FORMULA WON: A NEW WAY TO MEASURE CORPORATE COMPETITIVENESS

Mark Pearson
Bill Theofilou
WITH DIGITAL, THE GAME HAS CHANGED. DISRUPTION IS WHIPSAWING INDUSTRIES.

Creating new contestable markets. But business strategies haven’t evolved at the same pace. Too many companies have one-dimensional strategies driven mainly by chasing growth or driving profit, with little (or no) focus on sustainability and trust, and no integration across the three. Winners in the future will possess an integrated strategy, featuring equal emphasis on growth, profitability, and sustainability and trust.

A new index has revealed a billion reasons (all of them dollars) why companies need to adopt an integrated strategy to sharpen their competitive agility.
The table stakes of competitiveness have changed because of digital. It used to be enough for a business to flex its competitive muscle on one or two of three areas: growth, profitability or sustainability and trust. Executing with equal strength against all three was difficult, expensive and unnecessary. But now, shareholders and stakeholders expect winning companies to be growth-led, nimble and agile with their cost base, with a demonstrated commitment to sustainability and trust. (See, “Redefining the rules of competitiveness in the digital age.”)

Although the game has clearly changed, understanding which companies hold the best cards hasn’t. Traditional gauges like market cap and total shareholder return (TSR) are still favored ways to measure competitiveness. But both have limitations. Namely, they shed light on only a part of the overall picture, failing to register how strong a company is in certain areas like sustainability and trust. Ultimately, these traditional measurements don’t capture the hallmarks of future competitiveness. The real question is, “Which companies are poised to win tomorrow?”
Thanks to digital, customers demand value, performance, service, innovation—and a great experience—all at a low cost, with the transparency to see if it’s being delivered in line with their values. This has redefined competitiveness and how it’s measured. It’s what we call the Competitive Agility Index. We believe this index is a more comprehensive measurement for future success than traditional metrics used today because it examines three pillars: growth, profitability, and sustainability and trust.

To create the Competitive Agility Index, Accenture Strategy developed a proprietary methodology which leveraged a set of publicly available data for the growth and profitability pillars. For sustainability and trust, we developed an algorithm based on various trust indices and industry-specific factors.

Competitive Agility Index scores are based on publicly available data including information on sustainability and trust efforts as well as historical and future-consensus growth and profitability data. The data backing the index was collected on more than 350 companies across nine industries. Scores were analyzed to see if the combined index has a greater impact on revenue and EBITDA growth than any single characteristic of growth, profitability, and sustainability and trust—or any two of those three combined. We also measured the impact a one-point index score increase has on revenue and EBITDA growth. It’s a more balanced measure of future success. Many companies leading in market cap and total shareholder return rank in the middle of the pack—at best—according to our index.
COMPETITIVE AGILITY INDEX — PULLING RANK

Companies that focus on driving value in growth, profitability, and sustainability and trust simultaneously have the potential to yield far greater results on revenue improvement and EBITDA than companies that focus on just one or two of the pillars. How great? A $30 billion industrial company that improves its Competitive Agility Index score by one point would see its revenues rise 3 percent—almost one billion dollars. This example is not alone. We observed similar improvements in every industry we studied. In the insurance sector, a one point improvement in our index could yield a 6 percent EBITDA improvement. In electronics, 6.6 percent. These results tell us that an interdependent strategy is critical.

REVEALING THE POWER OF A GROWTH, PROFITABILITY, AND SUSTAINABILITY AND TRUST STRATEGY

ACROSS 9 INDUSTRIES
FROM OVER 350 COMPANIES
ANALYZING 5,200 DATA POINTS
Companies that have an interdependent strategy score higher on the index and are most prepared for future competitiveness. Take consumer products giant Colgate-Palmolive as one example. The company is ranked number one in the Competitive Agility Index in its sector. But scores a considerably less impressive 13th place through a lens of total shareholder return. And ranks fourth in the industry in market cap.

