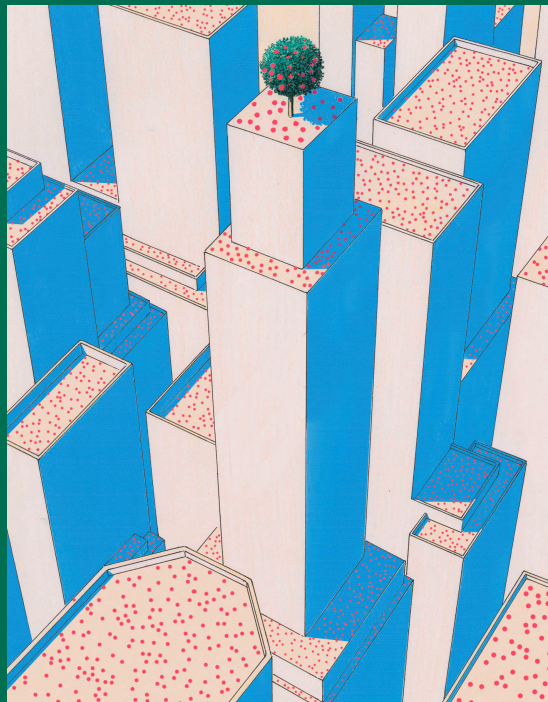


REPORT

THE 2009 VALUE CREATORS REPORT FOR CONSUMER COMPANIES

Lessons from Consistent Value Creators in the Consumer Industry



THE BOSTON CONSULTING GROUP

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November 2009

The financial analyses in this report are based on public data and forecasts that have not been verified by BCG and on assumptions that are subject to uncertainty and change. The analyses are intended only for general comparisons across companies and industries and should not be used to support any individual investment decision.

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Executive Summary

In the past year, global capital markets have been buffeted by financial crisis and economic recession.

- ◇ By the end of 2008, equity values had declined precipitously—in the neighborhood of 40 percent—from their 2007 highs
- ◇ Of the three consumer-industry sectors we sampled, travel and tourism was the only one that had a negative total shareholder return (TSR); over the five-year period from 2004 through 2008, the weighted average annual TSR was –0.5 percent for the travel and tourism sector, 5.6 percent for the consumer goods sector, and 2.2 percent for the retail sector
- ◇ Although equity values have been on an upswing from their March 2009 lows, capital markets remain risk averse and stock prices are still nowhere near their 2007 levels
- ◇ And despite some signs that suggest the beginnings of a recovery, few observers have a clear picture of what it will look like
- ◇ In the face of so much uncertainty and volatility, many senior executives of consumer companies have turned inward—and some question the relevance of shareholder value management in today’s environment
- ◇ It is precisely in times of high uncertainty that companies have to make carefully targeted bets
- ◇ In particular, recessions typically accelerate the forces reshaping industries and create new winners and losers in the struggle for competitive advantage
- ◇ The analytical tools of shareholder value management, in addition to being a critically important way of measuring company performance, also set an essential context for corporate decision making
- ◇ Especially in large complex portfolios, the only way to assess and evaluate diverse businesses in the portfolio, weigh the potential tradeoffs and risks among different strategic options, and in the end optimize total business performance is in terms of contribution to TSR

The challenge facing companies today is to make their value-creation performance *sustainable*.

- ◇ Sustainable value creation is built on a foundation of distinctive customer value and defensible competitive advantage that allows a company to deliver superior shareholder returns over the long term
- ◇ Sustainable value creation is also characterized by consistency, with the companies that achieve it beating the market average in more years than not
- ◇ Finally, sustainable value creation is balanced—between short-term and long-term performance, across the key drivers of TSR, and among all the stakeholders of a company’s economic system, including employees, customers, suppliers, and society as a whole

The Boston Consulting Group believes that the very uncertainty of today’s economy makes the concepts and tools of shareholder value management more important than ever before.

Although a laudable goal, sustainable value creation is extremely difficult to deliver.

