

# Shared Value and Strategy

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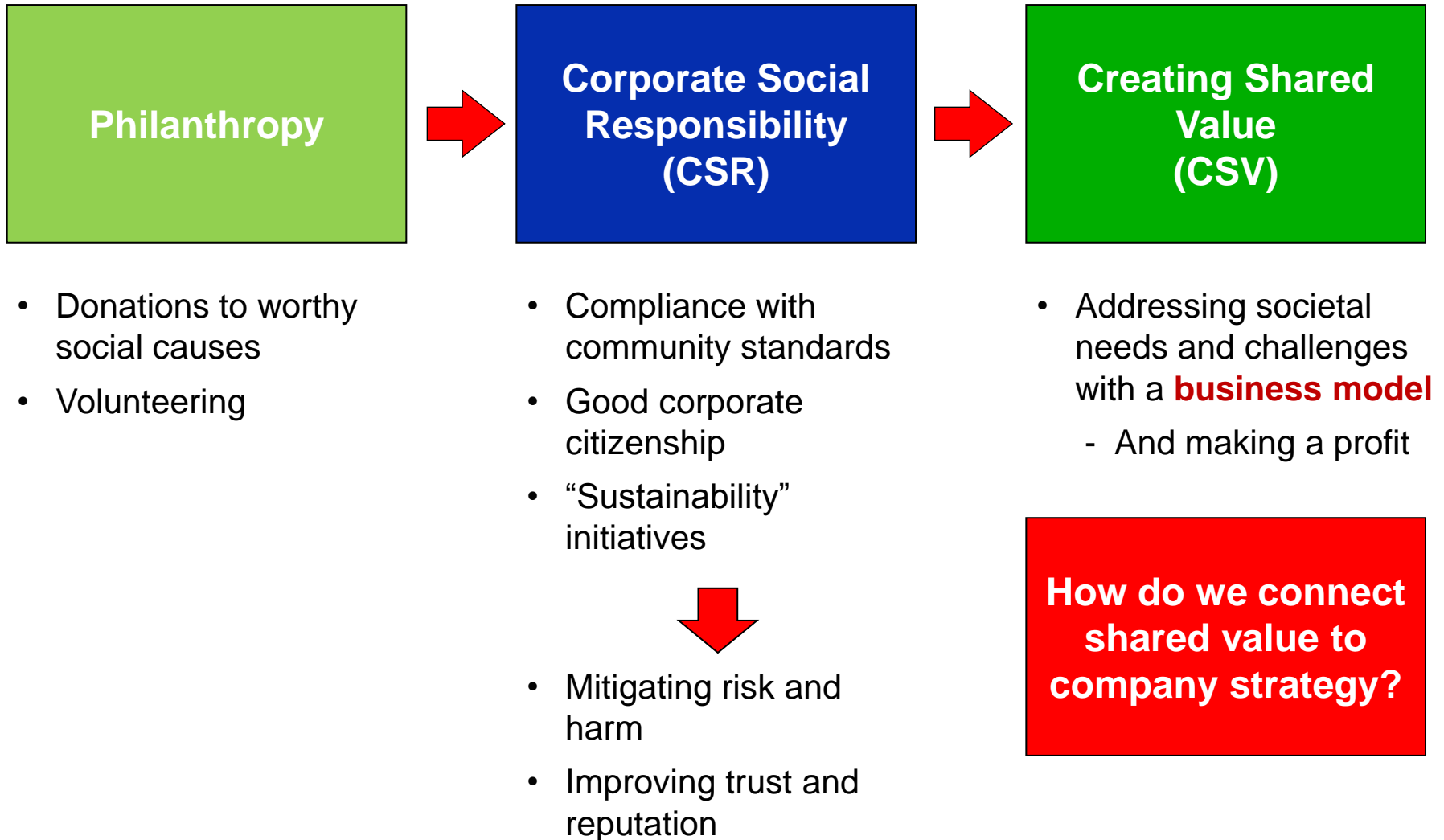
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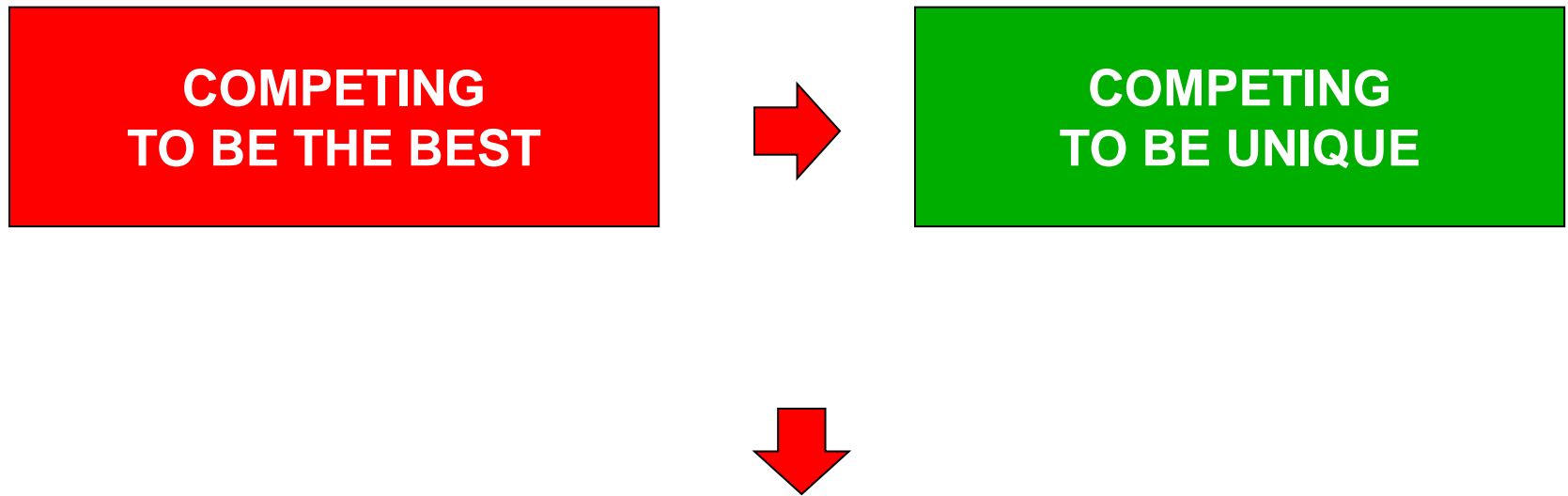
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# The Role of Business in Society

