

THE 2013 CONSUMER VALUE CREATORS REPORT

ONE SIZE DOES NOT FIT ALL

A TAILORED APPROACH TO CREATING VALUE



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KETIL GJERSTAD

JEAN-MARC BELLAÏCHE

JEFF GELL

RUNE JACOBSEN

FRANK PLASCHKE

SAM RIDESIC

ALAN WISE

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EXECUTIVE SUMMARY

THE 2013 CONSUMER VALUE Creators Report, One Size Does Not Fit All: A Tailored Approach to Creating Value, shows that, as in previous years, consumer industry companies outperform most other industries in producing shareholder value. The report examines the total shareholder return (TSR) of nearly 300 major consumer companies for the period from 2008 through 2012. The report covers four major sectors in the consumer industry: retail, consumer nondurables (also called fast-moving consumer goods, or FMCG), consumer durables and apparel, and travel and tourism. The analysis is based on empirical data from The Boston Consulting Group's fifteenth annual report in the Value Creators series, Unlocking New Sources of Value Creation, which is a broader review of 1,616 companies spanning 25 industry groups.

The 2013 Consumer Value Creators Report draws lessons for generating superior returns from the top performers in each of the major consumer-industry sectors. The results of our analysis provide guidance and insight for consumer companies in today's uncertain economic environment. The report illustrates, in particular, the need for a multitrack approach to creating value that may include, but is not limited to, pursuit of growth in emerging markets. Such an approach inevitably involves a constant effort to reinvent the business.

Across the four major consumer sectors, growth-focused companies, especially those with significant operations in emerging-market nations (where growth has been easiest to capture), populate the list of the top ten performers.

- On average, sales growth accounted for 55 percent of the total TSR created from 2008 through 2012 for the top ten performers in each of the four consumer sectors—even during the financial crisis in 2008 and its aftermath, when global growth was negative or slow. This is largely consistent with our analysis of S&P 500 companies' performance during the 1993 through 2012 period, which shows that top-quartile performers delivered 17 percent average annual

TSR, with sales growth accounting for 62 percent of total value creation.

- Winning in emerging markets is a key source of growth—but not the only one. Among FMCG companies, the second strongest of the four consumer sectors, nine of the top ten companies are based in emerging markets. Surveys conducted by BCG show that three-quarters of multinational companies expect to gain a share of these markets.

The pursuit of sales growth through emerging markets, if not disciplined, can lead companies to misallocation of capital, distracted leadership, and underperformance. Many companies operating in less favorable growth environments are nonetheless able to create substantial shareholder value. Such companies deploy alternative strategies to TSR, combining single-digit sales growth with cost improvements and the return of cash to shareholders.

- Retail is the greatest generator of TSR across all industries. Looking at the top ten companies by industry, retail produces the second highest average annual TSR, after pharmaceuticals. Even so, sales growth constitutes a far smaller share of retail companies' total TSR than it does in other sectors. Top-performing retail companies gain two-thirds of their TSR contributions from margin improvements, rising multiples, and returning cash flow.
- In travel and tourism, a sector that is dependent on economic cycles, airlines and hotels in low-growth markets have created value through rigorous approaches to investment and expansion, retrenching routinely to conserve capital.
- Some Western FMCG companies with only limited exposure to emerging growth markets have succeeded by improving margins and preserving capital for domestic growth and cash-flow contributions.
- Many apparel companies have realized strong TSR from leveraging brand platforms and growing particularly in emerging markets; others have achieved a top-ten ranking by improving margins and returning cash to shareholders.
- Across all consumer categories, companies have benefited from a careful review of all forms of capital allocation, with a focus on returning funds directly to shareholders or on investing in and expanding brands. In many of these cases, relatively low growth was hardly an impediment to the creation of value.

Retail (a sector represented by 77 companies in our sample) yielded the highest TSR of all industry sectors from 2008 through 2012. Consumers' embrace of new technologies and services presents a challenge to retail companies, many of which recognize that the right approach is to reinvent their offerings to consumers and to identify cost reductions.

- Among the top ten retailers, six are U.S.-based companies with significant operations in North America.
- Although major-market companies have a large presence in this sector, the top three retailers come from Thailand, Turkey, and South Africa, and each has an impressive average annual TSR that exceeded 40 percent from 2008 through 2012.
- The top six companies have experienced double-digit annual sales growth, supported by significantly improved margins; investors expect profitability to continue. However, growth is a much lower contributor to TSR in retail than in other industry sectors.
- On a retail subsector level, we see large variations between those at the top of our rankings (emerging-market grocers, discounters, and specialty and apparel retailers) and those in the lower range (department stores and retailers of electronics, books, and sporting goods).
- As market saturation and the growth of online shopping challenge store growth, retailers need to reinvent their customer offerings to strengthen their competitive advantage and work on becoming more cost-efficient throughout the entire value chain.

FMCG continued to be a high-performing sector. The 75 FMCG companies included in our sample generated an average TSR of 11 percent annually from 2008 through 2012, just a decimal point behind retail. Sales growth is a prominent feature of the top-performing companies in the sector, but valuation multiple expansion and increasing dividend yields have also been critical.

- A key factor in FMCG companies' success was sales growth. Seven of the top ten companies delivered double-digit annual sales growth, contributing 30 to 50 percent of the overall value created.
- Companies continue to benefit from rising expectations, which expand valuation multiples, as represented by the ratio of EV/EBITDA. Seven of the top ten companies received more than 10 percent of their annual TSR contribution from an increased EV/EBITDA.
- The top-performing FMCG companies tend to have higher dividend yields than the sector average, an unusual occurrence that might not be repeated in future rankings.
- A balanced strategy for delivering shareholder value is another possible route to a top-ten ranking, especially for Western companies. Several companies yielded superior TSR through a combination of high single-digit growth, improved margins, rising expectations, and deliberate cash generation for shareholders.

In the consumer durables and apparel sector, growth is by far the most significant driver of TSR. The top ten durables and apparel companies saw annual sales growth of 22 percent from 2008

through 2012. Only in two other industries—pharmaceuticals and technology—did the top ten companies achieve higher average annual growth; both industries’ top ten had 27 percent annual sales growth. The 70 durables and apparel companies included in our sample generated an average annual TSR of 10 percent from 2008 through 2012, placing the combined sector third in our overall Value Creators industry sample, after two other consumer sectors (retail and consumer nondurables).

- An underlying strategy behind all growth efforts in this sector was expansion into the opportunity-rich emerging markets beyond the best-known emerging-market engines of growth: Brazil, Russia, India, and China, known as the BRIC nations. Such an approach requires market-by-market insight, strategy, and execution. In such markets, it is not enough to grow at a rapid rate; a company must capture a significant share of the overall growth in these nations and meet the demands of the evolving consumers there.
- Among consumer durables companies, the most effective strategy for creating value has been capitalizing on emerging-market opportunities and the rising middle class globally. In addition to capturing growth, strong durables companies have also managed economic cycles well. The best companies took initiatives to avoid large losses during the downturn and recognized that cost-cutting efforts created an opportunity to deploy cash more strategically once growth returned.
- Apparel companies have taken several different routes to value creation. Some companies are utilizing the power of forward integration and opening their own retail stores, a move that enables them to leverage more-efficient and more-integrated value chains. Several premium apparel brands have seen significant growth by attracting new middle-class consumers in emerging markets; others have steered toward strong cash-flow generation to their shareholders.

As in the past, the travel and tourism sector delivered lower average annual TSR than the other consumer sectors. Still, within the travel and tourism sector (69 companies were included in our sample), top performers produced solid returns. The top ten travel and tourism performers had an average annual TSR of 26 percent. The top ten included a broad diversity of company types: online travel, airlines, hotels, and gaming and entertainment.

- The travel distribution subsector has experienced significant disruption and new entrants given the advent of online sales. The travel distributors that have succeeded have used a reliable formula for success: multibillion-dollar information-technology platforms, agreements with sought-after properties and chains, search-engine-optimization deals, and advertisement support. Hotels have been the greatest source of profitability.
- Airlines depend significantly on managing margins and past investments in capital stock. Airlines that have succeeded in the

low-growth North American market have done so through rigorous control over their networks and strategic relationships with other airlines. Others have succeeded by serving as a transportation bridge between mature European markets and growing markets in the Middle East and Asia.

- The enduring value of brands remains a powerful driver of value. Some hotel chains have divested assets and managed to return value by focusing on brand management, customer loyalty programs, and cash returns to shareholders.

The consumer industry and its various components, despite their diversity and range, will continue to be well represented among the top value creators. Many of the top performers enjoy a strong presence in high-growth emerging markets that should, assuming that macroeconomic conditions hold or improve, continue to sustain their value-creation strategies. Others will continue to prove that margin improvements, reinvention, and cash generation to shareholders will also yield attractive returns.

