Focusing Corporate Strategy on Value Creation
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Focusing Corporate Strategy on Value Creation

THE 2008 CONSUMER-PRODUCTS VALUE CREATORS REPORT

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The 2008 Consumer-Products Value Creators Report has been adapted from the tenth annual report in the Value Creators series published by The Boston Consulting Group. The series provides detailed empirical rankings of the stock market performance of the world’s top value creators and distills managerial lessons from their success. It also highlights key trends in the global economy and world capital markets and describes how these trends are likely to shape future priorities for value creation. Finally, it shares BCG’s latest analytical tools and client experiences to help companies better manage value creation.

This report addresses the challenges of value creation for consumer products companies in a time of turbulence and uncertainty in the global economy. It also provides a comprehensive perspective on corporate strategy that integrates the traditional focus on business strategy with a new strategic focus on a company’s financial policies and investors’ priorities and goals.

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Executive Summary

It is a time of turbulence in the global economy. Macroeconomic, political, regulatory, and technological changes are roiling the business environment. As a result, many companies confront uncertainty and change.

- No one knows for sure how far the global financial crisis will reach or whether the world economy will suffer a recession.
- We are experiencing the first period of real consumer-price inflation in 30 years, and the full economic impact of rising energy and other commodity prices remains unclear.
- Many consumer-products companies face the rise of a new class of global competitors from rapidly developing economies that will reshape the competitive dynamics of their industry.

Increased turbulence is taking place against the backdrop of a major discontinuity in the capital markets.

- The days of consistent high stock returns in the neighborhood of 15 percent per year, which characterized the 1980s and 1990s, are likely gone for the foreseeable future.
- Most analysts see future stock returns more in line with the long-term historical average of approximately 8 to 10 percent per year—or even less.
- It is becoming considerably more difficult to deliver the kinds of returns that executives and shareholders have come to expect.

To create superior shareholder value today, consumer products companies need to take a fresh look at corporate strategy.

- In theory, a company’s corporate strategy should map how the company’s organizational capabilities, financial resources, and business unit competitive advantages will create superior value for investors.
- In practice, however, corporate strategy as it takes place at most companies fails to deliver on this mission because it is not grounded in a detailed consideration of how the company actually generates value.
- As a result, there is a pervasive disconnect at many companies between corporate strategy and value creation; this is the missing link in the corporate strategy process.

Value creation must become a more central and explicit part of the corporate strategy process.

- Maximizing shareholder value is not necessarily the only—or even always the most important—goal of corporate strategy; but there is a symbiotic relationship between corporate strategy and value creation.
- No public company can afford to ignore the capital markets and the ways in which investors value the company’s stock.
- Senior executives need to understand precisely how their corporate strategy will create value and must anticipate the likely reactions of investors to their strategic moves.
The 2008 Consumer-Products Value Creators Report focuses on strengthening the link between corporate strategy and value creation.

- We argue that setting an explicit target for total shareholder return (TSR) needs to become a central part of the corporate strategy process.
- We offer a broader and more comprehensive approach to corporate strategy that supplements the traditional focus on business and portfolio strategy with a new focus on a company’s financial policies and investors’ priorities and goals.
- We describe a three-step process for implementing this more comprehensive approach to defining a company’s corporate strategy.

Rankings of the top consumer-products value creators worldwide for the five-year period from 2003 through 2007 show that the median annual TSR for the 171 companies in our sample was 18 percent.

- The rankings take into account all consumer-products companies with a market capitalization of $2 billion or more at the end of 2007.
- Companies in the top quartile had a median annual TSR of 42 percent, and the top ten companies had a median annual TSR of 74 percent.
- To their credit, many consumer-products companies figured out how to drive strong shareholder returns despite turbulent times.
Creating Value in Turbulent Times

In 1999, global capital markets had seen nearly two decades of relative stability. Little did we know that we were at the beginning of a period of unprecedented turbulence in the world economy: from the Internet boom to its subsequent bust, from the attacks on 9/11 to the downturn that followed, from the recovery to the current crisis in financial markets. Turbulence is no longer the exception; it has become the rule. Fasten your seatbelts, because it is likely to continue.

Forces of Uncertainty

There are many forces contributing to uncertainty and turbulence in today’s economy. Some are macroeconomic. It is still unclear, for example, how far the current global financial crisis will spread or how long it will last; whether the global economy will tip over into recession (and, if so, for how long); and what the long-term economic impact of rapidly rising commodity prices will be on consumer products businesses. In many commodity categories, we are seeing levels of volatility and inflation not witnessed in 30 years. The prices of wheat, soy, and powdered milk have soared, taking many consumer-products makers by surprise. (See Exhibit 1.) In energy—coal, natural gas, and crude oil—price changes from 2007 to 2008 have been astronomical compared with price changes from 2006 to 2007: more than 100 percent for some coal sources and approaching 75 percent for crude oil.

Other forces of turbulence are political and regulatory. The outcome of the 2008 U.S. presidential election, for example, will have enormous (and, for the moment, hard-to-predict) implications for free trade and the global economy. There are signs that central banks are turning away from more than two decades of relatively lenient monetary policies that have fueled easily available debt and spurred booms in the stock market, the housing market, and, some would argue, commodities. The long trend toward economic deregulation also seems to have finally run its course, but there is little indication of what the new forms of government regulation will look like. And looming in the background is the long-term economic impact of terrorism.

Still other forces of uncertainty are more sector- or even company-specific. In some sectors of the consumer industry, rapid consolidation—especially in retail—is forcing companies to consider multiple scenarios for the endgame and choose what role they want to play. In others, the rise of rapidly developing economies, such as China, India, and Brazil, is creating bold new competitors, critical new markets, and more complex competitive dynamics. And even in more stable sectors, many consumer companies face uncertainty and turbulence simply owing to the fact that their existing portfolio of businesses is maturing, requiring the development of new business models and new platforms for growth to meet the challenges of increasingly sophisticated media technologies and new megatrends in consumer behavior, such as trading up and trading down.

Finally, all these uncertainties are taking place against the backdrop of a major discontinuity in capital markets. The glory days of 15 percent average annual shareholder returns that characterized the final decades of the twentieth century may well be over. Most market analysts are predicting far more modest future returns, somewhere in

the neighborhood of 8 to 10 percent—or even lower. And many companies are generating far more cash than they can profitably invest, given the underlying growth rates in their existing businesses and markets, fueling concerns among investors that those companies will use their excess cash in ways that end up destroying value.

Not every company will have to grapple with all these forces. But most will face at least some of them; and relatively few will encounter none at all. It's important to keep in mind, however, that while turbulence presents major challenges, it also creates opportunities. For that reason, effectively navigating turbulence will be the key to superior value creation in the years to come.

