

The Gartner Supply Chain Top 25 for 2013

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This research unveils the ninth annual Supply Chain Top 25, identifying global supply chain leaders and highlighting their best practices.

Key Findings

- The top five includes three from last year — Apple, McDonald's and Amazon — and two that are new to the top five, but have been rising steadily — Intel and Unilever.
- Three new companies joined the list this year: Ford, Lenovo and Qualcomm.
- Three key trends emerged among the leaders: finding new synergies across best practices, partnering more productively for growth and inspiring the hearts and minds of their supply chain talent in new ways.

Recommendations

- After harmonizing foundational processes, data structures and solutions for your global supply chain, drive next-level, tailored performance through advanced capabilities such as end-to-end segmentation, cost-to-serve analytics, multitier supply chain visibility and supply network optimization.
- Form a cross-functional team composed of sales, marketing, supply chain and IT to design a holistic new market strategy, and enable local operations supporting new geographies and products for your business groups.
- Set aspirational goals and connect the dots between the work people do every day in supply chain and its contribution to the societies within which they live, building engaged supply chain talent that can lead business growth.

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Analysis

2013 marks the ninth year of our annual Supply Chain Top 25 ranking. Alongside some perennial leaders with new lessons to share, this year's list offers up three new companies, a growing group of industrials from which to learn and two newcomers to the top five.

At the heart of the Supply Chain Top 25 is the notion of demand-driven leadership. We've been researching and writing about demand-driven practices since 2003, highlighting the journey companies are taking — from the old "push" model of supply chain to one that integrates demand, supply and product into a value network that orchestrates a profitable response to ever-shifting changes in demand.

The Supply Chain Top 25 identifies the leaders on this journey: which companies are furthest along the path, and what can we all learn from them? Our goal is consistent year after year — illuminate the path to excellence, and fuel the innovation, growth and success of supply chain practitioners around the world.

The Notable Trends

Each year, our analysts talk to and research the supply chains of hundreds of companies. Through these discussions, we note the trends: What are the leaders focusing on, where are they investing time and effort and what can be applied broadly? Three key trends stand out this year.

A New Frontier of Performance

One of the questions we ask companies is what supply chain transformation initiatives were most impactful to their performance in the past year, and what initiatives they are focused on for the coming year. Many are working on building out the foundational components of an end-to-end supply chain across disparate businesses, focusing on improving core supply chain functions, and creating more common processes and systems across them. More advanced companies describe a wide range of initiatives that build on the foundation, including end-to-end supply chain segmentation, simplification, cost-to-serve analytics, multitier visibility and supply network optimization.

We mentioned many of these last year, and they continue to be important focus areas for supply chain leaders. What differentiates the top companies is where they are in the life cycle of these innovations. The leaders have gone beyond the theory and are now deploying the capabilities that others are just starting to consider. This is now possible, as these companies build advanced decision-making solutions on top of their already-revamped foundations. In doing so, they are finding new and creative ways to use these capabilities, exploring synergies and opportunities they hadn't necessarily anticipated in advance.

For example, as a leading consumer products (CP) company implements cost to serve, it is finding that the capability can be applied in targeted ways that align with its segmentation efforts to enhance business value. In one market, it is using cost-to-serve data to drive costs out of warehousing and transportation. In a different market, it is using cost-to-serve information to fine-tune commercial terms and reduce complexity in ordering patterns to drive more value for itself and its customers.

Or consider the intersection between simplification, segmentation and cost to serve — leading companies have been focused on simplifying and reducing complexity in everything from products to organizational structure, processes and networks. Now they're taking it to the next level, for example using cost-to-serve data by segment to optimize, rather than simply cut the product/item portfolio, and to ensure profitable growth. We see similar opportunities between sales and operations planning (S&OP) and new product launch to optimize the commercialization process, and between risk management and segmentation to refine resiliency strategies.

We've talked in the past about the "orchestrators" — companies that find ways to think out of the box, defy conventional wisdom, break the rules and write new ones. Leaders are discovering that the combination of capabilities they are now implementing brings them to a new frontier of performance, and affords them an entirely new toolbox with which they can orchestrate the optimization of their business and leap ahead of the competition.

A New Imperative for Smarter Growth

Last year, we talked about an environment of continued upward momentum from the depths of recession. Among the group of approximately 300 companies we tracked for this research, average annual revenue growth rose each year from a low of -4% in 2009, to 9% in 2010 and to 11% in 2011. In this environment, companies were investing resources and assets for growth, albeit keeping in mind continued uncertainty and the lessons of caution learned in the downturn.

The picture is slightly different this year. Average revenue growth among the companies we ranked dipped to 4% in 2012 — still positive, but a correction nonetheless. The growth in emerging markets that many companies were depending on to fuel their expansion, while continuing, has slowed, and developed countries continue to exhibit anemic growth at best and retraction in some markets. Against this backdrop, we might have expected to see many companies retrench and slip back to focusing their supply chains solely and exclusively on delivering cost reductions and efficiency gains to corporate bottom lines. Instead, leaders are embracing a new imperative for growth, realizing they have to get smarter about how they do it.

At leading companies in diverse industries, the supply chain organization is no longer narrowly focused on driving efficiencies and cost cutting; it sees itself — and is seen by its CEO — as a growth enabler. Whether it's through reducing commercialization time, flexing the supply chain on packaging or service dimensions, or providing the engine with which new acquisitions can be quickly and easily absorbed, the conversation at these companies has changed from supply chain being about "blocking and tackling" to it being an enabler of company success. At companies like Cisco, Intel, Unilever and Starbucks, for example, we don't hear procurement executives talk about the fundamentals of procurement; those are ongoing. They talk about how they're working across the business to enable ethical and sustainable growth.

Part of "getting smarter" about growth is partnership across the business. Leading high-tech and CP companies, for instance, are approaching new markets with cross-functional teams that include sales, marketing, operations and IT to holistically design a synchronized entry strategy — starting with the customer and designing the right product, pricing, margin targets, service levels, and supply chain network design and trade-offs that will all work together to achieve the goal. They are also plotting out the supply chain infrastructure required to move beyond simple distribution and enable more complex local operations in emerging markets. This is yet another example of how leading companies are building on top of solid foundations, in this case to enable smarter growth.

Getting to the Heart of Talent

Acquiring, developing and retaining supply chain talent continues to be a major focus area. Companies are investing time and resources in expanded university relationships, rotational programs, enhanced career progression planning specific to supply chain, multichannel learning options, supply chain certification programs, supply chain leadership development and others.

Leading supply chain organizations are going beyond specific talent initiatives to look at the fundamentals of motivation in their supply chain teams. For them, it's about engaging hearts, not just minds; it's about igniting passion and excitement for the work, not just compliance. These organizations use terms such as wanting to be a "destination company," or an "employer of choice" in supply chain. They're finding ways to connect individual activity not only to their corporate goals, but also to a larger aspirational goal. They are connecting the dots between the work people do every day and its contribution to the societies within which they live, recognizing the difference that each individual can make in the world.

These companies, for example, don't just talk about customers and suppliers; they're the "communities we service" and the "web of suppliers whose livelihoods we enable." Whether you are a procurement professional helping to reduce conflict minerals, or a logistics manager looking to cut cost by taking trucks off the road thereby reducing the global carbon footprint, it's about the contribution of supply chain professionals to improving the world.

Applying advanced decision-making capabilities, enabling smarter growth and promoting inspiration-based talent management are this year's most common trends among supply chain leaders. Now in its ninth year, the Supply Chain Top 25 continues to offer a platform for debate, insight, learning and contribution to the rising influence of supply chain practices on the global economy (see Table 1).

