

# The New Competitive Advantage: Creating Shared Value

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# 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**

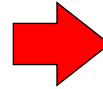
# CSR versus Shared Value

## 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



# 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**

# 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

## Becton Dickinson Health Worker Safety

- A pressing need to protect health workers from **needle stick injuries** that spread HIV and other infections
- BD engineered syringes to **prevent** accidental sticks



- Achieved substantial **reduction in health worker injuries**
- **\$2 billion** in revenues in 2012, representing 25% of the company's revenues
- Largest source of **company growth** in the past two decades

# Creating Shared Value in Products

## Regions Bank

- Regions product suite, called **Regions Now Banking**, is designed to meet the needs of unbanked and under-banked customers
  - An estimated **25% of all 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

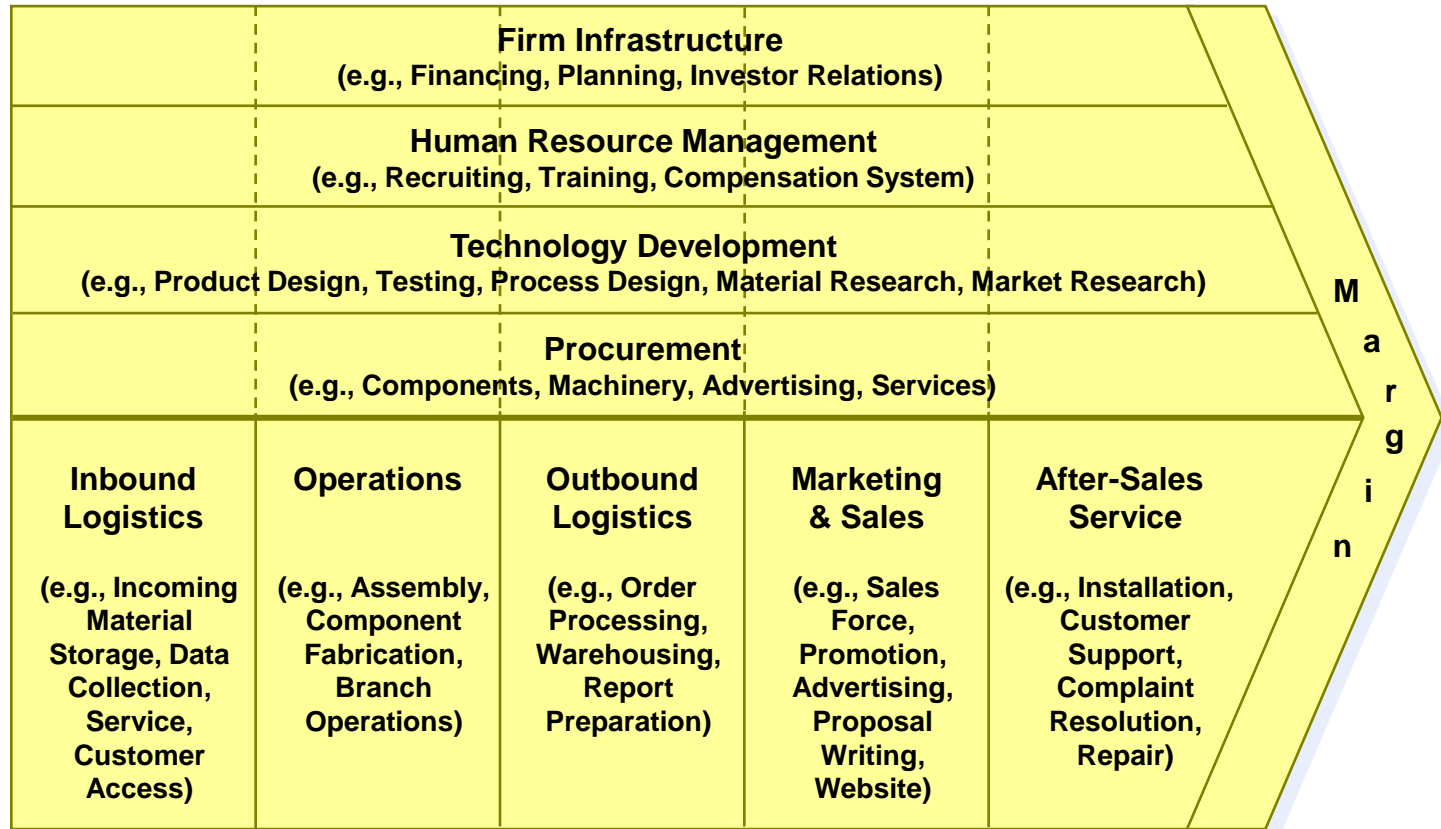


- Now Banking provides customers with **reasonable fees**, **security**, and a **path** to a fuller banking relationship
- Now Banking services are **profitable** and **grow demand** for Regions' more traditional banking products and services

# 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

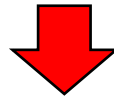


- IHG hotels have achieved **energy savings of up to 25%** so far
- The effort has **improved engagement** with consumers and corporate clients

# 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

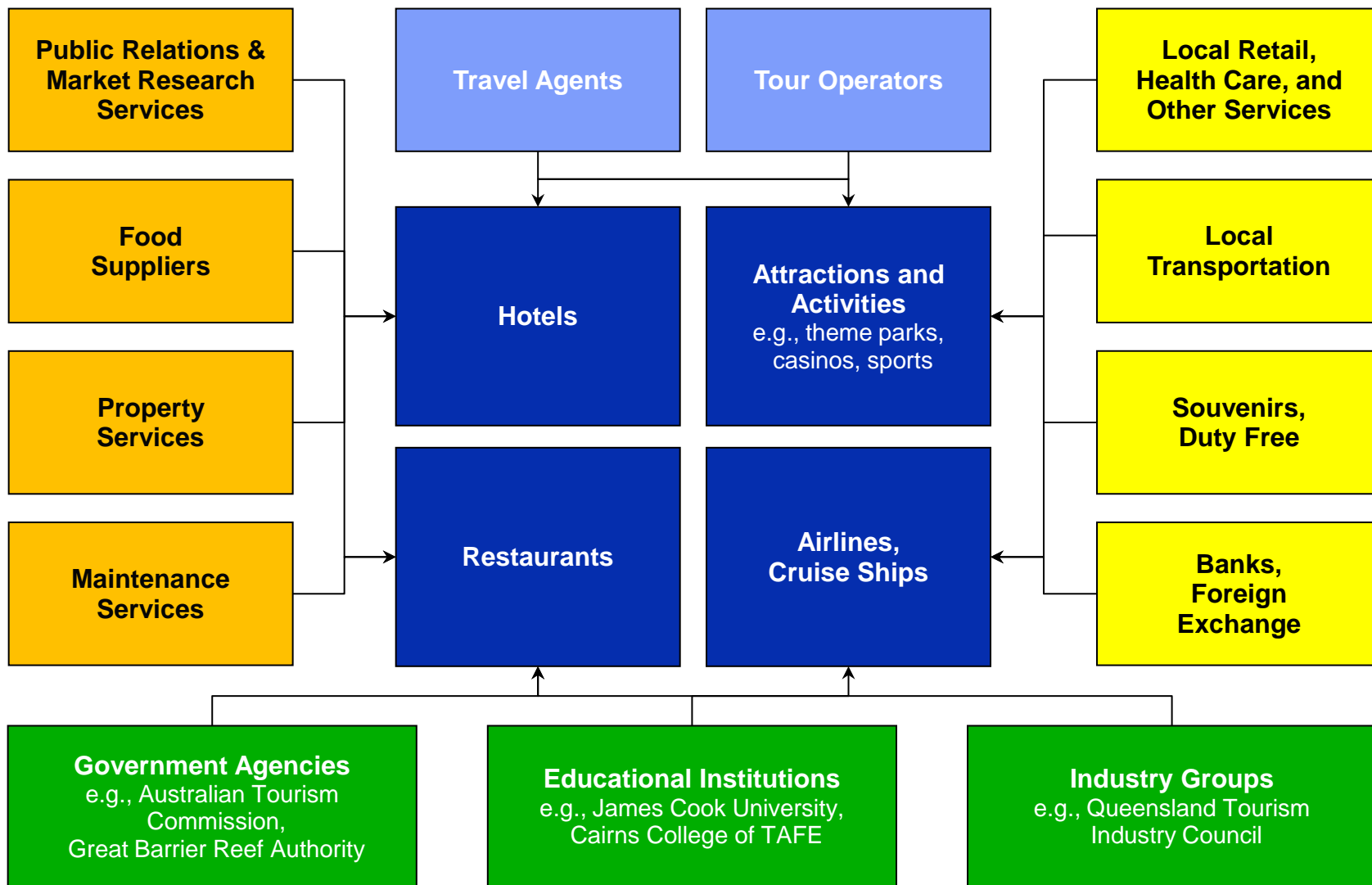
- Cisco established the **Networking Academy** to train network operators
- The company has trained **4 million** young people from all backgrounds in **165 countries** in ICT skills
- 70% of graduates have attained a **new job** or a **better job**