**Corporate Strategy Revisited**

How can a consumer products company skillfully navigate the turbulence? By revisiting its corporate strategy—and, in particular, the relationship of that strategy to value creation. Corporate strategy and value creation exist in a symbiotic relationship. A company’s corporate strategy defines its key areas of competitive advantage and how it will exploit those advantages to create value for investors.

2. For example, a survey of 100 CFOs at *Fortune* 1000 companies reported that participants expect equities to deliver an average annual return of only 6.6 percent through 2011. See “CFO Survey 2006: Sometimes the Little Details Do Matter,” Morgan Stanley, September 28, 2006.


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**Exhibit 1. Commodities Are Entering an Era of Remarkable Price Volatility and Inflation**

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Price per bushel ($)</th>
<th>Price per gallon ($)</th>
<th>Price per pound ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>CAGR: 1.3%</td>
<td>VAR: 17.9%</td>
<td>VAR: 22.9%</td>
</tr>
<tr>
<td>Soy</td>
<td>CAGR: 3.8%</td>
<td>VAR: 16.7%</td>
<td>VAR: 7.3%</td>
</tr>
<tr>
<td>Corn</td>
<td>CAGR: 2.0%</td>
<td>VAR: 21.4%</td>
<td>VAR: 25.6%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Price per pound ($)</th>
<th>VAR: 23.2%</th>
<th>VAR: 25.9%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feeder cattle</td>
<td>CAGR: 1.9%</td>
<td>VAR: 8.8%</td>
<td>VAR: 11.1%</td>
</tr>
<tr>
<td>Nonfat powdered milk</td>
<td>CAGR: 4.4%</td>
<td>VAR: 4.4%</td>
<td>VAR: 42.6%</td>
</tr>
</tbody>
</table>

2. For example, a survey of 100 CFOs at *Fortune* 1000 companies reported that participants expect equities to deliver an average annual return of only 6.6 percent through 2011. See “CFO Survey 2006: Sometimes the Little Details Do Matter,” Morgan Stanley, September 28, 2006.


But the energy flows in the opposite direction as well. Superior value creation is an important foundation for future competitive advantage. Not only does it reward investors, it also solidifies their support for management’s long-term agenda. What’s more, above-average value creation delivers cheaper debt and equity currency for key growth or consolidation moves, makes available additional resources to invest in better serving customers, and helps attract the best people through the provision of attractive stock options. Particularly in times of uncertainty, it’s important to be confident that this circle is a virtuous, not a vicious, one.

That’s why we have focused the 2008 Consumer-Products Value Creators Report on corporate strategy. We believe that the necessary connection between corporate strategy and value creation is a missing link in many consumer companies’ corporate-strategy process today. Establishing that link doesn’t necessarily mean privileging shareholder value creation over all other strategic goals (let alone always maximizing shareholder value in the short term). But it does mean understanding how a company’s strategy actually generates value and how capital markets monetize it.

In this year’s report, we introduce a broader approach to corporate strategy than companies typically employ today. It’s an approach that puts value creation at the center of the corporate strategy process—supplementing the traditional focus on business strategy with a new strategic focus on a company’s financial policies and investors’ priorities and goals.
In theory, corporate strategy should define how a company will use its organizational capabilities, financial resources, and business unit competitive advantages to create superior value for its investors. But in practice, what passes for corporate strategy at most companies does not achieve this goal because it does not include a detailed consideration of how the company actually generates value. Senior executives of consumer products companies need to use a more comprehensive and more integrated approach.

The Logic—and Limits—of Traditional Corporate Strategy

Every business needs its own individual business strategy—that is, a plan to create and exploit sustainable competitive advantage. The role of corporate strategy, however, is to define pathways for a company to generate value in excess of that which its business units would create on their own and to make sure the company’s portfolio sustains that superior shareholder value over time.

Ideally, a company’s corporate strategy defines the fundamental logic that explains why a particular set of businesses are together in the first place. For example, it should identify the management capabilities or financial and operational synergies that make the company the best owner of its particular set of businesses. And it should define the precise role of each business unit in the company’s overall value-creation strategy.

Corporate strategy is also responsible for making sure that a company’s portfolio of businesses evolves over time. Some businesses inevitably mature and may no longer be able to create value at a level that matches the company’s aspirations. A company needs to weed out those that are no longer creating enough value under its ownership and develop or acquire new businesses with greater value-creation potential because they offer operational, financial, or management capabilities that can be captured.

Finally, corporate strategy is the process by which senior management sets the financial policies and determines investor communications that will optimize the value a company realizes from its businesses. What is the ideal capital structure for the company? How much of the company’s cash flow will be reinvested in the businesses and how much will be returned to investors in the form of dividends or share repurchases? How will reinvested capital be allocated among the various business units? And how will the company ensure that the capital markets understand and value its portfolio of businesses appropriately?

That’s the theory. Unfortunately, corporate strategy as it is actually practiced at most companies rarely performs all these tasks effectively. In our experience, the corporate strategy process at most companies typically suffers from the following four shortcomings:

- Too Much Incrementalism. A company’s current business model—including its existing portfolio of businesses and financial policies—both frames and constrains the entire corporate-strategy process. Legacy assumptions remain unexamined. And although the process typically incorporates forecasts of trends in the company’s current markets at the individual business-unit level, it rarely examines potential discontinuities in the external environment that could affect the company as a whole.
In today’s environment, consumer products companies need a better approach. First, they need to make value creation an integral part of the corporate strategy process. Second, they need to extend the scope of corporate strategy to give equal consideration to the company’s business strategy, its financial policies, and the priorities and goals of its investors. Finally, business strategy, financial strategy, and investor strategy need to be examined simultaneously (not sequentially) by the entire senior executive team (not isolated functional experts) in order to identify and reach agreement on critical tradeoffs. (Exhibit 2 contrasts the traditional approach to corporate strategy with this new approach.)

An Integrated Model of Value Creation

Most senior-executive teams believe that they are already committed to increasing shareholder returns. After all, they talk about it all the time. Some may even have set a target for improvement in TSR. But in most cases, they are not really focused on value creation, because their corporate-strategy process does not consider the full range of factors affecting TSR.

In last year’s Consumer-Packaged-Goods Value Creators Report, BCG introduced an integrated model of value creation incorporating three critical dimensions. The first is improvements in fundamental value, represented by the discounted value of the future cash flows of a company’s business based on its margins, asset productivity, growth, and cost of capital. The second is improvements in a company’s valuation multiple, driven by investor expectations that shape how capital markets value a company’s fundamental performance at any given moment in time. The third is direct payments to investors or debt holders in the form of dividends, share repurchases, or the paydown of debt. (See Exhibit 3.)