Table 1. The Gartner Supply Chain Top 25 for 2013

Rank	Company	Peer Opinion ¹ (172 voters) (25%)	Gartner Opin- ion ¹ (33 voters) (25%)	Three-Year Weighted ROA ² (25%)	Inventory Turns ³ (15%)	Three-Year Weighted Reve- nue Growth ⁴ (10%)	Composite Score ⁵
1	Apple	3,203	470	22.3%	82.7	52.5%	9.51
2	McDonald's	1,197	353	15.8%	147.5	5.9%	5.87
3	Amazon.com	3,115	475	1.9%	9.3	33.6%	5.86
4	Unilever	1,469	522	10.5%	6.5	9.0%	5.04
5	Intel	756	515	15.6%	4.2	11.4%	4.97
6	P&G	1,901	493	8.6%	5.8	3.6%	4.91
7	Cisco Systems	1,167	517	8.5%	11.2	7.8%	4.67
8	Samsung Electronics	1,264	298	11.6%	18.5	15.7%	4.35
9	The Coca-Cola Com- pany	1,779	278	11.7%	5.5	14.0%	4.33
10	Colgate-Palmolive	794	324	18.9%	5.2	3.6%	4.27
11	Dell	1,409	342	6.2%	30.7	-0.6%	4.05
12	Inditex	745	221	18.0%	4.2	13.4%	3.85
13	Wal-Mart Stores	1,629	282	8.8%	8.1	4.9%	3.79
14	Nike	955	236	14.1%	4.2	10.6%	3.62

15	Starbucks	808	159	16.5%	4.8	11.5%	3.41
16	PepsiCo	810	314	8.6%	7.8	10.5%	3.41
17	H&M	399	41	28.2%	3.7	6.7%	3.22
18	Caterpillar	714	247	5.8%	2.8	23.4%	2.91
19	3M	999	105	13.3%	4.2	6.9%	2.87
20	Lenovo Group	397	211	2.5%	22.2	29.8%	2.75
21	Nestlé	679	112	13.3%	5.1	-0.6%	2.51
22	Ford Motor	552	231	5.7%	15.1	3.1%	2.51
23	Cummins	74	139	13.3%	5.3	13.5%	2.48
24	Qualcomm	122	45	12.7%	8.5	25.9%	2.37
25	Johnson & Johnson	730	144	9.6%	2.9	3.3%	2.35

Notes:

1. **Gartner Opinion and Peer Opinion:** Based on each panel's forced-rank ordering against the definition of "DDVN orchestrator"

2. **ROA:** $((2012 \text{ net income} / 2012 \text{ total assets}) * 50\%) + ((2011 \text{ net income} / 2011 \text{ total assets}) * 30\%) + ((2010 \text{ net income} / 2010 \text{ total assets}) * 20\%)$

3. **Inventory Turns:** 2012 cost of goods sold / 2012 quarterly average inventory

4. **Revenue Growth:** $((\text{change in revenue } 2012-2011) * 50\%) + ((\text{change in revenue } 2011-2010) * 30\%) + ((\text{change in revenue } 2010-2009) * 20\%)$

5. **Composite Score:** $(\text{Peer Opinion} * 25\%) + (\text{Gartner Research Opinion} * 25\%) + (\text{ROA} * 25\%) + (\text{Inventory Turns} * 15\%) + (\text{Revenue Growth} * 10\%)$

2012 data used where available. Where unavailable, latest available full-year data used. All raw data normalized to a 10-point scale prior to composite calculation. "Ranks" for tied composite scores are determined using next decimal point comparison.

Source: Gartner (May 2013)

Inside the Numbers

The Top Five

Apple tops our ranking for a record-breaking sixth year in a row, continuing to outpace everyone else by a wide margin on all five measures we use. It's not just the stellar financials. Apple was ranked No. 1 again by the peer voters, capturing 75% of the highest possible points a company can get across the voting pool. At the same time, as a company traditionally known for its product innovation, Apple now faces formidable competition in the mobile device market. With Tim Cook at the helm, the company known for its focus on simplicity has expanded its product portfolio to a broader array of sizes and price points to address the competition, driving the need for more complexity management in its supply chain. The ex-operations chief has also fostered increased transparency on supplier responsibility, particularly with suppliers and manufacturing partners in China.

The remainder of the top 5 also offer a basis for lively discussion. Numbers 2 and 3 switch places this year, with McDonald's capturing the No. 2 slot and Amazon coming in at No. 3. This is not a reflection of the peer voters' opinion; Amazon ranked a very close second behind Apple in the peer vote, almost completely closing the opinion gap from previous years and fast gaining on Apple's position.

But the Supply Chain Top 25 ranking is about more than opinion. We incorporate financials into the methodology to reflect a company's ability to translate supply chain leadership into corporate performance. While Amazon's revenue growth has been meteoric — it has averaged 33% revenue growth per year since 2006 — its three-year weighted return on assets (ROA) of 1.9% reflects a 2012 net income loss, and low-single-digit net profit margins in the preceding two years. In contrast, McDonald's has posted a healthy 20% net profit margin for each of the last three years, a trend which is reflected in its three-year weighted ROA of 16% this year. This, coupled with respect from the voting community, nudged McDonald's — by the slimmest of margins, with a composite score only slightly ahead of Amazon's — into the No. 2 slot.

Both have leading practices to share with the supply chain community. McDonald's stands out with strong new product launch capabilities, excellence in execution consistency coupled with a recent re-emphasis on a strong customer experience, advanced demand sensing and forecasting capabilities across geographies, and an impressive supplier collaboration framework and philosophy that underpins its "never-stockout" mindset.

Amazon is a pacesetter across all industries in using its supply chain to set the standard for the customer experience. Providing fast, free shipping and returns on a truly impressive array of products that it offers through an extensive supplier network, the company has redefined our expectations of service. Now expanding its locker strategy to other venues and aggressively investing in new physical fulfillment centers to support same-day delivery, the company is looking to further differentiate its service. Amazon is also building its digital portfolio of products: From "Kindle Singles" Web services, to "Prime Instant Videos," and now reportedly in development with a set-top box to stream video into homes, Amazon is fast crossing lines into new markets.

We also see two exciting newcomers to the top five, each rising steadily since they first appeared in the ranking. Catapulting six slots to No. 4 this year is Unilever. The company is at the forefront of the supply chain maturity curve, with a wide range of cutting edge practices: end-to-end segmentation, cost to serve, a "perfect store" initiative, a center-led supplier management program, an advanced ability to flex its factories to take advantage of downstream data, and an impressive ability to design globally and implement locally across every function of its supply chain. Unilever's supply chain innovations have been a critical component of its ability to retain profitable growth, even in the face of sluggish demand in some of its core markets.

Another newcomer to the top 5 this year, chip giant Intel has made significant investments to enable the broader computing ecosystem. Downstream, Intel ran an enablement program with PC OEMs, focused on joint product design and marketing for Ultrabook products. On the supplier side, it has invested billions of dollars in engineering resources and working capital to significantly increase factory output through larger wafer sizes. The company has also continued its commitment to sustainability and social responsibility in sourcing, having taken a lead role in the issue of conflict minerals.

Both embody the essence of what the Supply Chain Top 25 is all about — Unilever and Intel have stepped up to the leadership podium, sharing their supply chain practices and the lessons they've learned with the broader supply chain community, helping to raise the level of supply chain performance to new heights.

Movers and Shakers: No. 6 Through No. 15

This section of the ranking offers an impressive array of blue chips, with notable contributions to the discipline of supply chain management (SCM).

Longtime supply chain innovator and orchestrator P&G (No. 6) continues to lead by example. Whether it's in designing a differentiated supply chain response for the different segments it operates, developing platforms for open innovation, harnessing the power of analytics and management control towers to drive strong governance and improved efficiencies across its extensive network, or teaming up with the U.S. Environmental Protection Agency (EPA) to develop new tools for optimizing sustainability efforts across the value chain, the company continues to define new standards of excellence for the broader supply chain community.

After doubling down on core markets in Internet infrastructure and collaboration, Cisco (No. 7) is well-positioned to capitalize on major trends driving increased long-term IT investment (see "The Nexus of Forces Changes Everything: Gartner Symposium/ITxpo 2012 Keynote"). In close partnership with IT, its supply chain team is focused on proactively enabling Cisco to break into new markets for its hardware, software and services-based solutions. Cisco is now thinking about supply chain as a menu of service offerings and taking a segmented approach to delivering the right services for each business at the right cost structure.

Samsung (No. 8), which moved up five slots and back into the top 10, is on an impressive run, ending 2012 in first place for both smartphone and overall mobile phone sales worldwide. The company's advanced and highly integrated supply chain is a key component of this success.

Despite its massive size and product diversification, this electronics giant is able to dynamically orchestrate planning for its extended value chain on a weekly basis, in line with financial goals. Samsung has driven significant innovation in retail and channel collaborative planning, leading to reduced channel lead-times and increased sell-out through dynamic point-of-sale (POS) monitoring and management.