- ◇ Few companies are able to beat the market average year after year
- ◇ Consistently delivering superior value requires knowing how to identify the most appropriate pathway to sustainability, given a company's starting point in the capital markets, its competitive position, and the dynamics of its industry and sectors
- ◇ It also requires knowing when a particular pathway has played itself out and a shift to a different strategy for sustainability is necessary

This year's Value Creators report for consumer companies focuses on how companies can achieve consistent, sustainable value creation.

- ◇ We introduce a new ranking that identifies the world's top 25 *consistent value creators* in consumer goods, retail, and travel and tourism, over the past decade
- ◇ We draw lessons from the experience of those companies to describe four pathways to achieving sustainable value creation
- ◇ We describe practical steps that senior executives can take to define their own strategy for achieving sustainable value creation
- ◇ We conclude with rankings of the top consumer-company value creators worldwide for the five-year period from 2004 through 2008

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The Imperative of Consistent, Sustainable Value Creation

Since we published our last consumer industry Value Creators report, in October 2008, global capital markets have been buffeted by financial crisis and economic recession.¹ Equity values have declined precipitously, and although they have recently been on an upswing from their March 2009 lows, capital markets remain risk averse and stock prices are still nowhere near their 2007 levels. And despite some signs that suggest the beginnings of a recovery, no one really knows whether that recovery will be strong or simply a weak prelude to a double-dip recession and subsequent years of sluggish growth.

Why Shareholder Value Still Matters

In so volatile and uncertain an environment, it should be no surprise that the lion's share of management attention has turned inward. Many senior executives of consumer companies have, quite rightly, been focusing on the cost cutting and restructuring necessary to maximize cash flow, strengthen the balance sheet, and ensure their company's liquidity and immediate financial survival. Consequently they have had less time to think through how they will deliver superior returns to shareholders in the years to come.

Indeed, some senior executives have come to question the very principle of managing for shareholder value itself. Even Jack Welch, former chairman and CEO of General Electric, a company famous for its year-after-year delivery against quarterly earnings-per-share (EPS) estimates, told the *Financial Times* in March that "on the face of it, shareholder value is the dumbest idea in the world."²

Welch is right not so much about the concepts and tools of value management but about how they have been mis-

used by many companies in recent years. At BCG, we have always believed that value management is about creating value over the long term, not submitting to the tyranny of exceeding quarterly earnings estimates. We also think that many of the stock-based executive-compensation plans supposedly designed to "pay for performance" have actually contributed to an overemphasis on short-term results to the neglect of long-term risks.³

And yet, we are also convinced that given the uncertainty of today's economy, the concepts and tools of shareholder value management are more important than ever before. It is precisely in times of high uncertainty that companies have to make carefully targeted bets. Recessions typically accelerate the forces reshaping industries and create new winners and losers in the struggle for competitive advantage.⁴ Mature industries face growing pressures to consolidate; companies with inefficient business models are weeded out by the tougher economic climate; and those companies that figure out how to exploit the downturn to improve their competitive position emerge as the new leaders of their industries. In effect, the downturn is creating a playing field in which apparently small differences between competitors are going to translate into major—and potentially game-changing—differences in a company's ability to create competitive advantage and, therefore, to deliver superior shareholder value over the long term.

1. See *Focusing Corporate Strategy on Value Creation*, The 2008 Consumer-Products Value Creators Report, October 2008.

2. See "Welch Condemns Share Price Focus," *Financial Times*, March 12, 2009.

3. See *Fixing What's Wrong with Executive Compensation*, BCG White Paper, June 2009.

4. See *Collateral Damage, Part 5: Confronting the New Realities of a World in Crisis*, BCG White Paper, March 2009.

In our opinion, the key value-creation challenge for consumer companies in today's economy is *sustainability*, by which we mean developing an approach to shareholder value that allows a company to deliver above-average returns consistently, over relatively long periods of time. Many of the retail and consumer senior executives we talk to are hungry for an approach to value creation that looks beyond the horizon of today's volatile markets or next quarter's earnings. And our recent interviews with institutional investors suggest that they are increasingly on the lookout for companies with a long-term track record of value creation and a credible plan for delivering value not just this year or even the next but for many years to come.⁵ For all these reasons, we have decided to devote this year's Value Creators report for consumer companies to the theme "searching for sustainability."

