

The Gartner Supply Chain Top 25 for 2011

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2011 marks the seventh year of our annual Supply Chain Top 25 report. The goal of this research has always been to raise awareness of the supply chain discipline and how it impacts business. Here, we reveal the results of this year's ranking and discuss where the Supply Chain Top 25 is heading in the future.

Key Findings

- The Top 5 include three mainstays — Apple, Dell and P&G — and two that joined the list for the first time last year—Research In Motion (RIM) and Amazon.
- Four new companies joined the list this year: Nestle, Starbucks, 3M and Kraft Foods.
- Four key themes emerged this year among the leaders, including how they deal with volatility, their approaches to value chain network integration, their focus on sustainable execution and their abilities to orchestrate.

Recommendations

- Develop supply chain processes and methodologies throughout your trading partner network that will provide the resiliency to deliver predictable results in the face of ongoing volatility.
- Supplement a clearly articulated, long-term value chain vision with strong, agile, and sustainable execution capabilities. Push your team to think differently and go beyond conventional wisdom to push the boundaries on performance levels.
- Measure your supply chain as your customers experience it. Develop the capability to internalize customer needs, and proactively build customer feedback into your supply chain design.
- Step back and consider the basic supply chain capabilities you need, as well as the innovations that will differentiate your performance. Ensure the sustainability of your efforts and initiatives through a constant focus on governance, change management and culture.

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Analysis

The Gartner Supply Chain Top 25 for 2011

2011 marks the seventh year of our annual Supply Chain Top 25 report. At its highest level, the goal of this research has always been to raise awareness of the supply chain discipline and how it impacts business. By identifying the leaders — that is, companies that are pushing the envelope of supply chain innovation — we hope to consistently highlight the best practices from which others can learn, thereby raising the bar for the supply chain profession as a whole.

Each year, our analysts talk to and research the supply chains of hundreds of companies. What we see, hear and write about runs the gamut from specific to broad: from the specific functional issues in planning, sourcing, manufacturing, and distribution, to companies' broader, cross-value-chain strategies, visions, and missions.

The Themes

Stepping back from the discussions we've had all year, four themes emerged.

Resilience

First, of course, is the impact of the recovering economy. Companies are starting to invest again in resources and assets, and although we haven't fully recovered, the trend is certainly looking up. At the same time, leaders took some very clear lessons from the events of the past couple years, with one of them being the need for supply chain resilience: the ability to deliver predictable results, despite the volatility that many have pointed out is now here to stay. Speed, agility, efficiency, responsiveness and innovation — all remain critical, but equally important is a resilient supply chain. Companies like Cisco, Dow Chemical, RIM, Unilever and others are actively designing in structures, processes and methodologies to create and expand this resiliency not only in their own supply chains, but in those of their trading partners as well.

Value Chain Network Integration

Last year, we talked about the trend toward vertical integration. What we've seen since then is more about choosing the right set of value chain network integration strategies that allow better control of the end-to-end value chain. What this means is that there's no one answer that's always right. We see companies like Samsung, which have always been vertically integrated, weathering the ups and downs through ownership of supply, and others like The Coca-Cola Company and PepsiCo becoming more vertically integrated with the acquisition of their largest bottlers. On the other hand, we see companies like Microsoft and Cisco managing an extensively outsourced network of trading partners. The key isn't whether a company owns all the pieces of its network — it's how well it controls the outcome of the activities that take place in the network that end in the delivery of a final product to a customer. As such, each company needs to figure out the right strategy for sustainable differentiation given its unique business goals, and design the tactics and processes that will best ensure the quality and efficiency of the end-to-end output and response to the end customer.

Vision and Sustainable Execution

Leaders are setting their sights beyond the articulation of a clear vision to the need for sustainable execution against that vision. These companies understand that, although a long-term supply chain vision is critical to communicate future value, the ability to replicate, scale and continually build on best practices across the organization in a sustainable way — going beyond a one-time success or pockets of excellence — is just as critical. This is no small task given the size, complexity and sheer scale of many of the Top 25 leaders. It often requires fundamental shifts in organization and governance, as well as an unshakeable commitment to effective change management.

Orchestration

Leaders have been moving steadily up the demand-driven maturity curve over the last several years (see "Supply Chain Strategy for Manufacturing Leaders: The Handbook for Becoming Demand Driven"). What differentiates the companies that are true "orchestrators" is that they go beyond simply borrowing and adapting others' best practices. They create new ones altogether, often defying "conventional wisdom" to rewrite the rules and increase the gap between themselves and others. We'll be writing more about this in the coming year throughout our supply chain research agenda.

With seven years of data and discussion behind it, the 2011 Supply Chain Top 25 continues to offer lessons about staying power, change, and the never-ending challenge of defining and measuring excellence (see Table 1).

