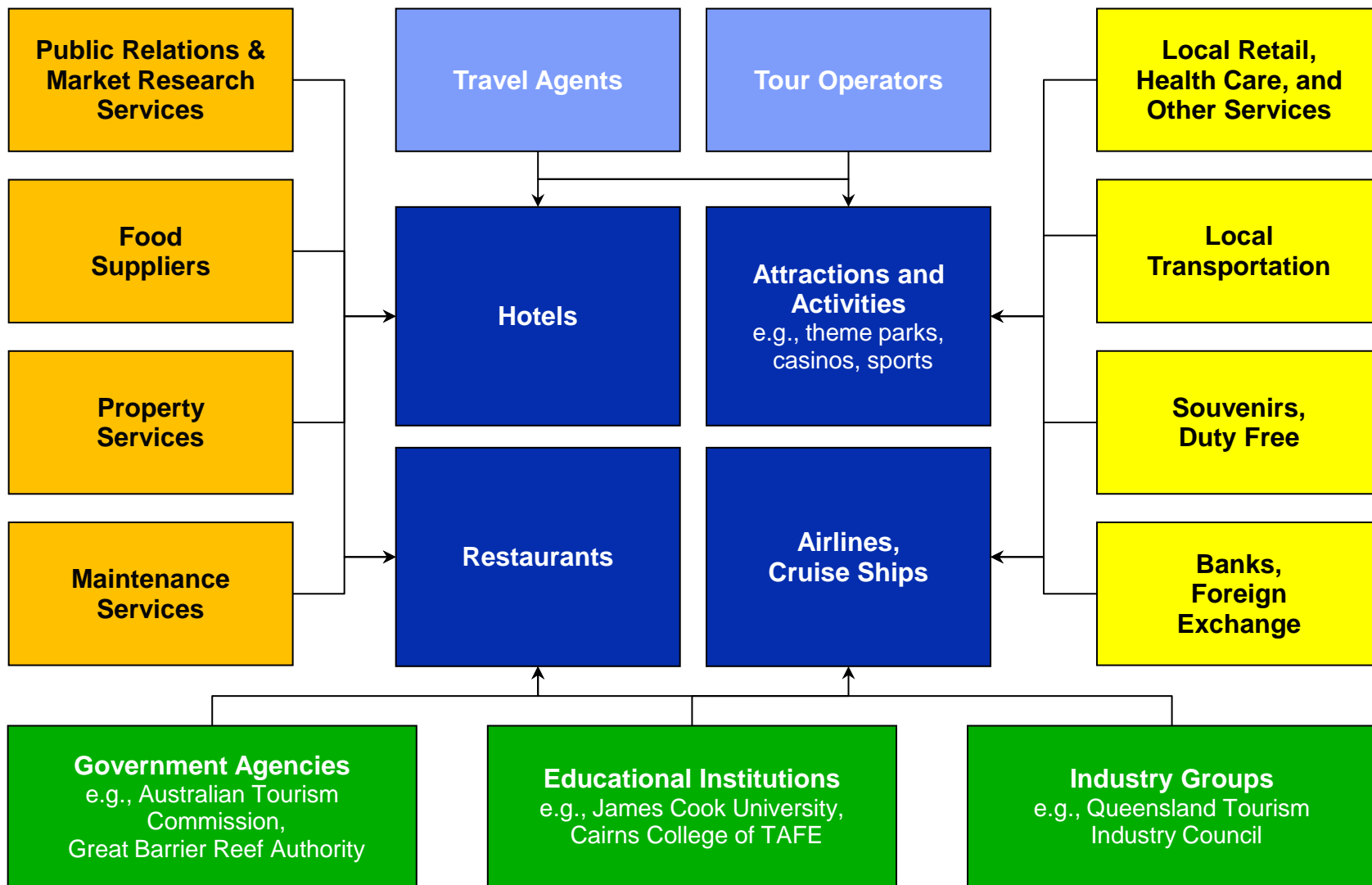
- Cisco established the **Networking Academy** to train network operators
- The company has trained **4 million** young people from all backgrounds in **165 countries** in ICT skills
- 70% of graduates have attained a **new job or a better job**