The Characteristics of Sustainable Value Creation

What makes value creation sustainable? First and foremost, the delivery of above-average TSR built on a foundation of distinctive customer value and defensible competitive advantage. It is not about squeezing the system or manipulating the numbers in order to maximize this year's returns. By definition, sustainable value creation means delivering superior shareholder returns over the long term, by which we mean over a decade or more, not just a few years.

In order to be sustainable, a company's value-creation performance must also be relatively consistent. Although it is the rare company that can beat the market or its industry peer group year after year, sustainable value creators do so more often than not. A company that is delivering extraordinary returns one year and then destroying value the next may come out above average over a given period of time. But its value-creation performance would hardly qualify as sustainable.

Sustainable value creation is also balanced. Just because sustainable value creators emphasize the long term, that doesn't mean they somehow ignore the near term. Indeed, they tend to have an in-depth understanding of how short-term dynamics in the capital markets can affect their ability to deliver value in the future. As Jack

The key challenge for consumer companies today is consistent value creation.

Welch went on to say in a subsequent interview, "Any fool can just deliver in the short term by squeezing, squeezing, squeezing. Similarly, just about anyone can lie back and dream, saying, 'Come see me in several years, I'm working on our long-term strategy.' Neither one of these approaches will deliver sustained shareholder value. You have to do both."⁶

Finally, a sustainable approach to value creation makes it easier to fund and provide sustainable benefits for other stakeholders in the company's economic system: employees, customers, suppliers, and society at large. Put another way, the more sustainable a company's ability to deliver shareholder value, the more likely its entire economic system will prove sustainable as well.

Defined in this fashion, sustainable value creation is a laudable goal; even more, it is an imperative. But it is also extremely difficult to achieve. For example, our three consumer-industry samples contained 417 companies with a market value of more than \$1 billion at the end of 2008. Over the past ten years, 186 (45 percent) of those companies beat the market more than five times, 35 (8 percent) beat the market more than seven times, and no company beat the market ten times.

Given the importance of sustainability—and also the difficulty of achieving it—we decided to do something different this year. We introduce a new ranking of the world's top 25 *consumer-company consistent value creators*: leading global consumer goods, retail, and travel and tourism companies that have consistently beaten their local stock-market indexes and delivered the highest TSR relative to their local market over the past ten years. (See the sidebar "The BCG Top 25 Consumer-Company Consistent Value Creators.") In the next section, we draw on lessons from these companies to describe four pathways to sustainable value creation.

5. See *Collateral Damage: Function Focus—Valuation Advantage: How Investors Want Companies to Respond to the Downturn*, BCG White Paper, April 2009.

6. See "Jack Welch Elaborates: Shareholder Value," *BusinessWeek*, March 14, 2009.

The BCG Top 25 Consumer-Company Consistent Value Creators

In the past, the BCG consumer-products Value Creators report has published rankings of the top ten consumer-products value creators on the basis of their average annual TSR during the previous five years. This year, we supplement our traditional rankings with a new one designed to identify those large consumer companies that have been most successful at sustaining superior value creation over a longer period of time.

How did we measure the sustainability of a company's value-creation performance? We started by focusing on large global consumer companies (this year we included retailers and travel and tourism companies, as well as consumer goods companies) with a market capitalization of at least \$7 billion. We chose to limit our rankings to the world's largest companies because the bigger the company, the harder it is to exceed expectations and deliver superior TSR year after year. Out of 155 consumer companies in our sample, 106 met this hurdle.