- The program **strengthens 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?



# 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 in Banking: Examples

## I: Reconceiving customer **needs**, **products**, and **markets**

- Serve **unbanked** and **under-banked** consumers
- **SME** lending and business services
- **Real estate** lending with a focus on community projects with broader effects
- Financing **affordable housing**
- Offering **financial instruments** that advance environmental and social progress (e.g., loans repaid with energy savings)

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

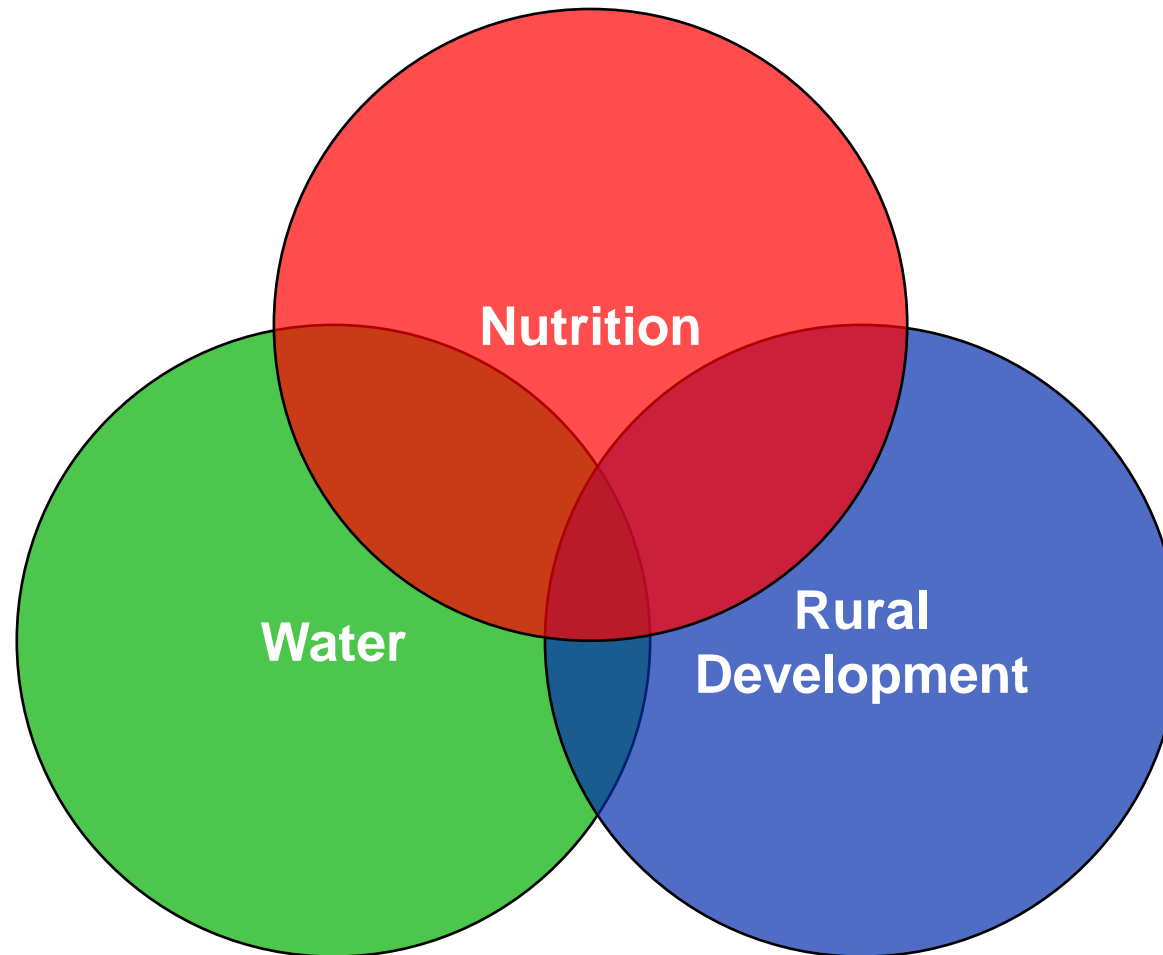
- Local **procurement**
- **Hiring** and **training**
- **Energy** and resource efficiency