## Evolving Approaches



# 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...*”
- Strategy is more than **particular actions**
  - “*Our strategy is to merge...*”
  - “*... internationalize...*”
- Strategy goes well beyond **mission / values**
  - “*Our strategy is to serve our customers and communities while meeting the highest standards of integrity...*”

- Strategy is the set of choices that define a company’s **distinctive approach** to competing, and the **competitive advantages** on which it will be based

# Levels of Strategy

## Corporate Strategy

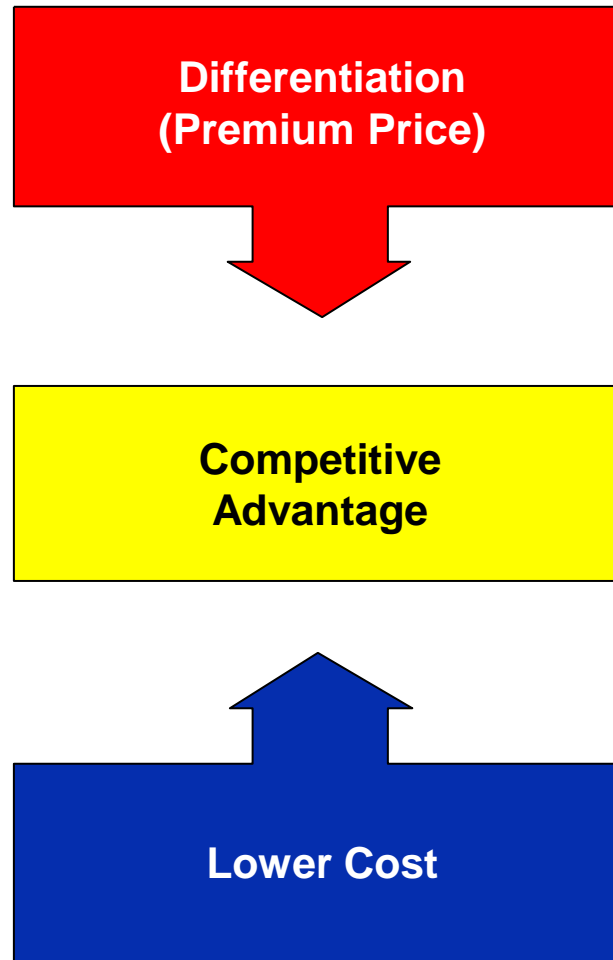
- Strategy for the **company overall**
  - What **portfolio of businesses** to compete in
  - Capturing **synergies** across business units