Next, we ranked these companies by how much their TSR performance outpaced that of their local stock-market average from 1999 through 2008. We chose to measure TSR performance relative to the local stock-market average in order to control for the impact of geographic location and variable market dynamics in different countries. We decided to track performance over an entire decade because we believe that ten years is the minimum time frame necessary to evaluate the staying power of a company's value-creation performance. Of the 106 consumer companies for which ten-year data were available, 95 had a positive ten-year TSR relative to their local stock-market average.

However, because consistency in performance is also a key aspect of sustainability, we added an additional hurdle. To make the list, a company had to beat its local-market average for a majority of the years under study (in other words, in at least six of the ten years). Fifty-one companies met this hurdle. Finally, because we also wanted to emphasize companies that have persisted in creating value since the start of the downturn in 2007, we excluded nine companies in our sample that did not generate positive average annual TSR over the past five years. The final result is a select list of 42 global companies. We list the top 25 by the size of their average annual TSR relative to their local stock-market average in the exhibit "The Top 25 Consumer-Company Consistent Value Creators."

The Top 25 Consumer-Company Consistent Value Creators

| # | Company | Location | Industry | Ten-year RTSR ¹ (%) | Years of positive RTSR | Market value ² (\$billions) |
|----|--------------------------|----------------|----------------|--------------------------------|------------------------|----------------------------------------|
| 1 | Fast Retailing | Japan | Retail | 41.6 | 6 | 14.0 |
| 2 | Esprit Holdings | Hong Kong | Retail | 24.8 | 7 | 7.0 |
| 3 | Shinsegae | Korea | Retail | 23.3 | 8 | 7.0 |
| 4 | British American Tobacco | United Kingdom | Consumer goods | 17.9 | 8 | 53.2 |
| 5 | Imperial Tobacco Group | United Kingdom | Consumer goods | 17.6 | 8 | 28.9 |
| 6 | UST | United States | Consumer goods | 14.6 | 6 | 10.3 |
| 7 | Hermès International | France | Consumer goods | 14.4 | 7 | 14.6 |
| 8 | Reckitt Benckiser Group | United Kingdom | Consumer goods | 14.2 | 8 | 26.7 |
| 9 | Woolworths | Australia | Retail | 13.6 | 7 | 22.8 |
| 10 | Nike | United States | Consumer goods | 12.3 | 9 | 24.7 |
| 11 | Yum! Brands | United States | Retail | 11.6 | 7 | 14.6 |
| 12 | Pernod Ricard | France | Consumer goods | 11.6 | 8 | 16.2 |
| 13 | Richemont | Switzerland | Consumer goods | 10.8 | 7 | 11.0 |
| 14 | Tesco | United Kingdom | Retail | 9.2 | 8 | 41.3 |
| 15 | Brown-Forman | United States | Consumer goods | 9.0 | 7 | 7.7 |
| 16 | Altria Group | United States | Consumer goods | 8.8 | 9 | 31.0 |
| 17 | General Mills | United States | Consumer goods | 8.6 | 6 | 19.9 |
| 18 | Molson Coors Brewing | United States | Consumer goods | 8.5 | 6 | 9.0 |
| 19 | McDonald's | United States | Retail | 7.9 | 6 | 69.3 |
| 20 | Morrisons | United Kingdom | Retail | 7.5 | 6 | 10.7 |
| 21 | Colgate-Palmolive | United States | Consumer goods | 7.0 | 8 | 34.3 |
| 22 | Kellogg | United States | Consumer goods | 6.7 | 7 | 16.7 |
| 23 | Procter & Gamble | United States | Consumer goods | 6.4 | 6 | 187.5 |
| 24 | The Swatch Group | Switzerland | Consumer goods | 6.2 | 7 | 7.6 |
| 25 | Diageo | United Kingdom | Consumer goods | 6.0 | 6 | 39.6 |

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

¹Average annual total shareholder return relative to local stock-market average, 1999–2008.

²As of December 31, 2008.



