

Economics of Mutuality

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What is Mars



- **Mars** is one of world's leading food manufacturers and one of the largest privately owned business
- **Mars** has net sales of more than \$33 billion and six business segments including Petcare, Chocolate, Wrigley, Food, Drinks and Symbioscience
- **Mars** employs approx 70,000 associates in more than 73 countries
- The **Mars Five Principles** of Quality, Responsibility, Mutuality, Efficiency and Freedom
 - Are the foundation of the culture & the approach to business
 - Help support Mars core objective to **make a difference to People and Planet through Performance**

What is Mars

A unique corporate culture based on an “odd” business objective



The Company's objective is the manufacture and distribution of food products in such manner as to promote a mutuality of service and benefits among:--

CONSUMERS

DISTRIBUTORS

COMPETITORS

OUR DIRECT SUPPLIERS OF GOODS AND SERVICES

GOVERNMENTAL BODIES

ALL EMPLOYEES OF THE COMPANY

AND

THE SHAREHOLDERS

This expresses the total purpose for which the Company exists - nothing less - and it is expected that the Board of Directors, all Management and employees of the company, will be motivated by this basic objective, and will keep it constantly in mind as the guiding principle in all their work for the company.

28th July 1947.

... that has been a fundamental part of our approach to business

What is Catalyst @ Mars

The 'think tank' of Mars since the mid 50's – reporting straight into the CEO

Connect big **business challenges** to leading edge thinking & science

How does Catalyst work?

A fluid network of interconnected experts working on a wide range of challenges

A **connect & develop** architecture

- A small high performing team of highly skilled & networked Catalyst associates – located in Eur, US, Asia, Africa
- A larger community of Catalyst 'fellows' outside Mars across disciplines & geographies

What does Catalyst deliver?

Leading-edge business relevant **capabilities** – that other companies don't have

Big Impact Business Initiatives – the **Catalyst Labs**

- Marketing & Sales
- Organizational Culture
- Economics of Mutuality

What should be the right level of profit ?

Two corollary questions

1. is there a relationship between profit and growth ?
 2. is there an optimum level of profit that ensures resilience and durability ?
-

Not a new question

*“A man may give freely, and still his wealth will be increased;
and another may keep back more than is right, but only comes to
be in need”*

King Solomon 950 BC

Responded in a particular way over the last 40 years

“The sole Social Responsibility of business is to increase its profits”

Milton Friedman, 1970

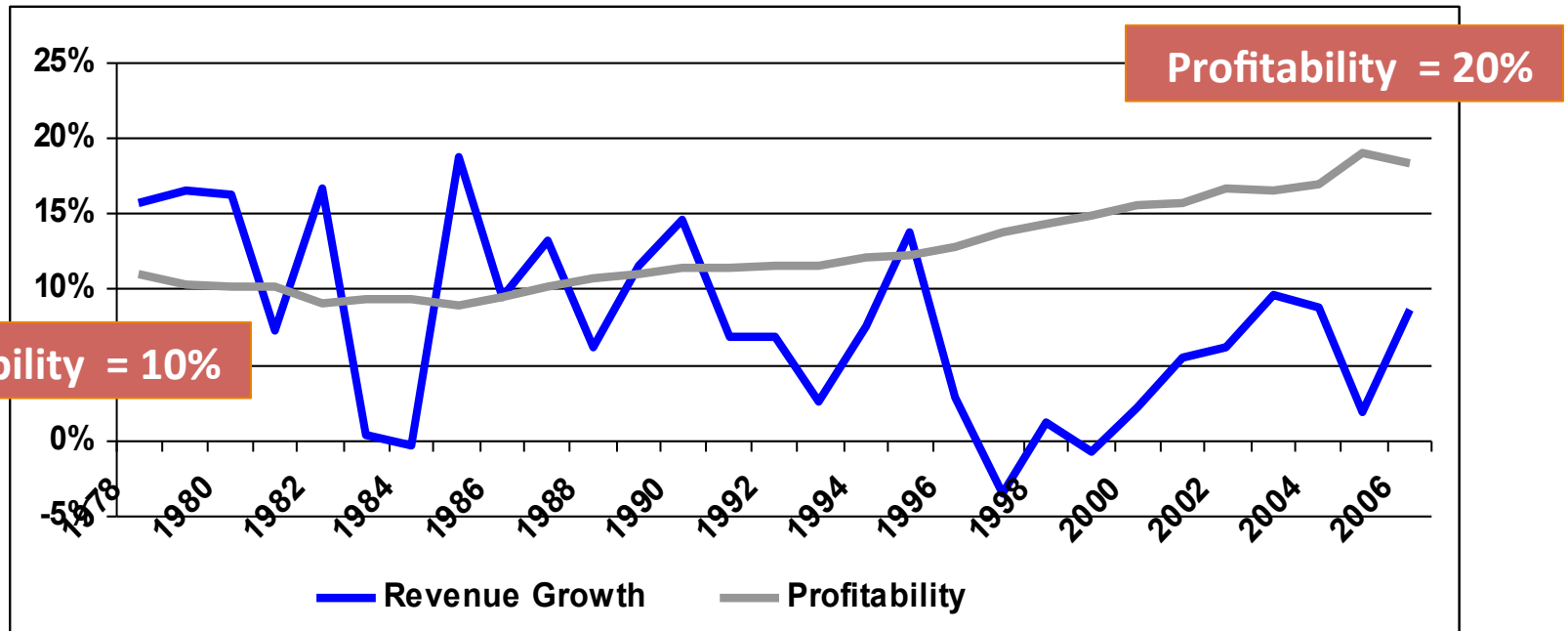
Extensive research over 4500 companies, over the last 50 years shows that ...