## Business Strategy

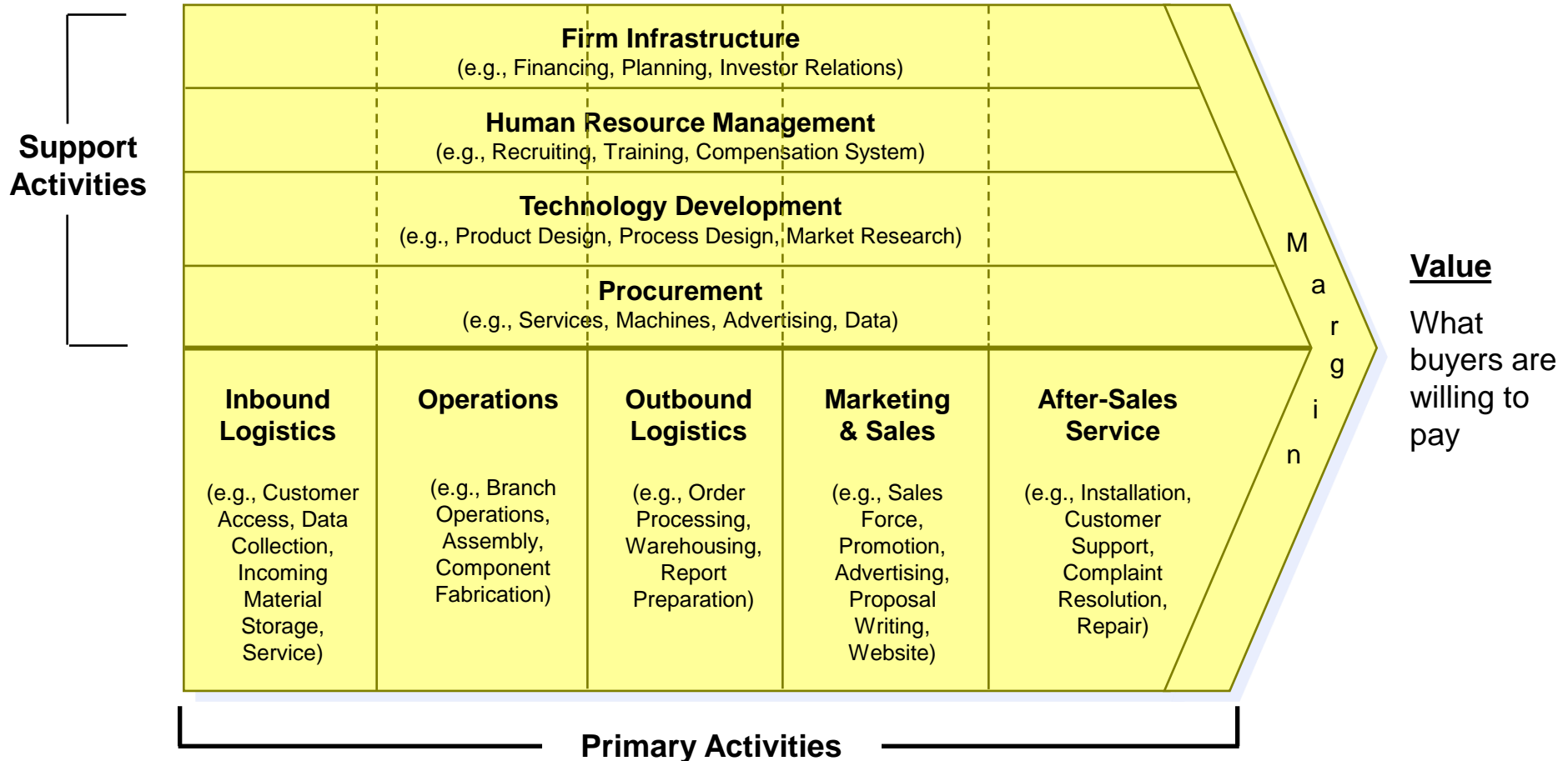
- How to compete in each **distinct business**