At No. 9, Coca-Cola's supply chain is positioning for growth. The company's corporate 2020 strategic vision, in place for some time, emphasizes the key principles of innovation, creativity and focus and provides a strong basis for the collaboration needed with its bottlers. Its supply chain is currently focused on reducing the complexity that comes with an evolving product and customer portfolio, taking an end-to-end view and looking to work more closely with commercial partners. It is investing to expand the leadership capabilities of its supply chain talent base, partnering with universities to develop specialized programs in everything from network design to negotiation skills. Coca-Cola is also using its supply chain knowledge to make a difference in the world, applying its well-recognized "last mile of distribution" expertise to help The Global Fund deliver life-saving drugs to some of the most remote places on earth.

Continuing a steady rise up the ranking, Colgate-Palmolive landed at No. 10 this year. Its consistently outstanding ROA — it has the sixth highest three-year weighted ROA this year of the entire dataset of companies we tracked, and leads in its industry — is a testament to the company's continued emphasis on improving efficiency and taking costs out across its supply chain, a leading item management program, a well-balanced talent management program and one of the most advanced S&OP capabilities in its industry.

At No. 11, Dell continues to demonstrate innovation in its supply chain practices, despite significant competitive product pressures and a secular downturn in the PC market. This leader has built a supply chain visibility platform that allows it to respond quickly to sudden supply and demand disruptions. Dell is also rethinking its midterm supply network design, with a focus on becoming more adaptable in support of market shifts and resilient in its sourcing and shoring approach. In addition to engaging suppliers in collaborative cost reduction workshops for improved operational efficiencies, the supply chain is partnering with the product engineering, sales and marketing teams to continue reducing product portfolio complexity.

Steadily rising since it first entered the ranking in 2010, Spanish fashion apparel group Inditex lands at No. 12 this year. Buoyed by a three-year weighted ROA of 18% and a three-year weighted revenue growth of 13.4%, Inditex has received increasing recognition from voters for the role supply chain has played in the company's ability to deliver growth and efficiency year after year in an unforgiving market. The company is currently making a major investment in its European logistics centers and distribution hubs to further drive performance. Its well-known ability to go from idea to shelf in weeks, rather than months, redefined the apparel model, and points to strong supplier collaboration and excellent demand sensing and shaping capabilities.

Dropping a few slots to No. 13 this year is Walmart. A perennial supply chain powerhouse, Walmart has a mature supplier collaboration process and the technology platform to support it. The company remains focused on sustainability, using its considerable clout to shape its suppliers' behaviors, with the side benefit of driving out costs across the value chain. Walmart has been

addressing some challenges with on-shelf availability and, competing directly now with Amazon, is testing direct-to-consumer shipping from some stores and "lockers" for in-store pickup.

Landing at No. 14 again this year, Nike offers up leadership lessons on many fronts. The company continues to invest in collaborative platforms and tools for its suppliers, contract manufacturers and logistics providers. Nike also goes further, with leading practices in new product speed to market, the use of advanced scenario analysis, supplier assessment tools that incorporate sustainability-related metrics, and mature demand sensing and shaping capabilities.

Joining the ranking for the third time, global coffee company Starbucks comes in at No. 15 this year. Starbucks puts the notion of an outside-in orientation into practice, measuring the success of its supply chain from the store back. Its focus on strong integration between supply chain and new product launch is evidenced by the success of the Starbucks K-Cup, cited as one of the top 10 food and beverage launches in 2012. The company embodies the notion of inspiring the hearts and minds of its supply chain employees, with an emphasis on ethical sourcing, investing in the health of its suppliers, community involvement and a program to volunteer 1 million community service hours across the globe by 2015 with its partners.

Rounding Out the List: No. 16 Through No. 25

This portion of the ranking is typically where we find the new additions, and this year is no exception. We're excited to welcome three new companies to the Supply Chain Top 25 this year: Lenovo, Ford and Qualcomm.

First-timer Lenovo joins the list at No. 20. The Chinese electronics leader, well known for the ThinkPad PC brand it acquired from IBM, is also a force in enterprise servers and a growing player in the mobile device market. Over the past two years, Lenovo has made significant strides to reduce the number of unique components it uses across all of its computing platforms for improved forecast accuracy and reduced operational costs. It is now focused on further increasing supply chain involvement and influence on new product design and release. As part of its customer-centric journey, Lenovo has made a major push to improve perfect order fulfillment and is reorganizing its supply chain in line with key business segments, while maintaining key synergies and best practices through a central center of excellence.

As the first automotive OEM to join the ranking since 2009, Ford (No. 22) is a classic come-from-behind story, returning to profitability and maintaining it for the last four years, all while churning out double-digit inventory turns through improvements in branding, product platform consolidation, quality and design. Efforts to implement globally standardized processes, terms, definitions and data are providing the foundation for more strategic global demand/capacity alignment, scenario planning and risk modeling. This, combined with tighter connections between the commercial and operational sides of its business, will be critical to the company's ability to realize its aggressive growth plans in China. Through it all, Ford has stepped up its supply chain leadership aspirations, increasing its visibility and sharing best practices in the supply chain community.

The third newcomer to the Supply Chain Top 25, Qualcomm, hits the list this year at No. 24. Long the dominant semiconductor player in the mobile device market, its fortunes have risen as volumes

have grown by the hundreds of millions in recent years. Qualcomm has developed a solid S&OP and rapid replanning capability with customers and suppliers. As an asset-light chipmaker, this leader has also fostered deep collaborative partnerships with key suppliers for materials, intellectual property (IP) and manufacturing capability.

Three companies that were new to the list last year have returned — retailer H&M, joined by industrials Caterpillar and Cummins.

Swedish retail giant H&M maintains its No. 17 slot in the ranking, continuing to leverage its ability to balance centralized and decentralized processes to deliver a truly impressive ROA of 28%, an achievement it has sustained for the last five years. H&M has increased transparency in its supplier relationships by publishing a supplier factory list with its latest sustainability report, an important step given the latest challenges for the industry with the emerging market supply base. The company has also recently entered into a partnership with the World Wildlife Fund (WWF) to develop a global water strategy across its extended supply chain.

Rising to No. 18 this year, Caterpillar continues to broaden its integrated supply chain initiatives. This leading industrial is focused on common designs and processes across its manufacturing and supplier network, a robust set of metrics to measure the value of sustainability across its product portfolio and building velocity in its commercialization process. Caterpillar is also continuing to pursue global flexibility and scale.

A major player in the engine and power generation markets, Cummins returns this year in the No. 23 slot. With a move two years ago to better synchronize its supply chain activities across a diverse and highly decentralized structure, Cummins has led the way among the industrials to improve its ability to manage complexity and leverage its scale globally. Customer collaboration initiatives, extending supply chain visibility back through a complex supply base, global design coupled with local manufacturing adaptation, and differentiated end-to-end supply chain strategies characterize this heavy industrial.

The next four companies have been steady performers in our ranking. On the list every year since we started the ranking, PepsiCo lands at No. 16 this year, with continued strengths in route-to-market capabilities, strong consumer insights linked to its supply chain capabilities and an open innovation platform. PepsiCo was also an early mover in sustainability through its "Performance with Purpose" program. It continues to apply its out-of-the-box thinking to achieve breakthrough improvements in its manufacturing technologies, and to gain increased global leverage and harmonized execution of an impressive logistics capability across its product portfolios and operating sectors.

3M rises two slots to No. 19 this year. Long a leader in product innovation, 3M's new product vitality index, which measures the ratio of innovation to sales revenue, has helped to drive its stellar 13.3% three-year weighted ROA. The emphasis on innovation is accompanied by an impressively diversified product portfolio. 3M is working now to reduce complexity in its manufacturing and supplier networks in order to better capture the benefits of its global scale, improve regional balance in its supply chain design and make significant inroads in reducing its shipping costs, cycle times and inventories.

With a continued expansion into new markets, Nestle (No. 21) maintains its strong global presence, with an ongoing focus on supply development, scalability through its lean value chain initiative, and integrated planning and optimization. With efforts in the U.K. and Ireland to improve on-shelf availability and reduce channel inventory through delivery optimization, Nestle's supply chain is ranked highly by its retail customers in the industry-specific annual PoweRanking report.

At No. 25 this year is healthcare and consumer products giant Johnson & Johnson. Maintaining its decentralized sector operating model, J&J continues on its transformation journey, with global coordination of procurement, customer and logistics services, and network design. An increasing emphasis on the customer supply chain experience, a risk management program, a procurement sustainability initiative and standardization of a common set of cascaded supply chain metrics all point to the increasing speed with which J&J is executing on a compelling vision for its future capabilities.