Table 1. The Gartner Supply Chain Top 25 for 2011

Rank	Company	Peer Opinion ¹ (156 voters) (25%)	Gartner Opinion ¹ (32 voters) (25%)	3-Year Weighted ROA ² (25%)	Inventory Turns ³ (15%)	3-Year Weighted Revenue Growth ⁴ (10%)	Composite Score ⁵
1	Apple	2950	536	17.9%	49.3	40.9%	8.50
2	Dell	1909	457	6.6%	38.9	4.1%	5.14
3	P&G	1726	660	9.6%	5.6	2.4%	5.13
4	Research In Motion (RIM)	550	215	25.1%	17.7	43.9%	5.10
5	Amazon	2267	402	6.6%	11.2	34.0%	5.07
6	Cisco Systems	1501	550	10.2%	11.8	5.5%	4.82
7	Wal-Mart Stores	1755	449	9.0%	8.5	3.6%	4.40
8	McDonald's	711	161	15.3%	141.8	2.6%	4.35
9	PepsiCo	740	445	12.0%	7.8	18.8%	4.11
10	Samsung	857	361	9.8%	16.9	22.5%	3.98
11	The Coca-Cola Company	1305	265	15.3%	5.3	7.9%	3.96
12	Microsoft	566	128	21.4%	16.6	6.1%	3.72
13	Colgate-Palmolive	560	239	20.0%	5.1	3.0%	3.62
14	IBM	994	238	12.5%	21.1	0.8%	3.60
15	Unilever	449	459	11.5%	5.3	5.2%	3.53
16	Intel	871	247	13.6%	4.5	9.7%	3.37
17	HP	949	331	7.0%	14.3	6.7%	3.28
18	Nestle	389	62	22.6%	5.5	0.8%	3.05

19	Inditex	376	180	16.9%	4.4	10.5%	3.05
20	Nike	781	144	13.0%	4.7	3.3%	2.72
21	Johnson & Johnson	548	121	13.4%	3.6	-0.3%	2.38
22	Starbucks	544	127	10.6%	8.6	5.1%	2.35
23	Tesco	524	190	5.3%	18.3	8.0%	2.34
24	3M	760	7	13.2%	4.6	5.8%	2.25
25	Kraft Foods	471	192	4.4%	5.9	15.6%	2.03

Notes:

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

2. ROA: ((2010 net income / 2010 total assets) * 50%) + ((2009 net income / 2009 total assets) * 30%) + ((2008 net income / 2008 total assets) * 20%)

3. Inventory Turns: 2010 cost of goods sold / 2010 quarterly average inventory

4. Revenue Growth: ((change in revenue 2010-2009) * 50%) + ((change in revenue 2009-2008) * 30%) + ((change in revenue 2008-2007) * 20%)

5. Composite Score: (peer opinion * 25%) + (Gartner opinion*25%) + (ROA*25%) + (inventory turns * 15%) + (revenue growth * 10%)
2010 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.

Source: Gartner (June 2011)

Inside the Numbers

Within the small number of perennial leaders that have been on the list since it first published, we see retailers (Wal-Mart Stores and Tesco), consumer goods (P&G, PepsiCo and The Coca-Cola Company), high tech (IBM) and even pharmaceutical (Johnson & Johnson) companies. There's Wal-Mart, a powerhouse and trendsetter in its industry; U.K.-based Tesco, which is constantly innovating with new formats; P&G, one of the most respected supply chain leaders in the world and an early pioneer of the consumer-driven supply chain concept; PepsiCo, with its advanced direct store delivery (DSD) capabilities; The Coca-Cola Company, which is taking a more integrated value chain approach with the acquisition of its biggest bottler; IBM, a leader in supply chain organizational innovation; and Johnson & Johnson, which is retaining solid opinion scores, despite some bumps in the last year, and still leading the charge to improve the operational effectiveness of the challenged healthcare value chain (see "The Healthcare Supply Chain Top 25 for 2010"). Each is unique, but what they all share is a dedication to customer value that drives them to constantly remake their supply chains in concert with the shifting needs of the markets they serve. They're also icons of their industries, drawing top talent to their organizations and facing heavy scrutiny from financial investors. Staying at or close to the top through "boom and bust" is no small feat, and it speaks to a commitment to supply chain as essential to success.

Another blue-chip group of companies with staying power continues to push the envelope of supply chain innovation. Dell, moving into the No. 2 slot on the basis of strong opinion scores and high

inventory turns, has been radically redefining itself, diversifying beyond its traditional build-to-order PC base into business solutions, storage and services, with segmented supply chain response models. Cisco (No. 6) leads the way with its customer value chain management (CVCN) organization, sophisticated risk management capabilities and regionalized supply network architecture. Samsung (No. 10), on the list since 2005 and in the Top 10 ever since, is leading in its customer collaboration practices and leveraging its vertical integration to release more holistically designed products. Intel continued its steady rise up the list, moving into the No. 16 slot this year on strong financials, which reflects its product expansion from chips and servers to complete solutions, and steady opinion scores, despite some product challenges that impacted customer shipments. With one of the world's largest and most complex high-tech supply chains, massive volumes and extensive global reach, HP's (No. 17) ongoing supply chain transformation has allowed it to consistently take costs out of its traditionally low-margin businesses, even in the face of continuing price erosion. Nike, in the ranking since 2005, withstood the combination of falling demand in many of its markets and commodity price pressures to come in at No. 20.

The 2011 list also highlights the scale of change being driven through our discipline by emerging innovators. We welcome four new names to the list this year: Nestle, one of the world's largest food producers, with major expansions into emerging markets, at No. 18; Starbucks, which is transforming its supply chain into a strategic differentiator, at No. 22; 3M, an icon of innovation, at No. 24; and Kraft Foods, with its leading channel management strategy, at No. 25.

Two companies that qualified for the first time last year from industries that had previously been excluded have returned: McDonald's, which is up a few notches to No. 8, and Microsoft, which holds steady at No. 12. Both come in on solid financials, but they also get a lot of respect from our voters.