# Achieving Superior Profitability



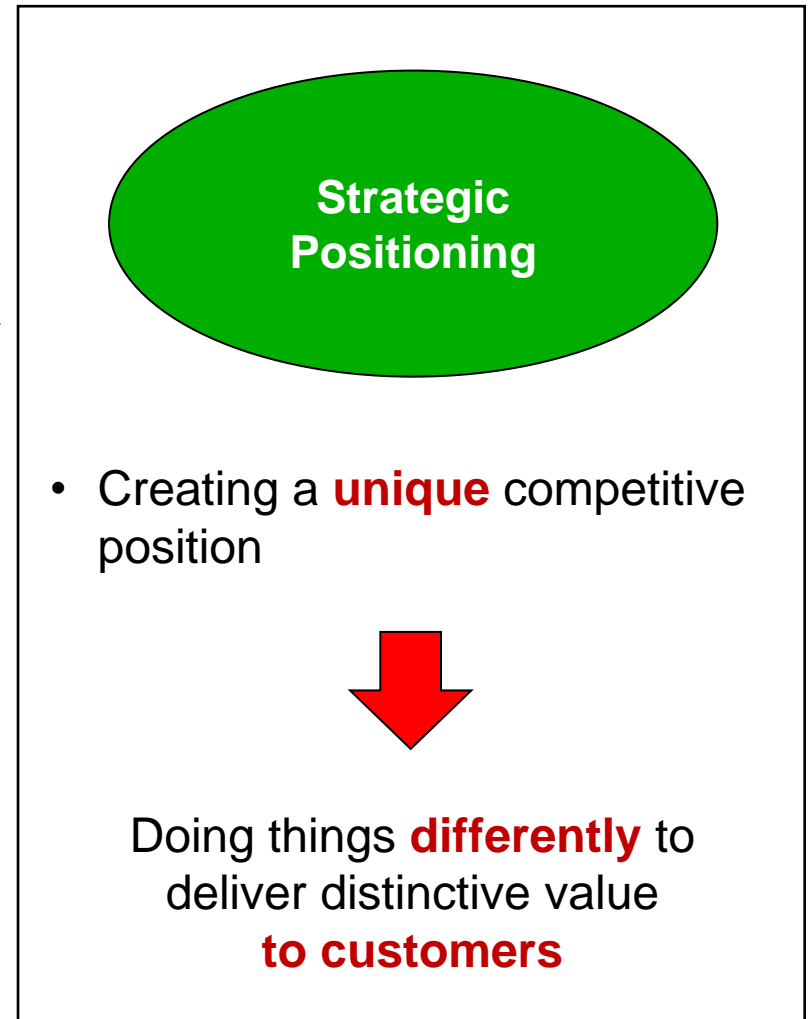
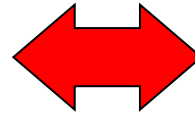
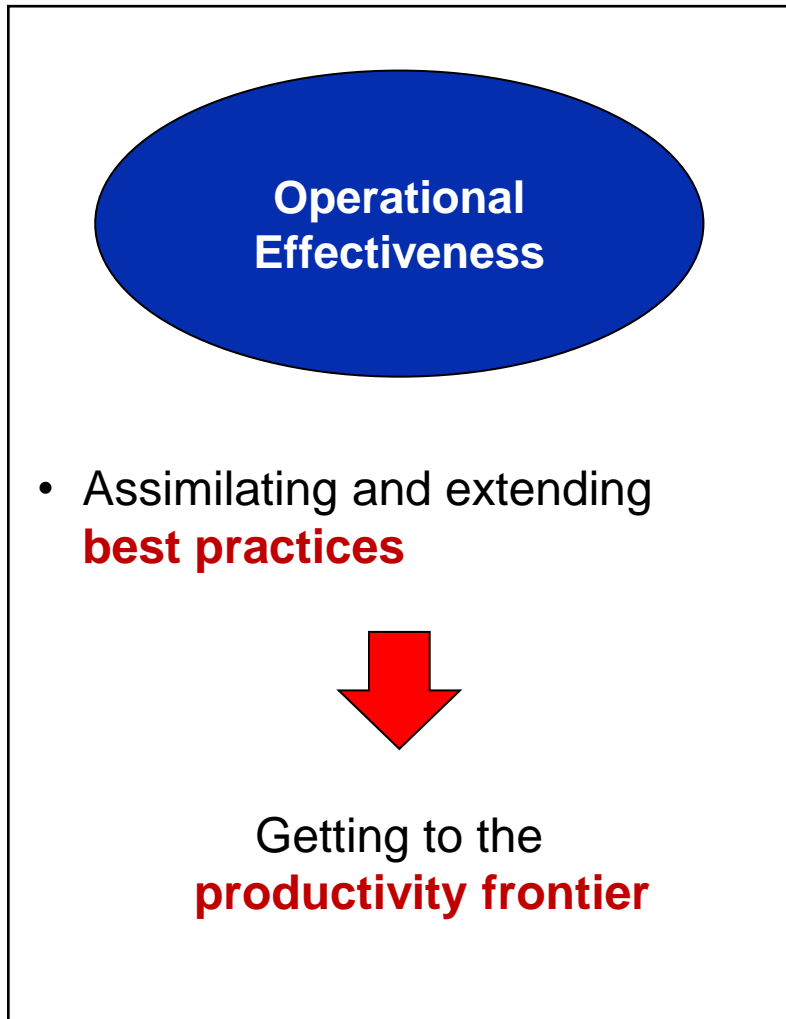
- Operating Cost
- Utilization of Capital

