



Social Impact Consultants

Discovering better ways
to solve social problems

Creating Shared Value In Action

A Conversation with:

Mark Kramer, *Founder and Managing Director, FSG*

Tony Kingsbury, *Associate Director, Sustainability, Dow Chemical & UC Berkeley, Haas School of Business*

Dorje Mundle, *Global Head of Corporate Citizenship, Novartis*

Janet Voûte, *Global Head of Public Affairs, Nestlé S.A.*

May 5, 2011

Today's Agenda

Introduction to Shared Value Creation (:10)

Mark Kramer, FSG

Creating Shared Value at Nestle (:10)

Janet Voûte, Nestlé S.A.

Novartis: Shared Value in Rural India (:10)

Dorje Mundle, Novartis

Shared Value Innovations at Dow (:10)

Tony Kingsbury, Dow Chemical

Audience Questions & Answers (:15)

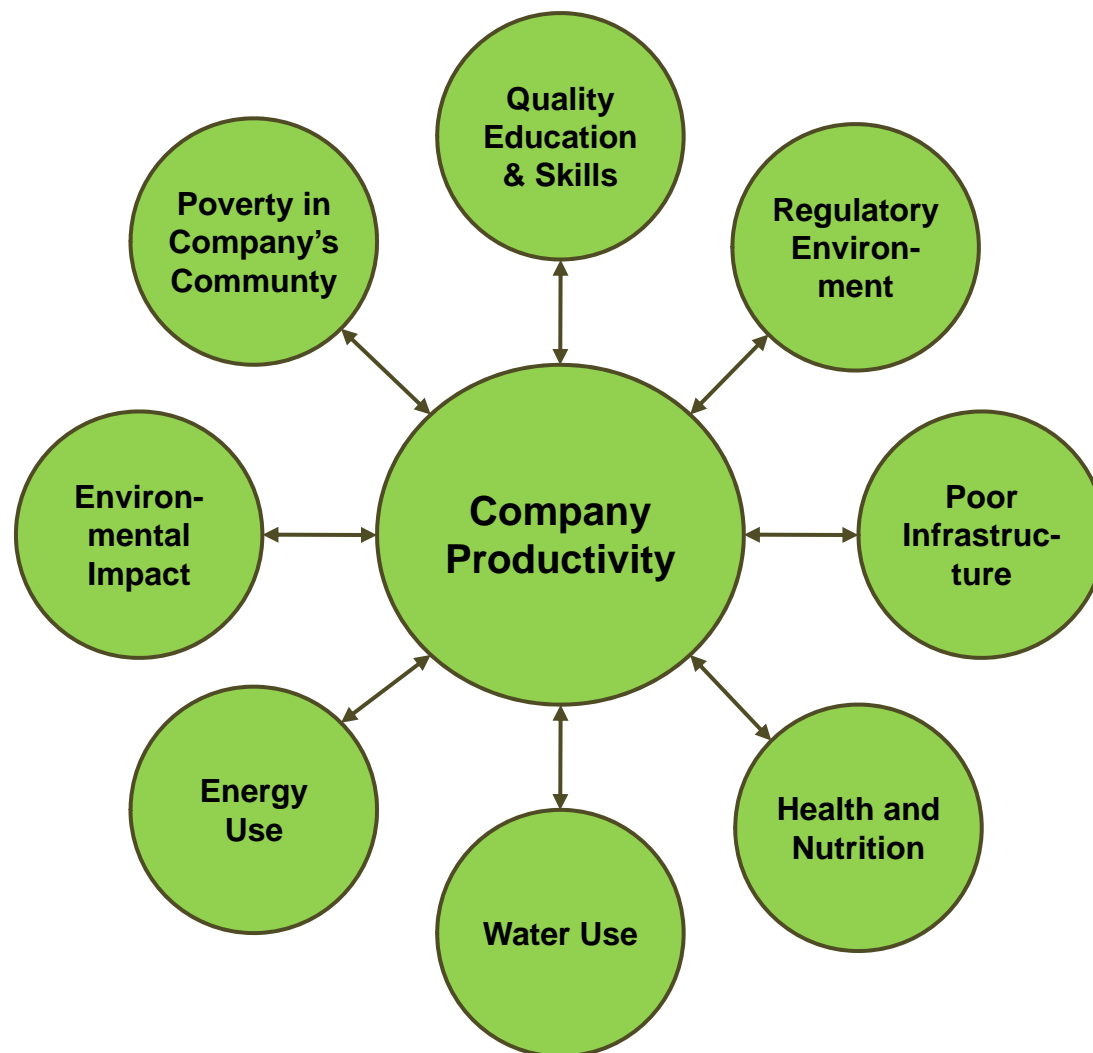
Wrap-up by Panelists (:05)