Business Strategy, Financial Strategy, and Investor Strategy

A key aspect of our new approach is to see business strategy, financial strategy, and investor strategy as three equal parts of a company’s corporate strategy and to treat them in parallel rather than sequentially. This integrated perspective is critical because both a company’s

Exhibit 2. An Integrated Approach to Corporate Strategy Focuses on Value Creation

Traditional Corporate-Strategy Process

1. Set business strategy
2. Align financial strategy
3. "Sell" to investors
4. TSR results

Integrated Corporate-Strategy Process

Design business strategy

TSR goal

Develop investor strategy

Formulate financial strategy

Exhibit 3. Companies Must Understand the Linkages and Manage the Tradeoffs Across the Drivers of TSR

Source: BCG analysis.
financial policies and the goals and priorities of its dominant investors can have important implications for the company’s business-unit strategies (and vice versa). They also can have a direct—and, sometimes, quite substantial—impact on TSR in their own right.

Financial strategy is the result of many different decisions about issues such as a company’s capital structure, preferred credit rating, dividend policy, share repurchase plan, tax strategy, and hurdle rates for investment projects or mergers and acquisitions (M&A). Often these seem like discrete issues. But it takes a holistic approach to optimize a company’s overall financial strategy.

For example, consider the impact of a business unit’s proposed growth initiative. Business unit managers will naturally be focused on the initiative’s return on investment—that is, whether it has a positive net present value (NPV). But even when a proposed growth initiative delivers returns above the cost of capital, a company may have been able to get even greater returns by, for instance, returning the cash to investors. Companies that are overleveraged, that are undervalued compared with their future plans, or that suffer from a low valuation multiple relative to their peers can often realize major improvements in their valuation multiples and TSR by paying out more cash to investors or by using that cash to reduce debt. Put simply, every investment option needs to be considered simultaneously against alternative uses of capital. Unless senior executives integrate considerations of financial policy with considerations of business strategy, managing such tradeoffs is extremely difficult.

So too with a company’s investor priorities. It’s essential for a company’s corporate strategy to be aligned with the priorities and expectations of its investors. Those expectations will drive the company’s valuation multiple relative to its peers, which is the key source of short-term TSR and a critical influence on the company’s long-term value creation.

One typical source of misalignment is the difference in how executives and investors assess business opportunities. Most managers evaluate the potential of a business initiative incrementally—that is, whether it adds to earnings per share (EPS) today or has a positive NPV, given reasonable assumptions about future cash flows and likely risks. But investors tend to focus not just on EPS or on standalone NPV but also on how a company’s initiatives fit in with their view of its overall TSR profile.

For example, take a specific growth initiative that delivers returns above a company’s cost of capital. If the returns are less than the average returns being earned by the business as a whole, they will erode the average and therefore may disappoint investors that expect the company to maintain its current level of returns. The result is a reduction in the company’s valuation multiple. This is especially the case in today’s environment, in which investors are sensitive to any indication that current high levels of profitability are being undermined by companies that are overinvesting in order to compete for limited growth opportunities.

Taking investors’ priorities and goals into account doesn’t necessarily mean doing whatever current investors say they want. In some cases, the correct response to misalignment may be to migrate to new categories of investors that are more in sync with the company’s strategy. In others, the solution may be to educate existing investors in order to persuade them that the current strategy will meet their goals. And in still others, a company may decide to “take a hit” to its near-term valuation in order to pursue a sound strategy that will pay off in the future. But whatever the situation, executives need to anticipate the likely results of their decisions and plan for them in advance.

Unless senior executives are considering business strategy, financial strategy, and investor strategy simultaneously, they are likely to miss critical interactions. When understood in this more dynamic way, however, corporate strategy clearly becomes a more complex process with many moving parts, each to some degree dependent on the others. To make this complex process work, a company needs to take three steps: start a senior executive dialogue on value creation strategy, develop a comprehensive value-creation fact base, and align the organization around the right strategy.
The purpose of a more integrated approach to corporate strategy is to more accurately take into account the complex dynamics and tradeoffs shaping value creation. In order to manage that complexity, senior executives need a straightforward and relatively easy-to-implement process. The starting point is for senior executives to begin an honest dialogue about the company’s TSR goals.

A Stake in the Ground

It may seem strange to suggest that senior management start by discussing a TSR target. Shouldn’t the company’s TSR goal be the final outcome of the entire corporate-strategy process? But the purpose of this dialogue is not necessarily to finalize the company’s value-creation goal immediately. Rather, the dialogue is meant to jump-start the corporate strategy process by getting the aspirations, assumptions, and perspectives of key decision-makers on the table and by putting a “stake in the ground” that will serve as an important reference point during subsequent steps in the process.

There are a number of advantages to beginning the process with a discussion of the senior team’s TSR goal. For one thing, such a discussion can be a powerful focusing mechanism—and not only for the senior team but for all executives involved in the corporate strategy process. Most likely, the final TSR target to which a company’s executives ultimately commit will be different from the goal they start out with. But having that initial goal in place signals to those participating in the development of the company’s plan that TSR performance is an important objective and a key criterion for choosing among strategic options.

Another advantage of starting with a discussion of TSR goals is that it requires executive teams to start thinking through the specific drivers of value creation in their business, the amount of risk they are prepared to take on, and the amount of change necessary to achieve their goal. Indeed, an important value of this dialogue is precisely to surface senior executives’ beliefs about all these issues. It’s likely that these beliefs will vary widely. If the dialogue is conducted appropriately—that is, as a truly open and honest discussion with no preconceived outcomes—it will put key differences in perspective and disagreements about future direction on the table for further analysis and debate.

Why TSR Is the Best Metric

Using TSR as the central metric for value creation has a number of advantages. For one thing, it incorporates the value of dividends and other cash payouts, which can represent anywhere from 20 to 40 percent of a company’s TSR (and even more at large, highly profitable companies with below-average valuation multiples). In this respect, TSR is a far more comprehensive measure than share price appreciation.

But, even more important, focusing on TSR as the key metric of company performance is critical because it is the only measure that integrates all the dimensions of the value creation system. Consider some other commonly used proxies for value creation: growth in EPS, for instance, or cash-based metrics such as cash flow return on investment (CFROI) or cash value added (CVA). Because EPS growth is an accounting construct, it is vulnerable to manipulation that makes it look good at the expense of a company’s actual cash flow. And since any investments above the cost of debt grow EPS, the approach encour-
ages companies to take on debt even for investments that generate returns below the weighted average cost of capital. Capital markets generally see through these actions and discount a company’s stock accordingly.