# Competitive Advantage and the Value Chain



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

# Operational Effectiveness Versus Strategic Positioning

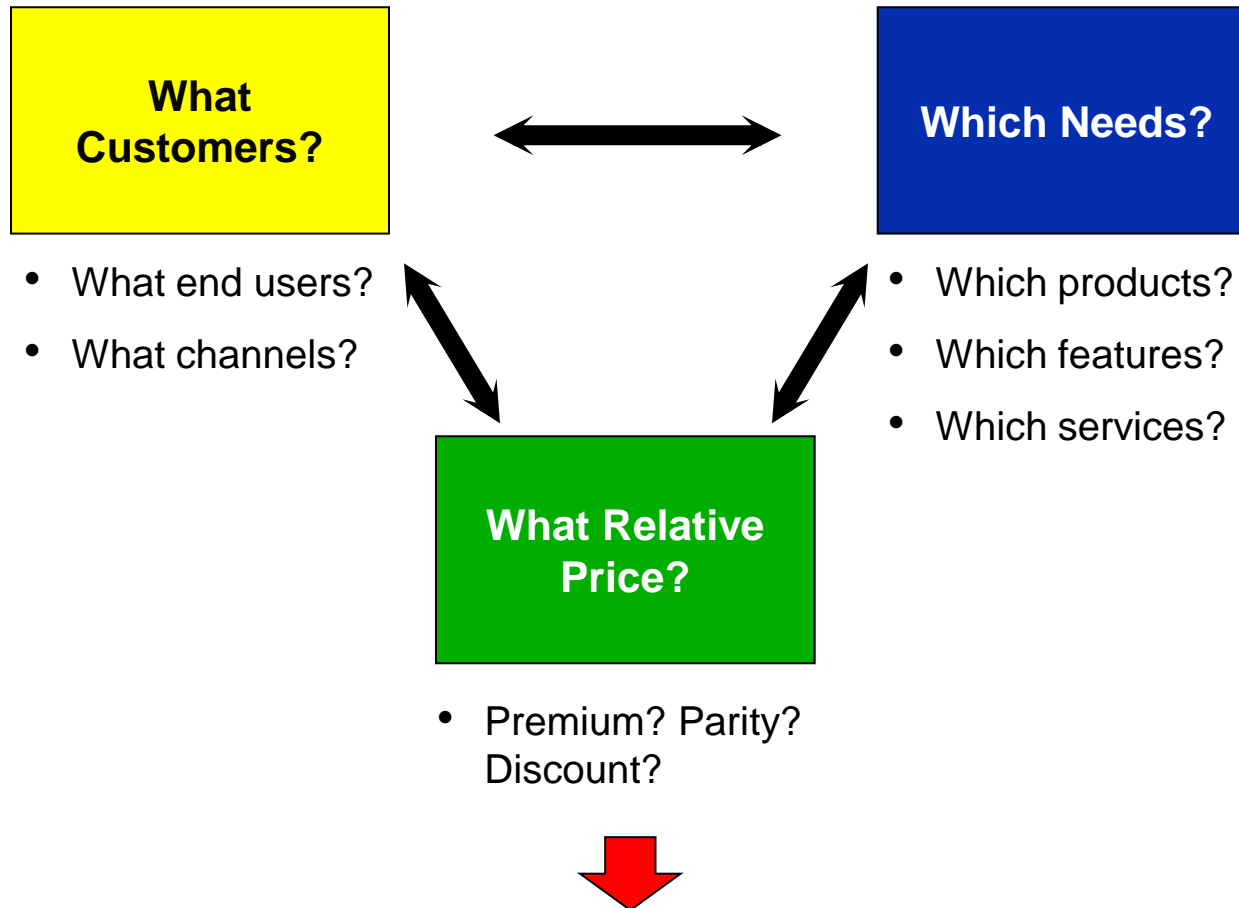




# Tests of a Successful Strategy

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

# Defining the Value Proposition



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

# Tests of a Successful Strategy

- A **unique value proposition** compared to competitors
- A **distinctive value chain**, involving clear choices about how the company will **operate differently** to deliver on its value proposition

# Strategic Positioning

## IKEA, Sweden

### Value Proposition

- Customers with smaller living spaces, **style** and **design conscious**, limited budget
- A wide line of **stylish, functional** and **good quality** furniture and accessories, but limited ancillary services
- **Very low** price points

### Distinctive Activities

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

# Tests of a Successful Strategy

- A **unique value proposition** compared to competitors
- A **distinctive value chain**, involving clear choices about how the company 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 style, compactness, manufacturing cost and assembly simplicity

#### 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
- No delivery included

### 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
- Delivery part of product



- Tradeoffs create the need for **choice**
- Tradeoffs make a strategy **sustainable** against imitation by established rivals

# Tests of a Successful Strategy

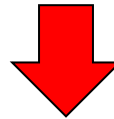
- A **unique value proposition** compared to competitors
- A **distinctive value chain**, involving clear choices about how the company will **operate differently** to deliver on its value proposition
- Making clear **tradeoffs**, and choosing what **not** to do
- Integrating choices across the value chain so that activities **fit together** and **reinforce each other**
