

Towards Integrated Reporting: Sustainable Value Creation Model

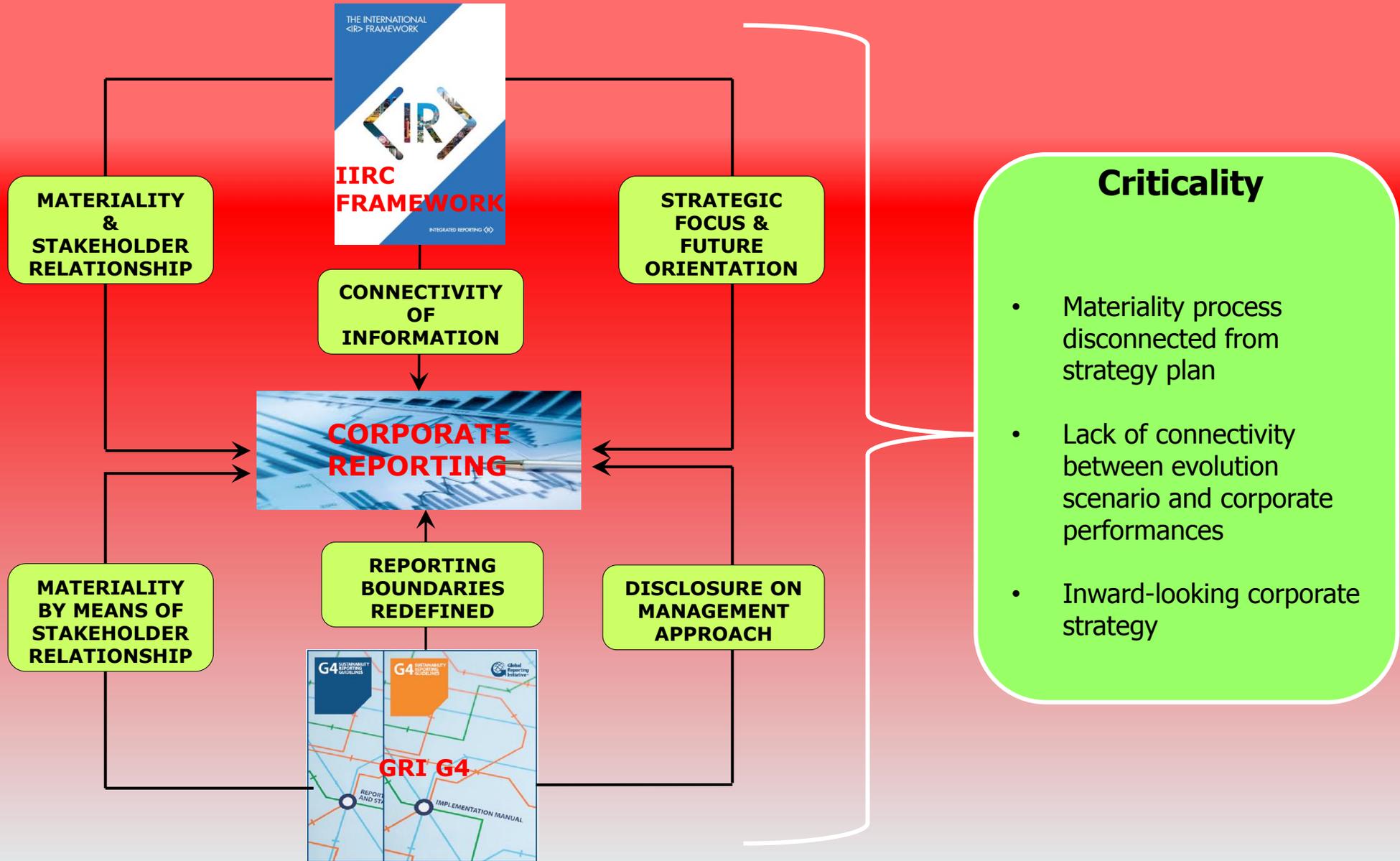
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*KPIs, INFORMAZIONE NON-FINANZIARIA E
CREAZIONE DI VALORE AZIENDALE: CONFUSIONE O CONVERGENZA?*