Cash-based metrics are much better. They avoid these shortcomings because they more accurately measure the fundamental value that a company creates. And they can be extremely effective for getting divisions and line management to think and act in terms of value creation. By themselves, however, they do not capture the impact of improvements in fundamental value on a company’s valuation multiple or the full value of cash payments to investors.

How High Should a Company Reach?

The minimum appropriate TSR goal is easy to establish: it will be set by either the company’s cost of equity or the expected average TSR of its peer group (assuming that this average is higher than the cost of equity). For most industries today, whichever criterion is used, that floor will be somewhere between 8 and 10 percent per year. But how much higher should a company reach?

That decision depends on the aspirations of the senior team and on the competitive advantages and management capabilities of the company. In our experience, most senior executives think in terms of achieving top-third or top-quartile performance in their industry or peer group. In today’s environment, that generally translates into an annual TSR of 14 to 16 percent over a five-year period.

Starting with an ambitious stretch goal of this sort can be useful to get an organization to take a critical look at its plans. But keep in mind that it is extremely difficult to consistently achieve something like top-quartile performance. Indeed, it is even difficult to regularly beat the market average. We have analyzed the ten-year average annual TSR at nearly 2,400 global companies with a market capitalization of more than $1 billion. We found that only about 6 percent of the companies beat their local market average for eight years or more—and only a single company beat the average for the entire ten-year period.

The reason? Over the long term, markets are efficient and, taken as a whole, have access to enough information to accurately estimate a company’s future performance. Therefore, to regularly beat the average, a company has to consistently deliver above the expectations that are already embedded in its stock price and reflected in its valuation multiple. If, by contrast, a company only meets those expectations, its multiple is likely to decline over time, bringing its TSR down to the market average.

Exhibit 4 demonstrates that this fade to the average in valuation multiples is experienced by the vast majority of

Exhibit 4. Over Time, a Company’s Valuation Multiple Tends to Fade to the Average

Sources: Thomson Financial Datastream; Thomson Financial Worldscope; Bloomberg; BCG analysis.
Note: The sample consists of 1,964 companies with market capitalizations greater than $1 billion; companies were assigned to quartiles by industry on the basis of their 1998 EBITDA multiples (the ratio of enterprise value to EBITDA).

The valuation multiple index is the median EBITDA multiple of each quartile minus the median of the total sample.
companies. The exhibit divides a sample of 1,964 companies into four quartiles, based on a comparison of their valuation multiples in 1998 with the average multiple for their industries. The chart then tracks the median multiple of each quartile, compared with the median of the total sample, through 2007. As the four converging lines suggest, over the ten-year period the median multiple of each group approaches that of the entire sample.

So senior executives will need to be prepared to test their stretch goals against the realities of their company’s competitive position and organizational capabilities, as well as against the expectations of investors. In our experience, the result of this process is often to scale back the TSR goal to a more modest level. But that’s not necessarily a disaster. The good news is that if a company succeeds in delivering TSR just two to three percentage points above average year after year, such performance can add up to a top-quartile TSR over the long term.

There is one final advantage to starting the corporate strategy process with a debate about TSR goals. The dialogue often helps the senior team identify what it knows—and, perhaps more important, what it does not know—about the dynamics of value creation in its industry and its company. Therefore, the next step in the integrated corporate-strategy process is to develop a comprehensive value-creation fact base.
Developing a Value Creation Fact Base

In our experience, most consumer-products companies never really establish the kind of fact base they need in order to make fully informed decisions about corporate strategy. Instead, they make do with a confusing mix that is one part hard data (often owned by functional players and not broadly shared by the senior team), one part legacy beliefs and opinions that have acquired the status of facts for the simple reason that no one has ever challenged them, and one part blind spots about key information they need but don’t have. As a result, assumptions can’t be tested and disagreements in perspective can’t be objectively resolved. The solution is to develop a comprehensive value-creation fact base spanning all three dimensions of corporate strategy: business strategy, financial policies, and investors’ priorities.6

What’s Behind TSR Performance

The business strategy fact base provides basic information about a company’s historical and expected future value-creation performance. Its purpose is to answer the following questions:

◦ What are the historical sources of value creation at our company and at our peers?

◦ How much TSR can our current company plans deliver?

◦ Is there a gap between our plans and our aspirations?

◦ If so, can our current strategy fill the gap—or do we need either to consider major changes in our strategy or to scale back our goals?

It’s not enough simply to know a company’s TSR record over time. Rather, executives need to break down that performance (as well as that of their peers and each of their individual business units) into the key drivers of value creation. BCG has developed a model for quantifying the relative impact of the various drivers of TSR. (See Exhibit 5.) This TSR decomposition model uses the combination of sales growth and change in margins (resulting in growth in EBITDA) as an indicator of a company’s improvement in fundamental value. It then uses the change in the EBITDA multiple—the ratio of enterprise value (the market value of equity plus the market value of debt) to EBITDA—as a measure of how changes in investor expectations affect TSR.7 Finally, it tracks the distribution of free cash flow to investors and debt holders—dividend yield, change in shares outstanding, and net debt change—in order to track the impact of paying out cash or raising new capital. Using this model, executives can analyze the sources of TSR for their company, its business units, a peer group of companies, an industry, or an entire market index over a given period.

When executives go through this process, they tend to learn that even companies in the same industry create value in different ways. Take, for example, the analysis shown in Exhibit 6, which compares the TSR decomposition...
The point is simple: there are many different ways to create value. A company has to carefully consider which combination of factors is most appropriate at any moment in time. It is important both to understand the historical sources of a company’s TSR and to anticipate which drivers of value creation will be most important in the future.

Just as a company has to “get under the hood” of its overall TSR performance, it also has to get under the hood of its valuation multiple—that is, understand the precise drivers that set relative multiples in its industry or peer group. Many managers tend to see the factors affecting
their company’s multiple as something of a mystery largely outside their control. In fact, it is possible to identify the specific drivers of multiples in a particular industry or peer group and, therefore, to quantify how a company’s actions affect its multiple.

BCG’s technique for identifying what differentiates multiples among the companies in a given industry uses statistical regressions to compare observed multiples against a broad range of financial and performance data. We have found that we can explain roughly 70 to 90 percent of the observed differences among multiples in an industry over a five- to ten-year period.8

Going through such an exercise will likely confirm some assumptions about what affects the multiple. But it will also highlight new and unexpected dynamics. For example, despite most executives’ focus on EPS growth, in many industries it is operational factors that really drive the multiple. When we recently looked at a consumer products company and its peer group, for example, we saw that factors such as size, gross margins (reflecting brand strength and pricing power), and operating expenses account for more than 80 percent of the differences in multiples among companies; by contrast, the impact of growth is negligible. (See Exhibit 7) In addition, the proportion of earnings paid out in dividends is positively correlated with valuation. Whatever the precise result for a company and its peer group, developing a more granular understanding of what drives relative multiples helps senior executives assess the impact of their decisions on their company’s multiple—and, therefore, on TSR.