- Even high-growth companies recognize that growth alone is not enough. To surpass the growth hurdle is good, but management still must adapt to economic cycles, avoid inefficient investments, deliver cash to equity and debt holders, and continue to cut costs, wherever and whenever possible—even when times look good.
- A focus on fundamentals, whether in the online space or elsewhere, is essential for success. The realities that most consumer companies face are shifting consumer tastes and fierce competition. The top value creators focus on delivering in that context.

VALUE CREATION

CONSUMER COMPANIES SHOW TOP RESULTS

THE 2013 CONSUMER VALUE Creators Report, *One Size Does Not Fit All: A Tailored Approach to Creating Value*, demonstrates that the consumer industry continues to create value at an impressive rate. As in previous years' reports, consumer-focused companies are among the world's top value creators. For many, a growth strategy tied to emerging markets has been the critical driver. Indeed, many companies based in emerging markets are strong performers but were not included in our research because they did not reach the sector-specific market-capitalization requirement.

But a focus on emerging markets has not always been a winning approach. In fact, this report shows that other factors play a pivotal role in driving value creation, proving that well-managed companies, even those with modest growth profiles, can return significant value to shareholders—and be rewarded for it. Inevitably, that success rests on a constant effort to reinvent the business.

This report is based on careful analysis of nearly 300 major consumer companies for the period from 2008 through 2012. In addition, we bring to this analysis the lessons learned from studying more than 1,600 companies in our cross-industry Value Creators Report, *Unlocking New Sources of Value Creation*. We have taken the additional step of separating apparel companies from durable-

goods companies, recognizing the unique characteristics of each subsector.

Total shareholder return (TSR), our measure of value creation, is the share price change plus the dividend payout, assuming reinvestment, in the relevant time period. We look at TSR as the product of three factors. The model uses a combination of sales growth and change in margins as an indicator of a company's improvement in fundamental value. The model then uses the change in the company's valuation multiple to determine the impact of investor expectations on TSR. Together, these two factors determine the change in a company's market capitalization and the capital gain (or loss) to investors. Finally, the model tracks the distribution of free cash flow to investors and debt holders in the form of dividends, share repurchases, or repayments of debt in order to determine the contribution of free-cash-flow payouts to a company's TSR.

These factors all interact with one another—sometimes in unexpected ways. A company may increase its sales through an acquisition that adds to earnings per share and yet still not create any TSR, because the new acquisition has the effect of eroding the company's gross margins. And some forms of cash contribution (for example, dividends) have a more positive impact on a company's valuation multiple than others (for example, share buy-

backs). Because of these interactions, observers must look at each company’s performance on its own terms, and companies should take a holistic approach to their value-creation strategy.

The consumer industry generated a higher TSR than every other industry.

The 291 global consumer-industry companies in The Boston Consulting Group’s Value Creators sample generated a TSR averaging 8.5 percent annually from 2008 through 2012—higher than that of every other industry group surveyed.

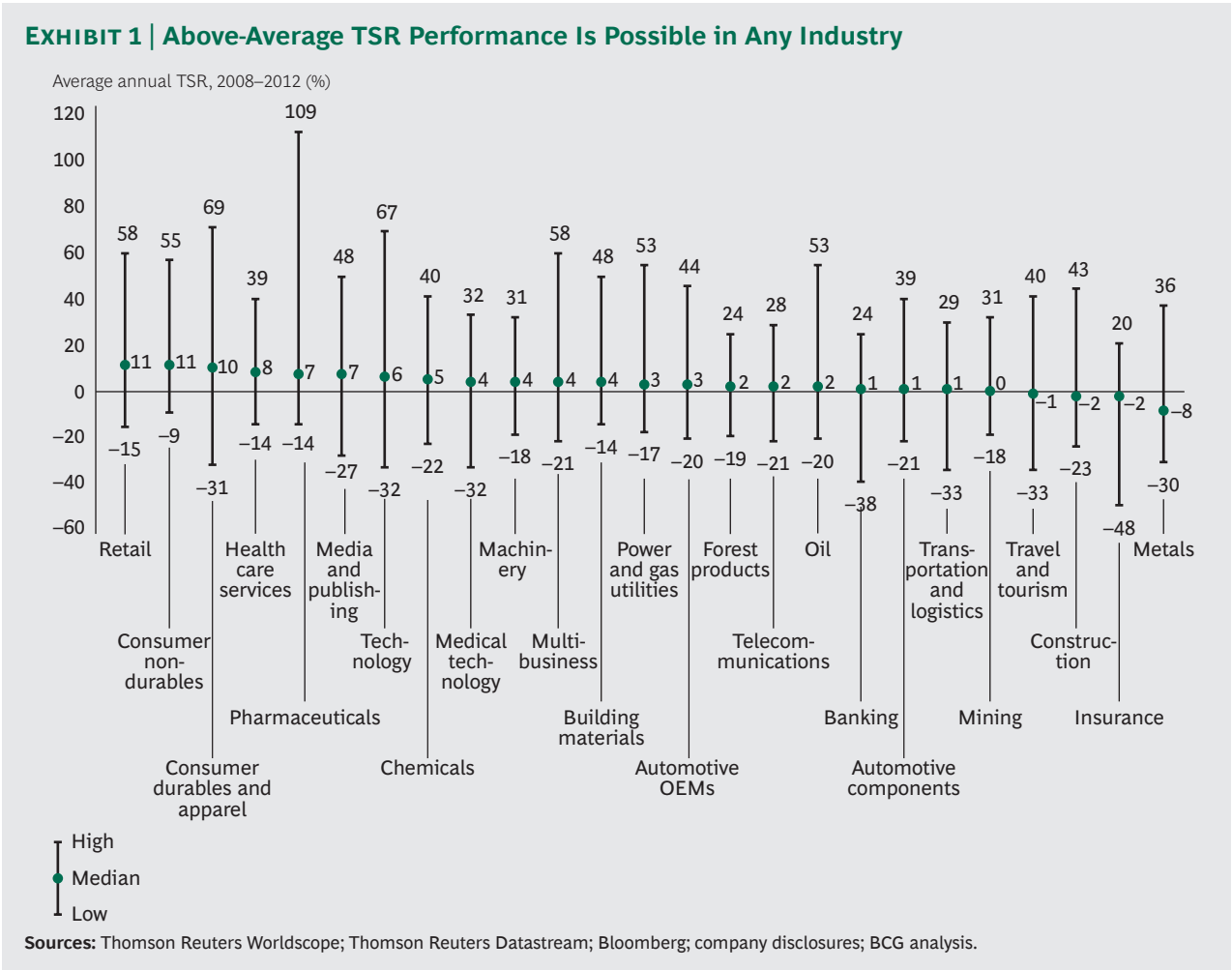
An investment of \$100 in these companies on January 1, 2008, would have grown to \$150.20

by the end of 2012, versus \$97.90 for the same investment in the S&P Global 1200 Index.

The performance is impressive, taken in aggregate. Further, three consumer-industry sectors—retail, consumer nondurables (also known as fast-moving consumer goods, or FMCG), and consumer durables and apparel—emerged as the three top-ranked sectors overall in the cross-industry 2013 *Value Creators Report: Unlocking New Sources of Value Creation* as measured by average annual TSR. (See Exhibit 1.) (The fourth consumer-industry sector included in our sample is travel and tourism.) Also, four of the top ten cross-industry performers come from the three leading consumer-industry sectors.

A Quantitative Analysis of the Results

Our analysis of the S&P 500 for the period from 1993 through 2012 shows that top-quar-



tile performers delivered average annual TSR of 17 percent, with sales growth accounting for 62 percent of total value creation. Similarly, growth on average accounted for 55 percent of the total TSR created from 2008 through 2012 for the top ten performers in each of our four consumer sectors—even during a period that included negative or low growth as a consequence of the global financial crisis in 2008.

By and large, growth is the most significant contributor to value creation.

As with other sectors and industries, the performance of top consumer performers and companies nearer the bottom of the rankings varies widely. Some of the variations are driven by structural and market-based differences. For example, certain sectors and subsectors have enjoyed far greater growth opportunities than others; this is also true for different global locations and market types.

It is no surprise that the top value-creating companies across the entire consumer universe are based in emerging-market nations. The emerging-market world is where growth has been easiest to capture. By and large, growth is the most significant contributor to value creation, but some companies operating in less favorable growth environments are able to create value nonetheless. Therefore, it pays to analyze how certain companies capture growth, manage brands, deploy capital, and take other steps that are vital to value creation.