Four Pathways to Sustainable Value Creation

There is more than one way to achieve sustainable value creation. The experience of the companies on our list of the top 25 consumer-company consistent value creators suggests four distinct pathways to sustainability. Each has its own preconditions, necessary management disciplines, and potential pitfalls. Choosing the right strategy must take into account a company's starting point in the capital markets, its competitive position, and the evolving dynamics of its industry. And over time, a company must be prepared to change its approach as its circumstances change.

The Growth Engine

Previous Value Creators reports have emphasized that the longer the time period, the more that profitable growth becomes the dominant contributor to a company's TSR.⁷ We call such companies *growth engines*, and they are often among the most successful value creators in their sectors over the long term. Typically, growth engines deliver sales growth that is well above the GDP average—usually 15 percent per year or more.

Whether the trends that have fueled these companies' above-average growth will continue in the years to come is, of course, another question entirely. That is why the mark of a genuinely sustainable growth engine is its ability to identify and exploit new opportunities to exceed growth expectations over time. The primary way to extend the life of a growth engine is through innovation—whether of new products, new business models, or both. For example, U.K. grocery retailer Tesco (15) has consistently delivered above-average growth in the relatively low-growth retail sector through both geographic expansion and continuously rolling out new formats and chan-

nels that have allowed the company to expand into new product categories and services such as clothing, consumer electronics, furniture, music downloads, travel, and even personal finance.⁸

Most growth engines focus on organic growth over the long term. And in recent years, many executives, board members, and investors have come to view the idea of acquisitive growth with skepticism. They have been influenced by the many research studies showing that most mergers and acquisitions—as many as two-thirds—fail to create value for the acquirer's shareholders. And they are reacting against the excesses of the late-1990s boom, in which many companies used acquisitions as a quick, but ultimately unsustainable, method to boost earnings and valuation multiples.

But acquisitive growth is not flawed per se. BCG research has shown that when it comes to value creation, there is no inherent disadvantage to growth by acquisition. Still, as with any value-creation strategy, companies that pursue growth need to carefully manage the tradeoffs. Failing to do so can lead to a number of pitfalls. Perhaps the most common mistake is to chase growth at the expense of margins. A number of high-growth companies have experienced a decline in their EBITDA margins over the past few years, which raises questions about their ability to sustain their superior TSR in the future.

Another challenge that sooner or later every growth engine confronts is *multiple compression*—the decline of its

7. See *Spotlight on Growth: The Role of Growth in Achieving Superior Value Creation*, The 2006 Value Creators Report, September 2006.

8. See "The Multichannel Imperative," BCG Opportunities for Action, September 2008.

valuation multiple to the market average.⁹ Strong growth leads to an above-average valuation multiple, as investors bid up the company's stock price in expectation of the future value created by that growth (which is considerable compared with the company's current earnings). As the company continues to grow, the absolute value of sales increases, but because the company is starting from a higher base, its growth rate slows and starts to decline. This decline in the company's growth rate has two results. First, the value of expected future earnings relative to current earnings decreases—causing the multiple to decline as well. Although the company's stock price may still increase, it will not do so as fast as the company's earnings. Second, the company's investor base starts to migrate from growth-oriented investors toward more value-oriented investors.

Finally, even profitable growth can be “too expensive” if it comes at the price of eroding a company's free cash flow. During the past decade, some companies in search of growth plowed all their capital back into the business and even took on debt or issued new shares to fund additional growth—but at the long-term cost of reducing their free-cash-flow yield. So among the other factors an aspiring growth engine needs to consider is the impact of its growth plans on the balance sheet—especially in today's environment, in which balance sheet strength has become a much higher priority among investors.

In conclusion, being a successful growth engine does not necessarily mean always maximizing sales growth in the near term. Sometimes the most sustainable path is for a company to focus its attention on steady and consistent growth over time.

The Cash Machine

In some industries, it is possible to sustain above-average value creation with only modest revenue growth. Companies that do so tend to have relatively stable businesses that generate a great deal of cash. Their route to sustainable value creation is less through growing revenues than through some combination of continuously improving margins, increasing asset productivity, stopping unprofitable growth that is destroying value, and then returning much of the freed-up cash to shareholders in the form of dividends or share repurchases or to debt hold-

ers by paying down debt. We call this approach the *cash machine*.