Armed with data about TSR decomposition and the drivers of relative multiples in its peer group, a company is in a position to quantify not only its historical TSR performance but also the TSR potential of its existing business plans. Is there a gap between the senior team’s initial TSR goal and the value likely to be delivered by its current plans? If so, what are the opportunities for improving planned performance? If the gap is relatively small, it

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may be possible to squeeze more TSR out of existing plans. Alternatively, there may be financial moves the company can make to add additional TSR. If the gap is large, however, the senior team may have to look more broadly: What is the likelihood of innovating new platforms for growth? Are there any potential megatrends the company can take advantage of? Or is major restructuring of the portfolio called for, including the requisite acquisitions and divestitures?

In some cases, such discussion will surface new options and opportunities. In others, it may suggest that the company has to scale back its TSR aspirations so that they are more in sync with the capabilities of the company’s existing businesses. But whatever the initial conclusions, it will be necessary to test them against new information coming out of the other pieces of the value creation fact base.

A Holistic View of Financial Policies

The second part of a comprehensive valuation-creation fact base involves a company’s financial strategy. It is meant to answer the following four key questions:

- How can we ensure financial flexibility to fund future growth?
- What is the optimal capital structure (debt-to-capital ratio) for minimizing our weighted average cost of capital?
- How much cash should we pay out and in what form?
- What are the appropriate hurdle rates for potential acquisitions?

Most companies have answers to these questions, but their answers are often based on long-standing historical norms or on theoretical financial models that aren’t especially relevant to the company’s current competitive situation or the makeup of its investor base. What’s more, most companies address these questions individually when they need to address them holistically.

One critical task is to quantify a company’s financially sustainable growth rate—that is, the organic growth rate in revenues that a company can fund without issuing new shares, assuming that its current returns and financial policies (such as its debt-to-capital ratio and dividend payout) remain unchanged. Comparing this financially sustainable growth rate with a company’s growth aspirations and with the underlying organic growth rates of its served markets can provide key insights for corporate strategy.

As senior executives begin to develop a sense of where they are currently positioned—and where, ideally, they would like to be positioned—on the sustainable growth chart, they will also learn not only how much growth they can fund but also how much cash they have available to return directly to investors after funding their growth strategy. The next step is to decide the best way, from a value creation perspective, to return that cash. Here the main focus should be on the effect of different types of cash payouts on the company’s valuation multiple and on the company’s ability to attract those types of investors that are most in sync with its long-term strategy.

Take the choice of dividends versus stock repurchases. Many executives believe that increasing the dividend payout can damage a company’s valuation multiple. At the same time, they tend to think that repurchasing shares can have a positive impact on their multiple because it automatically increases EPS—and suggests that the company thinks its stock is undervalued.

And yet, empirical evidence demonstrates that precisely the opposite is the case. We conducted an event study comparing the impact of increases in dividend payout (as a percentage of net income) with that of annual share-repurchase programs. (See Exhibit 8.) We studied 107 companies that either initiated a dividend payout of at least 10 percent of net income or increased an existing dividend payout by at least 25 percent. These increases improved relative valuation multiples over the following three quarters by 28 percent, on average, and improved the multiples of the top quartile by 46 percent. Conversely, an analysis of 100 companies that increased their ongoing share repurchases by a similar amount showed an average impact on relative valuation multiples of –5 percent—and of only 16 percent for the top quartile.

The reason for this dramatic difference has to do with the signaling power of dividends. Higher dividend payouts signal management’s confidence in the company’s future profitability and its discipline in using cash to create shareholder value. New investors are then attracted to
the stock—thus producing stronger demand and a higher stock price as the new dividend yield is arbitrated to a lower level. The result is an increase in the company’s valuation multiple and a higher near-term TSR.

By contrast, share repurchases do not provide positive signals about long-term profitability or shareholder value discipline. They don’t encourage investors to hold the company’s stock (indeed, they mainly reward investors that sell) or attract new long-term investors to buy it. As a result, the impact of repurchases on a company’s stock price often undermines the positive impact of the growth in EPS that the repurchases make possible. And their impact on valuation multiples and TSR is far less than that of increasing the dividend payout.

Finally, given the growing importance of M&A to corporate strategy at many companies, another key financial policy that needs to be rethought from the perspective of value creation is the financial hurdle a company sets for acquisitions. Despite recent news articles about tight credit and the decline in the M&A market, BCG research shows that downturns are an especially good time for companies to consider M&A.9 What’s more, companies that systematically pursue growth through acquisitions tend to have superior TSR performance to those that grow mainly through organic expansion. But mistaken financial policies often prevent companies from making the right moves around M&A.10

When setting hurdle rates for M&A, companies often focus on whether a deal is EPS accretive (that is, whether it adds to a company’s EPS) in the near term. But an EPS-accrative deal will not necessarily improve a company’s TSR. There are situations in which a deal can increase EPS but still cause the acquirer’s multiple to decline, ending up eroding TSR—for example, if the acquired com-

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pany provides near-term synergies but has a relatively low long-term growth potential.

By the same token, deals that dilute EPS in the near term can increase the acquirer’s multiple and turn out to improve TSR. Only when executives start evaluating potential acquisitions not only in terms of earnings but also in terms of their comprehensive impact on the entire value-creation system will they be able to assess whether a particular deal really makes sense or not.

**The Investors That Matter—and What Matters to Them**

Even as the senior team is developing the above information and analyses, it also has to be building an investor fact base. After all, it is a company’s investors that ultimately determine whether management’s decisions and actions translate into the desired TSR results. Therefore, the third piece of a comprehensive value-creation fact base is to develop a detailed understanding of the priorities and expectations of a company’s investors, as well as of any potential new investors that the company could reasonably attract given its intended strategy. The investor fact base should answer such questions as the following:

- Which are our dominant investors?
- Are they the right ones given our current strategy?
- Do current or desired investors find the company’s strategy credible?
- What can we do to create better alignment between our strategy and our investor base?

Of course, executives talk with investors and sell-side analysts all the time. The problem is that these interactions are often so superficial that their “signal-to-noise” ratio is disappointingly low. The trick is for companies to discern the signal within the noise by carefully segmenting the investors that own a company’s stock. Investors are much like customers. Different classes of investors have different appetites for growth, profitability, cash flow generation, and risk. Any large public company will have a mix of different kinds of investors with different—and sometimes conflicting—priorities. Therefore, it is important for a company to quantify its mix of investors (value, income, GARP, aggressive growth, and so on) in order to identify which classes are overweighted compared with market, industry, or peer-group averages—and therefore most attracted to the company’s current value proposition and most likely to respond to its strategic moves. (See Exhibit 9.)