Milano, 17 novembre 2014

The mild evolution of corporate reporting



Towards a new reporting model: methodological approach

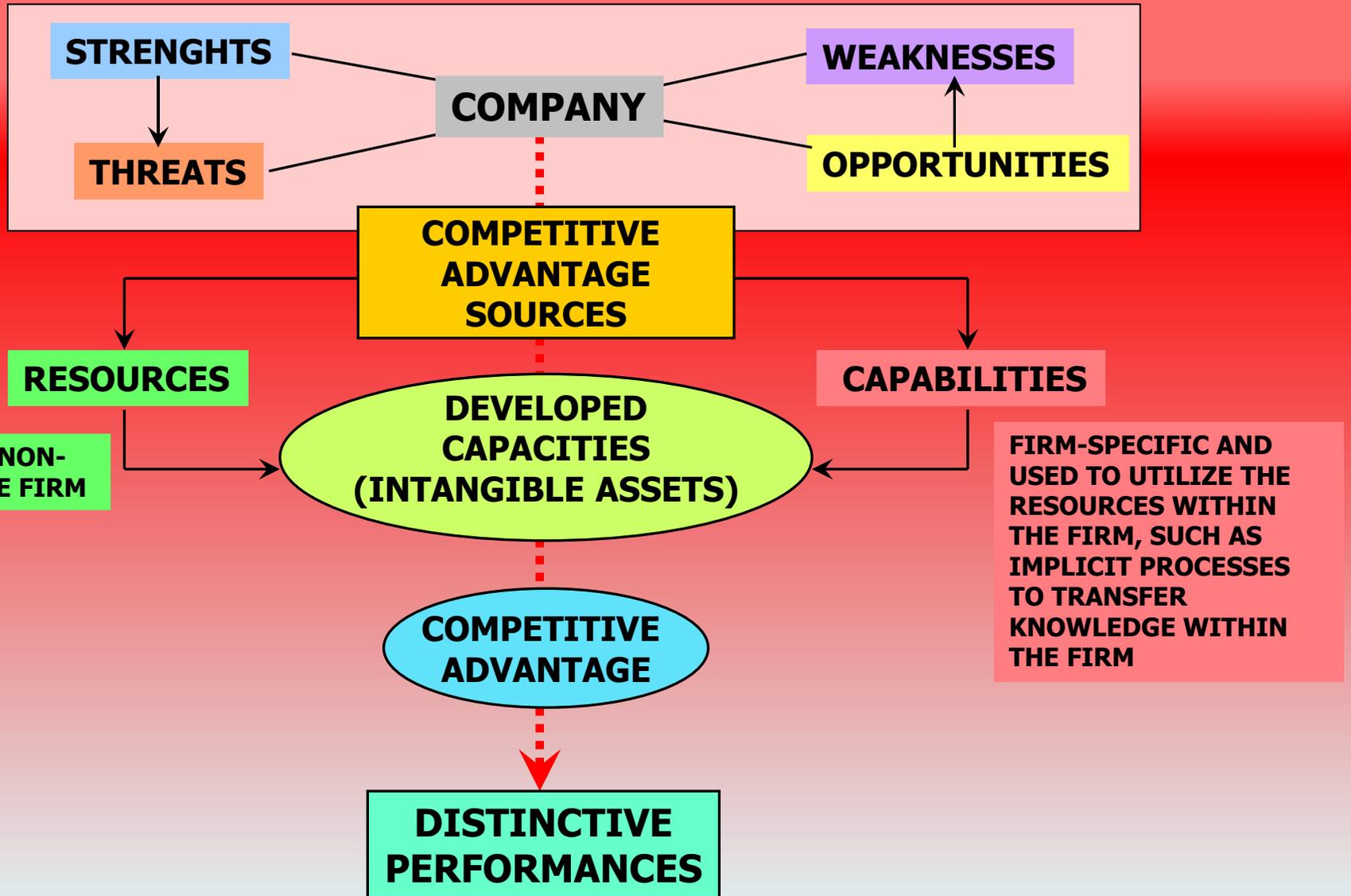
A combination of three different managerial theories applied to a new “competitive advantage creation model”:



Report should be conceived as an auto-diagnostic strategic tool putting in dynamic relation with the 4 following elements:

1. Socio-competitive scenario, that influences the company strategy, where a crucial role is played by stakeholders;
2. Tangible and intangible resources mobilized by the enterprise in order to apply the strategic guidelines;
3. Capacities and abilities of the firm to use in the best effective way its resources;
4. Intangible asset drivers, as result of combination of resources and capabilities mobilized

Sustainable value creation process



History of a innovation strategy

COMPETITIVE SCENARIO

- 2° player of dairy market worldwide
- Market leader in several countries in Europe, North-America, South America
- Leader in functional food segment with his blockbuster product: 1 billion \$ sales in the world market

MARKET EVOLUTION DATA

- Functional food rate of growth (2007): 13%
- Food innovation results in many failures: withdrawal of the product from the market after one year be in this sector of 70%.
- Between 2008 and 2009 18% of the offer in europe food market consisted of new products

STRATEGIES & KEY SUCCESS FACTORS

- Strong liking for innovation
- Economies of scale (14 mld € sales in 2007)
- High investment in brand value
- High penetration in distribution channels

MOBILIZED RESOURCES

- 2 years of R&D work
- High trade spending
- 11,5 mio € investment in adv in France in 2007; 5 mio in Italy
- 80% share of voice in the sector

USED CAPABILITIES

- Innovation rate (consumer's perception): 52%(standard: 35%)
- Persuasion rate: 10,9% (standard: 4,7%)
- Premium price positioning