Honorable Mentions

Every year, there are companies that demonstrate strong leadership in demand-driven principles, but fail to make the list. Among the ones we'd like to mention this year are Deere & Co., Ericsson, ConAgra, and ABB. Deere is a heavy industrial that is regularly rated a "best customer" by its suppliers, based on its collaborative practices and tools. Deere's innovative FarmSight program connects its ecosystem of dealers, customers and agricultural consultants, offering value-added services that help increase customer loyalty and improve demand predictability and planning. Swedish telecommunications network giant Ericsson is doing some innovative work in multitier visibility and talent management, and segmenting its supply response with built-in decoupling points. Food company ConAgra is moving up the curve of a multiyear transformation journey that is focused on increased alignment of supply chain for growth and balanced excellence, all aimed at clear and measurable results. And there's Swiss-led industrial powerhouse ABB, with advanced global governance and an outside-in focus. All exhibit the characteristics of leaders with compelling lessons for the broader supply chain community, and we look forward to sharing lessons from them and many others in the year ahead.

What Is Demand-Driven Excellence?

The concept of being demand-driven is at the heart of the Supply Chain Top 25 ranking. We first started writing about demand-driven principles in 2003, and have published hundreds of documents on the topic since, including a newly-crafted maturity model to help companies move along the transformation curve (see "Introducing the Five-Stage Demand-Driven Maturity Model for Supply Chain Leaders").

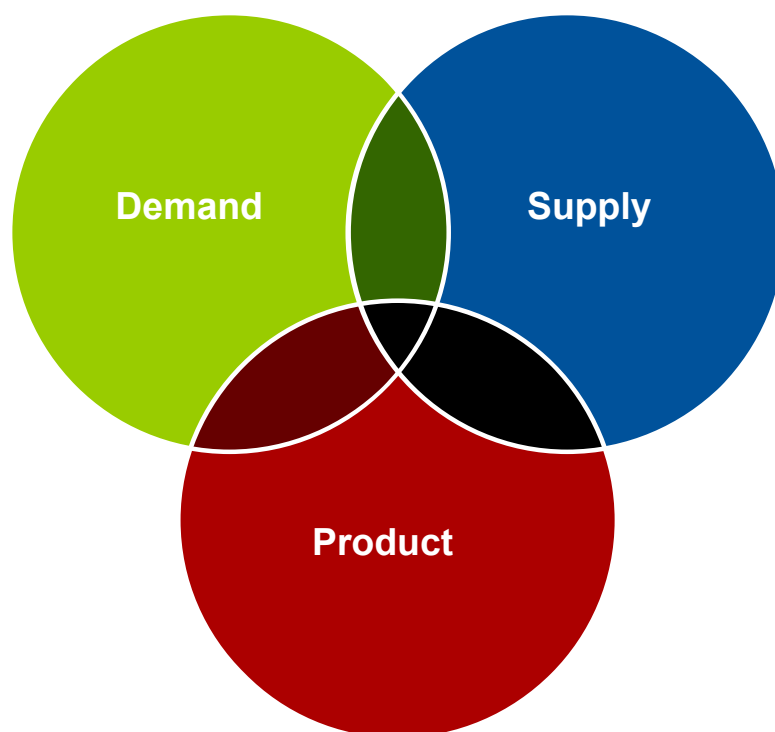
Because it's so critical to the Supply Chain Top 25 analysis, here's a brief synopsis of what it means to have a demand-driven value chain. Figure 1 captures the organizational ideal of demand-driven principles as applied to the global supply chain. This model has three overlapping areas of responsibility:

- **Supply management** — Manufacturing, logistics, supply planning and sourcing

- **Demand management** — Marketing, sales, demand planning and service
- **Product management** — R&D, engineering and product development

Figure 1. Demand-Driven Principles

A system of technologies and processes that senses and responds to real-time demand signals across a supply network of customers, suppliers and employees



Source: Gartner (May 2013)

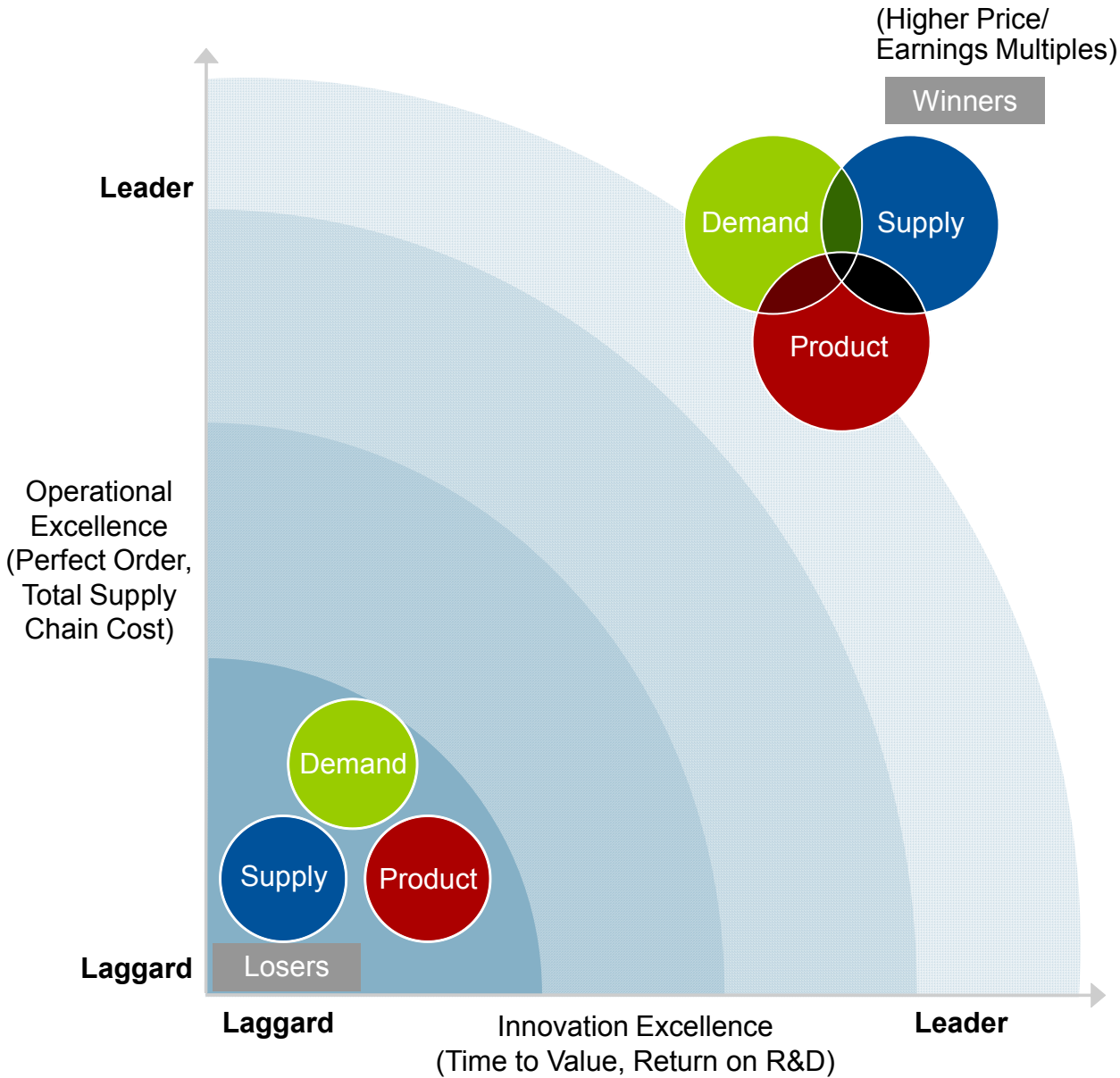
When these processes work together, the business can sense, shape and respond quickly and profitably to opportunities arising from market or customer demand. The defining characteristics of supply chains built to this design include the ability to manage demand, rather than just respond to it; a networked, rather than linear, approach to global supply; and the ability to embed innovation in operations, rather than keep it isolated in the laboratory.

