



BUILDING SHARED VALUE BUSINESS PROPOSITIONS

# The role of 'value networks'

## SECTION 1

# Our Perspective on 'Shared Value'

As with the earlier development of 'base of the pyramid' (BoP) business strategy, two approaches to shared value are emerging. One approach focuses on stakeholder engagement, NGO partnerships, and social enterprises to advance special products or services, which are not necessarily linked to core business lines or operations. The business value of this approach is primarily in the area of corporate affairs and related functions.

Drawing upon our experience with successful BoP business offers, we argue that the potential of the shared value proposition is to be found in its application as a strategy for core business growth. This approach focuses on the re-design of core business lines as a strategy for greater market penetration, market share, and competitive advantage, in addition to securing or enhancing business legitimacy. In this approach 'social impact' is viewed as part of an enriched value proposition. Social benefits, conventionally viewed as a revenue diluting, are made 'core'

because the organisation has discovered efficient and manageable ways to embed them into the firm's offers so as to increase gross revenues while maintaining margins. The selected social benefits are developed and integrated with the established functional and emotional benefits of the product and customer relationship. The result is increased price-performance of the company's offer(s) relative to those of competitors.

This paper provides a basic overview of our approach to developing such 'shared value' as a core proposition. In particular, it looks at the role of value networks in the development and realisation of shared value - at scale.

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SECTION 2

# The Mandate & Core Business Metrics for Shared Value Innovation Projects

The first step in bringing shared value into core business practice involves the development of an executive mandate to allocate resources for the subsequent discovery, co-creation, and specification of the offer. Figure 1 summarizes the key front-end considerations for the set-up of shared value core business innovation projects.

The shared value project will only be credible as a core activity if it rests on a strategic business case, and if the project effort is governed by defined core business contribution metrics and performance thresholds (see Box A).

In our experience, senior leadership mandate for shared value projects is most readily attained when shared value is placed not only within the company's short term strategic imperatives, but also by identifying and pulling at levers that play to the company's long-term, sustainable growth

agenda. Successfully linking short-term imperatives with the company's long-term value creation goals often opens the path to securing not only necessary mandate from senior leadership, but crucially, the commitment of leadership to helping create the necessary enabling environment which often underpins shared value success at scale.

Additionally, it is necessary to develop metrics at the outset. Such metrics help to secure senior leadership mandate, as well as engaging product and market managers in determining what would be an investment worthy contribution to the business. This sets the stage for evaluating the most attractive areas in which to explore a shared value proposition. Subsequently, the metrics may be used as the design parameters for the shared value offer and business model, ensuring consistency with core business requirements.

PROJECT SELECTION CRITERIA

Potential Contribution to
Brand value
License to Operate/Legitimacy
Direct Business Value (at Scale)
Talent Retention Organisational Competencies

Potential Risk due to
Distraction from Current Business Operations
License to Operate/Legitimacy
Distraction from Current Business Responsibilities
Partnership Dependencies

PROJECT GOVERNANCE & MANAGEMENT ARRANGEMENTS

Contribution Management
Senior Executive/Board Sponsorship
Pre-Negotiation of Business Contribution Metrics
Direct Business Value (at Scale)
Capacity/Expertise Deployed to Match Ambition

Project Risk Management
'Contracted' Process Stage-Gates
Communications Protocol/Firewalls
Defined Framework for Intrapreneurship
Post-project Deployment Options Clearly Defined

FIGURE 1 Project Mandate and Project Management Considerations in Shared Value Business Innovation Projects

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#### BOX A AREAS OF POTENTIAL SHARED VALUE BUSINESS CONTRIBUTION

- **Brand Value.** Contribution of a shared value proposition to establishing or increasing brand awareness and differentiation in targeted markets or market segments.
- **License to Operate.** Contribution to securing or reinforcing license to operate in specific markets.
- **Capacity to Consume.** Contribution to establishment of a consumer pathway to purchase existing product/service lines, or to increasing purchases.
- **Market Share.** Contribution to the increased price-performance of a product or service offer, relative to competitive offers.
- **Customer Retention.** Contribution to establishment of lower risk, higher quality last mile solutions in markets or segments facing unique vulnerabilities.
- **Talent Retention.** Contribution to the achievement of the firm's talent attraction, cultivation and retention targets.
- **Operational Efficiencies.** Contribution to the firm's ability to draw upon the capacities and competencies of other kinds of organizations to increase revenues and secure margins. This involves leveraging their revenue models, and reducing costs to the firm associated with customer acquisition, customer value proposition (CVP) delivery, user education and support, etc.