Corporate Thinking Has Evolved Over the Past Decade

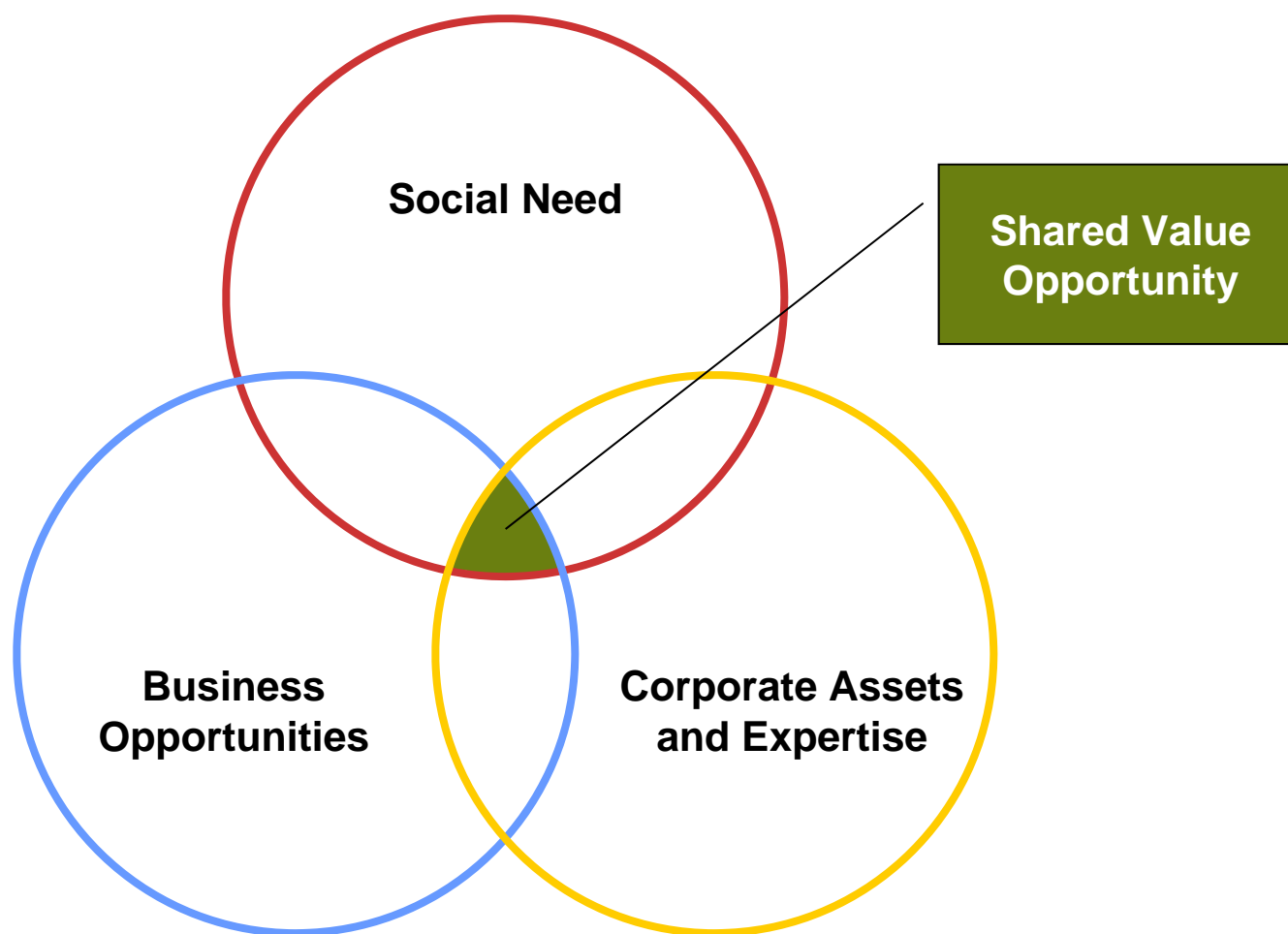


Shared value is created by policies and practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates

Competitive Advantage and Societal Issues: So-Called “Externalities” Have Internal Effects



Corporate Shared Value Is Found at the Nexus of Business Opportunities, Corporate Assets and Social Needs



Companies Are Improving Their Competitiveness by Creating Shared Value at Three Levels

Reconceiving Products and Markets

- Meeting social & environmental needs
- Serving new populations
 - Bottom of the pyramid
 - Special needs

Redefining Productivity in the Value Chain

- Conserving energy & natural resources
- Procurement & distribution systems
- Employee productivity & welfare
- Selection of locations

Enabling Local Cluster Development

- Related & supporting industries
- Infrastructure
- Transparent markets

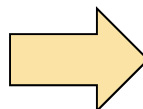
From Corporate Social Responsibility to Creating Shared Value

CSR

Traditionally focused on issues of compliance, transparency, volunteerism and philanthropy

- **Motivated by:** Improving corporate reputation among stakeholders
- **Measured by:** Funds expended and/or GSE indicators, (e.g., Global Reporting Initiative)
- **Managed by:** Separate CSR and philanthropy departments
- **Viewed as:** Discretionary compliance in response to external pressure or pending regulation
- **Business benefit:** Peripheral benefits through risk reduction and goodwill
- **Social Benefit:** Limited to corporate footprint and charitable activities

Example: Fair trade



CSV

Policies and practices that enhance competitiveness while advancing economic and social conditions

- **Motivated by:** Seeking competitive advantages and sustainable solutions to social problems