- No one has looked at this question in a meaningful way
- There is **no causal relationship between growth and profit** – regardless of the time scale
- But a strong & positive causal relationship between past profit and future profit during the life span of the Chicago School
- Historically, we observe that ...
 - high profit does not kill growth
 - high growth can be profitable
 - high profit can live together with sluggish growth
 - low growth is sustainable - low profit is not
- Hypothesis Chicago school has prevailed

Therefore, our questions are:

- Is this **a natural law** or the result of the 'Chicago' ideology – **separating profit & growth artificially**
- Could **Prosperity**, therefore, be linked to **how much one shares** ... not just how much one takes ?
- How much is too much vs. enough?

A focus on the top 18 FMCG companies over the last three decades



- Growth is volatile - sensitive to economic cycles
- Profitability follows an **impressive upward trend** across the period (from 10% to 20%)

18 major consumer goods companies

Economic history over the last thousand years shows that sustainable prosperity is based upon three factors

1. The **Planet** that provides
 2. The **People** who transform
 3. The **Capital** that ensures the liquidity in the system
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Equally important but not equally remunerated

Globally, the current remuneration system is flawed, disconnected & silo based

Financial
Performance



Robust & Effective
Metrics

People



Few & Disparate
Metrics

Planet



Just Beginning
Metrics

Creates a distorted view of the prosperity created by business

“Economics is the study of how society manages its scarce resources”

Mankiw, Harvard U.,

“You Can't Manage What You Don't Measure”

When the Chicago School was born

Capital was scarce, while natural & human resources were not

Today

- Financial capital is overly abundant, with no real underlying value ...
- New **forms of scarcities** have arisen: **people** & **planet**
- Business models have **not** adapted (still focusing on capital creation), nor has KPI