In retail, for example, sales growth has been the largest single contributor to the companies generating top TSR, but these companies have also turned to new strategies, such as accelerated online sales, to compete effectively. In fact, sales growth constitutes a far smaller share of retail companies' total TSR than it does in other sectors. Top-performing retail companies gain two-thirds of their TSR contributions from margin improvements, rising multiples, and returning cash flow. In travel

and tourism, a sector that is dependent on economic cycles, airlines and hotels in low-growth markets have created value through rigorous approaches to investment and expansion, retrenching routinely to conserve capital. In the FMCG sector, certain Western companies have succeeded by preserving capital for domestic growth and cash-flow contributions.

Across all sectors, an emerging-market base or an emerging-market strategy has proved to be a key driver for many of the top value creators. But it is not a guarantee of success. Pursuit of growth through emerging markets can also lead companies to misallocation of capital, distracted leadership, and underperformance.

To understand the key value drivers, it is becoming increasingly important to analyze the results and seek to understand each company and its operational and competitive context.

The Global Context

In our overall, cross-industry 2013 Value Creators Report, we took note of the global macroeconomic and market context for all companies and all sectors—and this context is critical to understanding the consumer industry.

In these postcrisis years, we have identified what we view as a two-speed global economy. China and other leading emerging-market nations have shown strong economic performance. The U.S. and Japan boosted output at a slower but still respectable rate. Europe, however, has been beset by financial and economic crises.

Even so, the equity markets in the developed world have seen their most consistent expansion since the financial crisis of 2008. In 2012, the TSR of the MSCI All Country World Investable Market Index was approximately 16.5 percent. For the first half of 2013, it was 9.8 percent.

A large source of total TSR has been the rise of equity prices, helped significantly by accommodative monetary policy across the

world's central banks. We estimate that improvements in valuation multiples alone accounted for roughly 13 to 14 percentage points of the average TSR of 16.5 percent in 2012.

The overall Value Creators Report addresses the likelihood that these conditions will persist. It also addresses those factors that contribute to TSR in any monetary or macroeconomic condition. They include peer group comparisons, capital allocation strategies,

multiple expansion, and sustainable earnings growth. In addition, the overall report warns against growth-at-all-costs strategies, some of which can lure companies to make investments that compress margins, distract leadership, and otherwise diminish shareholder returns.

These factors are relevant to each sector of the consumer industry.

RETAIL

TOP COMPANIES REINVENT THEMSELVES AND LOOK BEYOND GROWTH

HISTORICALLY, RETAIL HAS BEEN among the industry sectors generating the highest TSR; it has benefited most significantly from strong sales increases achieved as companies both pushed the growth of existing stores and opened new stores. For many multinational retailers, such a strategy also included rolling out new formats to additional customers, often in new markets.

The 77 global retailers included in our sample generated an average annual TSR of 11 percent from 2008 through 2012, the highest of all industry sectors when taken out to the nearest decimal.

Among the top ten retailers, six are U.S.-based companies with significant operations in North America. (See Exhibit 2.) The top

EXHIBIT 2 | The Retail Top Ten, 2008–2012

#	Company	Location ²	TSR ³ (%)	Market value ⁴ (\$billions)	TSR Disaggregation ¹						2013 TSR ⁷ (%)
					Sales growth (%)	Margin change (%)	Multiple change ⁵ (%)	Dividend yield (%)	Share change ⁶ (%)	Net debt change (%)	
1	CP ALL	Thailand	58.1	13.8	11	33	10	5	0	–2	–13
2	BİM Birleşik Mağazalar	Turkey	40.7	7.5	27	–2	13	3	0	0	–2
3	Shoprite	South Africa	40.6	12.4	16	6	15	4	0	–1	–8
4	Dollar Tree	United States	36.2	9.1	12	6	13	0	4	2	44
5	Ross Stores	United States	34.9	11.9	10	12	7	2	4	0	44
6	Magnit	Russia	31.6	14.9	31	16	–13	1	–5	1	83
7	L Brands	United States	31.1	13.6	1	10	3	13	4	1	35
8	Family Dollar Stores	United States	29.1	7.3	6	5	13	2	4	–1	10
9	TJX Companies	United States	25.9	30.7	7	7	5	2	3	1	44
10	PetSmart	United States	25.2	7.2	8	3	7	1	4	3	7

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

Note: n = 77 global companies with a market valuation of at least \$7 billion.

¹Contribution of each factor shown in percentage points of five-year average annual TSR; any apparent discrepancies in TSR totals are due to rounding.

²Location refers to the location of the primary stock exchange on which the company’s shares are listed.

³Average annual TSR, 2008–2012.

⁴As of December 31, 2012.

⁵Change in EBITDA multiple.

⁶“Share change” refers to the change in the number of shares outstanding, not to the change in share price.

⁷As of October 31, 2013.

three retailers, however, come from Thailand, Turkey, and South Africa, and each of these showed impressive average annual TSR of more than 40 percent from 2008 through 2012. In addition, many strong-performing retailers are based in emerging markets, although they were excluded from our sample because they did not reach the \$7 billion market-capitalization requirement.

Retailers can follow any of several paths to high TSR. Most of the top ten companies have experienced double-digit annual growth, supported by improved margins; investors expect profitability to continue. But sales growth was not an absolute requirement for value creation. L Brands, a specialty retailer of women's apparel, beauty and personal-care products, and accessories, generated an average annual TSR of 31.1 percent over the five-year period largely on the basis of a significant margin improvement (10 percent per year on average) and a strong dividend yield of 13 percent.

The most successful retail companies deploy an omnichannel strategy.

On a subsector level, we see large variations between those at the top of our rankings (emerging-market grocers, discounters, and specialty and apparel retailers) and those in the lower range (department stores, and retailers of electronics, books, and sporting goods). The difference is explained by market saturation, international strategies, and the rise to dominance of the online channel.

Four main trends help determine the value created by retailers (in addition to the critical role played by emerging markets).

An Omnichannel Strategy

Many retailers around the world are facing accelerating top-line challenges related to the development of the online world, including Pinterest boards, Facebook walls, and digital circulars. As consumers embrace new technologies and services, the most successful re-

tail companies recognize that the right approach is to deploy an omnichannel strategy, one that meets the online expectations of consumers, uses big data and loyalty approaches to fine-tune offerings, and still satisfies the unique tactile in-store experience.

Of course, we expect further experimentation and challenges, as retailers of all types battle for access to consumers and their data. The battle will be particularly fierce among retailers, social media and search engine companies, financial services providers, and telecommunications companies, all of which will seek to "own" the relationship with the consumer.

A Cost-Efficient and Integrated Supply Chain

Several retailers, across subsectors, are focusing on backward integration along the value chain, innovation, automation of supply chains, and customer orientation. Several leading retailers are redesigning and adapting their supply chains. This move significantly reduces overall production costs by honing in on and cutting development, manufacturing, and logistics costs. It also reduces the amount of time it takes a company to move from concept development to in-store placement. (According to our analysis, moving products from factories to shelves is a costly part of the total value chain, representing 9 to 17 percent of end-to-end costs for a retailer. Collaboration efforts aim to reduce those costs and streamline inventory through better forecasting, faster order fulfillment, the use of joint warehouses or consolidation centers, and practices such as "backhauling," which will support collaboration and drive down costs.)

Although privately owned and not ranked in our TSR survey, the Spanish family-owned supermarket Mercadona offers an excellent example of a company with an optimal end-to-end and integrated supply-chain strategy. Despite the weak Spanish economy, Mercadona continued its sales-growth trajectory in 2012, with sales up 7 percent from 2011.

Mercadona has a strong focus on customers (Mercadona collectively calls them "the

Boss”) and a strong private-label range. It also has the close and direct cooperation of approximately 100 of its more than 2,000 commercial suppliers and service providers. Moreover, it has made significant investments in logistics, with a heavy focus on automation, warehouse efficiency, and a reduction in transportation costs.