Operational Excellence and Innovation Excellence

Two basic dimensions of measurement capture the totality of the best-in-class, demand-driven, global supply chain: operational excellence and innovation excellence (see Figure 2). To measure operations, including delivering as promised to customers and keeping costs under control, we

recommend a hierarchy of metrics, with perfect order performance and total supply chain costs at the top (see "The Hierarchy of Supply Chain Metrics: Diagnosing Your Supply Chain Health").

Figure 2. Operational Excellence and Innovation Excellence



Source: Gartner (May 2013)

Of course, operational excellence has value only if customers want what's being made and shipped. To address this, we look at innovation excellence. Although far harder to measure reliably, this dimension can also be managed with a hierarchy of metrics, in this case, topped by time to value and return on new product development and launch (NPDL). The key is to find the right balance on

both these dimensions. Too much emphasis on one at the expense of the other either squashes innovation or hampers growth.

It's important to recognize the business life cycle aspect to this balance that our methodology also attempts to reflect. Each year, we see examples of previously successful businesses struggling with the competitiveness of their products, while still possessing very advanced supply chain capabilities. This condition can exist for a period of time before both resynchronize and either return to high performance or spiral into decline. Since the opinion poll portion of our methodology is based on the relative capability and leadership of a supply chain at a given point in time, it is possible for a company's supply chain to score well on the polls while also posting a less competitive financial performance in the near term.

Measuring Demand-Driven Excellence

The Metrics We Wish We Had

For the Supply Chain Top 25 ranking, our ideal would be to have metrics that perfectly describe the two basic dimensions of performance: operational and innovation excellence. These are the dimensions that point meaningfully to the better value chain, identifying which business is faster, stronger and smarter. Betting on next year or next quarter is a matter of knowing who the better "athlete" is, not merely who won last time. Our premise is that the better athlete is more likely to win markets and profits in the future. Therefore, the companies that can demonstrate superior performance against these dimensions merit a higher share price multiple on a dollar of current earnings.

In our ongoing supply chain research, we've identified the metrics that map to these dimensions, which, if we had them, would clearly convey the organizations that have the healthiest value chains (see Table 2).

Table 2. Metrics for Operational Excellence and Innovation Excellence

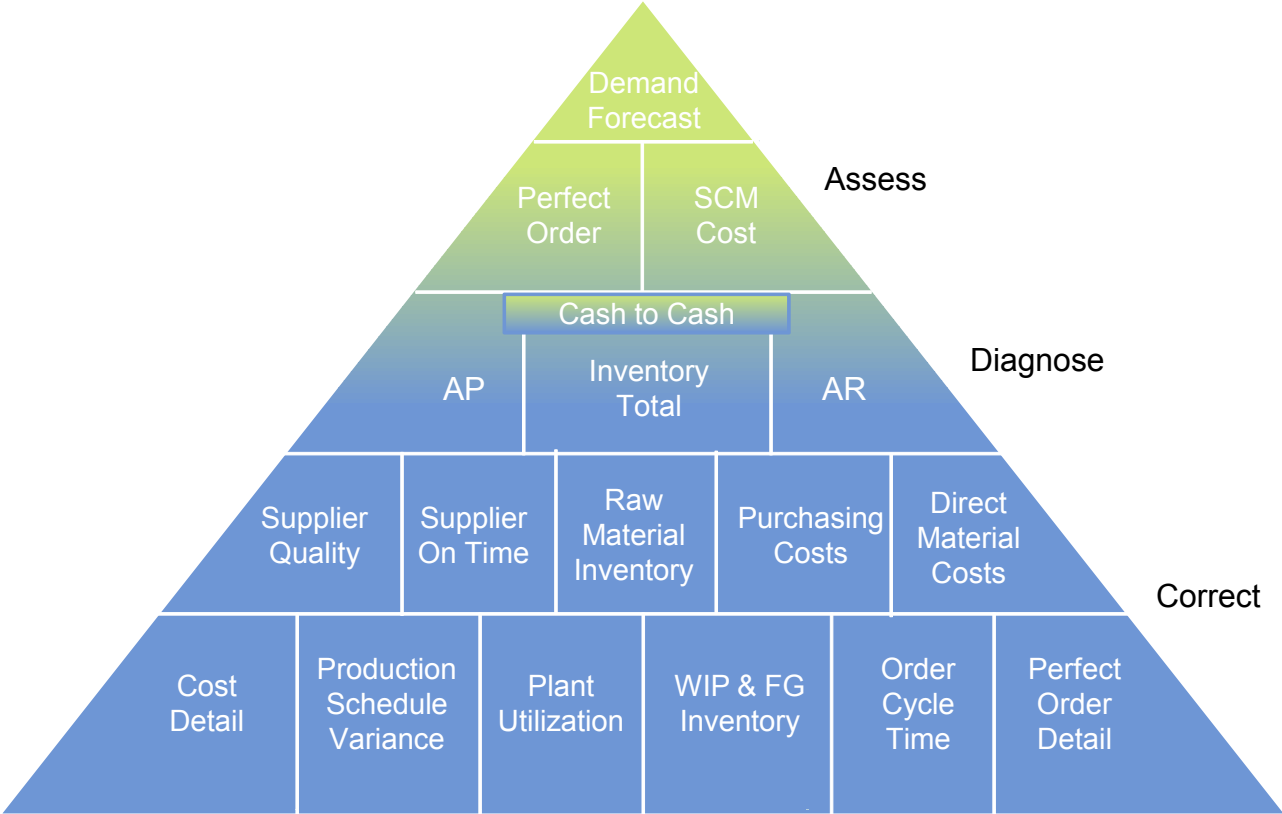
Performance Dimension	Key Metrics
Operational Excellence	Perfect order rates Total supply chain costs
Innovation Excellence	Time to value Return on new product launch

Source: Gartner (May 2013)

For each of these performance dimensions, we've published a full hierarchy of metrics that allows management to assess overall performance at the highest level, diagnose problems via process decomposition and make corrections at the tactical work level (see Figure 3 and Figure 4). We have also published a Hierarchy of Manufacturing Metrics to identify some of the more detailed functional metrics that must be aligned with end-to-end supply chain goals to achieve the overall goal of

operational excellence (see "Aligning Manufacturing and Supply Chain Performance, Part 2: The Hierarchy of Manufacturing Metrics").

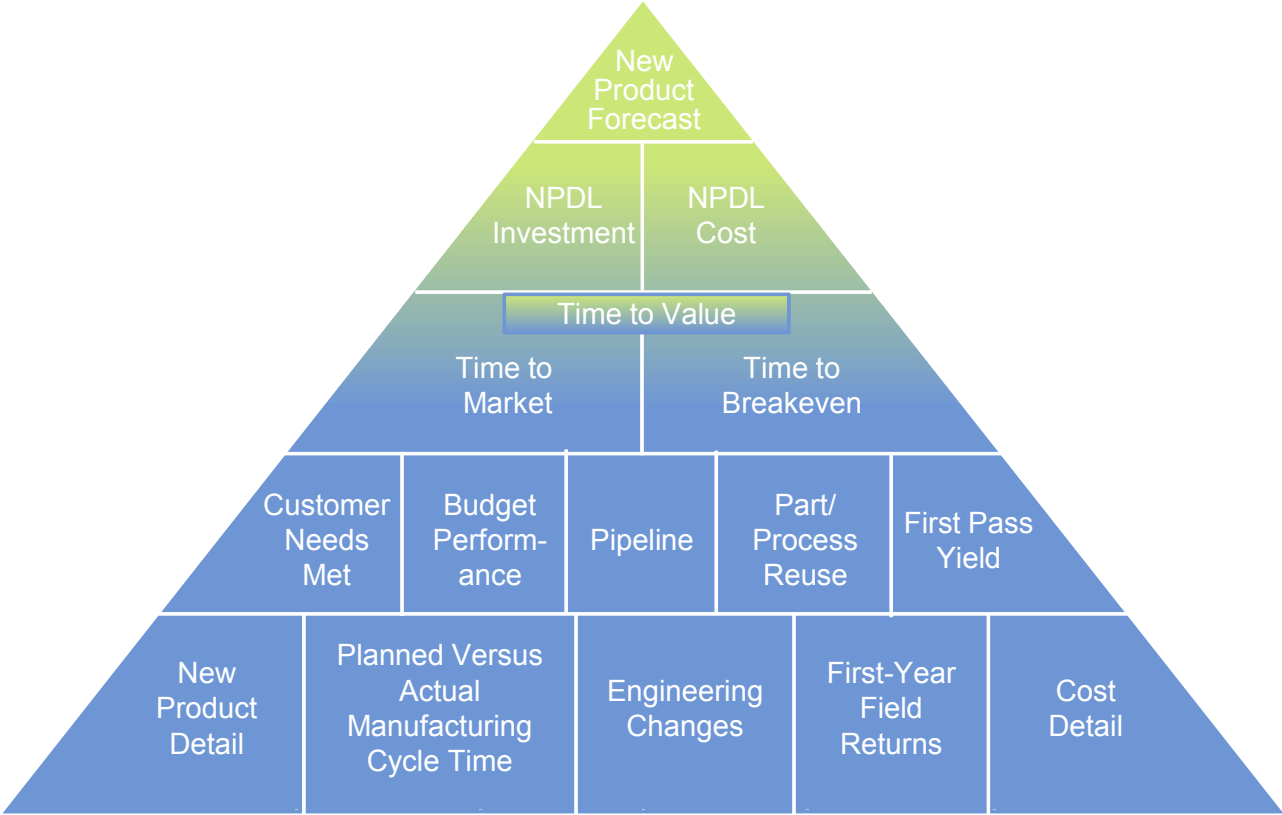
Figure 3. The Hierarchy of Supply Chain Metrics: Operational Excellence