In fact, looking back, we see an average of four new names each year, some of which surprised us at first, and some that have already come to be fixtures: high-flying Apple, ranking No. 1 overall for the fourth year in a row on the basis of continued killer financials and top-of-the-line voting scores; RIM, which was new to the list last year and rose to No. 4 this year, with enviable financials and solid votes; Amazon, another newcomer last year that rose five spots to No. 5 in the 2011 ranking; Colgate-Palmolive, rising steadily since 2009 to No. 13 this year; Inditex, with an aggressive expansion outside its traditional European base, moving up a few spots to No. 19 from its entry point last year; and Unilever, which came onto the list for the first time in 2009 and saw the biggest jump among our group this year, rising six spots to No. 15.

The ability to have a combination of repeat and new faces on the list each year — representing stable leadership supplemented by new challengers — was one of the goals in designing the methodology for the ranking, which has undergone substantial debate and refinement over the past seven years. Our joint use of financial metrics and opinion polling creates situations where organizations whose supply chain capabilities were less known to our research team can rise to prominence on one part of the score (for example, RIM, with stellar financials, or Amazon, with huge peer voter totals). This balance ensures that new blood makes it into the discussion, forcing our analysts and the community as a whole to ask what these companies are doing right that might help others.

One of the trends we've seen over the last several years is a move from the notion of "supply chain" to "value chain" and a concomitant increase in the span of control of the supply chain organization (see "Stages of Value Chain Transformation, Revisited"). The old image of a supply chain organization limited to either inbound materials management or logistics, with procurement, planning, manufacturing, and customer service as totally separate functions, is fading. What's replacing it is a supply chain organization, often reporting at the board level, that includes the functions of plan, source, make and deliver. It also increasingly includes functions such as customer service and new product launch, and links them through the cross-functional processes and roles that are so critical to being demand-driven. The consumer-oriented companies, with their need to renew product lines constantly and their appetite for downstream data, have led the way in this change, which may at least partially explain the steady drift away from industrial companies making the list.

What else might explain the reason why there are more consumer and high-tech companies than traditional heavy industrials in the ranking? We've looked at this in detail over the years. Some have suggested that the financials used in the ranking favor the consumer and high-tech companies, but our analysis disproves this notion, showing that there is far more variation in financials between companies within an industry than there is between industries as a whole (see "The AMR Supply Chain Top 25 for 2010" and "Changes to the 2010 Supply Chain Top 25 Methodology: Our Ideas"). It's also not the composition of the voting population. The industrial companies are well-represented in the peer panel each year, and our analysis has shown that they, too, tend to vote more for consumer and high-tech companies than for other industrials. Some have suggested it has to do with the impact of brand — that is, the notion that voters are more likely to vote for companies they've heard of. We agree that brand plays a part, and we continue to look for ways to mitigate that impact. But while brand has a role, it doesn't provide the full explanation.

There's something else that's even more important that should be noted: communication. Supply chain executives from consumer and high-tech companies are more likely to talk about what they're doing in supply chain and share it with others in all kinds of venues. External communication tends to be an accepted part of their organizational cultures. The Top 25 ranking is designed to recognize leadership, and a critical component of leadership is visibility. It's not just their *product* brand — these companies have a bigger *supply chain* brand.

Finally, 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 past years, one challenge was that roughly 80% of peer voters hailed from North America. For 2011, we were able to significantly improve the global balance of our peer voters, with only 59% coming from the Americas, 29% from Europe or Africa, and another 12% from Asia.

This better-balanced voter pool may have helped flag another trend this year: an increasingly two-way street in global supply chain strategies. Where emerging markets were once attractive primarily as low-cost manufacturing and sourcing locations, many companies today are finding that selling to as well as sourcing from these countries offers better results all around. Leading this charge are companies like HP, whose investments in China are decidedly oriented to selling there, or Unilever, whose global business strategy includes extensive emerging-market distribution.

Honorable Mention

As always, there are many companies whose supply chain organizations have shown great results and demonstrated compelling innovation, yet they failed to make the list. Among these honorable mentions are companies that have been on the list in the past and fallen, but are still pushing ahead with supply chain innovations (e.g., The Walt Disney Company, Lockheed Martin and Woolworths). Others have not yet made the list, but they're rising (e.g., Lenovo, Dow Chemical, Raytheon, BMW Group and Ford). Some are stars that have fallen, but they've started to turn themselves around (e.g., Motorola, L'Oreal and The Home Depot). In each of these examples, we see senior leadership that takes supply chain very seriously, and expects a strategic impact on customers, market share and company value.

What Is Demand-Driven Excellence?

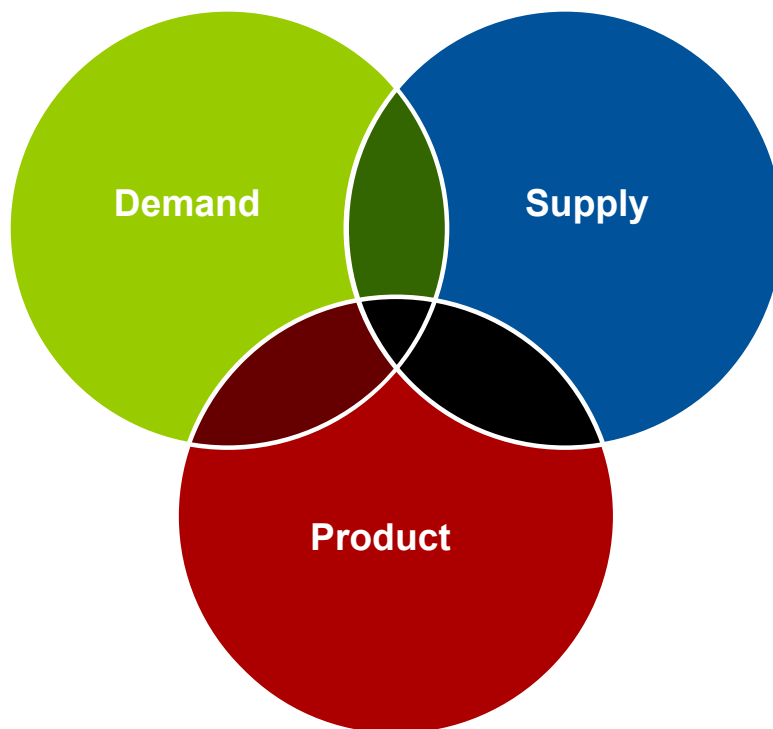
The concept of being demand-driven is at the heart of the Top 25 ranking. We first started writing about demand-driven principles in 2003 and have published hundreds of articles on the topic since, including a maturity model to help companies move along the transformation curve (see "Toolkit: Assess the 12 Facets of DDVN Excellence"). Because it's so critical to the 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.