A cash machine's potential to beat the market in the near term is typically not as great as that of a growth engine. But even if a company beats the market average by only one or two percentage points per year, doing so consistently over a decade or more can add up to top-quartile performance.

Even profitable growth can be “too expensive” if it erodes free cash flow.

There is one important precondition, however, for the cash-machine strategy to be successful. A company has to have a *relatively* low valuation multiple. A low multiple means that each dollar of cash paid out to investors has a higher yield. The

higher the yield from these cash payouts to TSR, the less a company has to beat its already low growth expectations to deliver above-average TSR—and the more investors will be attracted to the stock and exert a steady upward pressure on the company's valuation multiple, creating even more value.

For a pure version of a cash-machine pathway to sustainability, consider the number four company on our list: British American Tobacco. The well-documented health effects of cigarette smoking have subjected the tobacco industry to heavy government regulation and put a serious drag on growth, as well as generally lowering investor expectations for industry performance. In the past five years, for instance, British American Tobacco's sales have grown only 3 percent per year—half the average growth rate of our global consumer-goods sample. But the company's unusually high (and improving) EBITDA margins have allowed it both to increase its EBITDA multiple at a time when consumer-goods multiples were declining, on average, and to deliver more than double the dividend yield of the sample as a whole. The result: an average annual TSR of 23.4 percent, making British American Tobacco one of the top value creators in our global consumer-goods sample over the past five years.

The hallmark of a sustainable cash machine is strong pricing power and high returns on capital. This allows a

9. For a more detailed description of the phenomenon of multiple compression, see *Missing Link: Focusing Corporate Strategy on Value Creation*, The 2008 Value Creators Report, September 2008, pp. 16–19.

company to make huge cash payouts, while still having enough cash to fund some growth. And, as the British American Tobacco example suggests, when a cash machine delivers even modest growth, the combination of that growth with high margins can have a major impact on a company's TSR. (See Exhibit 1.) In this respect, perhaps the company on our list that most dramatically illustrates the power of a cash-machine route to sustainable value creation is McDonald's (20), where a focus on margins over growth has been the central component of a dramatic TSR turnaround in the past decade.

Consider the example of McDonald's. When the late Jim Cantalupo became CEO of McDonald's on January 1, 2003, he inherited a company in trouble. Despite efforts to expand the number of its restaurants and to diversify into new formats through acquisition, declines in same-store sales were wreaking havoc with company margins. Between 1999 and 2002, the company's EBITDA margin declined by nearly a third; total shareholder return was negative for three years in a row.

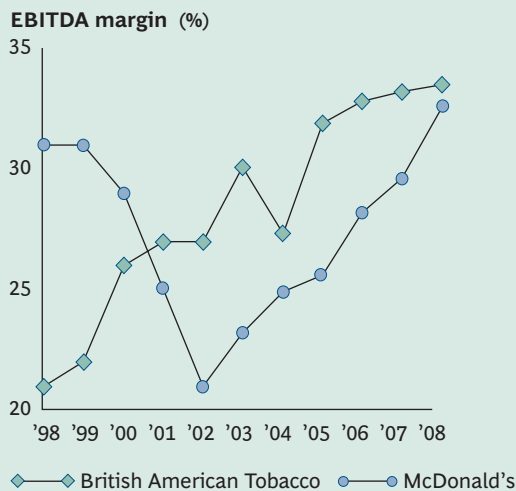
A 30-year veteran of McDonald's, Cantalupo's plan was to take the company back to its roots. He sold off recent acquisitions and stopped adding to the number of McDonald's restaurants worldwide. Instead, he focused

the company's resources on improving same-store sales and driving margins for both the restaurant operators and McDonald's. The company emphasized its original customer proposition of service, value, and cleanliness. Stores invested in delivering accurate orders, hot food, and clean restrooms. The Dollar Menu became more visible and a higher share of incremental sales. In addition, the company introduced new offerings to appeal to key customer segments—salads for health-conscious “moms” and specialty coffee drinks.