Looking fwd

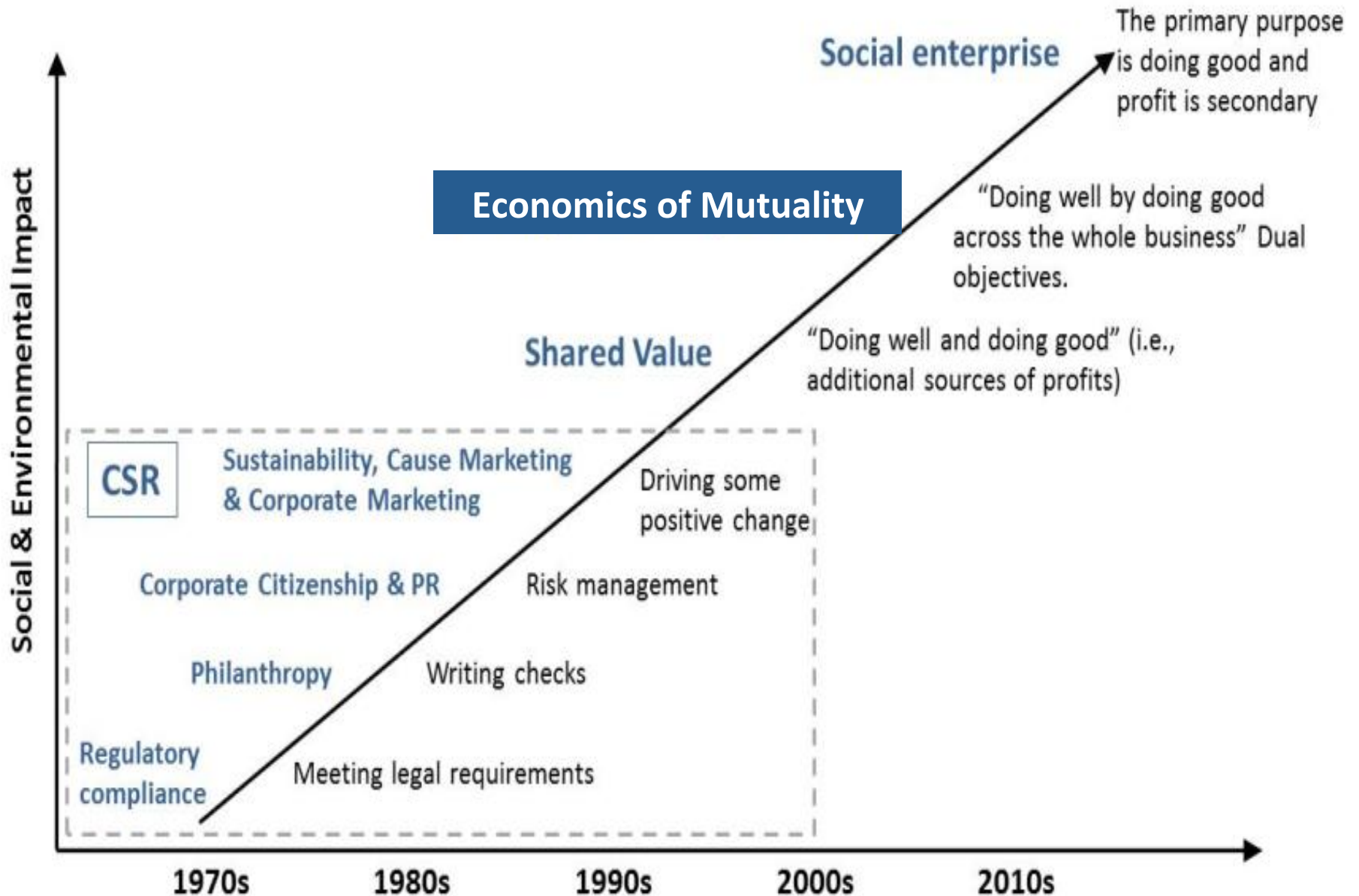
A **new economic model** that will account for the new forms of scarcities will inevitably emerge

Key Question

How to transform business from a profit maximization to holistic value optimization approach to promote sustainable prosperity ?

Economics of Mutuality

- Started 7 years ago
- A new new business model approach based on new metrics – mostly non monetized – across People, Planet and Profit
- Rather than stigmatising the pursuit of profit, Economics of Mutuality recognises that value creation is more effective and sustainable when all parts of the value chain are considered



OBJECTIVES

Measure with rigor

- Measure People & Planet with the same **rigor** as business (financial) performance
- Measure within Mars itself, and throughout the ecosystem in which our segments operate

Help Management

- Benchmark business performance **across the 3P's** ... over time (YOY), and across segments & geographies
- Discern strategies that deliver People and Planet returns through Profit to the business
- Move beyond profit maximization pathway and Identify the 'right' level of profit