So why does it light up the Competitive Agility Index? With its products reaching two-thirds of global households, Colgate-Palmolive has even better access to customers than Coke.¹ The company believes that innovation is key to driving continuous growth in sales. That’s why it’s constantly coming to the market with new products and features.
Ultimately, this translates into greater enterprise value, generating the premium Colgate-Palmolive commands in the marketplace. As Ian Cook, president and CEO, noted: “We have improved the health and well-being of our communities, made our products more sustainable and helped to conserve the planet’s vital resources.” In terms of profitability, since 2012, the company has executed its Global Growth and Efficiency Program, enabling Colgate-Palmolive to outpace its peers in consistently generating higher returns on invested capital, and making the company a leader in profitability.

Net-net: Companies today need to understand their legacy but not rely on it for success in the future. The more robust Competitive Agility Index gives a more accurate view of the future. So, early movers like Colgate-Palmolive—companies that have built-in growth, profitability, and sustainability and trust—have an advantage and are ready to compete. For those that are late to the game, it’s still possible to build competitiveness and gain agility. The key is to move on all three fronts.
What else does the index show? First a quick consideration: The nature of each industry we studied reflects a different impact of an integrated strategy on performance. So, in sectors with heated competition, easy customer switching and high levels of trust (e.g., insurance), the impact is significant. In protected, regulated, high barriers of entry/low switching sectors—like pharmaceuticals—the impact, while still material, is comparatively lower.

To determine the actions organizations need to take to reposition themselves competitively, they need to know where they are starting from. Accenture Strategy mapped Competitive Agility Index scores against future market value over invested capital (see Figure 1).

This positions companies based on their level of competitive agility, and the market’s perception of their ability, to drive future value out of their investments. The mapping reveals four broad categories of companies and identifies where companies should start on their journey to competitive agility.

![Figure 1](source: Accenture Strategy analysis.)
STRIVING TO SURVIVE
28 percent of companies
These are the companies that need aggressive interventions to improve their performance. While the market has correctly valued companies in this quadrant, they must create an interdependent strategy and start by taking action against the pillar which will deliver the fastest results.

OVER-ESTIMATED
22 percent of companies
The value of these companies is over-estimated by the market, and their positioning could be at risk according to our research. They are not strong across the three pillars. Companies in this quadrant need to identify in which pillar they are underperforming so they can quickly accelerate their journey to a fully integrated strategy.

UNDER-ESTIMATED
21 percent of companies
These companies have adopted integrated strategies, but their value and competitive positioning haven’t been conveyed to the marketplace. They need to communicate to the market their initiatives across the pillars of growth, profitability, and sustainability and trust, and gain the reputation in the market they deserve (and need to survive).

DISRUPTIVE COMPETITORS
26 percent of companies
These companies are the early adopters and dominate their respective markets. To maintain their lead, they must continuously reinvent or reposition themselves using an integrated growth, profitability and sustainability strategy.
Interestingly, some of the highest ranked automotive and industrial companies in the Competitive Agility Index do not fare as well by traditional measurements (market cap and total shareholder return). Only BMW and Honeywell—stood out as top performers in market cap.

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>TOTAL SHAREHOLDER RETURN RANK</th>
<th>MARKET CAP RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>BMW</td>
<td>15</td>
<td>5</td>
</tr>
<tr>
<td>Daikin Industries</td>
<td>9</td>
<td>23</td>
</tr>
<tr>
<td>Honeywell</td>
<td>16</td>
<td>3</td>
</tr>
<tr>
<td>Schneider Electric</td>
<td>37</td>
<td>15</td>
</tr>
</tbody>
</table>
AHEAD OF THE PACK

Although each of their stories is unique, these four companies have several common characteristics. They:

- **Maintain a strong focus on cost which leads to implementing tighter profitability measures.**

- **Invest for growth in new digital capabilities.**

- **Exploit their brand to position themselves as trusted suppliers in the age of digital.**