Reinvention

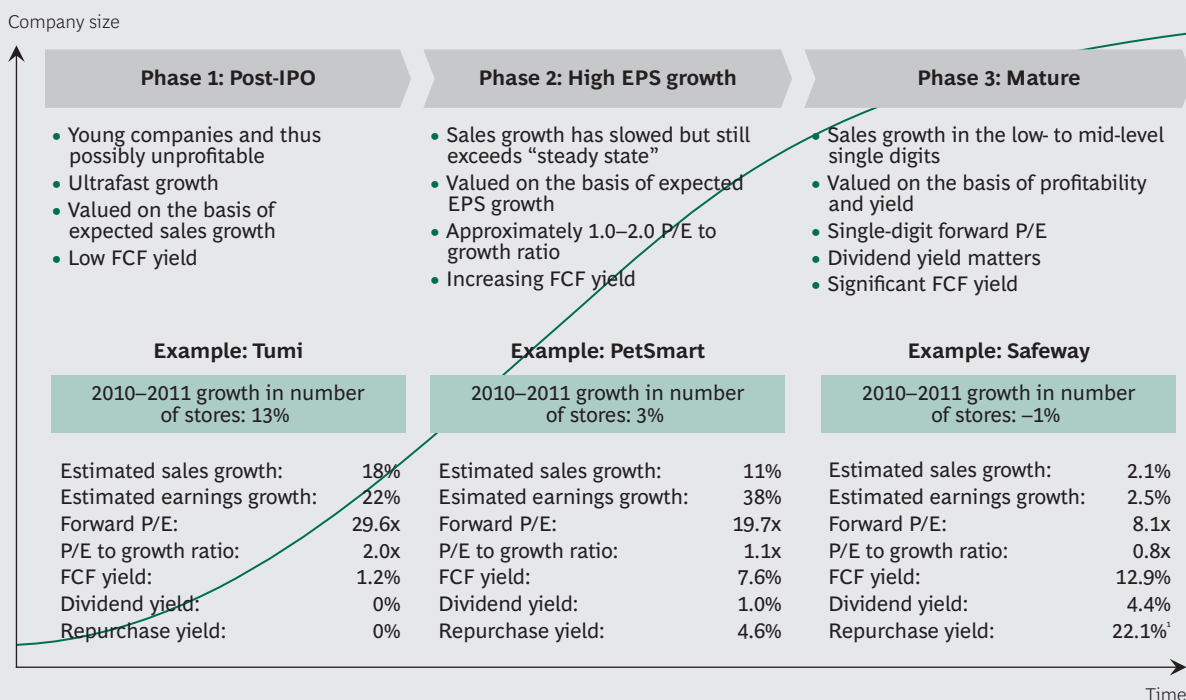
Retail companies, like those in any industry, must successfully reinvent themselves once they achieve maturity so that they can drive new growth. Within the retail sector, there are several avenues for this reinvention: online and mobile platforms, new store sizes and formats, variety and depth of offerings, and more. But such reinvention does not come without significant cost. Successful retailers create the room to reinvent by driving out costs in the short term to invest in future platforms.

Each retail company must determine where it stands in its life cycle and how to optimize its TSR by balancing investments in new growth

with cash payout as dividends. A deeper look at key financial ratios for three retailers demonstrates that these companies are at different points of their respective growth cycles, which in turn drives different decisions about how to create value. (See Exhibit 3.)

In its work to understand the various approaches to value creation, BCG has identified ten value patterns that cut across industries. Each value pattern is based on companies’ starting position and has its own distinctive combination of opportunities, tradeoffs, risks, and strategic moves likely to create value. At the top of the list is a pattern we call “healthy high growth”; young companies with strong growth prospects—such as the apparel company Lululemon Athletica, which we discuss in detail later—cluster together from across industries within this value pattern. Increasingly, however, retailers are found at the other end of the spectrum, among the “deep value” and “distressed” value patterns, which characterize companies with low growth and low return-on-investment (ROI) prospects. Based on 2011 finan-

EXHIBIT 3 | Retail Companies at Different Life-Cycle Phases Have Different Value-Creation Prospects



Sources: Compustat; S&P Capital IQ; BCG ValueScience Center.

Note: EPS = earnings per share. FCF = free cash flow. Estimated sales growth and earnings growth are based on consensus estimates.

¹An exceptional repurchase level was funded in part by borrowing. The previous year’s repurchase yield was 6.1 percent.

cials, about 30 percent of retail companies fit one of these two patterns, up from about 20 percent in 2001.

The limited growth and ROI prospects for deep-value and distressed companies nonetheless represent opportunity to generate significant TSR through appropriate strategies. Our analysis shows that for such companies, the average relative TSR from 2006 through 2011 for companies that moved up to higher-level value patterns was 4 percent, versus an average relative TSR of –10 percent for companies that moved down from one cluster to another.

Deep-value and distressed companies fare best by avoiding large sources of risk, such as large M&A initiatives or overly aggressive organic growth. Rather, a better move is to focus on returning cash to shareholders consistently. We call strategies that companies can use to increase value despite the constraints of the cluster they are in “value-creating unlocks.” Hence, for companies in these low-end clusters, successfully unlocking value requires transformation through cost cutting, portfolio pruning, and reinvention of offerings to customers. A balanced approach seeks to return cash to shareholders rather than invest in growth at all costs.

Beyond Traditional Growth Approaches

Many retailers struggle to achieve consistent healthy upper-right-hand quadrant growth of both total square feet and sales per square foot, especially now, given current economic conditions. In addition, investors tend to be skeptical of many retailer efforts to grow through new channels (locations, formats, new stores, online, and more), as evidenced by declining valuation multiples. Thus, retailers need to consider strategies to create value without resorting only to traditional growth approaches.

PetSmart provides one such example. The company has made deliberate choices to generate a strong TSR by looking beyond a focus on growth only. The specialty retailer had been through a successful shift from an early phase of rapid growth to its current, more mature profile. But as the company matured, its strategy did not adjust, and its rapid increase in the number of stores led to compressed margins and contracting multiples.

Working with BCG, the company underwent an analysis of its position with investors. A complete redevelopment of its strategy followed, leading to new approaches for operations, cash deployment, and strategic priorities. With this new TSR-led strategy, the company shifted its focus to store productivity from unit growth, increased its dividend payout, launched a significant buyback, and still maintained cash levels and flexibility. The company’s performance—its share price more than tripled and its TSR increased by 25.2 percent from 2008 through 2012—is a picture-perfect demonstration that the right TSR strategy need not focus on growth alone. During this time period, PetSmart was a top-decile performer relative to the S&P 500.

FMCG

EMERGING MARKETS LEAD, BUT SHOULD EVERYONE GO THERE?

THE FMCG SECTOR, ALSO known as the consumer nondurables sector, continued to shine in our 2013 review: it was the second-highest-performing industry sector, trailing only retail and by just a decimal point. The 75 global nondurables companies that were included in our sample generated an average annual TSR of 11 percent from 2008 through 2012.

A review of the top ten value creators in the FMCG sector reveals four common characteristics that tend to engender success. (See Exhibit 4.)

- Seven of the top ten companies have delivered double-digit annual sales growth, which has contributed 30 to 50 percent of the value created.

EXHIBIT 4 | The Consumer Nondurables Top Ten, 2008–2012

#	Company	Location ²	TSR ³ (%)	Market value ⁴ (\$billions)	TSR Disaggregation ¹						2013 TSR ⁷ (%)
					Sales growth (%)	Margin change (%)	Multiple change ⁵ (%)	Dividend yield (%)	Share change ⁶ (%)	Net debt change (%)	
1	Charoen Pokphand Foods	Thailand	54.8	8.8	22	3	17	7	–1	7	–26
2	Souza Cruz	Brazil	34.4	23.1	5	8	13	8	0	0	–18
3	Natura Cosméticos	Brazil	34.3	12.3	16	1	11	7	0	0	–20
4	Arca Continental	Mexico	33.2	12.3	25	–4	10	13	–8	–2	–16
5	AmBev	Brazil	32.5	131.1	10	7	8	5	0	2	–1
6	LG Household & Health Care	South Korea	28.6	9.1	13	2	12	1	0	1	–16
7	Femsa	Mexico	27.0	36.6	10	–4	15	2	0	4	–4
8	ITC Ltd.	India	25.2	41.4	16	3	4	3	–1	0	19
9	Estée Lauder	United States	23.9	23.3	7	5	9	2	0	2	20
10	Grupo Modelo ⁸	Mexico	20.8	29.7	6	–1	12	3	0	0	3

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

Note: n = 75 global companies with a market valuation of at least \$8 billion.

¹Contribution of each factor shown in percentage points of five-year average annual TSR; any apparent discrepancies in TSR totals are due to rounding.

²Location refers to the location of the primary stock exchange on which the company’s shares are listed.

³Average annual TSR, 2008–2012.

⁴As of December 31, 2012.

⁵Change in EBITDA multiple.

⁶“Share change” refers to the change in the number of shares outstanding, not to the change in share price.

⁷As of October 31, 2013.

⁸Grupo Modelo was acquired by Anheuser-Busch InBev in June 2013.

- The sector has focused on emerging markets, where nine of the top ten companies exhibit strength. Latin America has been a particular focus.
- Valuation multiple expansion has made a greater contribution as expectations have risen. Seven of the top ten companies received more than 10 percent of their annual TSR contribution from an increased EV/EBITDA.
- The top-performing FMCG companies tend to have dividend yields that are higher than the sector average—an unusual occurrence that might not be repeated in future years.