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### SECTION 3

## Developing a Shared Value CVP

Once the business metrics are defined for a shared value initiative in a selected market and product area, and the associated mandate is confirmed, work begins on developing an enriched proposition. Discovering ways to enrich value in matured product/service areas—especially with non-conventional product benefits—requires enriched forms of market research. Aspects of customer, consumer and stakeholder value, which are not typically explored or revealed by conventional approaches to market

The analysis of revenue potential associated with the addition of a new component of value can eventually also be rigorously evaluated from a margin pool perspective. With one client, for instance, The Next Practice identified 23 distinct components of consumer value in a shared value offer that was being explored by the company. Before going to market, dipstick analysis and granular cost analysis were used to develop a financial model for the offer that determined the margin potential of each of the 23 identified benefits or components of customer value. The impact of each component upon purchase and renewal decisions was also assessed. On this basis, the client selected less than a dozen core value components to be designed into the final offer. This focus enabled the success of an offer with very significant user and social impact, as well as an ROI, and its scaling for millions of customers.

“ Discovering ways to enrich value in matured product/service areas—especially with non-conventional product benefits—requires enriched forms of market research.

research, must be identified and deeply understood. The discovery process for a shared value proposition would typically include consumer immersion, ethnographic methods, creative micro-segmentation of the market, and the harvesting of insight from local business models and other organisations that work with or service the segment across the different aspects of their lives..

Critical components of underserved value - both emotional and functional benefits - need to be identified and linked with broader public good benefits, whether at the scale of the society or just for the consumer's own local community. Once identified, these precisely defined components of social benefit need to be further linked to precisely defined revenue pools that can be developed to support their delivery, whether these are re-allocations of household wallet or the budgets of governments, NGOs, or other kinds of organisations.

But such margin potential cannot be assessed without first designing a business architecture that spreads the costs for delivery of the new and unconventional components of value over a network of delivery partners. This, in a business sense, is what we mean by the term 'value network.' Once the new value components and the sources of revenue available to support them are identified, then the process of collaborating with a network of prospective partners begins, focused on developing a model for cost-efficient, risk managed, and compliant delivery without compromising margin.

## SECTION 4

# Designing a Value Network to Enrich the CVP

Operational efficiencies are arguably the most challenging core business metrics to satisfy via the pursuit a social impact strategy. The rest of this paper focuses on the establishment of an operational model to produce, deliver, and support a profitable shared value proposition.

An effective discovery process reveals what needs to be added to the company's established CVP to both achieve defined social impacts and to competitively differentiate the offer. The process also provides the information required to methodically identify who would be the potential partners in the delivery of the new CVP to the customer/consumer. The complex nature of many shared value propositions generally requires that the firm draws upon the capacities, skills, competencies, assets, market presence and market penetration of unusual partners to deliver aspects of the enriched CVP. This may include other companies, NGOs, technical providers, government units, and education or academic institutions. More than an alliance or informal platform for cooperation, effective business management of the offer requires a system of contracted & semi-contracted relationships that coordinates and leverages the distinct revenue models and value chains of each partner together to deliver a richer, co-created value proposition to the consumer. C.K. Prahalad called the initiating and coordinating company the 'nodal company' in this network. Each party's financial and expertise contributions, access to assets or established market position is expressly valued and its contribution recognised in the final business case.

In considering potential partners, the following questions need to be addressed:

- Who has established capacity and know-how to deliver all or part of the identified new value components? Who already has the competencies and relationships in the target market to be a credible, competitive provider of these benefits?

- What are the key factors of their success?
- Which capacities and competencies should the firm seek to develop internally in order to deliver the new CVP, and which should it support and draw from external partners in a value network? The answer to that question requires another to be addressed: Who could bring a stable source of revenues or a proven revenue model into the offer's business architecture in order to financially support the delivery of the identified new value components?

Finding and establishing these deep strategic and operational relationships with value network partners can be counter intuitive for companies accustomed to the more direct management and controls of value chains, in which other companies are the sole, fully contracted contributors. The development of the shared value offer reveals the additional skills, knowledge, assets or networks that fall outside a company's core competencies and business systems. Fulfilling these needs through the establishment and management of an often semi-contracted value network requires a dedicated approach and process, particularly when important value network partners are driven by missions and have key success factors that are significantly different to those of a global company. From a core business perspective, being proactive in recruiting the strongest organisations into a confidential co-learning and co-creation process becomes the first barrier to competition that a company can establish in the development of a new offer.