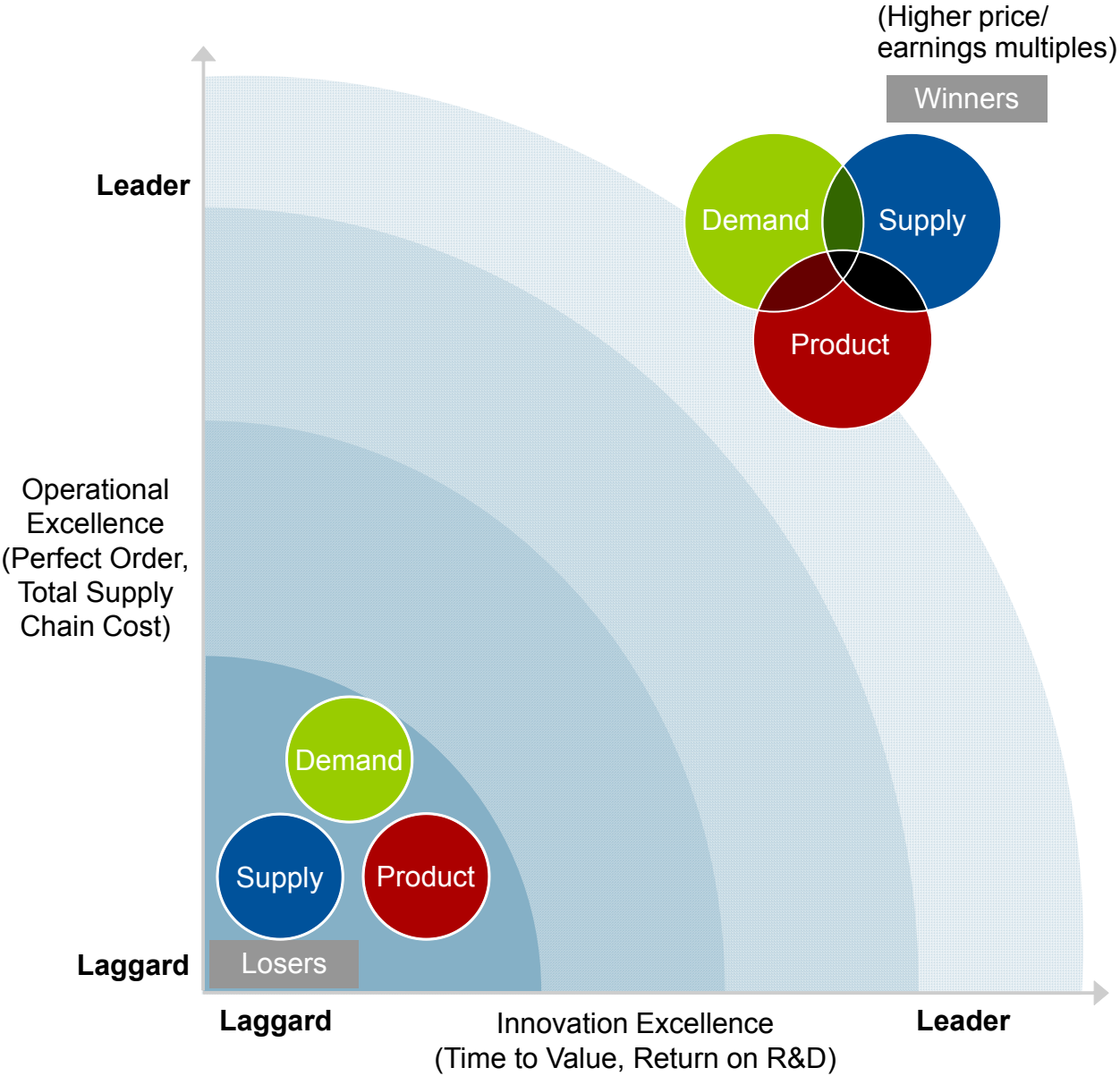
Source: Gartner (June 2011)

When these processes work together, the business can respond quickly and efficiently 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 (June 2011)

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.

Measuring Demand-Driven Excellence

The Metrics We Wish We Had

For the 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, which includes detailed supply chain benchmarking studies of 70 companies, 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 Figure 3).