Communicate results

- In a way that is meaningful to internal & external stakeholders

CHALLENGES

Go beyond the \$

- People, i.e., the individual and for communities
- Planet

Go beyond Mars

- Address the whole ecosystem in which Mars operates
- From the farmers in Africa down to the consumers in the 'streets of London'

Keep it simple & robust

- Ensure that the new metrics are rooted **in science & academic** thinking
- And tested in business operations through multiple pilots - to ensure **measurability** & standardization
- Keep the number of metrics to a **minimum** (parsimonious principle)
- While ensuring that these new metrics have maximum **coverage** throughout the value chain
- Stress-test the compatibility of these metrics with the **corporate culture**
- Ensure **actionability** / **scalability** of metrics at business unit level

APPROACH

A business model approach

- Distinct from, but complementary & beyond to Sustainability / CSR
- A balanced score-card to help business measure business performance “when it comes to creating mutuality of benefits”
- An approach to redefine, manage & maximize the holistic value that Mars creates throughout the 3Ps and its eco-systems

Capitals definition

- People Capital (e.g., Human Capital, Social Capital)
- Planet (Natural) Capital
- Performance (Financial) Capital

Best available science

Partner with world class academic institutions

- Scouting the known landscape
- Multidisciplinary literature review of multiple schools of thought related to these forms of capital

Focus on internal metrics actionable at business unit level

Rationale

- Internal metrics are mostly used to support management decisions at business unit level
- External metrics are for reporting & benchmarking

Business & Academic Pilots

Farm

Supplier

Mars

Distributor

Consumer

FINANCIAL CAPITAL

Sharing Economic Benefits

- Drinks (Coffee)
- Wrigley Africa Pilot

FINANCIAL & SOCIAL CAPITAL

MAUA

Wrigley Africa Pilot – Route to Market at the 'base of the pyramid'

SOCIAL CAPITAL

Social Capital @ Origins

- Drinks (Coffee) - Tanzania, Papua New Guinea
- Chocolate Segment - Cote d'Ivoire (Vision for Change)

HUMAN CAPITAL

Wellbeing@work

- Drinks
- Global Chocolate
- Global Petcare
- Wrigley Africa

BRAND CAPITAL

Marketing of Mutuality

- Drinks – Alterra
- Petcare – Pedigree
- Wrigley Africa – Oral Care

NATURAL CAPITAL

Making More with Less from the Planet

- Drinks (Coffee)



Business Pilots – A synoptic review



People Capital – **Human Capital**
Well Being @ Work

- We have identified several new / actionable metrics that can drive wb@w in a Mars specific context
- Can supplement Gallup AE survey
- Tested successfully across several segments & geographies

People Capital – **Social Capital**

- Social Capital is an essential component that drives prosperity
- Social Capital is an essential component of the value that we use / create in the value chain in which we operate
- We have developed a breakthrough methodology that can measure, in a simple & scalable way, Social Capital
- Tested successfully across several segments & geographies



Planet (Natural) Capital
Making More with Less from the Planet

We have developed

- A sound, simple & reliable methodology (tested on only one ecosystem so far) to assess the footprint of Mars operations on the Planet
- A 'ROTA-equivalent' approach to the Planet – that leverages the Efficiency principle

Business Pilots – A synoptic review



People Capital Brand Capital

- How much “people value” can we provide to our consumers through the stories of mutuality embedded in our brands and the way we do business? Can we measure it?
- Can our brands be the ultimate communication vehicle for our PiA vision? Can we measure the PiA related equity of our brands?
- A research initiative tested on Alterra, Oral Care & Peigree



Shared Financial Capital Sharing Economic Benefit

We developed a simple framework to assess the “level of shared-value” in a value chain that:

- can be used to track changes over time for the same value chain
- can be used to compare value chains across different industries/segments/countries