The process of value network partner selection and engagement can begin in a low-key and purely exploratory fashion. However, as the company vets potential partners and deepens collaboration with those selected, it is best served by establishment of an explicit business process, with distinct stages and gates, for evolving that collaboration into a formal, even exclusive business relationship. Such a systematic process for value network



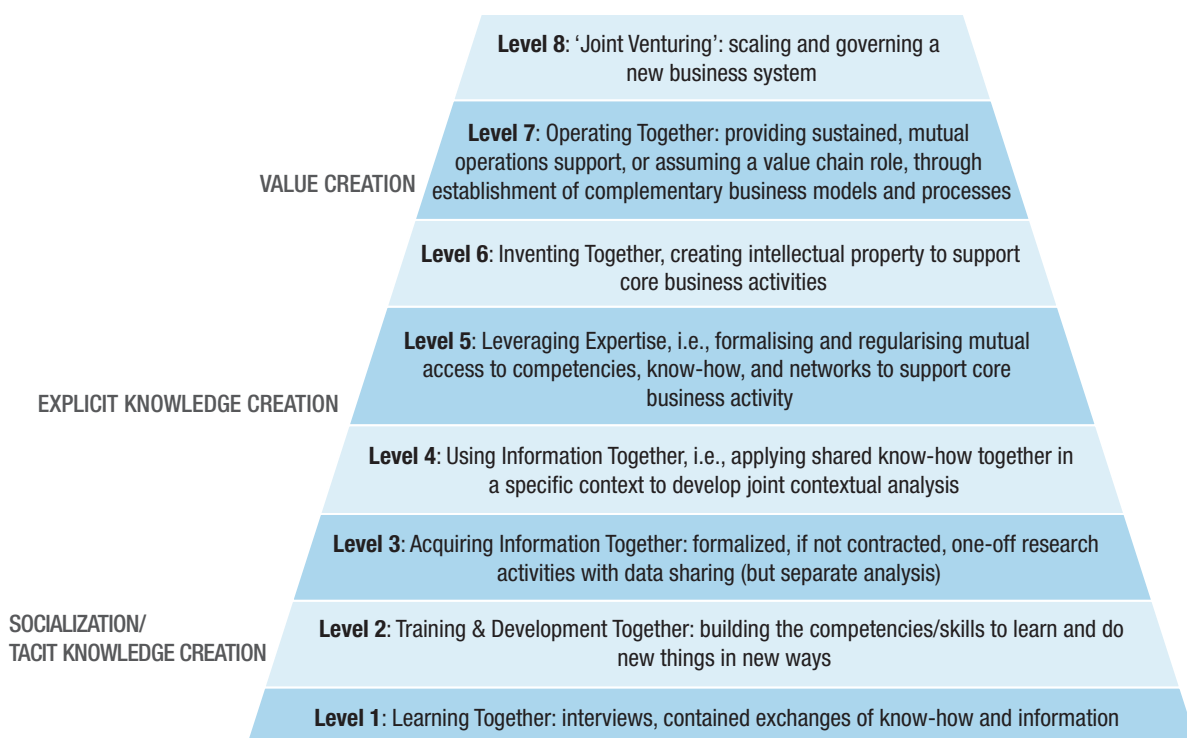


FIGURE 2 The phasing of value network partnership development (adapted from Prahalad and Ramaswamy (2004) *The Future of Competition*.)

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partnership development is illustrated in Figure 2 and Figure 3.

As illustrated in Figure 2, the vetting process begins with shared learning and trust-building. In effect, Level 1 & 2 collaboration is part of the company's discovery process. If the company seeks to further collaborate with a potential partner, then they may engage in more formal research and development activities together, as indicated in Level 3-5 relationships. These relationships may end with the completion of the offer design. If the company then determines that a partner might play a critical role in the business architecture of the offer's delivery, then the relationship can be further formalised. For instance, to achieve core business and social impact metrics, the offer may require consumer education, user support, community engagement, or consumer finance components in addition to the core product or service. It may also require the leveraging of a partner's fixed assets or its reputational equity. In one shared value model, for instance, the company leveraged the warehousing and other property

assets of local NGO partners, together splitting the costs of bringing these up to regulatory standards for their product area. In other partnerships, the value network enables more effective risk management by engaging the brand value and recognition of partners to accelerate license to operate, market momentum, and customer product acceptance.

The value network partners selected to provide inputs and supports for the offer may, as summarised in Level 6-8 relationships, join in the market testing of the offer, the joint execution of a market pilot, and eventually into a true business partnership.