Successful growth performance combined with a strong dividend yield and continued high expectations will not result in value creation for every company. In fact, not even high-level performers can sustain such an approach to value creation year after year. However, FMCG companies can apply any of a variety of levers to sustain value creation.

One of these levers is to continue to tap the high-growth environment presented by emerging markets. But because entering and winning in emerging markets is challenging, it is not the right growth driver for every FMCG company, or at least not the only one they should rely on. It is tempting to see emerging markets as a source of growth that can simply be “bought” through an aggressive investment campaign. But such efforts tend to diminish margins and distract leadership from other ways to create value.

Top companies in our sample have used other strategies to capture and sustain value creation without relying on the high-growth environment of emerging markets.

Succeeding in Emerging Markets

As noted, a recurrent theme among the most successful FMCG companies is their strong base in emerging markets. Emerging markets are more important than ever, and they make up a large share of many multinational companies’ sales growth. This is consistent across all sectors; companies from emerging markets

continue to dominate the overall top-ten value creators, with the majority coming from Brazil, the Philippines, Russia, and Thailand. Among the FMCG companies, those that have originated in emerging markets have enjoyed—and capitalized on—a relatively high-growth environment. In fact, nine of the top ten TSR performers in the FMCG sector are from emerging markets, a result that highlights the importance of a high-growth environment for superior returns. Some FMCG companies—such as Charoen Pokphand Foods and Arca Continental—produced and sustained spectacular growth of more than 20 percent per year from 2008 through 2012, driving an overall average annual TSR of 54.8 percent and 33.2 percent, respectively.

In addition, many Western-based companies have found new and large growth opportunities by entering emerging markets. BCG surveys show that three-quarters of multinational companies expect to gain a share of these markets. The goal, of course, is to capture the next billion global consumers—a rising middle class whose numbers will be largest in Asia and Latin America.

Nine of the top ten TSR performers in the FMCG sector are from emerging markets.

Yet many multinational Western-based companies recognize that succeeding in emerging markets will continue to be challenging. Local players have a strong understanding of consumer preferences and enjoy deep roots in leadership, community networks, trade, distribution, and talent. New players, even those with a multinational reach, must recognize the need for a localized business model and greater investments in time, resources, and capital.

Relying on Brand Strength for Added Value

The most successful companies in our rankings are relying heavily on building brand ladders by which they can climb to the num-

ber-one or number-two position in their sub-sector. When brands occupy an emotional and even aspirational position with consumers, their companies hold a differentiated position, one that permits higher prices per unit and drives sales growth—even in challenging market conditions.

Brand strength is particularly important for multinationals, because a strong global brand allows for fast rollouts into multiple markets, generating momentum for an emerging-market strategy.

In our 2012 Value Creators Report, we told the story of Church & Dwight and how it anchored its TSR strategy in a transformation of its brand portfolio. The company created a dedicated new-product-development team, with a special focus on extending the Arm & Hammer brand to more categories. It pursued acquisitions of brands that could deliver high-margin growth in the long run—acquisitions that were expensive, but in the end helpful to its TSR. And finally, Church & Dwight pruned weaker brands in its portfolio. The result is a more concentrated portfolio of

“power brands” that deliver 80 percent of the company’s sales and profits, provide a more concentrated base for the company’s marketing spending, and are gradually boosting gross and operating margins.

A look at the fastest-growing brands from 2008 through 2012 on the basis of growth in retail sales shows that many Western companies are leveraging their brand strength. Looking at the top performers in terms of CAGR percentage reveals that many newcomers from emerging markets are growing more quickly than Western companies, albeit from a narrower sales base. (See Exhibit 5.)

Removing Costs from Areas Beyond SG&A

FMCG companies have continued to respond to challenging economic headwinds by intensifying their focus on cutting costs and making better use of working capital. But the benefits of this approach have largely been realized. In fact, a continued focus on lower costs has led some companies to suffer slight drops in service levels.

EXHIBIT 5 | Major-Market Companies Leverage Brand Strength for Sales Increases, but Emerging-Market Companies Are Growing Fast

Ranking by retail sales growth					Ranking by compound annual growth rate				
Brand	Company	Category	2012 retail sales (\$ millions)	2008–2012 retail-sales growth (\$ millions)	Brand	Company	Category	2012 retail sales (\$ millions)	2008–2012 CAGR (%)
Coca-Cola	The Coca-Cola Company	Soft drinks	51,165	8,154	Space 7	Hengan International Group Company	Tissue and hygiene	1,137	58.0
Master Kong	Ting Hsin International Group	Soft drinks and packaged food	12,304	6,489	Fortune	COFCO	Packaged food	3,620	39.5
Yili	Yili Group	Packaged food	10,428	5,730	Kalleh	Solico Food Industrial Group	Packaged food	3,896	31.9
Arawana	Wilmar International	Packaged food	5,905	3,197	Vinda	Vinda Group	Tissue and hygiene	1,013	27.8
Red Bull	Red Bull	Soft drinks	8,446	3,148	Hearttex	Hengan International Group Company	Tissue and hygiene	1,518	27.3
Pampers	Procter & Gamble	Tissue and hygiene	14,360	2,977	Breeze	Asia Pulp & Paper	Tissue and hygiene	875	26.5
Coca-Cola Zero	The Coca-Cola Company	Soft drinks	5,993	2,852	Yili	Yili Group	Packaged food	10,428	23.0
Kalleh	Solico Food Industrial Group	Packaged food	3,896	2,782	Arawana	Wilmar International	Packaged food	5,905	23.0
Fortune	COFCO	Packaged food	3,620	2,712	Mamy Poko	Unicharm	Tissue and hygiene	1,106	21.2
Pepsi	PepsiCo	Soft drinks	18,483	2,495	Master Kong	Ting Hsin Internaional Group	Soft drinks and packaged food	12,304	20.2

Major-market company

Source: Euromonitor.

Given this, it is time to go beyond traditional cost-cutting and find the answer to a different question: How can FMCG companies unlock additional value? BCG, in conjunction with the Grocery Manufacturers Association, undertook a benchmarking of consumer-packaged-goods companies to answer that question. (See *GMA Supply-Chain Benchmarking 2012: Unlocking the Hidden Value of Complexity Management and Collaboration*, BCG report, July 2013.)

Better complexity management offers the most significant opportunity. Across the FMCG industry, \$16 billion to \$28 billion in profits are being squandered through unnecessary complexity. But to release this value, companies need to look beyond rationalizing SKUs and instead approach the issue from a more systematic, companywide perspective, with a simplicity strategy.

Too many companies believe that successfully achieving simplicity is a question only of reducing supply chain costs, traditionally done by cutting the low-selling products that make up the SKU “tail.” But SKUs are only the tip of the complexity iceberg. Instead of looking just at cutting SKUs, companies need to ensure that the supply chain works in a systematic, integrated manner with every facet of the business across the value chain—from manufacturing to sales and marketing to procurement—in order to identify and remove costs.

Too many companies believe that achieving simplicity is a question only of reducing supply chain costs.

Another way to produce value is through collaboration with trading partners to improve their supply chains, reset categories to both grow and take out costs, and optimize pricing and promotions. BCG estimates such collaboration to be worth from \$7 billion to \$21 billion of incremental profit for the industry as a whole, with both manufacturers and retailers winning relatively equally.

Although collaboration is not a new concept in the FMCG sector, recent pressures shared by manufacturers and retailers—including the economic downturn and the looming transportation-infrastructure crisis in the U.S.—have made it increasingly important for manufacturers and retailers to work together to find mutually beneficial solutions. Currently, stockouts are still at 4 to 8 percent across the industry. Furthermore, product waste erodes sales by 2 percent, equivalent to nearly a \$17 billion annual loss for the industry. In addition, approximately 5 to 10 percent of all private freight miles are “running empty.” Collaboration is not simply about cutting costs; it can also boost sales and margins for both parties. Overall, BCG estimates that greater collaboration could improve manufacturers and retailers’ sales by 0.5 to 1.5 percent and margins by a similar amount.

Other Strategies Commonly Used by Western Companies

Sales growth is still an important contributor to the TSR of Western-based top consumer-nondurables companies, but it is not the only one. (See Exhibit 6.)

The J.M. Smucker Company and Anheuser-Busch InBev are two top-ten companies that have increased their profits through deals faster than the cash drain required to pay for those deals. Serial acquirers have a well-regarded ability to purchase both large and small businesses, integrate them quickly into distribution channels, maintain brand luster, and rapidly realize synergies. In the case of J.M. Smucker and Anheuser-Busch InBev, annual sales growth during the 2008 through 2012 period was 18 percent and 15 percent, respectively; that, coupled with positive margin improvement, generated an average annual TSR of 16 percent and 15 percent, respectively.