Companies should supplement these quantitative analyses with qualitative data. Once the dominant investors have been identified, senior management needs to develop a rich understanding of how these investors really see the company. For example, many large and relatively slow-growth companies can have a significant portion of growth-style funds in their investor ownership mix. But the fund managers will often say that the company is not expected to play a growth role in their portfolio, and they are not looking for management to take risks or divert cash to increase their growth rate. Only by talking to investors, asking the right questions, and carefully listening to and interpreting their responses can management gain a clear view of the expectations and priorities of the company’s investor base.

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12. GARP is “growth at reasonable price.”

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**Exhibit 9. Identifying Dominant Investor Groups Is a Key Component of the Value Creation Fact Base**

<table>
<thead>
<tr>
<th>Investor Mix Compared to Peers</th>
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<tbody>
<tr>
<td><strong>Company (%)</strong></td>
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<tr>
<td><strong>Overrepresented</strong></td>
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<tr>
<td>Value</td>
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<tr>
<td>Index</td>
</tr>
<tr>
<td>GARP</td>
</tr>
<tr>
<td>Growth</td>
</tr>
<tr>
<td>Underrepresented</td>
</tr>
<tr>
<td>Income</td>
</tr>
<tr>
<td>Other/specialty</td>
</tr>
<tr>
<td>Hedge fund</td>
</tr>
<tr>
<td>Peer group average (%)</td>
</tr>
</tbody>
</table>

**Sources:** Thomson ONE Banker; BCG analysis.
**Note:** This analysis is based on an actual company example.
Putting together a comprehensive value-creation fact base will quantify the impacts of discrete choices, raise new issues, and offer fresh insights about the tradeoffs senior executives need to manage. By itself, however, having such a fact base will not suggest the best overall corporate strategy for the future. This final step often requires senior teams to explore and debate a range of strategic options and align around the best path forward.

**Let the Debate Begin**

For some companies, the best path may be relatively clear, involving little more than a slight tweaking of the existing strategy. For most, however, it’s likely that the exercise of assembling a detailed fact base will suggest a number of alternative paths that the company might follow. These options will appeal to different investors (and to different members of the executive team), entail different levels of risk and degrees of difficulty in implementation, and produce different overall TSR results. Therefore, they need to be debated.

A useful starting point is to get management’s opinions on the table about the key choices and tradeoffs facing the company. (See Exhibit 10.) Having members of the senior team decide where they think the company should be on these tradeoffs generally has two results. First, it identifies where the key disagreements are about the direction that the company should take. The more divergence there is among senior executives on such key questions as how much growth to go for, the appropriate balance between organic growth and M&A, and whether to stick with the current portfolio or move to a new one, the greater the need to fundamentally examine different strategic options.

The exercise also illustrates another important point: reaching consensus on each of these dimensions cannot be decided on an issue-by-issue basis. The strategic alternatives a company considers need to be coherent. No realistic option, for instance, is going to allow a company to shift from modest growth to aggressive growth without also requiring a major increase in risk. As executives define alternative value-creation options, they need to make sure that these options are internally consistent.

**The TSR Impact of Alternative Value-creation Scenarios**

The exercise in Exhibit 10 will provide a rough idea of what the main alternatives facing a company are. But deciding which path to take will require carefully defining the key options, discussing in detail their pros and cons, and quantifying their likely impact on TSR. It is extremely difficult to do this within the context of the traditional planning process. Rather, it will require focused, top-down effort by the senior team.

Take, for example, the situation of a large consumer-products client. It had been a top-tier value creator with several profitable brands, but growth had slowed in recent years, and the company feared its fortunes were about to change. (After all, TSR has no memory.) The goal was to identify a strategy that would continue to deliver above-average TSR at an appropriate degree of risk. The company developed four alternative TSR strategies and compared them on a number of key dimensions, including long-term portfolio strength, near- and long-term TSR, and execution risk.

- **The base case** combined organic growth with operational efficiency. It revised the company’s original base
plan and focused on rationalizing costs to maintain margins, working capital, and SG&A expenditures at current nominal levels. The plan entailed no portfolio changes and became the benchmark for comparing more radical alternatives.

- The “optimized” base case targeted greater organic growth as a goal. It also focused on distributing “excess” cash to shareholders through an increase in dividends and an aggressive buyback of shares. The plan promised to improve future cash flows and dividend yield, increase the share price and EPS, and reduce the number of shares outstanding.

- The portfolio enhancement scenario combined the base case with an M&A strategy to enhance the company’s portfolio of brands. It called for buying one attractive brand and divesting a number of underperforming brands over the next few years. Under this plan, the company would use its excess cash to pay down debt, buy back shares, and increase dividends. The goal would be to remake the company’s current portfolio into a stronger and more focused portfolio of leading brands.

- The portfolio transformation scenario was the most ambitious. It called for acquiring a major competitor and using cash to manage debt. It aggressively reshaped the portfolio and transformed the company so that it could be a larger player in the industry.

Exhibit 11 shows how the four scenarios compare in terms of portfolio configuration, returns, and risk. The base case, as the client suspected, was unattractive. “Optimizing” the base case generated substantially higher total shareholder returns—through refocused investments and more aggressive cash returns—but did not do anything to improve the client’s fundamental portfolio. The portfolio-enhancement and portfolio-transformation scenarios improved the client’s portfolio and delivered attractive total shareholder returns, but at different levels of risk. The risk involved in successfully acquiring and integrating a major competitor seemed much more daunting to our client than the more measured risk of a modest acquisition coupled with selected divestitures. In the end, the client chose the portfolio enhancement scenario and has been delivering strong returns as it executes that strategy.

The Corporate Strategy Timeline

One of the advantages of closely examining specific value-creation options is that the very act of debating alternative paths tends not only to thoroughly vet all the options but also to build alignment around the ultimate direction chosen. That alignment greatly diminishes the
likelihood that persistent unresolved disagreements will
distract management’s attention, thus improving the
odds that the company’s planned strategy will be imple-
mented. But before the senior team is
finished, it must
turn its desired corporate strategy into a detailed imple-
mentation plan that can be delivered by the organization
and clearly communicated to investors. We like to call
this the corporate strategy timeline.