AP = accounts payable; AR = accounts receivable; FG = finished goods; SCM = supply chain management; WIP = work in process

Source: Gartner (May 2013)

Figure 4. The Hierarchy of Product Metrics: Innovation Excellence



Source: Gartner (May 2013)

However, from our work with companies and our benchmarking studies in the past, we're all too aware of how inaccessible this data is in most companies, particularly within a realistic time frame. Moreover, although some companies may have some of the data we seek, there are vast inconsistencies in how these metrics are calculated from company to company.

Therefore, for the Supply Chain Top 25 ranking, we look to publicly available, audited financial data to find the closest possible proxies. We know the limitations inherent in these metrics. Existing financial accounting principles were developed in the hard-asset, factory-intensive economy of the early 1900s. For example, the balance sheet treatment of inventory as a valuable asset rings false for the many short-cycle businesses today that see inventory as more of a liability. Similarly, soft assets like brands and IP, which are essential to demand creation, are difficult for standard accounting practices to handle. Even income statements can obscure real costs with sneaky capitalization rules.

Because of these issues, our methodology isn't limited to financial metrics. Instead, we see the financials as one important component that provides a baseline, an anchor and an objective foundation on top of which we place the group intelligence of a vote, precisely because no combination of income statement or balance sheet financial metrics will tell us which companies are

furthest along toward the demand-driven ideal of supply chain excellence. For this reason, we look to craft a methodology that combines enough, but not too many, of the right metrics — both quantitative and qualitative — to achieve our goals.

Supply Chain Top 25 Methodology

The Supply Chain Top 25 ranking comprises two main components: financial and opinion. Public financial data provides a view into how companies have performed in the past, while the opinion component offers an eye to future potential and reflects leadership in the supply chain community. These two components are combined into a total composite score.

We derive a master list of companies from a combination of the Fortune Global 500 and the Forbes Global 2000, with a revenue cutoff of \$10 billion. We then pare the combined list down to the manufacturing, retail and distribution sectors, thus eliminating certain industries, such as financial services and insurance (see Table 3 for a full list of excluded industries).

Table 3. Industries Not Included in the Supply Chain Top 25

Airlines	Insurance	Shipbuilding
Banks	Mail, Package and Freight Delivery	Software Development
Crude Oil Production	Mining	Steel
Diversified Financials	Petroleum Refining	Telecommunications
Energy	Pipelines	Temporary Help
Engineering/Construction	Railroads	Trading
Entertainment	Shipping	Utilities
Healthcare: Insurance, Managed Care, Services, Providers	Services	

Source: Gartner (May 2013)

Each year, we examine the methodology used to develop the ranking, with two sometimes-conflicting goals in mind: consistency and improvement. We want to improve the methods and procedures we use, but, for the sake of consistency, in a way that builds on what we've done in previous years.

We encourage and actively solicit input from the broader supply chain community on the methodology we use, issues with it and suggestions for ways to improve it. Indeed, this goes to the very heart of what we see as the purpose of the Supply Chain Top 25: It's intended to be a lightning

rod and foundation for vigorous debate about what constitutes leadership and supply chain excellence.

We continually consider new metrics that might give us additional or better insights into supply chain performance, and reassess the weightings used to ensure a fair reflection of market and business realities. For example, we've investigated the possibility of using days sales outstanding (DSO) as a proxy for customer satisfaction, independent customer ratings for input on customer views, cash to cash for supply chain throughput rates (see "Supply Chain Top 25 Methodology: What About Working Capital?") and the ratio of inventory versus revenue change as a measure of how efficiently a company manages growth (see "AMR Supply Chain Top 25 Methodology: Inventory Versus Revenue Change"). We've also looked into a possible new way to measure resiliency, using the change in financial performance, rather than a snapshot in time (see "Measuring Resiliency in the Supply Chain Top 25"). Although our investigations revealed it wasn't feasible to apply these metrics within the quantitative methodology used for the Supply Chain Top 25, we've used them in the additional analyses that we publish periodically throughout the year.

At the same time, we continually look for ways to mitigate any issues with the methodology, and enhance the explanatory power, applicability and extensibility of the overall ranking. The impact of brand recognition on the vote, industry variations in inventory and inequalities between more versus less asset-intensive industries are all challenges with which we grapple. These issues are multifaceted. By analyzing them, we've been able to make incremental changes that have allowed us to painstakingly chip away at some of the problems, while maintaining consistency from year to year at the same time.

Similar to last year, we used a 50/50 overall weighting for the 2013 ranking: 50% for the financial component and 50% for the opinion component.

Financial Component

Three financial metrics are used in the ranking:

- **ROA** — Net income / total assets
- **Inventory turns** — Cost of goods sold / inventory
- **Revenue growth** — Change in revenue from prior year

ROA was weighted at 25%, inventory turns 15% and growth 10%. Inventory offers some indication of cost, and ROA provides a general proxy for overall operational efficiency and productivity. Revenue growth, while clearly reflecting myriad market and organizational factors, offers some clues to innovation. Financial data is taken from each company's individual, publicly available financial statements.

The weighting within the financials is the same as last year. Prior to 2010, inventory was weighted at 25%. We had considered dropping it altogether. As much as inventory is a time-honored supply chain metric — one of the few "real" supply chain metrics on a company's balance sheet — there have always been issues with it, not the least of which is that higher turns don't always point to the better supply chain. At the same time, it's a metric that's widely known and understood, both inside

and outside the supply chain community. Despite the issues, it's not entirely invalid as an indicator, particularly if combined with other metrics. Therefore, we decided to leave it in, but reduce its weighting.

Since 2009, we've used a three-year weighted average for the ROA and revenue growth metrics (rather than the one-year numbers we had previously used), and a one-year quarterly average for inventory (rather than the end-of-year number we had previously used). The yearly weightings are as follows: 50% for 2012, 30% for 2011 and 20% for 2010.

The shift to three-year averages was put in place to accomplish two goals. The first was to smooth the spikes and valleys in annual metrics, which often aren't truly reflective of supply chain health, that result from events such as acquisitions or divestitures. It also accomplishes a second, equally important goal: to better capture the lag between when a supply chain initiative is put in place (a network redesign or a new demand planning and forecasting system, for example) and when the impact can be expected to show up in financial statement metrics, such as ROA and growth.

Inventory, on the other hand, is a metric that's much closer to supply chain activity, and we expect it to reflect initiatives within the same year. The reason we moved to a quarterly average was to get a better picture of actual inventory holdings throughout the year, rather than the snapshot, end-of-year view provided on the balance sheet in a company's annual report.

Opinion Component

The opinion component of the ranking is designed to provide a forward-looking view that reflects the progress companies are making, and the extent to which they demonstrate leadership through visibility in the supply chain community. It's made up of two components, each of which is equally weighted: a Gartner analyst expert panel and a peer panel.

The goal of the peer panel is to draw on the extensive knowledge of the professionals that, as customers and/or suppliers, interact and have direct experience with the companies being ranked. Any supply chain professional working for a manufacturer or retailer is eligible to be on the panel, and only one panelist per company is accepted. Excluded from the panel are consultants, technology vendors and people who don't work in supply chain roles (such as public relations, marketing or finance).