A balanced strategy for delivering shareholder value is another possible route to a top ranking. Several companies yielded superior TSR through a combination of high single-digit growth, improved margins, rising valuation multiples, and deliberate cash generation to shareholders. The cosmetics company Estée Lauder tops our Western FMCG compa-

EXHIBIT 6 | The Western-Based Consumer Nondurables Top Ten, 2008–2012

#	Company	Location ²	TSR ³ (%)	Market value ⁴ (\$billions)	TSR Disaggregation ¹						2013 TSR ⁷ (%)
					Sales growth (%)	Margin change (%)	Multiple change ⁵ (%)	Dividend yield (%)	Share change ⁶ (%)	Net debt change (%)	
1	Estée Lauder	United States	23.9	23.3	7	5	9	2	0	2	20
2	Monster Energy Company	United States	19.0	8.8	18	2	−3	0	2	0	8
3	SABMiller	United Kingdom	17.6	75.5	2	3	11	3	−2	1	17
4	Südzucker	Germany	17.0	8.4	6	15	−16	3	−1	9	−21
5	The Hershey Company	United States	16.1	16.2	6	−1	4	3	0	3	40
6	The J.M. Smucker Company	United States	16.0	9.2	18	9	−5	5	−12	1	31
7	Anheuser-Busch InBev	Belgium	14.9	140.0	15	3	12	2	−18	1	19
8	British American Tobacco	United Kingdom	14.6	95.9	9	4	−4	5	1	0	15
9	Associated British Foods	United Kingdom	14.4	19.8	12	1	−1	3	0	−1	46
10	Diageo	United Kingdom	14.4	72.4	8	2	0	4	1	0	14

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

Note: n = 44 global companies with a market valuation greater than \$8.0 billion.

¹Contribution of each factor shown in percentage points of five-year average annual TSR; any apparent discrepancies in TSR totals are due to rounding.

²Location refers to the location of the primary stock exchange on which the company's shares are listed.

³Average annual TSR, 2008–2012.

⁴As of December 31, 2012.

⁵Change in EBITDA multiple.

⁶"Share change" refers to the change in the number of shares outstanding, not to the change in share price.

⁷As of October 31, 2013.

ny ranking and is ninth among all consumer-nondurables companies. Although present in emerging markets, Estée Lauder derives the majority of its sales from the Americas and the Europe, Middle East, and Asia regions (85 percent in total), with all regions driving solid growth. It returned an average annual TSR of 24 percent from 2008 through 2012, on the strength of 7 percent growth, 5 percent margin improvement, 9 percent multiple expansion, and 4 percent cash-flow contribution. The U.K.-based brewing and beverage company SABMiller and the U.S.-based

confectioner The Hershey Company are other examples of companies that achieved strong TSRs through a balanced approach, with 18 percent and 16 percent average annual TSRs, respectively. Hershey, for example, has accelerated growth in its core category, raised margins, generated and returned cash to shareholders, and entered higher-growth spaces outside of its U.S. base.

CONSUMER DURABLES AND APPAREL

GROWTH IS THE MOST SIGNIFICANT DRIVER OF TSR

THE 70 GLOBAL CONSUMER-DURABLES and apparel companies included in our sample generated an average TSR of 10 percent annually from 2008 through 2012. This wide-ranging sector, which combines distinct and diverse company types, is ranked third in our overall industry sample, after retail and FMCG.

Growth is by far the most significant driver of TSR in this sector. The top ten durables and apparel companies saw average annual sales growth of 22 percent from 2008 through 2012. Only two other sectors—pharmaceuticals and technology—had top-ten lists that exhibited higher average annual sales growth, each with 27 percent.

The two major types of businesses that make up this grouping—durables and apparel—are quite different, and thus the challenges they face and the value creation paths they have followed differ as well. We therefore rank and assess each subsector separately.

Durables

The TSRs of the top ten durables companies range from 11.5 percent to almost 50 percent; five of these companies have seen double-digit sales growth. (See Exhibit 7.) Capitalizing on emerging-market opportunities and the rising global middle class has yielded tremendous opportunities for these leaders. Haier,

for example, has generated an impressive average annual TSR of 49.2 percent, making it the top-performing durables company and number ten in our overall cross-industry sample. Growth has been the primary driver of this performance, contributing 46 percentage points to TSR.

In addition to capturing growth, strong durables companies also manage economic cycles well. The best companies undertook initiatives to avoid large losses during the economic downturn, and they recognized that cost-cutting efforts created an opportunity to deploy cash more strategically once growth returned.

Going Beyond BRIC Strategies. An underlying strategy behind all sales-growth efforts was expansion into the opportunity-rich emerging markets. As noted previously, the best-known emerging markets—the BRIC countries (Brazil, Russia, India, and China)—have long been targeted by major players in the durables sector.

Most of the companies in the current top-ten ranking have captured growth by seeking it beyond the BRIC countries, in emerging-market regions in Latin America and the Far East that require their own market-by-market insight, strategy, and execution. In such markets, it is not enough to grow at a rapid rate; a company operating there must capture a sig-

EXHIBIT 7 | The Durables Top Ten, 2008–2012

#	Company	Location ²	TSR ³ (%)	Market value ⁴ (\$billions)	TSR Disaggregation ¹						2013 TSR ⁷ (%)
					Sales growth (%)	Margin change (%)	Multiple change ⁵ (%)	Dividend yield (%)	Share change ⁶ (%)	Net debt change (%)	
1	Haier	Hong Kong	49.2	3.6	46	–6	10	1	–5	3	47
2	Arçelik	Turkey	18.0	4.5	10	–1	4	4	–10	10	14
3	Jarden	United States	17.6	4.0	8	1	1	1	0	7	61
4	Tupperware	United States	17.3	3.5	5	6	–2	4	3	2	43
5	Techtronic Industries Company	Hong Kong	14.3	3.4	4	8	–4	2	–4	7	37
6	Gree Electric Appliances	China	13.6	12.3	21	17	–28	2	–1	3	26
7	Snap-on	United States	13.4	4.6	1	7	3	3	0	–1	33
8	Electrolux	Sweden	12.8	7.5	1	2	4	3	0	3	–2
9	Stanley Black & Decker	United States	11.9	11.8	18	–3	6	3	–13	0	9
10	Steinhoff International Holdings	South Africa	11.5	5.7	19	6	–6	2	–4	–5	41

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

Note: n = 39 global companies with a market valuation greater than \$3 billion.

¹Contribution of each factor shown in percentage points of five-year average annual TSR; any apparent discrepancies in TSR totals are due to rounding.

²Location refers to the location of the primary stock exchange on which the company's shares are listed.

³Average annual TSR, 2008–2012.

⁴As of December 31, 2012.

⁵Change in EBITDA multiple.

⁶"Share change" refers to the change in the number of shares outstanding, not to the change in share price.

⁷As of October 31, 2013.

nificant share of the growth and meet the demands of the market as it evolves.

We have identified a few core habits common to top durables companies that move successfully into high-growth market locations. First, companies analyze each market to assess its unique and specific characteristics: its demographics, the rise of a sustainable middle class, local value drivers, and local and multi-national competition. Second, successful companies tend to match their local organization to the market's needs and invest as necessary to source the right talent to execute a winning strategy. Third, the companies move into a market with a single product category, as a beachhead, and work to evolve their brands as necessary to continue to provide value to a changing and growing consumer demographic. Finally, companies routinely revisit their core strategies, analyze the competition, and make adjustments.

A sustainable and winning strategy in one emerging market may not work in another emerging market. And an average brand in one place may turn out to be a leading one elsewhere. The right strategy to capture growth in emerging markets, therefore, does

not involve a singular certain path, and the best companies recognize the need for constant reinvention when relying on emerging markets for TSR success.

Converting Consumers. In every market, but especially in emerging markets, the rising demand for consumer durables may create opportunities, but companies must still convert consumers to the companies' particular brands. This is done by adapting and innovating products to suit the rising middle class and making sure that a company's supply-chain and manufacturing footprints can meet these expectations for many years. The winners in this sector are able to grow their brands beyond the initial beachhead, precisely because they understand the drivers of consumer choices.

Defining the Portfolio Roadmap. Many multibrand, multimarket durables companies are experiencing large variations across their portfolios: certain brands may enjoy strong margins but low market penetration, whereas others might have strong market share but thin margins. The top-performing durables companies are looking more actively than ever at their brand and product portfolio and

the categories in which they compete. These companies are focused on where they need to invest to fuel growth, and where they need to sharpen their efforts to boost margins and cut costs. In addition, they analyze the role that the different brands play, approaching different customer segments and needs. This exercise has tended to unlock their thinking, helping them identify and assess potential adjacent or new categories in which they can compete.