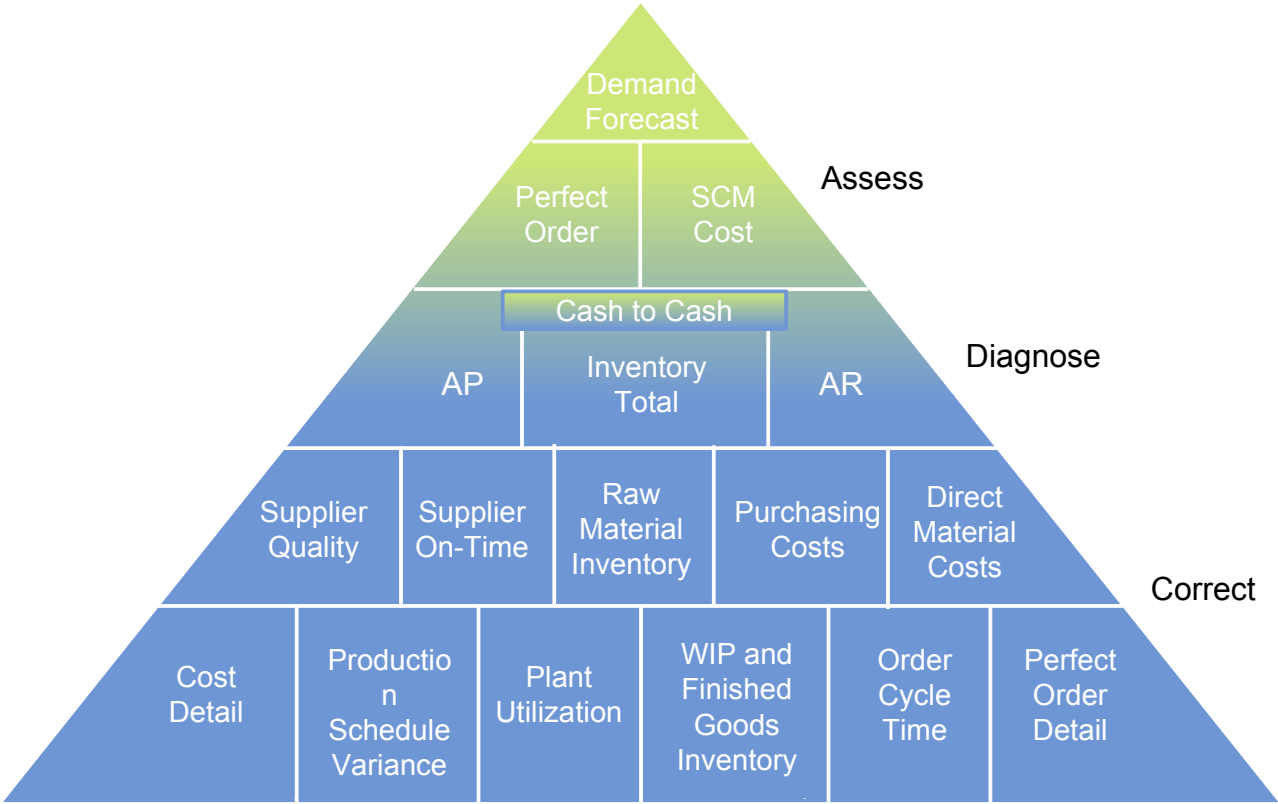
Figure 3. Metrics for Operational Excellence and Innovation Excellence

Performance Dimension	Key Metrics
Operational Excellence	Perfect Order Rate Total Supply Chain Costs
Innovation Excellence	Time to Value Return on New Product Launch

Source: Gartner (June 2011)

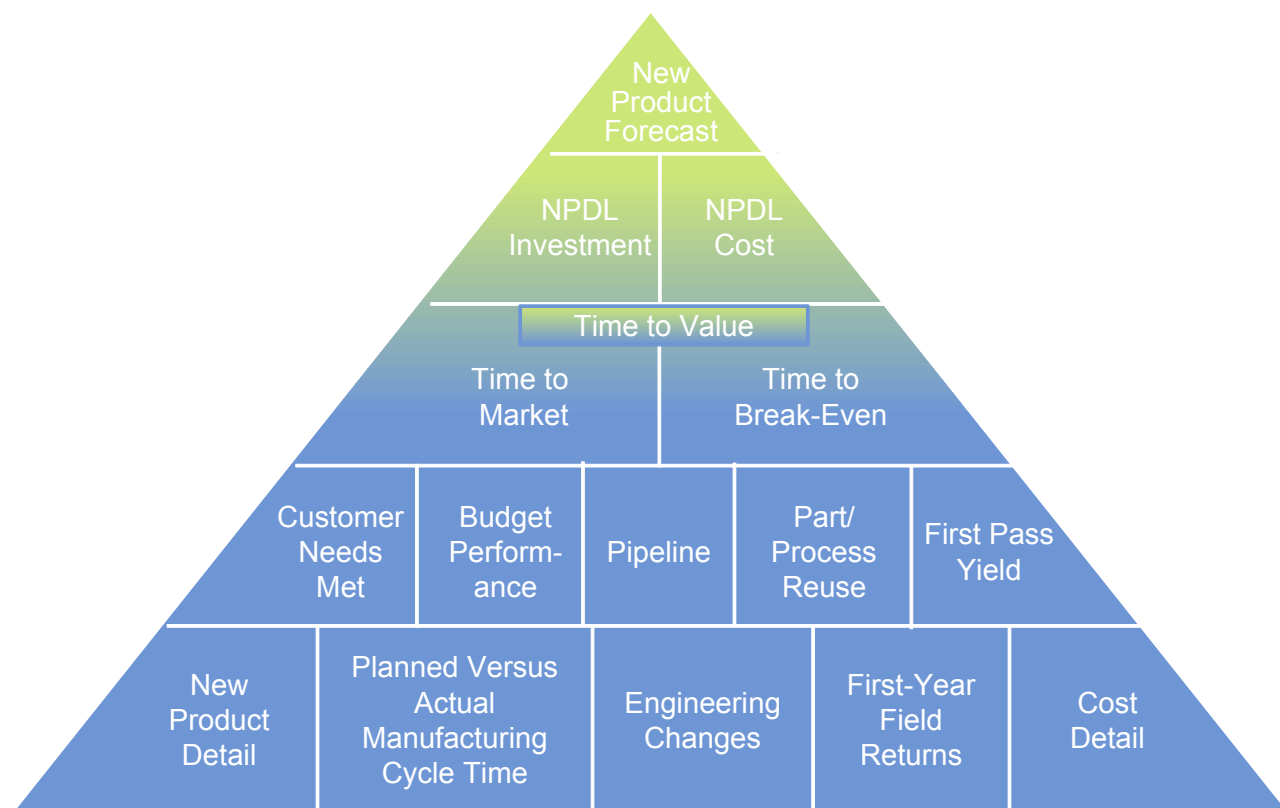
For each of these performance dimensions, we've published a full hierarchy of metrics that allows management to assess overall performance at the highest level, diagnose problems via process decomposition and make corrections at the tactical work level (see Figures 4 and 5).