Breaking that down further, our index reveals that these top companies recognize the importance of growth through digital business models. And are more astute than competitors when it comes to brand management. They are managing their shift into this new world without compromising on their core. In fact, they are building on the sustainable trust they already have that enables a transition into new territory, exploiting technologies to redefine a change in the should-cost base which frees up cash to fund the development of areas of competitive importance.
A closer look at each company provides a better view into what puts them ahead of the pack. (Note: The median Competitive Agility Index score across the Auto/Industrial segment is 35.1):

**BMW**
For BMW, being the leading premium car manufacturer also means being a sustainability leader. Consideration of the environment along the entire value chain, and a clear commitment to the preservation of resources are values embedded in the company’s approach. In fact, every member of the Board of Management also sits on the sustainability board.

**SCORE:** 63.8

**SCHNEIDER ELECTRIC**
This industrial dynamo is an early adopter of technology that moves the dial on performance, with investments in areas like the Industrial Internet of Things (IIoT) and connected services. They rise above competitors in their ability to anticipate changes, and transform accordingly. And they excel at communicating results to the market, packaging a robust equity story. Schneider has a sterling brand, one known for quality and innovation.

**SCORE:** 50.8
HONEYWELL
Honeywell, a software-industrial company, has a balanced strategy when it comes to growth, leveraging organic and inorganic plays. They’ve made big bets when it comes to digital, particularly in the IIoT. They have pivoted to a design thinking approach when it comes to product development. And their focus on Operating Expense (OPEX) reduction has helped funnel resources back into growth opportunities.

DAIKIN INDUSTRIES
Daikin is the world’s largest air conditioner manufacturer and a pioneer in the industry. To remain on top of the market, every five years Daikin drafts a strategic management plan called “Fusion.” A plan that propelled the company to expand into new markets through environmentally conscious efforts. Daikin’s overseas sales now account for 75 percent of the group’s total sales.
Which companies are bending over backward to move forward? The Competitive Agility Index uncovered dozens. Here are four that stand out on the index but not on other, traditional, indices. And although they all exceed when it comes to growth, profitability, and sustainability and trust, there is no “one-size-fits-all” reason why they come out so high on our ranking. They are each following their own path.

**Simply put, Apple** is the most profitable company in the world. The company has also been ranked as the world’s most valuable brand. With profit and brand at the core, it is no surprise that Apple has earned a top score. How do they do it? By consistently developing desirable products, for which consumers wait in line to purchase. By recognizing that both attention to design and sustainable practices such as the largest green bond issued by any US company focused on renewable energy sources and resource efficiency generates loyal customer devotion and profitable operations. And, by combining these characteristics with high revenues, high profit margins, and low operating expense ratios, Apple has a winning formula for continued success.

**APPLE’S RANK WITHIN ELECTRONICS AND HIGH TECH SEGMENT, OUT OF 54 COMPANIES**

<table>
<thead>
<tr>
<th>CAI</th>
<th>MARKET CAP</th>
<th>TSR</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1</td>
<td>#1</td>
<td>#12</td>
</tr>
</tbody>
</table>
**BMW in high gear.** BMW hits every note when it comes to growth, profitability, and sustainability and trust. It has a customer-led approach to products, channels, sales and technology. And a commitment to sustainability that’s beyond lip service. In fact, the BMW Group is one of the major Electric Vehicle (EV) players, leading the automotive transformation through car sharing (Drive Now) and EV charging infrastructure (ChargeForward). The group has also committed to go 100 percent renewable by 2020.⁷

**BMW’S RANK WITHIN AUTOMOTIVE, TRUCK & SUPPLIERS SEGMENT, OUT OF 24 COMPANIES**

<table>
<thead>
<tr>
<th>#1</th>
<th>#4</th>
<th>#12</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAI</td>
<td>MARKET CAP</td>
<td>TSR</td>
</tr>
</tbody>
</table>