Sweden-based Electrolux, ranked eighth among our durables companies, is an example of a company that takes advantage of active portfolio management. The company has successfully generated an annualized 12.8 percent average TSR, through a balanced shareholder-value strategy. Despite limited growth, improving margins and returning a strong cash flow to shareholders have paved the route to value creation.

Apparel

For apparel companies, the strategies that work bear some similarity to those that spell success for consumer durables companies. For example, among the top TSR producers in apparel, most have a presence in emerging

markets, if not a base in such a market, and are actively pursuing growth. (See Exhibit 8.)

But apparel company winners display some important operational distinctions from durables companies.

Forward Integration. Apparel companies are actively moving into retail distribution themselves. Companhia Hering, a Brazil-based company that was a top-three cross-industry value creator in the 2008 through 2012 period, with an average annual TSR of 68.9 percent, is a good example of this. Beyond strong annual growth of 32 percent, the company has also realized an impressive margin improvement of 37 percent in the same period.

Companhia Hering was originally an apparel manufacturer that, faced with compressed margins from imports and the concentration of retailers, decided to move into apparel retail. It has established an own-and-franchise store network focused on casual apparel. This represented a shift from its original portfolio of underwear and basic apparel and allowed it to compete on a more sophisticated and profitable product assortment. The Companhia Hering network has been growing, giving

EXHIBIT 8 | The Apparel Top Ten, 2008–2012

					TSR Disaggregation ¹						2013 TSR ⁷ (%)
#	Company	Location ²	TSR ³ (%)	Market value ⁴ (\$billions)	Sales growth (%)	Margin change (%)	Multiple change ⁵ (%)	Dividend yield (%)	Share change ⁶ (%)	Net debt change (%)	
1	Companhia Hering	Brazil	68.9	3.4	32	37	−5	6	0	−1	−20
2	Shenzhou International	Hong Kong	45.0	3.0	20	8	2	13	−1	4	57
3	Lululemon Athletica	United States	26.3	8.6	38	9	−19	0	−4	1	−9
4	PVH	United States	25.1	8.1	20	−3	14	0	−5	−2	12
5	Carter’s	United States	23.5	3.3	11	0	7	0	0	6	25
6	Hermès International	France	22.8	31.3	16	5	0	2	0	0	12
7	Hugo Boss	Germany	21.2	7.3	8	5	1	7	0	1	24
8	VF	United States	20.6	16.6	9	0	7	4	0	1	45
9	Ralph Lauren	United States	20.1	13.6	7	3	6	1	2	2	11
10	Burberry Group	United Kingdom	19.4	8.7	15	3	−3	3	0	2	27

Sources: Thomson Reuters Datastream; Thomson Reuters Worldscope; Bloomberg; annual reports; BCG analysis.
Note: n = 31 global companies with a market valuation greater than \$3 billion.
¹Contribution of each factor shown in percentage points of five-year average annual TSR; any apparent discrepancies in TSR totals are due to rounding.
²Location refers to the location of the primary stock exchange on which the company’s shares are listed.
³Average annual TSR, 2008–2012.
⁴As of December 31, 2012.
⁵Change in EBITDA multiple.
⁶“Share change” refers to the change in the number of shares outstanding, not to the change in share price.
⁷As of October 31, 2013.

the business greater scale, driving more efficiencies, and, therefore, creating the kind of cash that allows for even further investment in brand and product development. The company has thus been able to realize a premium on its brand.

Brand-Driven Growth. Several strong luxury brands populate our list of top-performing apparel companies. Carter's, Hermès International, and Burberry Group have all seen double-digit growth without jeopardizing margins by capitalizing on their strong brands in new markets, including emerging markets. Understanding how to meet the needs of the rising middle class in emerging markets while maintaining their positions in Western markets has allowed these leaders to sustain their success and an average annual TSR close to or above 20 percent.

Healthy High Growth. Apparel companies have realized great value by focusing on a key market segment that is tied closely to a fast-growing consumer trend or enduring consumer ambition. A great example of this approach is Lululemon Athletica, which has built its brand around the lifestyle of healthy activity—and has been able to charge a premium for its athletic wear.

Our overall 2013 Value Creators Report highlighted Lululemon's ability to invest to "beat the fade" so common among apparel companies after their initial surge. The company has been able to grow while maintaining its differentiated brand and pricing premium in the marketplace. Lululemon generated a 26.3 percent average annual TSR from 2008 through 2012, driven by 38 percent annual sales growth. However, in the same period of time, Lululemon experienced as significant a drop in its valuation multiple, yielding a negative TSR contribution of 19 percent.

Keeping up with growth expectations is the key concern for any company experiencing healthy high growth. In our work studying value patterns, we have found that during the period from 2008 through 2012, 80 percent of the companies in this value pattern shifted to more mature value patterns or lost their independence through a change in control.

Cash Centricity. As with FMCG companies that have moderate growth but outstanding TSR performance, apparel companies have recognized that improved margin, cash generation, and direct sharing of profitability with shareholders through dividends constitute a tested and true approach.

Hugo Boss has deployed this approach successfully, with dividends and margin improvement in total making up close to 60 percent of its 21.2 percent average annual TSR from 2008 through 2012. This is a viable strategy for apparel companies that find their growth prospects somewhat constrained, by reach across locations, macroeconomic conditions, or both. Building a successful integrated TSR strategy will require any company to understand and manage its core value drivers.

VF is another apparel company that has delivered strong and sustained TSR over the past decade. It ranks fifty-eighth in the Fortune 500 and is in our top-ten apparel TSR ranking for the 2008 through 2012 period. In our 2013 cross-industry Value Creators Report, we describe VF's TSR-led transformation and the strategic and operational moves the company has made, including significant business-portfolio decisions, the reshaping of financial and investor strategies enabled by a shift in leadership mindset, and a greater focus on long-term shareholder value.

TRAVEL AND TOURISM

LEADERS ARE DISCOVERING VALUE WITH GROWTH

HISTORICALLY, TRAVEL AND TOURISM has delivered lower TSR compared with the other consumer-industry sectors. The 69 global travel and tourism companies that are included in our sample generated a negative 1 percent TSR on average annually from 2008 through 2012.

Within the sector, however, significant differences are evident among the various players, and the top performers have produced solid returns. The top ten travel and tourism performers had an average annual TSR of 26 percent and included a broad diversity of subsectors: online travel, airline, hotel, and gaming and entertainment.

As with every industry and sector, TSR in travel and tourism depends on factors that can be macroeconomic as well as granular. Certain travel and tourism companies struggle with a heavy reliance on long-lived fixed assets; others cope with the near-constant challenge of price pressures posed by significant competition. The rise of online pricing across travel and tourism has forced all players to respond to the pressures of transparency.

Although the top companies showed multiple paths to TSR, it is clear that sales growth is critical; four out of the five top performers demonstrated yearly sales growth of 19 to 34 percent. (See Exhibit 9.)

A Subsector That Favors Change

Perhaps no other subsector within the consumer companies has seen as much disruption and new entrants as a result of online sales as travel distribution. Here, the highly segmented, opaque, and boutique approaches taken by agents and distributors have been replaced by online search-and-purchase portals featuring consumer reviews and recommendations. The online travel distributors have used a reliable formula for success: multibillion-dollar information-technology platforms, agreements with sought-after properties and chains, search-engine-optimization deals, and advertisement support. The greatest profitability has come within sales of hotel rooms, given that price competition between airlines has reduced margins throughout the industry.

Priceline.com has the highest TSR of all the travel and tourism companies in our sample, with a 40.1 percent average annual TSR, enough to rank it among the top four of all companies in the consumer sector. The company has succeeded with an approach that can best be defined as dynamic—it has evolved several times to meet consumer expectations. Initially, it was fairly opaque, giving little information about pricing, brand choice, and availability; over time, it has developed a fully transparent model and has used its metadata-search function to drive better results for consumers and advertisers.

We expect the subsector to see continued growth, with more power and value concentrated among the largest competitors. There is great power in global reach, depth of choice, and ease of use. That said, those sites that generate significant online traffic may develop their own distribution capabilities, further driving consolidation and forcing business transformation.

How Airlines Create Value: Location and Efficiency

Creating value in the airline subsector appears to depend significantly on location. For example, Asia and the Middle East offer growth opportunities for TSR leaders such as Turkish Airlines, which had an impressive average annual TSR of 39.7 percent. For the airline, the TSR contribution has come largely from growth and multiple expansion (as expectations rise), at 27 percent and 18 percent, respectively; both have helped to offset lower margins. Turkish Airlines is a good example of how past and current investment in capital stock and future growth has yielded significant benefits; it now acts as a gateway airline to the Middle East and Asia from European Union markets and was

awarded best airline in Europe in 2013 by the industry rater Skytrax.