- **Measured by:** Value created (economic and social benefits relative to cost)
- **Managed by:** Cross departmental teams from senior management, operating units and CSR
- **Viewed as:** Integral to competitive advantage and profit maximization
- **Business benefit:** Innovations that provide new business opportunities and extend core strategy
- **Social Benefit:** Large scale and sustainable social benefits that can transform communities

Example: Providing crop inputs, technology, training, and financing to increase smallhold farmers' quality and yield

Creating Shared Value

The definition

Nestlé Chairman and CEO, 2010:

"For a company to be successful over time and create value for shareholders, it must also create value for society."

"... beyond sustainability, to create value for shareholders & society - integrally linked to our core business"

"...meet the needs of the present without compromising future generations ..."

Comply with the highest standards

Creating Shared Value

Nutrition, Water,
Rural Development

Sustainability

Protect the future

Compliance

Laws, Business principles, codes of conduct

Nutrition highlights in 2010



- 6,502 products renovated for nutrition or health considerations , reducing salt, fat and sugar levels
- Nestlé Healthy Kids programmes run in partnership with governments, academia, and NGOs in 58 countries
- 4,860 Popularly Positioned Products
 - 90 billion servings of Maggi products fortified with key micronutrients (iodine)
 - Affordable fortified milks now available in 75 countries

Water highlights in 2010



- Reduced water withdrawal per tonne of product from 3.47m³ to 3.29 m³ (2009-2010)
- Water savings of 80% in coffee production process in Yunnan , China
- 1 billion m³ of water saved annually in coffee-growing region of Dak Lak, Vietnam
- Leading role in global dialogue (Water Resources Group, WEF, UNGC)