As mentioned, the social impact components of an offer each bear their own costs. The value network model establishes a managed, scalable relationship with providers of these essential inputs in a way that leverages and strengthens their own revenue / value sources and models. Figure 2 illustrates the most important decision making gates during the process of developing such relationships. Establishing a value network

“ Who could bring a stable source of revenues or a proven revenue model into the offer’s business architecture in order to financially support the delivery of the identified new value components?

model—in which operational management of inputs into delivery may be more coordinated than controlled and more loosely contracted than in conventional value chain models—requires innovation in contracting and risk management. The staged evolution of those terms of collaboration is illustrated in Figure 3.

In a value network mode, the nodal company must build the management capabilities for selection, trust-building, training, and standards and risk management for diverse types of partners. This can be particularly challenging when network partners are extremely localised, and when the customer segment is part of a socially vulnerable population. Market-level intermediaries, such as distribution companies or purchasing aggregators, may be required to support these functions. There are a wide range of successful models from which to learn.

Mobile telephony has one of the highest rates of technology penetration in the world, with an estimated five billion mobile phone users. The pharmaceutical industry foresees substantial future use of mobile and online technology for the support and delivery of medical services, reducing costs for established business models and opening numerous opportunities to provide access to quality, more personalized, and lower cost health services. As has been the case in the banking sector, however, the switch from conventional to mobile-based offers often requires altogether new business models, especially in low-income, low-margin environments. Value network approaches have led the way.

For example, the SMS for Health model in The Gambia involves the coordinated efforts of Pfizer, Vodafone, the Gambia Ministry of Health, and local health clinics. Leveraging Vodafone’s existing local mobile service business, Vodafone’s Health Solutions unit provides the SMS solution for SMS for Health. This includes a participation incentive in the form of free mobile services for clinic and store managers who use the SMS solution to share pharmaceutical inventory and demand information according to agreed protocols.

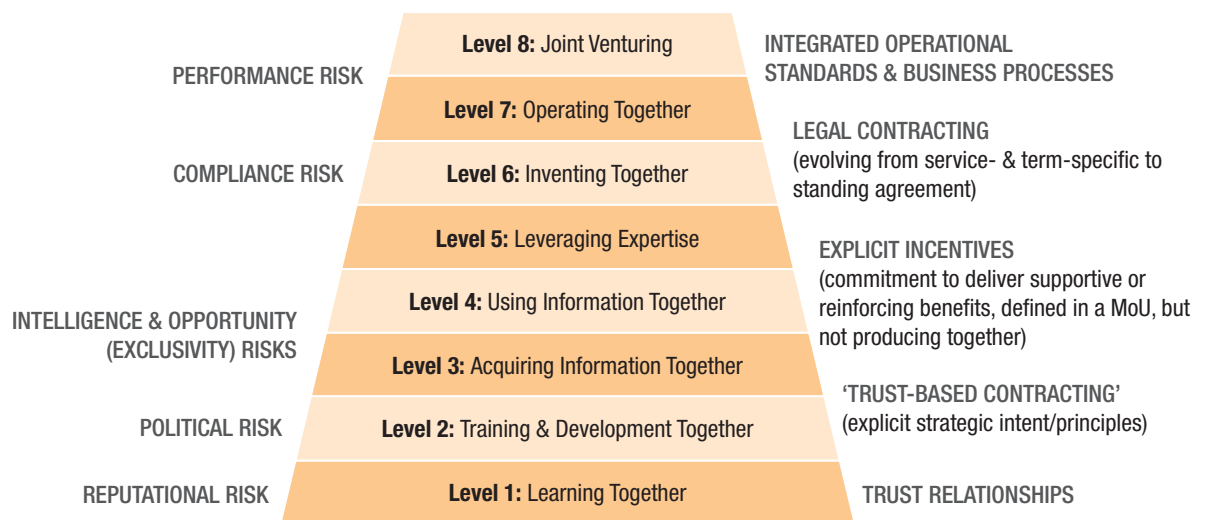


FIGURE 3 The formalisation of value network relationships is staged to manage evolving business risks

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The value network roles of Pfizer and the Ministry of Health include design and training of the medications and disease coding system to be used by participating clinics and shops. They co-maintain the central database into which participating local value network partners text their local data. The data is used by the Ministry to monitor disease rates and outbreaks and by Pfizer to improve supply chain and local inventory management practices. Commercially, Pfizer can use this data to better understand and serve the market. The final result is increased availability of necessary medicines at times of greatest need, and reduced inventory losses at times of reduced demand.