- **Continuity** of strategic direction, with continuous improvement in realizing the unique value proposition



- The essence of strategy is making **choices**

# Adding a Social Dimension to Strategy

- Shared value opens up new **customer needs**, new available **markets**, new **value chain choices**, new ways to address **external constraints**
- Shared value leads to **new ways of thinking** about the business
- This creates new **value propositions**, new opportunities for **strategic positioning**, and new potential sources of **competitive advantage**



- Incorporating **social dimensions** into the value proposition enables differentiation and/or reducing cost
- These social dimensions often make a strategy **more sustainable** versus conventional cost and quality advantages



# Shared Value and Strategy

## Discovery Health

- Discovery's **health plans** are paired with the **Vitality Wellness Program**, which rewards healthy behavior through incentives such as discounted health club memberships and discounts on healthy food purchases
- Clinical studies show that Vitality members are **healthier**, **live longer** and have **lower healthcare costs**
- Discovery's unique value proposition is based on shared value, through **health for its subscribers** at low cost



- Vitality is now the **world's largest wellness program** of its kind, with 3.3 million members globally
- Discovery is one of the world's **fastest growing** and most **profitable** health insurance companies

# Redefining the Value Proposition

## CVS Caremark

- Drugstore retailer CVS has redefined its value proposition around **shared value**
- Pharmacists and nurse practitioners now have an expanded role of working closely with patients, clients and health care providers to **improve health outcomes**
- CVS operates a large network of **in-store clinics** as a convenient alternative to traditional doctor's offices
- CVS became first pharmacy to **stop selling all tobacco products**, forgoing **\$2 billion** in annual revenue, and launching a national smoking cessation program