For an example of the process of creating a timeline, con-
sider the recent experience of a U.S. consumer-products
company. Several years ago, the company had a classic
bimodal portfolio. The portfolio contained a number of
large business units consisting of mature brands that, al-
though quite profitable, had a relatively low—and declin-
ing—growth rate. More recently, however, the company
had either built or acquired a number of smaller brands.
These businesses generated a minority of the company’s
revenues, but they were growing rapidly and were highly
promising for the future.

The consumer products company didn’t face an immedia-
tate crisis. But executives felt trapped between the strat-
egy they firmly believed was best for the long term and
the priorities of current investors. The executive team
wanted to invest in the company’s new businesses, ex-
and internationally, and acquire additional brands—all
with the goal of boosting profitable growth. And because
senior executives believed that the company’s stock was
undervalued, they wanted to use cash or debt for any
new acquisitions, not issue new shares. The company’s
dominant investors, by contrast, were looking for higher
cash payouts. And to the degree that the company in-
creased debt, they wanted it used for share repurchases,
not acquisitions.

There was no easy way for the company to quickly trans-
form itself into a growth company and be rewarded by
the capital markets. It would be at least three—and maybe
as many as five—years before the company’s new
businesses would, on their own, be big enough to deliver
the majority of the company’s revenues. And while dives-
titures of some slow-growth businesses might more quick-
ly speed up the company’s growth rate, none of these
businesses was big enough to materially change the
growth profile of the company in a single deal.
Therefore, the senior team concentrated on coming up with a carefully sequenced, quarter-by-quarter strategic plan to progressively shift its strategy and its investor base over the next two years. (See Exhibit 12.) The plan consisted of three major phases. In the first phase, the top priority would be to maximize the appeal of the company to its current value investors, even as it began to set the groundwork for attracting new types of investors that were somewhat more growth-oriented and less focused on very high cash payouts. The major event in this phase would be a near doubling of the company’s dividend. The second phase would emphasize a tuck-in acquisition—to improve the scale of one of the company’s high-growth businesses—and the divestiture of one of its core businesses. These moves would improve the company’s growth profile, attract more growth-oriented investors, and generate more cash for both organic and acquisitive growth. Once the company’s investor base had shifted decisively from value to growth, and the growth profile of the company’s portfolio had achieved critical mass, the company would embark on a third phase: a series of aggressive growth initiatives, both organic and acquisitive.

Equally important to these strategic moves, however, was a sequence of investor communications to shape the context for how investors perceived these moves. For example, the entire strategy was kicked off with an “investor day,” at which the company announced an explicit TSR goal in order to communicate to the investor community that the company was focused on TSR, rather than growth for growth’s sake. At the same time, the company scaled back its growth guidance somewhat to show that it was disciplined about its growth initiatives. These announcements laid the groundwork for the dividend increase. At the first earnings call after the increase, however, the company began to introduce growth-oriented themes to analysts and investors. For example, it touted its relatively high returns on invested capital, emphasized its success at creating value from some of its earlier acquisitions, and argued that it had sufficient resources both to increase its dividend payout and to fund new growth.

In the second phase, before doing its tuck-in acquisition and divestiture, the company began reporting the results of its smaller, fast-growing businesses separately from those of its core businesses in order to emphasize the growth potential of the smaller businesses. It also announced the creation of an internal talent-management program that would build the capabilities necessary to manage a stable of high-growth global brands.

In the third phase, as the company shifted decisively to a high-growth path, it began emphasizing to analysts and investors the depth of its brand-management skills. Fi-
nally, at the end of the two-year transition plan, the company released financial targets aimed squarely at more growth-oriented investors.

For this consumer-products company, the events of the timeline became stakes in the ground against which its management team had to deliver. It also defined the script for a steady diet of positive news that would be communicated to investors. The company is now in the final phase of its strategic plan. The increase in its dividend payout had a major impact on the company’s valuation multiple—causing it to increase by 30 percent within six months of the announcement. The company’s multiple, which had been the lowest in its peer group, rose to substantially above average. From the start of the company’s plan through 2007, its TSR outpaced that of its peer-group average by 24 percent. The company has successfully migrated its dominant investor group from value investors to GARP investors. Although the tough economic conditions of 2008 have caused the company’s TSR to decline, it is still outpacing that of its peer group.

As these examples suggest, systematically exploring a broad range of value creation scenarios and testing them against an explicit TSR goal is the best way to forge a close link between corporate strategy and value creation. It helps companies avoid corporate strategies that are incremental responses when larger opportunities are within reach or bolder moves are required. It also results in far greater commitment on the part of the organization to whatever path the senior team chooses, thus ensuring more effective implementation. Given the ongoing turbulence roiling the global economy, now may be the ideal time to adopt this more comprehensive approach to corporate strategy.
Ten Questions That Every CEO Should Know How to Answer

In conclusion, we offer ten questions about corporate strategy and value creation that every CEO should know how to answer. The questions synthesize the basic arguments and recommendations made in this report in a concise format.

1. Do you have an explicit TSR target guiding your strategic plan? Is that target appropriate given the expectations embedded in your stock price and the ability of your business plans to deliver improved performance? Do you understand how each of your businesses will contribute to meeting your TSR goal?

2. What are the historical sources of TSR for your company? How does your historical profile compare with that of your peers? How has the way you create value evolved over time? Are the company’s future sources of TSR likely to be similar to or different from those underlying your recent performance?

3. What drives the differences in valuation multiples in your industry? Are investors discounting your multiple? If so, do you understand why and what to do about it? Are you experiencing multiple compression? How will your strategic choices affect your multiple in the future?

4. What is your financially sustainable growth rate? Is it in balance with the estimated growth rates in the markets you currently serve? If not, what is the best way to deploy your excess cash?

5. Is M&A a critical part of your corporate strategy? If so, do you know whether the deals you are considering will improve TSR? Have you set the appropriate financial hurdle rates for potential deals?

6. What is the impact of your financial policies on your valuation multiple and TSR? Do you know their implications for your business-strategy choices?

7. Which are your dominant investors? Do you know their goals and priorities for value creation? Is your corporate strategy in sync with those goals and priorities? If not, do you have a plan for migrating to investors more closely aligned with your strategy?

8. What are your key value-creation alternatives for the future? Do you have a robust process in place for analyzing these alternatives, debating their pros and cons, and creating alignment around the right path forward?

9. Are your business strategy, financial strategy, and investor strategy internally consistent? Do they reinforce or contradict one another?

10. Do you have a detailed corporate-strategy timeline describing how you will execute your strategy? Does it include the necessary internal development programs and external investor communications?
Appendix

The 2008 Consumer-Products Value Creators Rankings

The 2008 rankings of the top consumer-products value creators are based on a detailed analysis of total shareholder returns at 171 global companies for the five-year period from 2003 through 2007. We looked at all consumer-products companies with a market capitalization of $2 billion or more at the end of 2007. The median annual TSR for the companies in our sample was a healthy 18 percent, and companies in the top quartile had a median annual TSR of 42 percent.