Figure 4. The Hierarchy of Supply Chain Metrics: Operational Excellence



Source: Gartner (June 2011)

Figure 5. The Hierarchy of Product Metrics: Innovation Excellence



Source: Gartner (June 2011)

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 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 intellectual property (IP), which are essential to demand creation, are impossible for standard accounting to handle and are thus usually undercounted. 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 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 future expected leadership, which is a crucial characteristic. These two components are combined into a total composite score.

We derive a master list of companies from a combination of sources, including the Fortune Global 500, the Fortune 1000 and the Forbes Global 2000. Our primary source is the Fortune Global 500, which we then pare down to the manufacturing and retail sectors, thus eliminating certain industries, such as financial services and insurance (see Table 2 for a full list of excluded industries). We then supplement this group with companies from the Fortune 1000 that fall between \$10 billion in revenue and the smallest revenue on the Global 500 list, as well as select companies from the Forbes Global 2000. Although we'd like to include all companies, we must keep the list to a size that's manageable from a voting perspective.

Table 2. Industries Excluded From the Supply Chain Top 25

Airlines	Healthcare (insurance, managed care, services)	Shipping
Banks	Insurance	Telecommunications
Crude Oil Production	Mail, Package and Freight Delivery	Temporary Help
Diversified Financials	Petroleum Refining	Trading
Energy	Pipelines	Utilities
Engineering/Construction	Railroads	

Source: Gartner (June 2011)

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 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"). Although our investigations revealed it wasn't feasible to apply these metrics within the quantitative methodology used for the 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, and 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 2011 ranking: 50% for the financial component and 50% for the opinion component.

Financial Component

Three financial metrics are used in the ranking:

- Return on assets (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 2010, 30% for 2009 and 20% for 2008.

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 (e.g., a network redesign or a new demand planning and forecasting system) 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 as they move toward the idealized demand-driven blueprint. 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 (e.g., public relations, marketing or finance).

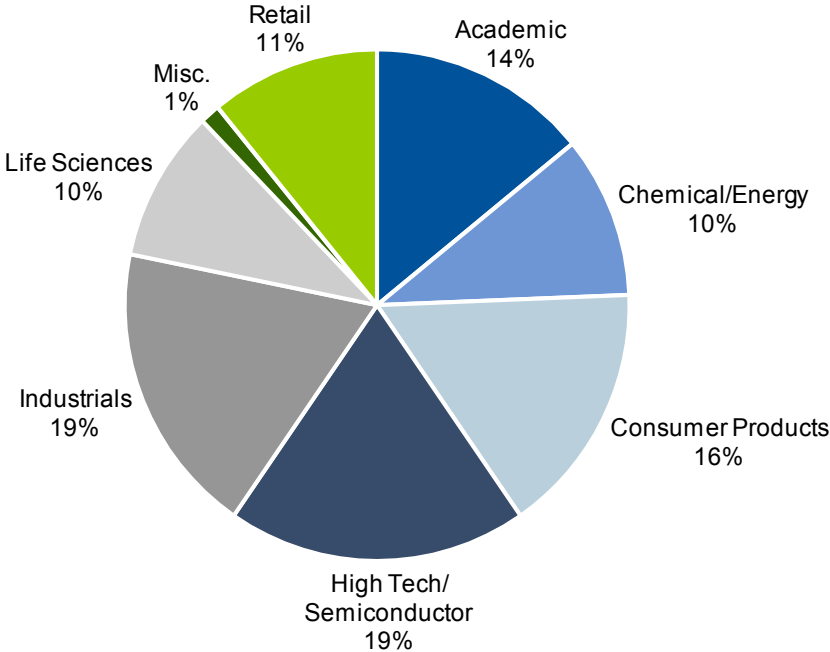
We accepted 200 applicants for the peer panel this year, with 156 completing the voting process. Participants came from the most senior levels of the supply chain organization across a broad range of industries. There were 32 Gartner panelists across industry and functional specialties, each of whom drew on his or her primary field research and continuous work with companies.