- The program **strengths relationships** with key suppliers, local businesses and government
- The Networking Academy has alleviated a **key workforce constraint** for Cisco customers and the company, increasing industry growth

Improving the Business Environment: Cluster Development

What is a Cluster? Tourism Cluster in Cairns, Australia



Improving the Business Environment: Upgrading Channels

Arca Continental

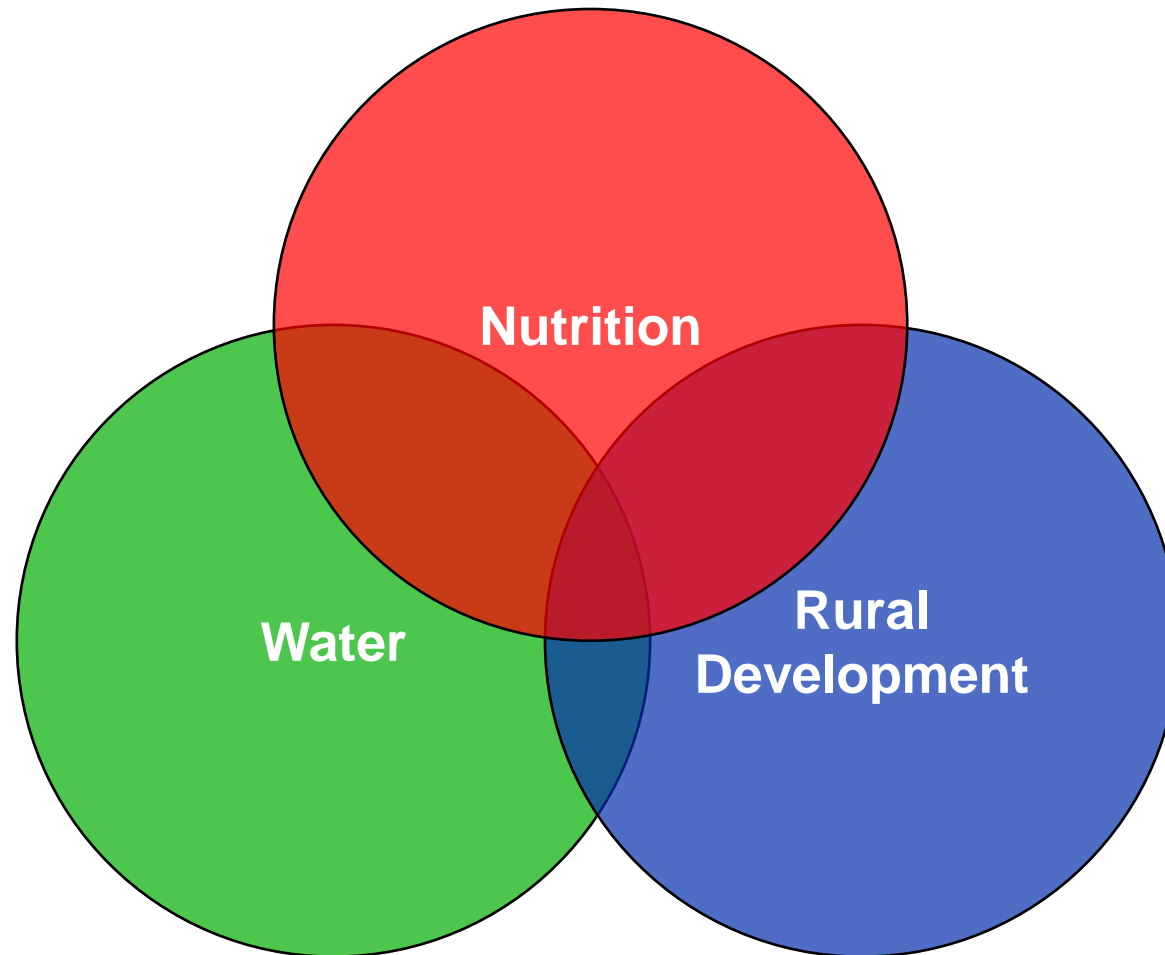
- Arca Continental is the **second largest bottling company** in Latin America, and **one of the largest Coca-Cola bottlers** in the world
- Arca Continental established a program to train and invest in the **micro-entrepreneur retailers** who sell more than 60% of the Company's products, including **management, sales and marketing** and **merchandising**
- Invests in **low energy use coolers** and **fixture improvements**