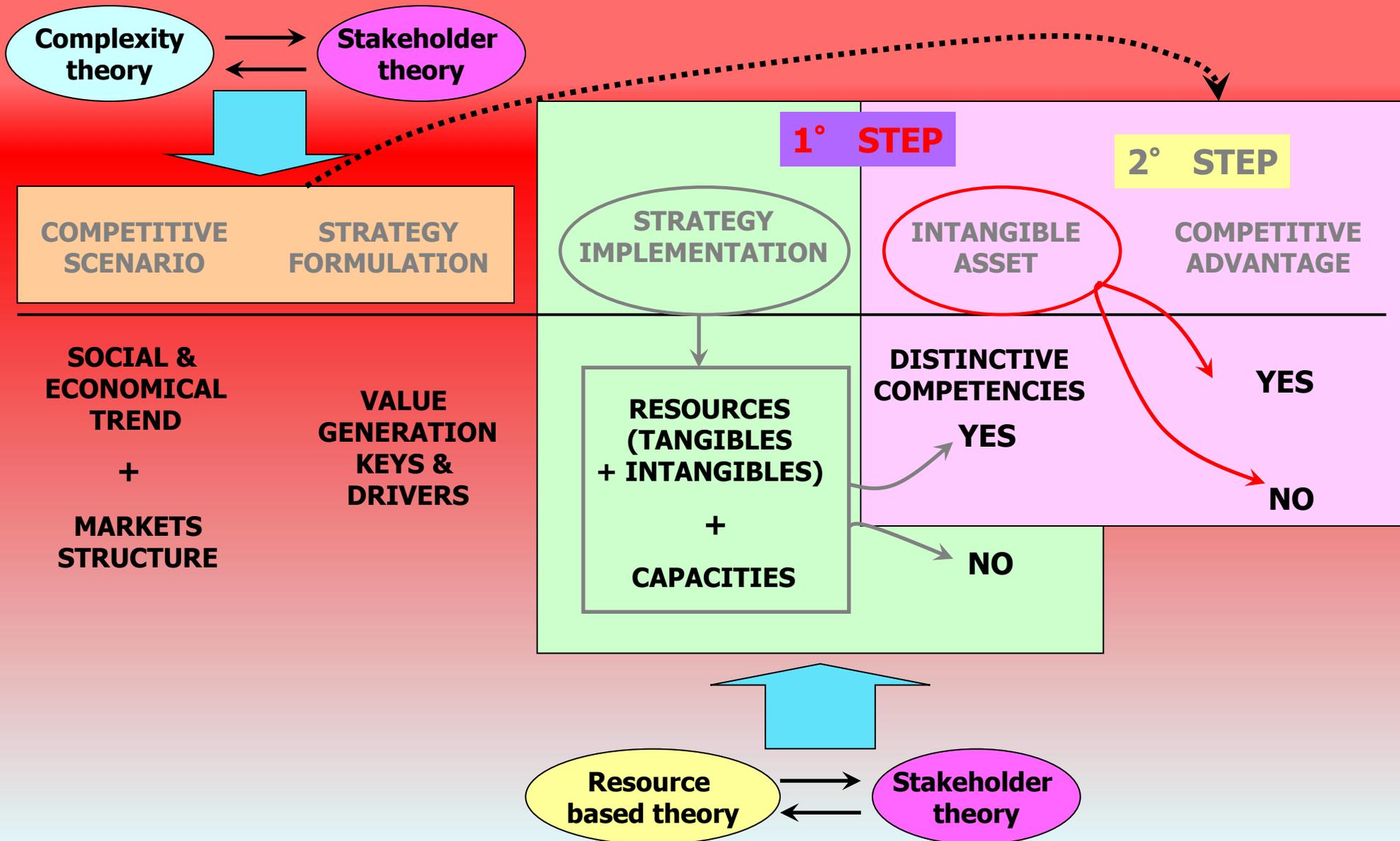
COMPETITIVE PERFORMANCES

- New product launched feb 2007, pulled march 2009
- Sales forecast: 100 mio €/year
- Sales: 74 mio € in 2007-2008

FAILURE'S REASONS

- Impact of economic recession (lower spending power)
- EU health claim regulations
- Wrong product positioning (price, distribution channel, adv promise)
- Undervaluation of consumer associations
- Spending budget for R&D in food industry is relatively small compared to marketing's with a ratio of 1:10

Two controversial points



Final thoughts

- According to this vision, intangibles represent the winning element for the challenge posed by the economic environment. In particular, intangibles contribute to the sustainable value creation process in two different ways:
 - *as invested resources*: in this case they are *already owned by the company and invested* during the process in order to generate further intangibles;
 - *as developed capacities*: in this case they are *generated* by the invested resources and will (hopefully) give rise to the competitive advantage.
- The systemic vision of the company suggest to co-ordinate different set of resources in order to make vital the entire system. In this process a fundamental role is played by capacities, interpreted as potentialities of a set of resources to carry out a task or an activity. Therefore, the company can realize its competitive advantage not merely thanks to better resources, but especially thanks to a better use of them
- The formulation of the competitive strategies is the most important intangible asset of the company, because its effectiveness depends on the correct interpretation of the socio-economic scenario and on the capacity to identify the resources and competencies to mobilize in reply to threats and opportunities of the context.