Winners in business

Supply Chains to Admire 2016

Most companies are moving backward on the Supply Chain Matrix That Matter (growth, operating marging, inventory turns and Return on Invested Capital). Interestingly enough the industries with the greatest challenges – high-tech and electronics – post the greatest progress. That shows The Supply Chains to Admire 2016 analysis of Supply Chain Insights.

By Lora Cecere

Which companies have a supply chain to admire in 2016? Based on extensive analysis of publicly available financial figures we have published the "2016 Supply Chains to Admire," listing 16 companies as winners and 21 companies as finalists. In process manufacturing BASF, L'Oréal and The Clorox Company. In discrete manufacturing those are Apple, Cisco, Coopertires, Cummins, Edwards, Steelcase and Tsmc. And in retail the winners of 2016 are Carter's, CVS, Dollar Tree, Target, Whole Foods and Walmart.

Winners and underperformers

In the analysis, we divide companies into three groups: winners, finalists, and under-performers. The winners of this analysis meet all of the criteria of improvement, value, and performance when compared to a like industry peer group. Sixteen companies qualify for this category. This high-performing group represents 5 percent of public companies studied.

Finalists, like winners, showed higher levels of improvement and value than their peer group. They were also within 10 percent of the industry average on three out of four of the performance factors (growth, operating margins, inventory turns, and Return On Invested Capital) while being no more than 25 percent below the mean on any of these four factors. Twenty-one companies meet these criteria. In this analysis, 7 percent of companies studied are finalists. The combination of finalists and winners equals 12 percent of companies studied.

The winners and finalists are an elite group; 88% of companies do not meet the three criteria of improvement, value, and performance. Unfortunately, we find most companies are moving backwards on the Supply Chain Metrics That Matter (growth, operating margin, inventory turns and Return on Invested Capital) or are making progress on singular metrics instead of driving performance improvement on a balanced portfolio of supply chain metrics that correlate to market capitalization. This includes industry icons that are often referenced as best-in-class supply chains.

It is notable that there are no winners or finalists in the industries of aerospace and defense, automotive, automotive suppliers, conglomerates, consumer durables, e-commerce retail, hospitals, over-the-counter drugs, packaging, pharmaceutical, third-party logistics, or toys.

Similarly, industries like beverages, contract manufacturing, food, oil and gas, restaurants and fast food, and retail apparel have finalists, but no winners. We find it interesting that the industries with the greatest challenges (high-tech and electronics) post the greatest progress, while industries with slower market shifts, household products (food, and beverage) are regressing. There is more progress in retail and discrete sectors than process-intensive industries.

Management of complexity

Why do we do it? Selfishly, we need a good, standard definition of supply chain excellence for our research, but we also want to help supply chain leaders improve and benchmark their operations. Currently there is no agreed-upon standard for supply chain excellence; leaders agree that supply chain excellence is easier to say than define. Progress, however, is not possible without a clear goal. The answer? We think deep research, such as the Supply Chains to Admire study, can help companies determine benchmarks and set these goals.

The Supply Chains to Admire analysis is now in its third year. It is data-driven research: a deep analysis of performance, improvement, and value of 320 companies across 31 industries for the period 2009–2015. The source data for the analysis is public reporting of balance sheet and income statements.

To determine the winners, we compared the relative effectiveness of each company against average performance within an industry-specific peer group for growth, operating margin, inventory turns and Return on Invested Capital. The analysis also identified which companies have driven higher levels of improvement (based on our Supply Chain Index calculations) and shareholder value (as defined by “price to tangible book value,” a valuation ratio expressing the price of a security compared to its hard, or tangible, book value as reported in the company’s balance sheet) while outperforming their peer group on the performance metrics of growth, operating margin, inventory turns, and Return On Invested Capital (ROIC).

The Supply Chains to Admire list allows us to identify high-performing supply chains based on hard data (rather than on personal opinion). Based on the analysis, we can then look at the companies on that vetted list and see if top performers have any traits or practices in common.

When we interviewed companies that made the Supply Chains to Admire list, we did find commonalities and similar patterns as well as commonalities among the laggards.

One thing the leaders have in common is longer tenure of their leadership teams and a focus on long-term outcomes. This provides consistency in direction. The teams sidestep fads to maintain a dogged focus on supply chain excellence. In our analysis, we also found that winners are more focused on the management of complexity through the adoption of customer segmentation, cost-to-serve analysis, and item rationalization. They are better at horizontal processes, supply chain planning, and network design (with a clear definition of form/function of inventory).

Value drivers

As a part of this analysis, we also wanted to identify for supply chain leaders the factors that drive value. To do this, we worked in parallel with the Supply Chains to Admire research, mining our quantitative data to answer this question: “What steps should companies take to improve Price Tangible to Book Value (PTBV)?”

In the Supply Chains to Admire analysis, we use PTBV (Price to Tangible Book Value = Market Share Price / Tangible Book Value per Shares Outstanding) as a proxy metric of value. In our early research, we only used market capitalization, but in this more recent analysis, we substitute PTBV for market capitalization. Why? There is less volatility.

We believe that improving the value of shares outstanding in relationship to assets and tangible book value is within the control of the supply chain leader. The supply chain leader has direct input into asset strategies and inventory decisions, and drives supply chain strategies. These are a major contributor to PTBV results.

To help supply chain leaders, we analyzed the impact of choices in the supply chain to PTBV. Through this analysis, we find that companies that have a successful supply chain center of excellence, an effective Sales & Operation Planning (S&OP) process, and better supplier visibility and less business pain associated with supplier reliability have greater PTBV performance. We found that many commonly held best practices, like having a single instance of enterprise resource planning (ERP), do not show a pattern of correlation to PTBV.

It’s easy for industry consultants to speak of a top-performing supply chain, and it is right to be skeptical of claims that cannot be verified. It is for this reason that we are open and share our calculations and our methodologies.

Lora Cecere is founder and chief executive officer of the research firm Supply Chain Insights.

WINNERS

PROCESS MANUFACTURING	
BASF (Germany)	chemicals
L’Oreal (France)	cosmetics
The Clorox Company (USA)	cleaning products
DISCRETE MANUFACTURING	
Apple (USA)	electronics
Cisco (USA)	IT
Coopertires (USA)	tires
Cummins (USA)	engines/power generation
Edwards (USA)	lifesciences
Steelcase (USA)	office furniture
Tsmc (Taiwan)	semiconductors
RETAIL	
Carter’s (USA)	baby clothing
CVS (USA)	healthcare
Dollar Tree (USA)	discount retailer
Target (USA)	discount retailer
Whole Foods (USA)	supermarket chain
Walmart (USA)	supermarket chain

FINALISTS

PROCESS MANUFACTURING	
Coca-Cola (USA)	drinks
Estée Lauder (France)	cosmetics
Hershey (USA)	chocolate
Statoil (Norway)	oil and gas
DISCRETE MANUFACTURING	
BD (USA)	healthcare
Caterpillar (USA)	machinery/engines
Celestica (Canada)	electronics
EMC (USA)	computer storage
Intel (USA)	semiconductors
Medtronic (USA)	medical equipment
Qualcomm (USA)	telecommunications/ semiconductors
United Tractors (Indonesia)	heavy equipment
Vtech (Hong Kong)	electronics
RETAIL	
Chipotle (USA)	fast food
Lowe’s (USA)	home improvement
Lululemon (Canada)	athletic apparel
PVH (USA)	clothing
TJX (USA)	apparel/home goods
Under Armour (USA)	sports fashion
VF (USA)	clothing