Farmer programmes

KEY FACTS AND FIGURES

- Nestlé operates 63 farmer programmes worldwide
- These cover 4 continents: Africa, Asia, Latin America and Europe
- 950 agronomists and 15 036 extension workers and contractors offered support, training and technical assistance to farmers (2009)
- 144 926 farmers around the world were trained through Nestlé capacity-building programme (2010)



The main commodities we source are **milk, coffee and cocoa**. Other commodities include **grains, sugar, maize, rice, chilli, potatoes, cassava, soybeans, fish and palm oil**.

Nestlé extends approximately **CHF 45 million** in financial assistance to farmers (2010).

Many of our farmer programmes offer: microfinance initiatives, technical skills training, education in sustainable farming methods and improved water management techniques, and new opportunities for women.

Worldwide Factory Impact Survey, November 2010

Rural development impact of Nestlé's factories

	422 factories responding to survey ⁽¹⁾	195 factories in developing countries	144 rural ⁽²⁾ factories in developing countries	51 urban factories in developing countries
Sourcing from local/national supplier:				
Milk	28%	33%	38%	22%
Coffee	13%	16%	17%	16%
Cocoa	16%	19%	22%	14%
Training programmes in past five years:				
Literacy and numeracy	25%	30%	33%	22%
Entrepreneurship	26%	33%	37%	24%
Skilled trades	48%	43%	44%	39%
Formal apprenticeship	52%	57%	58%	55%
In the past five years:				
Provided clean drinking water to local community	30%	33%	32%	35%
Contributed to local educational facilities	53%	57%	58%	55%
Invested in other local infrastructure	33%	39%	41%	33%
Nestlé-built water treatment plant	53%	67%	70%	59%

Novartis case study: the global health challenge

Poverty	<ul style="list-style-type: none"> ▪ >3bn live on \$2.50 per day and >5bn on \$10 per day
Education	<ul style="list-style-type: none"> ▪ The poor receive inadequate education, which drives poor health decisions
Accessibility	<ul style="list-style-type: none"> ▪ Billions live in rural locations and must travel long distances to receive healthcare
Medical personnel	<ul style="list-style-type: none"> ▪ Huge shortfall of qualified care providers: 1 doctor /400,000 people in rural Malawi
Health infrastructure	<ul style="list-style-type: none"> ▪ Diagnostic & treatment infrastructure often missing or inadequate
Health financing	<ul style="list-style-type: none"> ▪ Many governments allocate tiny proportion of GDP to healthcare
Scale	<ul style="list-style-type: none"> ▪ Huge need for pro-poor innovative healthcare delivery models for bottom 3-5 billion ▪ In India alone, 740 million people live in rural areas, mostly on \$1-5 per day
Pricing	<ul style="list-style-type: none"> ▪ For some disease like HIV/AIDS, prices of patent-protected limits affordability

Solutions to many systemic issues needed to win the global health challenge

Novartis case study: business model innovation for the BOP

“Arogya Parivar” – Healthy Families Creative entrepreneurship meets Corporate Citizenship

Products

- **Portfolio:**
 - 79 products in 12 therapeutic areas
- **Affordable:**
 - Sandoz generics
 - Over-the-counter (OTC) medications & nutrients
 - Pharma products
 - Custom small packs branded in local dialect

Services

- **Community health education:**
 - ~300 health educators
 - Focus on prevention, child & maternal health, symptom awareness
- **Healthcare provider education:**
 - Address low level of medical training
- **Supply chain management:**
 - Ensure continuity of supply in village pharmacies
 - Provided directly in villages via health camps

Results & next steps

- Improved access to health education and medicines for **42 million patients in 28,000 villages**
- Partnering with **~50 000** pharmacists and clinics
- Portfolio expansion in 2011: vaccines, generics, diagnostics and more
- Will pilot in three **Asian/African** markets in 2011
- Partnering to expand access to **health infrastructure financing**