### New Vision

*We strive to improve the quality of human life*

### New Mission

*Helping people on their path to better health*

# Levels of Strategy

## Corporate Strategy

- Strategy for the **company overall**
  - What **portfolio of businesses** to compete in
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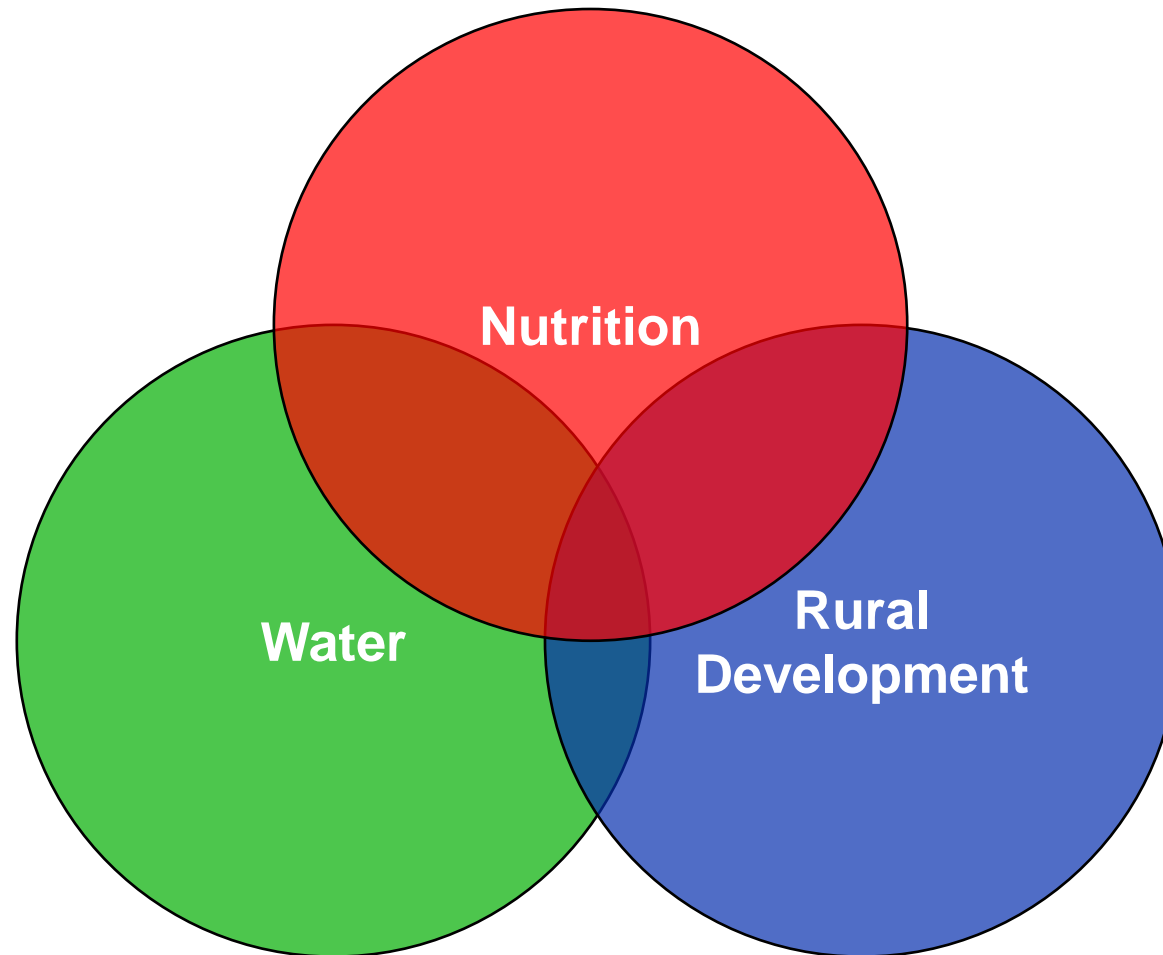