In China, despite the high-growth environment, airlines have not enjoyed the same kind of success in TSR. Not a single Chinese airline cracked the top-ten TSR ranking. In our view, that's because of margin compression from investment in updated fleets and consumer engagement. In time, as affluence rises in China, we expect that these investments will pay off, but the performance of companies in this subsector is yet another example of how growth alone does not guarantee value creation.

Consider Alaska Air Group, which, despite operating in a low-growth North American market, has managed to ride increased margins to a strong TSR of 28.1 percent. Alaska Air Group has been rigorous in building a strong and disciplined network, exiting low-profit or low-performing markets, relying heavily on strategic relationships with other airline networks, and maintaining a laser-like focus on operations such as maintenance. And finally, Alaska Air Group has created value through aggressive debt payments, improving its balance sheet.

EXHIBIT 9 | The Travel and Tourism Top Ten, 2008–2012

#	Company	Location ²	TSR ³ (%)	Market value ⁴ (\$billions)	TSR Disaggregation ¹						2013 TSR ⁷ (%)
					Sales growth (%)	Margin change (%)	Multiple change ⁵ (%)	Dividend yield (%)	Share change ⁶ (%)	Net debt change (%)	
1	Priceline.com	United States	40.1	30.9	30	30	–18	0	–5	3	70
2	Turkish Airlines	Turkey	39.7	4.3	27	–9	18	7	0	–3	46
3	Galaxy Entertainment	Hong Kong	32.9	16.4	34	19	–19	0	–1	0	91
4	Alaska Air Group	United States	28.1	3.0	6	9	3	0	2	9	65
5	Paddy Power	Ireland	26.1	4.1	19	–6	11	4	–1	–1	–2
6	Wyndham Worldwide	United States	19.9	7.3	1	3	6	3	5	3	27
7	IHG	United Kingdom	19.1	7.3	1	3	4	6	2	4	14
8	Expedia	United States	16.6	8.3	9	–7	8	1	1	4	–3
9	Cinemark	United States	14.7	3.0	8	1	–4	7	–1	4	29
10	Latam Airlines	Chile	13.3	11.3	22	–9	10	4	–7	–7	–25

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

Note: n = 69 global companies with a market valuation of at least \$2 billion.

¹Contribution of each factor shown in percentage points of five-year average annual TSR; any apparent discrepancies in TSR totals are due to rounding.

²Location refers to the location of the primary stock exchange on which the company's shares are listed.

³Average annual TSR, 2008–2012.

⁴As of December 31, 2012.

⁵Change in EBITDA multiple.

⁶"Share change" refers to the change in the number of shares outstanding, not to the change in share price.

⁷As of October 31, 2013.

Contrary to expectations that the only way to create value is by operating at the upper end of the price spectrum, European low-cost providers such as easyJet and Norwegian Air Shuttle have both seen strong development. Even in a market with overcapacity and fierce competition, these airlines have managed to produce excellent returns for shareholders over the past several years. However, despite outstanding TSR in select years, volatility and a significant drop in share prices during 2008 caused European low-cost airline providers to come in below the top-ten list.

The Enduring Value of Brands

Wyndham Worldwide and IHG are both among the top ten travel and tourism companies, with 19.9 and 19.1 percent average annual TSR, respectively. Both managed their high rankings despite low growth and moderate margin improvement, thanks mostly to a strong cash flow contribution to TSR from dividends, buybacks, and reductions in debt.

IHG has pursued an asset-light strategy. It has sold off real estate assets, focusing instead on investments in brand and customer-loyalty programs and in returning cash to its shareholders.

By comparison, cruise lines have had a tougher challenge in the last five years. Cruise lines are significantly dependent on leisure travelers, who have been less likely than business travelers to return to the category. In addition, some well-publicized accidents, the poor European economic results, and oversupply have held back cruise lines. Until supply and demand come into greater balance, the sub-sector is unlikely to break out of this slump, given that cruise lines need to “sail full” to realize core ship economics.

CONCLUSION

GROWTH ALONE IS NOT ENOUGH

LOOKING AHEAD, WE BELIEVE that the consumer industry and its various components, despite their diversity and range, will continue to be well represented among the top cross-industry value creators. Many of the companies that make up the top performers enjoy a strong presence in high-growth emerging markets that should, assuming macroeconomic conditions hold or improve, continue to sustain their value-creation strategies.

Yet these emerging-market giants represent just one of several approaches to a top ranking. We have seen several companies adopt strategies that are suited to their unique characteristics. Some have eschewed emerging markets until they are ready; others have resisted the tug to make acquisitions that would have diminished margins. The management of our top performers in retail, for example, has responded thoughtfully and efficiently to competitive threats from the online channel, thereby creating stronger brands and deeper connections with consumers.

In the end, even high-growth companies recognize that growth alone is not enough. Surpassing the growth hurdle is good, but management still must adapt to economic cycles, avoid inefficient investments, deliver cash to equity and debt holders, and continue to cut costs, wherever and whenever possible—even when times look good.

Most of all, companies in the consumer industry inhabit a world where consumer tastes shift, where strong competitors emerge quickly, and where technology has enabled a whole new dimension of consumer interaction and engagement. In such an industry, the one constant is change. Therefore, the surest way to create value reliably and consistently is to constantly reinvent the business.

FOR FURTHER READING

The Boston Consulting Group publishes many reports and articles on corporate development and value creation that may be of interest to senior executives.

The Resilient Consumer: Where to Find Growth amid the Gloom in Developed Economies

A Focus by The Boston Consulting Group, October 2013

Omnichannel Alchemy: Turning Online Grocery Sales to Gold

A Focus by The Boston Consulting Group, October 2013

Breaking the Tradeoffs Among Costs, Inventory, and Service

A report by The Boston Consulting Group, September 2013

Managing Complexity for Superior Value

An article by The Boston Consulting Group, September 2013

Staying Ahead of the Customer: Retail Transformation and Reinvention

A Focus by The Boston Consulting Group, September 2013

The 2013 Value Creators Report: Unlocking New Sources of Value Creation

The 2013 Value Creators Report, September 2013

Rethinking the Fashion Supply Chain: Fast, Flexible, and Lean

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An article by The Boston Consulting Group, June 2013

How to Get Started with Big Data

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Digital's Disruption of Consumer Goods and Retail

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The 2012 Value Creators Report: Improving the Odds

The 2012 Value Creators Report, September 2012

Enabling PMI: Building Capabilities for Effective Integration

A Focus by The Boston Consulting Group, July 2012

How Value Patterns Work

BCG Perspectives, June 2012

Value Patterns: The Concept

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Back to the Future: Investors Refocus on Yield, The BCG 2012 Investor Survey

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First, Do No Harm: How to Be a Good Corporate Parent

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The Power of Diversified Companies During Crises

A report by The Boston Consulting Group and HHL Leipzig Graduate School of Management, January 2012

NOTE TO THE READER

About the Authors

Ketil Gjerstad is a partner and managing director in the Oslo office of The Boston Consulting Group.

Jean-Marc Bellaïche is a senior partner and managing director in the firm's New York office and the global topic leader for luxury, fashion, and beauty. **Jeff Gell** is a senior partner and managing director in BCG's Chicago office and the global sector leader for consumer products. **Rune Jacobsen** is a senior partner and managing director in the firm's Oslo office and the global sector leader for retail. **Frank Plaschke** is a partner and managing director in BCG's Munich office and the European leader for value creation strategy. **Sam Ridesic** is a senior partner and managing director in the firm's Toronto office and the global topic leader for consumer durables. **Alan Wise** is a senior partner and managing director in BCG's Atlanta office and the global sector leader for travel and tourism.

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For Further Contact

For further information about the report or to learn more about BCG's capabilities in corporate development and value management, you may contact one of the authors.

Ketil Gjerstad

Partner and Managing Director
BCG Oslo
+47 21 04 68 00
gjerstad.ketil@bcg.com

Jean-Marc Bellaïche

Senior Partner and Managing Director
BCG New York
+1 212 446 2800
bellaiche.jean-marc@bcg.com

Jeff Gell

Senior Partner and Managing Director
BCG Chicago
+1 312 993 3300
gell.jeff@bcg.com

Rune Jacobsen

Senior Partner and Managing Director
BCG Oslo
+47 21 04 68 00
jacobsen.rune@bcg.com

Frank Plaschke

Partner and Managing Director
BCG Munich
+49 89 231 740
plaschke.frank@bcg.com

Sam Ridesic

*Senior Partner and Managing
Director*

BCG Toronto

+1 416 955 4200

ridesic.sam@bcg.com

Alan Wise

*Senior Partner and Managing
Director*

BCG Atlanta

+1 404 877 5200

wise.alan@bcg.com

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The Boston Consulting Group, Inc.

One Beacon Street

Boston, MA 02108

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