Novartis case study: challenges and lessons learned

Challenges	Opportunities
<ul style="list-style-type: none"> ▪ BOP market conditions 	<ul style="list-style-type: none"> ▪ Low cost of experimentation
<ul style="list-style-type: none"> ▪ Business process misalignment 	<ul style="list-style-type: none"> ▪ Strong articulation of strategic rationale ▪ Business process integration (e.g. capital allocation)
<ul style="list-style-type: none"> ▪ Scale of challenge 	<ul style="list-style-type: none"> ▪ Tech innovation driving cost efficiency, scalability and new service offerings ▪ Lower operating costs & competition
<ul style="list-style-type: none"> ▪ Mindset shift 	<ul style="list-style-type: none"> ▪ Senior management support ▪ Real world exposure ▪ Talent & leadership development

We are at the beginning of the journey and scratching the surface of what's possible

SOLVING CHALLENGES THROUGH SUSTAINABILITY... SHARED VALUE



Starts with our Mission:

To passionately innovate what is essential to human progress by providing sustainable solutions to our customers

Dow people include some of the **world's best scientists and engineers** dedicated to solving global challenges. We focus our **innovation engine** on delivering new technologies that are good for business and good for the world.



Energy



Climate Change



Water



Health & Nutrition



Transportation & Infrastructure

Dow is preferentially investing its \$1.6B annual R&D Budget to meet the Worlds needs in these areas



EXAMPLE: OMEGA-9 HEALTHY OILS



Virtually free of trans fat and containing the lowest saturated fat content of any vegetable oil, and half the saturated fat of olive oil, Omega-9 Canola and Sunflower Oils can be used in numerous applications, including deep frying, sautéing, baking and in salad dressings.

Shared Value Profile

- Zero Trans Fat
- High in heart-healthy monounsaturated fat
- Lowest saturated fat of typical cooking oils and half the saturated fat of olive oil
- Since 2005 Omega-9 Oils have eliminated nearly a Billion pounds of trans fat and 250 million pounds of saturated fat from North American foods
- Studies show people prefer the taste of foods fried in Omega-9 Canola Oil over common oils



EXAMPLE: SPINETORAM™ FAMILY OF INSECT CONTROL PRODUCTS



Innovative insect control technology derived from a biological organism (nature's own) that provides control of a broad spectrum of insect pests in a variety of crops.

Shared Value Profile

- Applied at lower rates than conventional insecticides
- Low impact on beneficial insects
- Naturally degrades through UV light and soil microbes
- Low solubility in water
- Favorable tox profile
- Carries lowest human hazard label
- Organic version available
- Growing (pun intended) business



2008

AWARD WINNER
U.S. Presidential Green
Chemistry Challenge



OTHER SHARED VALUE INNOVATIONS



Solar Shingles to provide clean energy with lower installation costs



Termite Colony Elimination System using 1/10,000th the amount of product traditionally applied



Investing in WaterHealth International to provide clean, affordable water to 10 million people living on \$2/day



If Dow was a country we would have met the Kyoto Protocol for GHG reduction... saving Dow \$ billions in the process



FINAL THOUGHT



“Sustainability begins at home, but its destiny is to engage the problems of the world. We will build on our company’s rich legacy of leadership in solving the world’s most pressing problems.”

- Andrew Liveris,
Chairman & CEO
The Dow Chemical Company

Audience Questions



Mark Kramer, FSG



Tony Kingsbury, *Dow Chemical & UC Berkeley, Haas School of Business*



Dorje Mundle, *Novartis*



Janet Voûte, *Nestlé S.A.*

Thank You!

- Thank you for joining in the shared value conversation today
- Please fill in the brief electronic survey that you'll receive after today's event to share your feedback with us
- For more information on shared value, visit www.fsg.org and click on *Creating Shared Value* or contact us at *info@fsg.org*

*Today's webinar presented in cooperation with the
Committee Encouraging Corporate Philanthropy
www.corporatephilanthropy.org*