- Participating retailers register **sales increases of 25%** or more, with improved customer satisfaction, leading to similar **increases in the sales of Arca's products**
- Arca Continental **recovers its investment** in 6 months or less
- Beginning in **Mexico**, the program is being extended to **Argentina** and **Ecuador**

Creating Shared Value: Deciding Where to Concentrate

Nestlé



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

Putting Shared Value Into Practice

Dow Chemical

- Legacy of **innovation to solve problems** (“solutionism”)
- Recognition that global social issues represent **huge market opportunities**
- Dow created the **“Breakthroughs to World Challenges”** Program
 - Each business unit is challenged to apply “solutionism” to a **range of global problems** inspired by the MDGs



- Dow developed **Omega-9 canola and sunflower seeds** that produce cooking oil with no trans fats and low saturated fats
- The technology yields **twice** the oil per hectare for farmers than soybeans
- The oils have **longer** shelf life and usage life for food processors

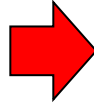


- One of Dow’s biggest selling product lines with total **revenues of approximately \$700 million**

Partnering for Shared Value

NGOs

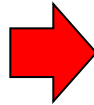
- Hold business accountable
- Seek donations



- Partner with business to implement and **scale** shared value solutions

Government

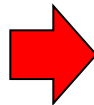
- Regulate how businesses operate
- Operate social programs
- Tax businesses



- Regulate to **encourage** market solutions
- **Partner** to deliver shared value solutions to social services
- **Jumpstart market solutions** through minimum purchases or subsidies
- Invest in **infrastructure** to enable shared value approaches (e.g. roads, skills)

Foundations

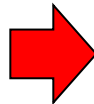
- Donate to charitable causes



- Invest **with** companies, NGOs and government to enable shared value solutions

Competitors

- “Brand” social initiatives



- **Partner** on business environment improvements

Shared Value and Strategy: Whole Foods Markets

Value Proposition

- Natural, fresh, organic, and freshly prepared foods and health items with excellent service at premium prices
- Cater to specialized nutritional requirements (gluten allergies, vegan, etc.)
- Serve educated customers who are passionate about food and a healthy lifestyle

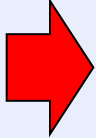
Distinctive Activities

- 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**

From Product to Purpose

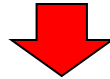
	<u>Traditional Positioning</u>		<u>New Positioning</u>
Nestlé	<ul style="list-style-type: none">• Food and Beverage Company		<ul style="list-style-type: none">• Nutrition Company
Nike	<ul style="list-style-type: none">• Footwear Company		<ul style="list-style-type: none">• Health and Fitness Company
Thermo Fisher	<ul style="list-style-type: none">• Scientific and Laboratory Instruments Company		<ul style="list-style-type: none">• Making the World Healthier, Cleaner, and Safer

- A **broader sense of social purpose** opens up **new opportunities** for growth and profitability, while **motivating** and **attracting** employees, consumers, business partners, shareholders, and the public

Redefining Corporate Purpose

Danone

- Danone realized that it had drifted away from its origins as a manufacturer of **healthy foods**



- **Sold off** its beer, meat and cheese units
- Refocused the company on **dairy** and **water**
- Acquired **medical nutrition** and **baby foods** businesses
- Created **Innovation Committees** in business units to provide “healthy food for as many people as possible”

Vision

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

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

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**