Pfizer's contribution to The Gambia value network model drew lessons from its earlier value network program in Ghana, focused on increasing access to malaria medications while increasing Pfizer's understanding of business requirements in the Ghana market. Pfizer joined with NGO partners Family Health International and Ghana Social Marketing Foundation to train Licensed Chemical Sellers to diagnose and treat malaria with Artemisinin-based Combination Therapy (ACT). This coordinated philanthropic and commercial effort leveraged revenues from different parts of the company. It provided a mechanism for the core business to learn about operational requirements in the market while increasing the rate of malaria diagnosis and treatment in the serviced areas from 14% to 72%.

These early initiatives, combining mobile technology with value network models, are establishing the first generation of low cost modern health infrastructure in many underserved parts of the world.

[Sources: Advancing Healthcare With the Base of the Pyramid, A special series by NextBillion.net February 21-March 4, 2011]

## SECTION 5

# Conclusions: The Strategic Case for a Value Networks Approach

Embedding the development and delivery of shared value products and services in core business requires a distinct, business focused, process orientated approach. From winning mandate, identifying and surfacing consumer value propositions and resulting solutions, to finding the right network partners who add crucial value beyond a company's core offer, we have outlined the basic elements of such an approach.

Value network approaches are evident in a variety of growth areas in the FMCG, consumer durables, financial services, telecommunications, health, insurance, and agricultural sectors. The focus of value network design ranges from the development of supply chains involving the aggregation of small suppliers, to the development of last mile partnerships to manage logistics and to control costs in rural and informal sector markets. However, successful models have generally relied on the unique capabilities of individual company 'intrapreneurs.' Few companies have established and developed a generalized company approach with associated metrics, methods, discovery and design process etc., and the capacity to apply these across a company's business lines.

The realisation of shared value business opportunities should not be left to chance. This brief paper suggests that shared value business opportunities can be developed in particular for core product lines, with the same rigour as conventional offer development. New and different methods, models, and procedures are required. Developing these should not be a significant challenge for global companies—it is one of their core capabilities. The main challenge likely remains one of perception about the core relevance of social impact to core business growth.

## About the Shared Value Network

C&E Advisory and The Next Practice Ltd. – A high value collaboration for the creation and scaling of commercial shared value ventures.

Two leading practices in the shared value field - C&E Advisory (C&E) and The Next Practice (TNP) - have joined forces to support bold corporate ventures and corporate-NGO partnerships for market-based solutions.

C&E focuses on the development of internal mandate, strategy, policies, competencies, and internal corporate processes required for leadership in this area. C&E also brings extensive, cross-industry executive coaching experience to support the executive champions of these initiatives. TNP focuses on the identification and quantification of commercially viable shared value opportunities in priority markets, and on the development of product/service offerings, business models, local operational partnerships, market pilots, documentation of business process and business standards, and market entry planning.

Through this integrated offer both the internal and external requirements for accelerating scaled initiatives and for reducing commercial and organizational risks is being provided in support of market leaders in shared value creation.

C&E and TNP recently initiated a Shared Value Network bringing together senior corporate pioneers in the emerging field of shared value from across sectors to learn and explore best practice. C&E and TNP collaboratively lead the network, hosting events held on a quarterly basis.

For further information, please contact us at [www.candeadvisory.com/contact](http://www.candeadvisory.com/contact) or [www.thenextpractice.com/contact/](http://www.thenextpractice.com/contact/).

## About C&E Advisory

C&E is a leading specialist 'business and society' consultancy. We work with some of the world's foremost businesses, NGOs and High Net-Worth Individuals, helping them secure sustainable value – shareholder, social and environmental. Our practice areas cover strategy, programme design, oversight and reviews, performance measurement and reporting, high performance team development and leadership coaching.

And because today's challenges and opportunities require new ways of thinking, C&E is particularly adept at inspiring and enabling sometimes surprising cross-sector collaborations. We have advised – and continue to advise – on some of the world's leading and best known corporate-NGO partnerships. C&E also advises on all aspects of the shared value agenda.

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## About The Next Practice

The Next Practice Ltd. supports clients to conceive, specify, pilot and enter the market with their 'next practice' business lines for commercial and social impact. Our specific interest is in helping our clients with innovation for new markets and operating environments delivering shared value products and services. We either deploy our well tested innovation process as direct managers of innovation projects, or we co-design, co-manage and co-facilitate the development of the client's innovation process, transferring our methodological innovation in areas of analytics, consumer insight, co-creation process and business/financial modelling. We have enjoyed working with leading international companies in energy, communications, logistics and financial services and a range of international, national and local foundations, NGOs and social enterprises.

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