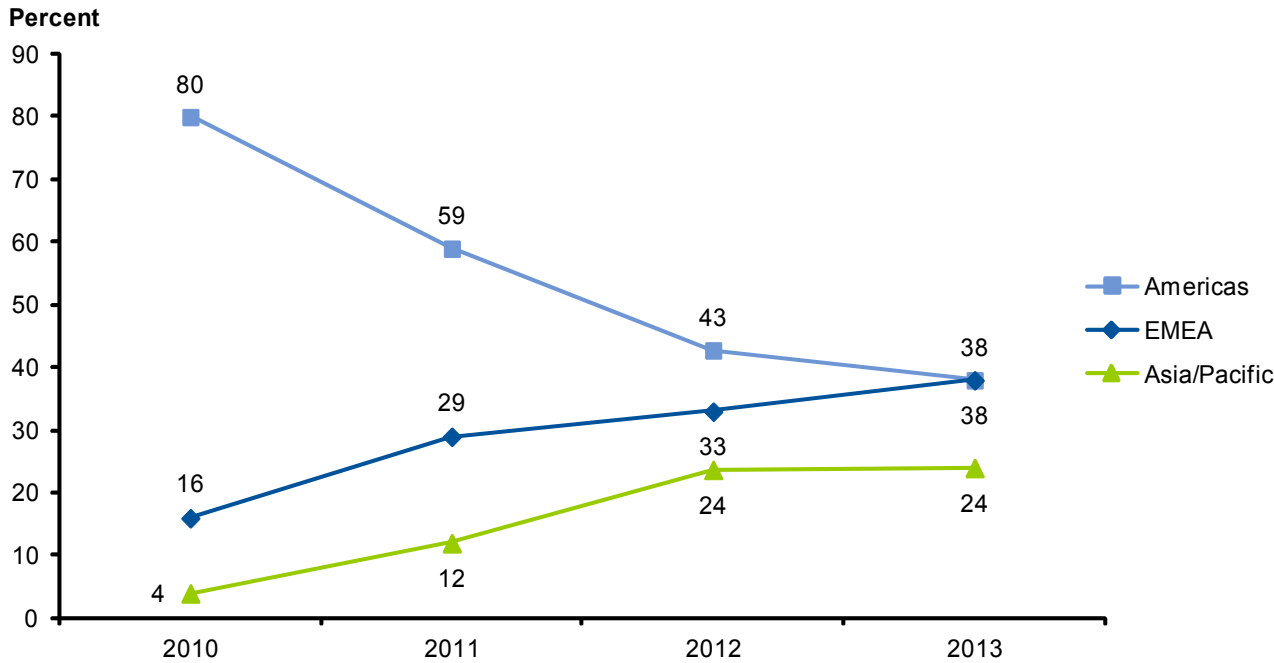
We accepted 224 applicants for the peer panel this year, with 172 completing the voting process. Participants came from the most senior levels of the supply chain organization across a broad range of industries. There were 33 Gartner panelists across industry and functional specialties, each of whom drew on his or her primary field research and continuous work with companies.

Organizations must surpass a base threshold of votes from both panels to be included in the ranking. Therefore, a company that had a composite score fall within the Supply Chain Top 25 solely based on the financial metrics would not be included in the ranking.

The figures below provide a breakdown of the peer vote on the dimensions of region, industry, function, role and revenue. The regional breakdown of voters continued to be a particular emphasis for us, and we continued to make progress this year. Until 2010, North American voters made up

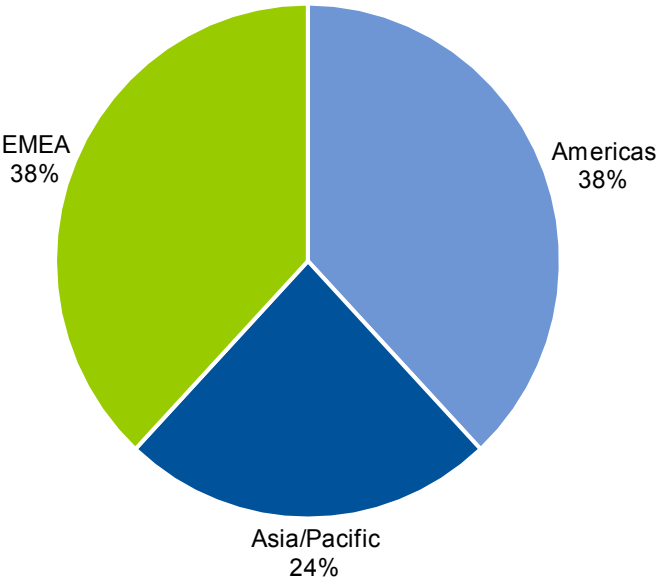
80% of the total. Since that time, we have made progress in achieving better balance regionally, increasing the percentage of voters from Europe and Asia/Pacific to provide a more balanced global view of supply chain leadership (see Figure 5).

Figure 5. Change in Peer Panel Regional Composition, 2010-2013



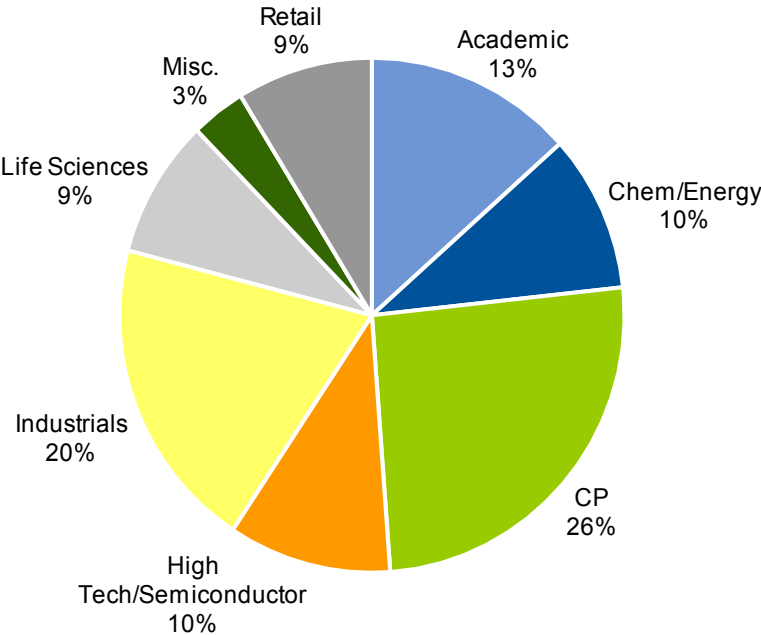
Source: Gartner (May 2013)

Figure 6. 2013 Peer Opinion Panel Composition: Region



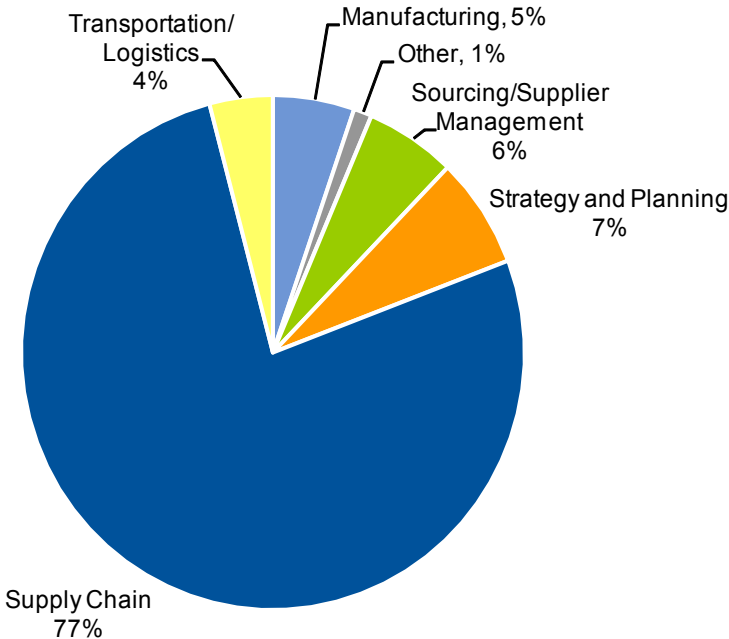
Source: Gartner (May 2013)