Organizations must receive votes from both panels to be included in the ranking. Therefore, a company that had a composite score fall within the 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 industry, function, role, region and revenue. The regional breakdown of voters was a particular emphasis for us this year. In the past, North American voters have made up 80% of the total, despite many efforts to get a more even regional distribution. This year, thanks in large part to Gartner's broad geographic reach, we were able to increase the percentage of voters from Europe and Asia/Pacific, providing a

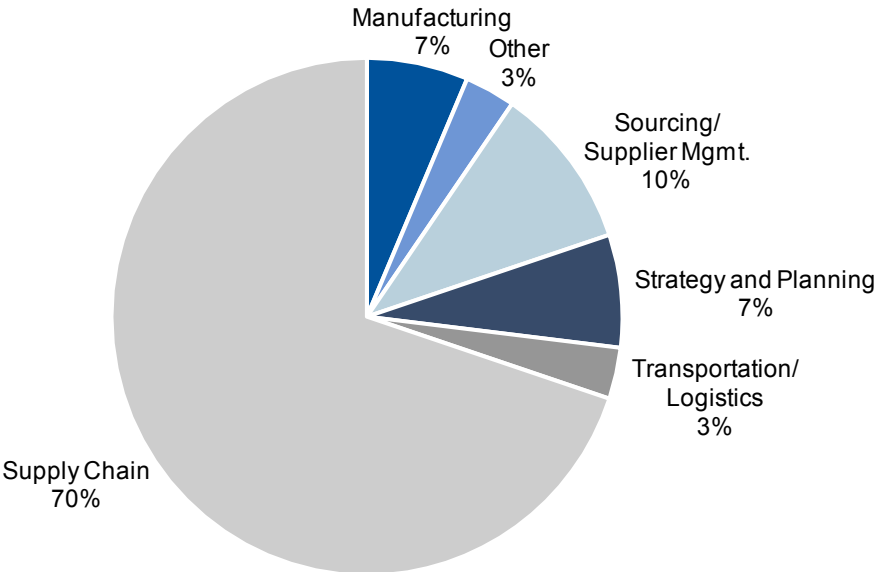
more balanced global view of supply chain leadership. We plan to continue this trend in future years toward the goal of equal geographic representation.

Figure 6. Peer Opinion Panel Composition: Industry



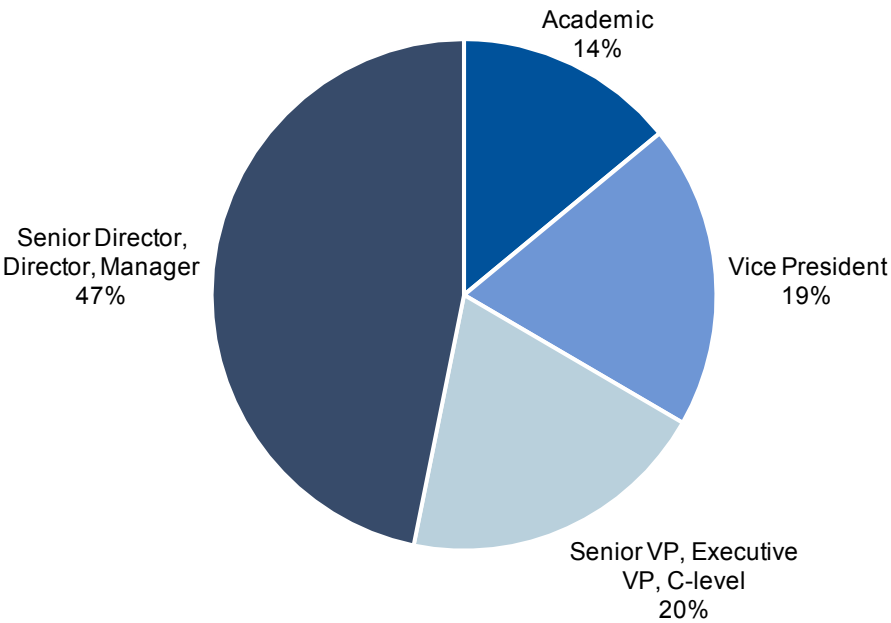
Source: Gartner (June 2011)

Figure 7. Peer Opinion Panel Composition: Function



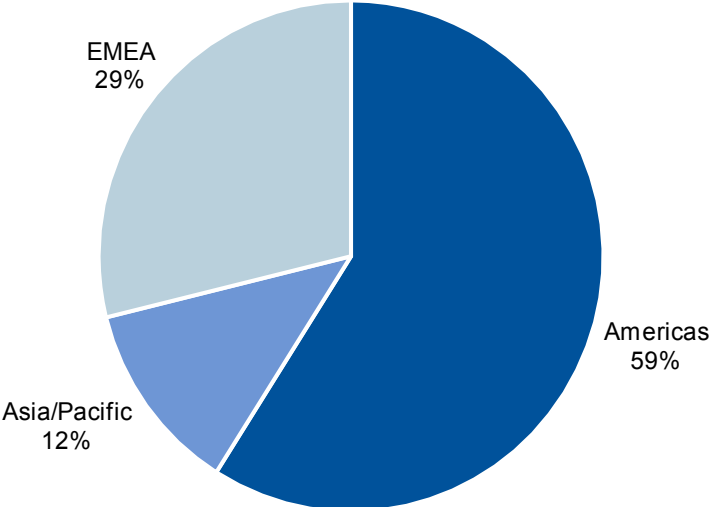
Source: Gartner (June 2011)