To arrive at this sample, we began with TSR data provided by Thomson Financial Worldscope. We eliminated all companies that were not listed on some world stock exchange for the full five years of our study or did not have at least 25 percent of their shares available on public capital markets. We also eliminated all firms that were not part of the consumer products segment of the consumer industry. We further refined the sample by establishing a market capitalization hurdle of $2 billion (at the end of the 2007 calendar year) to eliminate the smallest companies in the sample.

The rankings are based on five-year TSR performance from 2003 through 2007.1 We also show TSR performance for 2008, through September 9. In addition, we break down TSR performance into the six investor-oriented financial metrics used in the BCG decomposition model described on pages 18–19.

What kind of improvement in TSR was necessary to achieve top-quartile status? Exhibit 1 arrays the 171 companies in our global sample according to their five-year TSR performance. In order to achieve top-quartile status, companies needed to post an average annual TSR of at least 31 percent. The very best performers had truly stunning average returns ranging from roughly 70 percent to nearly 140 percent per year.

What differentiates the sample’s top performers from the rest? Exhibit 2 compares the TSR profile of the top ten companies in our sample with that of the 171-company sample as a whole. The top ten companies grew faster than all of the rest, generated higher margins, and created more margin improvement. They also generated a median annual TSR of 74 percent during the period under study, in contrast to the median annual TSR of 18 percent for the whole sample. (See Exhibit 3.)

It is interesting to note that many of the top performers were smaller companies, with market capitalizations of less than $10 billion. The median annual return for the top ten companies with market capitalizations between $2 billion and $10 billion was 73 percent, and the median for the top ten companies with market capitalizations greater than $10 billion was 43 percent. (See Exhibits 4 and 5, respectively.) The superior performance of small-cap companies should not be surprising, since larger companies are more likely to “fade” closer to the industry average. Indeed, the challenge of sustaining outstanding performance is more difficult as companies become larger.

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1. TSR is a dynamic ratio that includes price gains and dividend payments for a specific stock during a given period. To measure performance from 2003 through 2007, we use 2002 end-of-year data as a starting point.

Average annual shareholder return of total sample: 24.0 percent
Median annual shareholder return of total sample: 18.3 percent

Sources: Thomson Financial Datastream; BCG analysis.
Note: TSR is derived from calendar-year data; the analysis is based on 171 global consumer-products companies with a market valuation greater than $2 billion as of year-end 2007.

<table>
<thead>
<tr>
<th>Source: Thomson Financial Datastream; Thomson Financial Worldscope; Bloomberg; BCG analysis.</th>
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<tbody>
<tr>
<td>1Industry calculation based on aggregate of entire sample.</td>
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<tr>
<td>2Share change and net debt change not shown.</td>
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<td>3Industry calculation based on sample average.</td>
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<table>
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<tr>
<th>#</th>
<th>Company</th>
<th>Location</th>
<th>TSR(^2) (%)</th>
<th>Market value(^1) ($billions)</th>
<th>Sales growth (%)</th>
<th>Margin change (%)</th>
<th>Multiple change(^4) (%)</th>
<th>Dividend yield (%)</th>
<th>Share change (%)</th>
<th>Net debt change (%)</th>
<th>2008 TSR(^5) (%)</th>
</tr>
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<tr>
<td>1</td>
<td>Hansen Natural</td>
<td>United States</td>
<td>142.5</td>
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<tr>
<td>9</td>
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<td>67.9</td>
<td>4.611</td>
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</table>

Sources: Thomson Financial Datastream; Thomson Financial Worldscope; Bloomberg; BCG analysis.

Note: The total global sample contains 171 companies with market valuations greater than $2 billion.

1 The contribution of each factor is in percentage points of five-year average annual TSR; apparent discrepancies with TSR totals are due to rounding.
3 As of December 31, 2007.
4 Change in EBITDA multiple.
5 Through September 9, 2008.


<table>
<thead>
<tr>
<th>#</th>
<th>Company</th>
<th>Location</th>
<th>TSR(^2) (%)</th>
<th>Market value(^1) ($billions)</th>
<th>Sales growth (%)</th>
<th>Margin change (%)</th>
<th>Multiple change(^4) (%)</th>
<th>Dividend yield (%)</th>
<th>Share change (%)</th>
<th>Net debt change (%)</th>
<th>2008 TSR(^5) (%)</th>
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<tr>
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<td>7</td>
<td>Wuliangye Ybin</td>
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<td>49</td>
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<tr>
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<td>–8</td>
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</table>

Sources: Thomson Financial Datastream; Thomson Financial Worldscope; Bloomberg; annual reports; BCG analysis.

Note: The sample contains 101 companies with market valuations between $2 billion and $10 billion.

1 Average annual total shareholder return, 2003–2007.
2 As of December 31, 2007.
3 Change in EBITDA multiple.

<table>
<thead>
<tr>
<th>#</th>
<th>Company</th>
<th>Location</th>
<th>TSR 1 (%)</th>
<th>Market value 3 ($billions)</th>
<th>Sales growth (%)</th>
<th>Margin change (%)</th>
<th>Multiple change 4 (%)</th>
<th>Dividend yield (%)</th>
<th>Share change (%)</th>
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<th>2008 TSR 5 (%)</th>
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<td>2</td>
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<td>–30.5</td>
</tr>
</tbody>
</table>

Sources: Thomson Financial Datastream; Thomson Financial Worldscope; Bloomberg; annual reports; BCG analysis.

Note: The sample contains 70 companies with market valuations greater than $10 billion.

1 The contribution of each factor is in percentage points of five-year average annual TSR; apparent discrepancies with TSR totals are due to rounding.

2 Average annual total shareholder return, 2003–2007

3 As of December 31, 2007.

4 Change in EBITDA multiple.

5 Through September 9, 2008.
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- **The Advantage of Persistence: How the Best Private-Equity Firms “Beat the Fade”**
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- **The Brave New World of M&A: How to Create Value from Mergers and Acquisitions**
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- **Successful M&A: The Method in the Madness**
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  BCG Perspectives, November 2005

- **The Role of Alliances in Corporate Strategy**
  A report by The Boston Consulting Group, November 2005

- **Integrating Value and Risk in Portfolio Strategy**
  Opportunities for Action in Corporate Development, July 2005

- **Winning Merger Approval from the European Commission**
  Opportunities for Action in Corporate Development, March 2005

- **The Right Way to Divest**
  Opportunities for Action in Corporate Development, November 2004

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