Figure 7. 2013 Peer Opinion Panel Composition: Industry



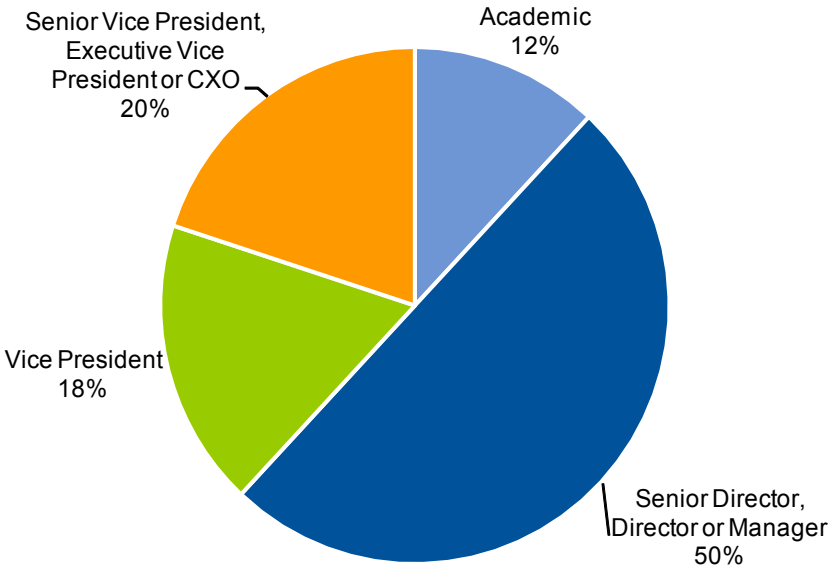
Source: Gartner (May 2013)

Figure 8. 2013 Peer Opinion Panel Composition: Function



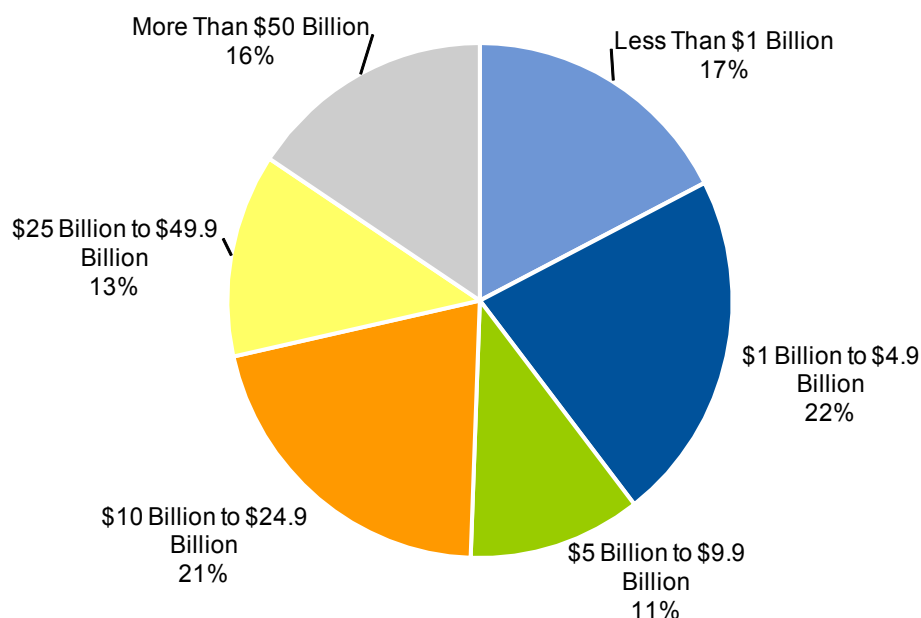
Source: Gartner (May 2013)

Figure 9. 2013 Peer Opinion Panel Composition: Role



Source: Gartner (May 2013)

Figure 10. 2013 Peer Opinion Panel Composition: Revenue



Source: Gartner (May 2013)

Polling Procedure

Peer panel polling was conducted in April 2013 via a Web-based, structured voting process identical to previous years. Panelists are taken through a four-page system to get to their final selection of leaders that come closest to the demand-driven ideal, which is provided in the instructions on the voting website for the convenience of the voters.

Here's a breakdown of the voting system:

- The first page provides instructions and a description of the demand-driven ideal.
- The second page asks for demographic information.
- The third page provides panelists with a complete list of the companies to be considered. We ask them to choose 30 to 50 that, in their opinion, most closely fit the demand-driven ideal.
- After the subset of leaders is chosen, the form refreshes, bringing just the chosen companies to a list. Panelists are then asked to force-rank the companies from No. 1 to No. 25, with No. 1 being the company most closely fitting the ideal.

Individual votes are tallied across the entire panel, with 25 points earned for a No. 1 ranking, 24 points for a No. 2 ranking and so on. The Gartner analyst panel and the peer panel use the exact same polling procedure.

By definition, each peer voter's expertise is deep in some areas and limited in others. Despite that, peer voters aren't expected to conduct external research to place their votes. The polling system is designed to accommodate differences in knowledge, relying on what author James Surowiecki calls the "wisdom of crowds" to provide the mechanism that taps into each person's core kernel of knowledge and aggregates it into a larger whole.

Composite Score

All this information — the three financials and two opinion votes — is normalized onto a 10-point scale and then aggregated, using the aforementioned weighting, into a total composite score. The composite scores are then sorted in descending order to arrive at the final Supply Chain Top 25 ranking.

Looking Ahead

As we close out this cycle of the Supply Chain Top 25 ranking, we look forward to a milestone event in our research: the 2014 ranking marks a 10-year anniversary for the annual Supply Chain Top 25. Until then, the Healthcare Supply Chain Top 25 lies ahead for the rest of 2013, as well as a steady drumbeat of publications that offer various analytical lenses on the full 2013 global ranking. These include industry cuts that examine how the companies in a particular industry stack up against each other and what the industry can learn from them, as well as regional cuts for Asia/Pacific and Europe, which do the same for companies headquartered in each region, and which, we expect, will be further enhanced by the improved regional balance of our voters. While these cuts will be published throughout the year, we will pull them all together in a special report toward the end of the year for ease of reference.

With the peer vote making up one-quarter of a company's composite score, the makeup of the peer voting community is of vital importance. In the aggregate, it can also yield its own interesting perspectives on regional similarities and differences that will be useful to the supply chain community at large. We're looking forward to mining this new information throughout the coming year, and sharing insights on any trends and patterns we find. We will also continue to investigate new metrics, and ways to define and measure supply chain excellence.

In its nine years to date, the Supply Chain Top 25 has served as a spark for the global discussion and debate that we believe are essential to help constantly push the envelope of innovation for all of us in the supply chain profession. As Gartner's supply chain research group, we remain committed to sharing the leading lessons, best practices, and characteristics that will inspire and challenge the supply chain community as a whole to new levels of performance and contribution.

Recommended Reading

Some documents may not be available as part of your current Gartner subscription.

"The Gartner Supply Chain Top 25 for 2012"

"2012 Gartner Supply Chain Top 25: A&D"

"2012 Gartner Supply Chain Top 25: Automotive"

"2012 Gartner Supply Chain Top 25: Chemical"

"2012 Gartner Supply Chain Top 25: Consumer Products"

"2012 Gartner Supply Chain Top 25: High Tech"

"2012 Gartner Supply Chain Top 25: Industrial"

"2012 Gartner Supply Chain Top 25: Life Sciences"

"2012 Gartner Supply Chain Top 25: Retail"

"2012 Gartner Supply Chain Top 25: Asia/Pacific"

"2012 Gartner Supply Chain Top 25: Europe"

"2012 Gartner Supply Chain Top 25: Europe's Next Top 10"

"Measuring Resiliency in the Supply Chain Top 25"

"The Healthcare Supply Chain Top 25 for 2012"

"Introducing the Five-Stage Demand-Driven Maturity Model for Supply Chain Leaders"

"The Hierarchy of Supply Chain Metrics: Diagnosing Your Supply Chain Health"

"Product Launch Dashboards, Part 1: The Hierarchy of Product Metrics"

"Aligning Manufacturing and Supply Chain Performance, Part 2: The Hierarchy of Manufacturing Metrics"

"The Hierarchy of Healthcare Supply Chain Metrics for IDNs"

"Aligning Retail and Supply Chain Performance: The Hierarchy of Retail Metrics"

"Toolkit: Assess the 12 Facets of DDVN Excellence"

["The Supply Chain Top 25 website"](#)

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