Figure 8. Peer Opinion Panel Composition: Role



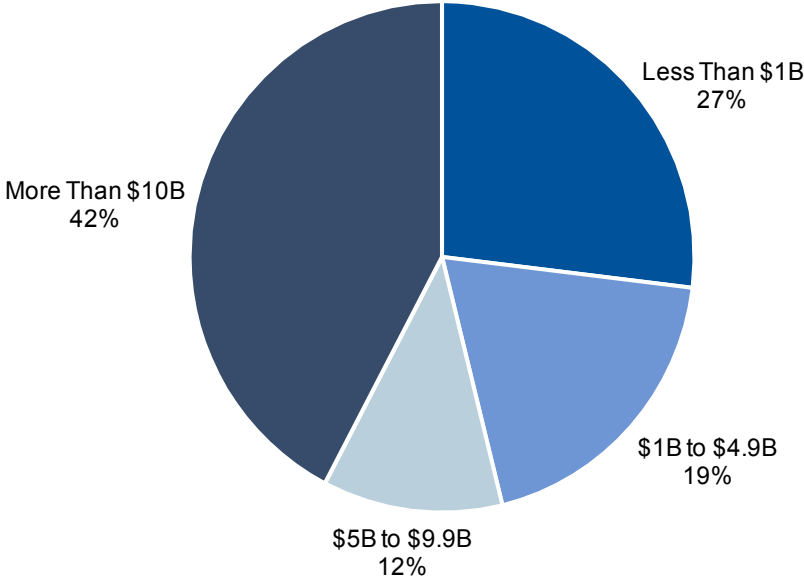
Source: Gartner (June 2011)

Figure 9. Peer Opinion Panel Composition: Region



Source: Gartner (June 2011)

Figure 10. Peer Opinion Panel Composition: Revenue



Source: Gartner (June 2011)

Polling Procedure

Peer panel polling was conducted in April 2011 via a Web-based, structured voting process identical to previous years. Panelists were taken through a four-page system to get to their final selection of leaders that came 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 person's expertise is deep in some areas and limited in others. Despite that, panelists 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 Top 25 ranking.

Looking Ahead

In 2010, we published the second annual Healthcare Supply Chain Top 25 and plan to continue this in 2011. The global Top 25 itself offers many opportunities for various cuts and views — for example, industry, geography and deeper into the full list — and we will continue those as well. We've also considered additional possibilities, including industry-specific rankings, a midmarket ranking to bring in companies that don't meet the size requirements for the larger Top 25 and a sustainability ranking.

In 2012, we plan to introduce the first annual regional Supply Chain Top 25 rankings for Asia and for Europe. Our overarching goal is to better reflect the unique aspects of the markets and economies of each region that drive differences in demand, customer behavior and the necessary supply chain

response. Doing so will also allow us to open up the ranking to companies that today may not be included in the population being ranked, either due to the revenue cutoff requirement, or simply because of the basic limitations of size inherent in any one ranking. Of course, our data collection and planning cycles start well in advance of any publication date, so we'll be looking for input and qualified voters as early as September 2011.

We will also continue to investigate possible changes to the methodology for the primary Top 25 ranking for next year, seeking feedback and input on any possible changes from the broader supply chain community. Here are some examples of the suggestions that have been made: Is there a way to take into account the differences in complexity and risk? Can we introduce a metric that will reward stability over time — something we know investors like? Are there better ways to accommodate the radically different operating models that drive wide variation in inventory turns? Can voters provide more information as to why they voted for certain companies? Would it make sense to institute something like a hall of fame that would include the companies that have been perennial leaders and fundamentally changed the way we all think about supply chain? We will also continue to investigate the challenge of how to better measure success among the most asset-intensive businesses (e.g., mining), whose cyclical patterns of investing to earn future payback may span decades.

Our intent is to continue to invest in the methodology and community of the Supply Chain Top 25 to tackle these measurement challenges in time. Along the way, no doubt, we will continue to identify leaders and innovators that should inspire and challenge the supply chain community as a whole to constantly improve.

As Gartner's supply chain research group, our role is to provide a platform for the informed and provocative debate that we believe is essential to raising the bar on supply chain leadership. The Supply Chain Top 25 has provided the spark for that debate. We remain committed to pushing the boundaries of supply chain excellence in all our research and look forward to continuing the dialogue.

Recommended Reading

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

"2010 AMR Supply Chain Top 25: A&D"

"2010 AMR Supply Chain Top 25: Automotive"

"2010 AMR Supply Chain Top 25: Industrial"

"2010 AMR Supply Chain Top 25: Retail"

"2010 AMR Supply Chain Top 25: Consumer Products"

"2010 AMR Supply Chain Top 25: Chemical"

"2010 AMR Supply Chain Top 25: High Tech"

"2010 AMR Supply Chain Top 25: Life Sciences"

"The 2010 Supply Chain Top 25: Asia/Pacific"

"The 2010 Supply Chain Top 25 Ranking: The Next 25"

"Supply Chain Top 25 Methodology: What About Working Capital?"

"AMR Supply Chain Top 25 Methodology: Inventory Versus Revenue Change"

"The Healthcare Supply Chain Top 25 for 2010"

"The 2010 Healthcare Supply Chain Top 25: Analysis of Organizations 26 to 50"

"Supply Chain Strategy for Manufacturing Leaders: The Handbook for Becoming Demand Driven"

"Stages of Value Chain Transformation, Revisited"

"Toolkit: Assess the 12 Facets of DDVN Excellence"

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

The Supply Chain Top 25 website: www.gartner.com/supplychaintop25

This research is part of a set of related research pieces. See Building a Resilient Supply Chain for an overview.

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