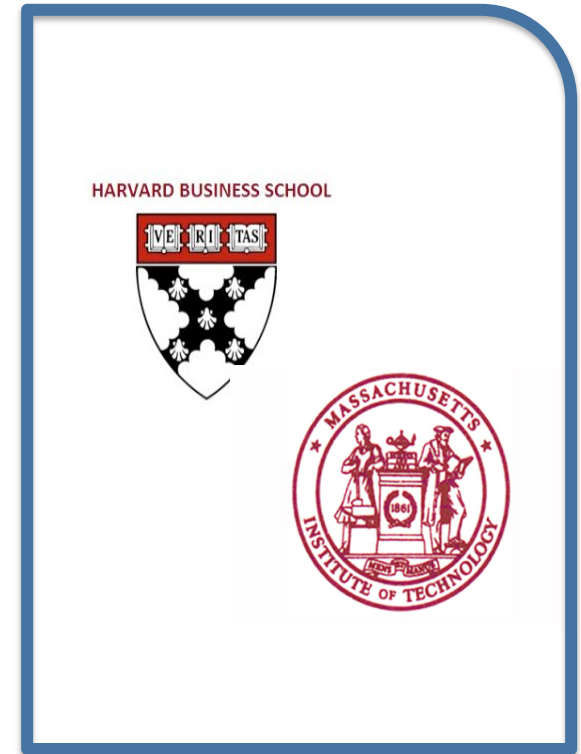
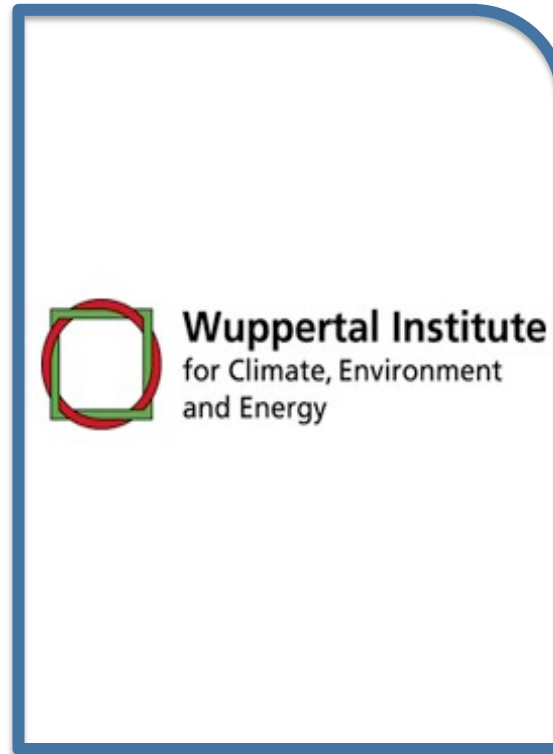
Tested across segments / geographies



Maua – Financial & People Capital Unlocking a new route-to-market at the ‘middle of the diamond’

- A People & Performance Pilot in Africa (i.e., wb@w, social capital, shared economic benefit)
- Leverage ‘Hybrid Value Chain’ & Citizen Sectors Organizations to build the operations
- Model that delivers social value & profit

Academic Pilots – A synoptic review



Management Theory

- Partnering with Oxford's business school to co-develop the business management theory for EoM
- To enable EoM to be replicated & taught to next generation MBAs



Taking the light out from under the bushel

Open Communication



THE BREWERY

Explore partnerships
with like minded
companies

- Trade Journal publication on Mutuality in Business & Politics
 - platform for sharing Economics of Mutuality story at Davos 2014 and elsewhere
 - http://www.the-brewery.co.uk/journals#c_2
- With thought leaders from Business, Non-Profit, Politics and Academia
 - Business (e.g. Danone, Mars)
 - Academia (e.g. Oxford, Skoll Centre for Social Enterprise)
 - International Institutions (e.g. UN International Panel for 25 Sustainable Resource Management)
 - Think Tanks (e.g. Centre for Development and Enterprise, South Africa, Volans the TBL)
- We consider EoM a non rival good i.e. *“this is not about a competitive advantage for a company but to remain competitive all businesses will have to do it”*

“All truth goes through four stages. First it is ignored, secondly it is ridiculed, then it is violently opposed. Finally it is accepted as self evident.”

Schopenhauer