## Business Strategy

- How to compete in each **distinct business**

# Defining Opportunities for Shared Value in the Corporate Portfolio

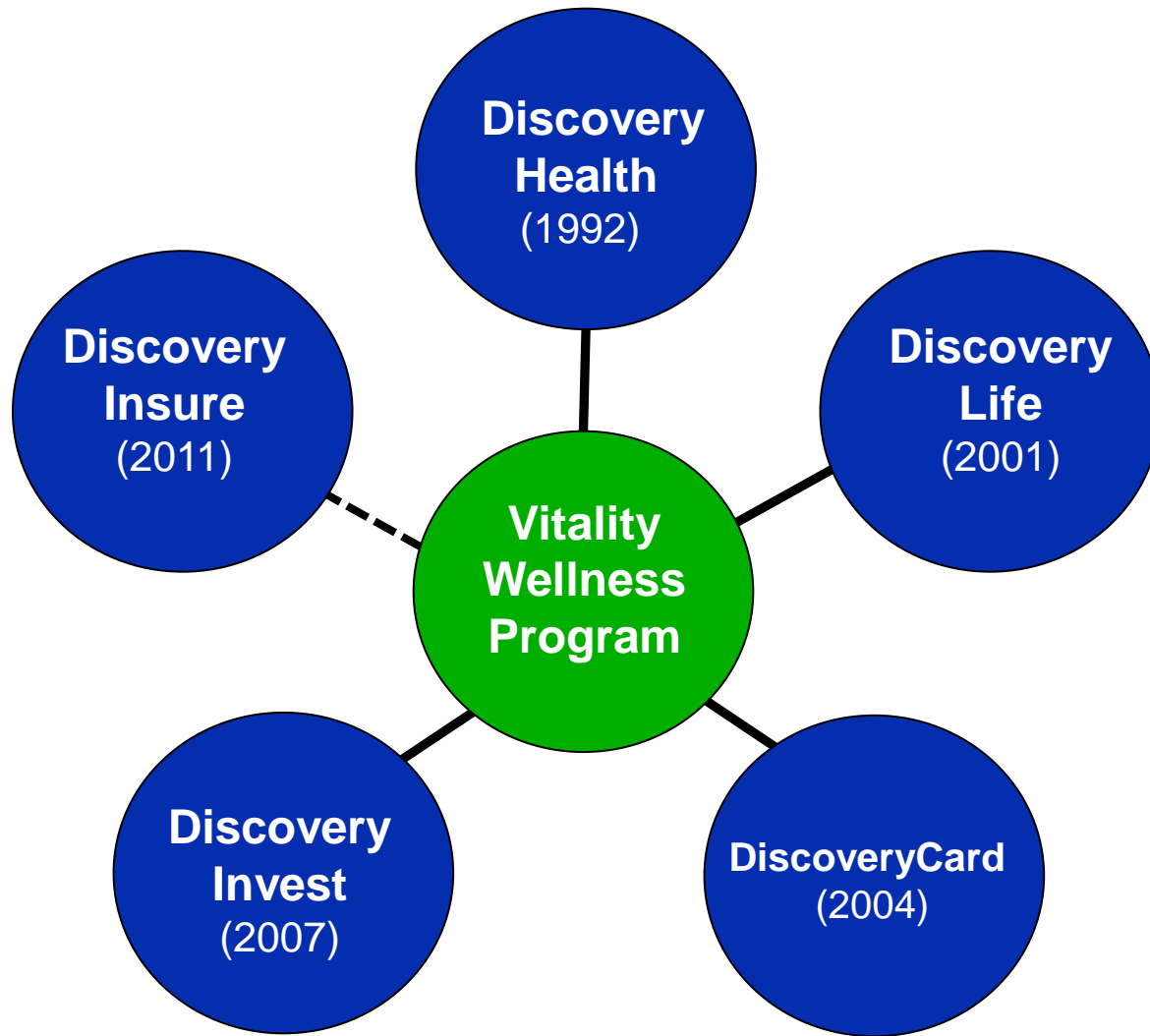
## Nestlé



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

# Leveraging Shared Value across Businesses

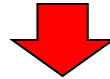
## Discovery



# Redefining the Corporate Portfolio

## Danone

- In the late 1990's, Danone realized that it had drifted away from its origins as a manufacturer of **healthy foods**



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

### New Vision

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

### New 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*

# Investors and Shared Value

- Investors have been increasingly seen as a **negative force** in social progress by focusing narrowly on short term profit maximization



- Investors are being challenged to **incorporate societal issues** into investment behavior
- There is a growing appetite for **investment vehicles** focusing on businesses that contribute to addressing social issues
- The question is **how**?

# Investors and Society

Starting Point

CSR Investing

Shared Value Investing



- Social factors are irrelevant to security analysis

- Negative screens that exclude “bad” industries or companies

- Rank companies on comprehensive sets of ESG criteria

- Invest in profit making businesses with a **core social purpose**

- Identifying companies that are improving economic value **through** addressing social problems and opportunities



- Taking social factors into account is inconsistent with fiduciary responsibility and will sacrifice financial returns

- Unrelated to company financial performance

- Many ESG factors are not material to the company’s social or economic performance

- Mostly private equity
- Limited number of “pure play” companies

- **All** companies can create shared value
- Shared value focuses on opportunities that are **material** to economic performance
- A **natural extension** of traditional investment analysis



# The Purpose of Investing

- The fundamental purpose of investing is to **allocate capital** to companies who can earn an **attractive return**
  - Investors create societal value by **selecting** companies that will use capital well, **monitoring** their performance, and **intervening** to improve that performance
- Investing in companies that **create shared value** multiplies the social impact of capital allocation
- Shared value investing will drive **faster adoption** of shared value strategies across every industry