**Inditex’s flair for fashion.** Better known by its major brand, Zara, Inditex is the biggest global fashion retailer with more than 7,000 stores in almost 90 markets.⁸ The hallmarks of Inditex: speed and flexibility. It takes only three weeks from beginning of the design process to the time when product lands in the shop. The company is also focused on environmental sustainability and circular economy, working on ways to reuse and/or recycle its garments, and launching sustainable clothing.⁹

**INDITEX’S RANK WITHIN THE RETAIL SEGMENT, OUT OF 46 COMPANIES**

<table>
<thead>
<tr>
<th>#1</th>
<th>#6</th>
<th>#34</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAI</td>
<td>MARKET CAP</td>
<td>TSR</td>
</tr>
</tbody>
</table>
Colgate-Palmolive, with products sold in 223 countries and reaching two-thirds of global households, hits on all pillars of the Competitive Agility Index. The company has achieved tremendous success, with year over year growth in sales and improved gross margins. Colgate believes that innovation is key to its growth, and so the company is focused on continually bringing new products and features to the market. In terms of profitability, the company’s Global Growth and Efficiency Program has enabled Colgate to outpace its peers in consistently generating higher returns on invested capital. Cost savings are reinvested into four growth areas: new product innovation, enabling technology, digital engagement, and emerging markets. Sustainability remains a long term commitment for Colgate, with ambitious goals set for packaging recycling, reductions in water usage and greenhouse gas emissions, and helping communities in need. In recognition of its sustainability efforts, Colgate was included in the 2014/2015 Dow Jones Sustainability North America index and was recognized as one of the 100 Best Corporate Citizens by Corporate Responsibility Magazine.

**COLGATE-PALMOLIVE’S RANK WITHIN THE CONSUMER GOODS SEGMENT, OUT OF 35 COMPANIES**
Companies fit for the future balance growth, profitability, and sustainability and trust. And are rewarded for each point they climb up the Competitive Agility Index. The question—or the challenge—becomes: Where is your company today? Where would you rank on the more sophisticated Competitive Agility Index? And what will you do to create a brighter future for your company, your customers and your stakeholders?
NOTES

1 “Should Your Toothbrush Go Digital?”
   Knowledge@Wharton, February 23, 2016.
2 Colgate-Palmolive corporate site.
4 “Here Are the 10 Most Profitable Companies.”
   Fortune, June 8, 2016.
5 “Apple, Google Top the World’s Most Valuable
6 Apple - Annual Green Bond Impact Report
   Covering Fiscal Year 2016.
7 BMW Sustainable Value Report 2015.
8 “What we know about Zara’s first sustainable
9 Inditex corporate site.
10 http://knowledge.wharton.upenn.edu/article/
    how-a-consumer-goods-giant-tackles-
    innovation/
11 Colgate Announces 3rd Quarter Results and
    New Global Growth and Efficiency Program for
    Sustained Growth
    http://investor.colgate.com/releaseDetail.
    cfm?ReleaseID=716235
   http://www.colgate.com/us/en/annual-
   reports/2015/leadership/
13 The CR’s 100 Best Corporate Citizens 2015.
   http://www.thecro.com/files/100%20Best%20
   List%202015.pdf

ABOUT ACCENTURE

Accenture is a leading global professional services
company, providing a broad range of services and
solutions in strategy, consulting, digital, technology
and operations. Combining unmatched experience
and specialized skills across more than 40 industries
and all business functions—underpinned by the
world’s largest delivery network—Accenture works at
the intersection of business and technology to help
clients improve their performance and create
sustainable value for their stakeholders. With
approximately 401,000 people serving clients in more
than 120 countries, Accenture drives innovation to
improve the way the world works and lives. Visit us at

ABOUT ACCENTURE STRATEGY

Accenture Strategy operates at the intersection
of business and technology. We bring together
our capabilities in business, technology, operations
and function strategy to help our clients envision
and execute industry-specific strategies that
support enterprise-wide transformation. Our
focus on issues related to digital disruption,
competitiveness, global operating models, talent and
leadership helps drive both efficiencies and growth.
For more information, follow @AccentureStrat or visit
www.accenture.com/strategy.