## III: Enabling **local cluster development**

- **Financial literacy** education
- Leveraging **facility locations as anchors**
- **Skill development** programs in partnership with universities, technical schools or community colleges to improve the pipeline of prospective employees in shortage areas
- Leadership in **regional competitiveness improvement**

# 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



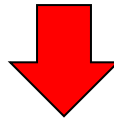
- Dow developed **Omega-9 canola and sunflower seeds** that produce cooking oil with no trans fats and low saturated fats
- The technology yields **twice** the oil per hectare for farmers than soybeans
- The oils have **longer** shelf life and usage life for food processors



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

# Measuring Shared Value

- Measure the **direct link** between social impact and economic impact
  - Line of sight
- Measures are **unique** to the type of shared value being created
- The shared value is **intentional** and **focused**



- Some stakeholders still believe economic success is **inconsistent** with social benefit

# New Stakeholder Roles and Relationships

- The focus on social impact **unites the goals** of companies, NGOs, and government
- Shared value fosters **new relationships** between companies, philanthropists, NGOs, and government in addressing social issues

## Traditional Roles

## New Roles

### **Philanthropists**

- Donate to charitable causes

- Partner with companies and NGOs to catalyze shared value initiatives

### **NGOs**

- Receive grants to deliver social services

- Enable the implementation of new shared value business models

### **Governments**

- Tax and regulate business; operate social programs

- Make platform investments and support shared value strategies; regulate to encourage shared value solutions

### **Companies**

- Donate to charitable causes or ESG programs

- Partner with NGOs and government to initiate and scale shared value strategies; partner with other companies who share the same social issue





# 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**

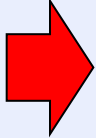
# Adding a Social Dimension to Strategy by Creating Shared Value

- 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

# From Product to Purpose

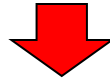
	<u>Traditional Positioning</u>		<u>New Positioning</u>
<b>Nestlé</b>	<ul style="list-style-type: none"><li>• Food and Beverage Company</li></ul>		<ul style="list-style-type: none"><li>• Nutrition Company</li></ul>
<b>Nike</b>	<ul style="list-style-type: none"><li>• Footwear Company</li></ul>		<ul style="list-style-type: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

- 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*

# Creating Shared Value

## Questions for the CEO

- Has the company's community and social engagement model moved **beyond CSR and philanthropy**?
- What are the societal problems **related to the business**?
  - At **all three levels** of shared value
- Is the shared value concept and opportunity **broadly understood** in the organization?
- Is there a **program in place** to identify and incubate shared value initiatives in each business unit?
- Is shared value being **measured**?
- Has shared value been embedded in **corporate purpose and mission**?

# 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**