These efforts had a dramatic impact on value creation. Since 2003, the company grew its EBITDA margin to the point at which, in 2008, it was slightly higher than it had been ten years earlier, before the start of the decline. What's more, McDonald's generated so much cash that it allowed the company to greatly increase its direct cash payouts to shareholders and debt holders. Between 2004 and 2008, this combination of margin improvement and increases in cash returned to investors and debt holders accounted for a full 16 percentage points of TSR—almost 70 percent of the company's total average annual TSR of 23 percent during this period.

As a result, McDonald's also generated more TSR than all but one company in our entire retail sample. This achieve-

Exhibit 1. It Is Possible to Deliver Sustainable TSR with Only Modest Sales Growth by Improving EBITDA Margins



1999–2008

| | Sales growth ¹ (%) | TSR ² (%) |
|--------------------------|-------------------------------|----------------------|
| British American Tobacco | 5.5 | 19.0 |
| McDonald's | 6.6 | 7.0 |
| S&P 500 average | 11.4 | 3.3 |

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

¹Ten-year average annual sales growth (1999–2008).

²Ten-year average annual TSR (1999–2008).

ment is even more extraordinary when one considers the fact that McDonald's is by far the largest company in this year's retail top ten. The company's market capitalization is more than double that of the next-biggest company on the retail top-ten list, and it accounts for about half of the total market capitalization of the entire U.S. restaurant industry.

The cash-machine pathway to sustainability can be highly effective when a company has a previous history of relatively low returns on investment, a reputation for "chasing market share," and a low valuation multiple. But even the most successful cash machine will eventually run out of room for further improvement. There are limits to how much any company can reduce costs or improve working capital efficiency. Even more serious, the higher a company's dividend yield, the more investors will eventually be attracted to its stock, bidding its multiple up and reducing the impact of its cash payouts on its overall TSR. In the near term, of course, a rising multiple boosts a company's TSR. But it is a classic example of the principle "Be careful what you wish for," because the higher its valuation multiple, the more difficult it becomes for a cash machine to continue to exceed investor expectations.

Finally, in companies that pursue a cash-machine route to sustainability, sometimes an organization can become so focused on efficiency and target all its metrics to achieve it that managers become risk averse. They start passing on growth opportunities that they ought to be investing in. Sooner or later, even a well-functioning cash machine needs to find some way to improve its rate of growth.

The Portfolio Migrator

Quite successful companies can face a situation in which opportunities for further growth are limited. The businesses a company finds itself in have largely played themselves out. There are few opportunities to grow at an adequate return, even through the innovation of new products or business models. In such situations, a company has to take a more disruptive path: to restructure the entire portfolio and redefine where it wants to play in the future. In other words, it needs to become a *portfolio migrator*.

Successful companies can face a situation in which opportunities for growth are limited.

Unlike acquisitive growth (which is primarily a matter of buying companies, not selling them), portfolio migration involves both acquisitions and divestitures. Portfolio migrators tend to be large, established companies, often with complex portfolios made up of multiple businesses. It is not enough just to acquire promising new businesses; it is also essential to get rid of the legacy businesses in the portfolio whose value creation potential has run its course. Otherwise, a company runs the risk of ending up with a bimodal portfolio made up of businesses that attract very different types of investors and may see its multiple punished as a result. Portfolio migrators refashion the mix of their business portfolio over time through a steady series of acquisitions and divestitures that move them into new and more promising businesses and markets.¹⁰

A company that embarks on the portfolio migrator pathway to sustainability needs to carefully plan and orchestrate each step of the migration in advance. To be sure, there is always room for some strategic opportunism—for instance, BCG research has shown that downturns are the best time to make value-creating acquisitions.¹¹ But it is important to know in advance where you are going and each step in the path to getting there.

A comprehensive migration plan is essential because an aspiring portfolio migrator has to migrate not only its businesses but also its investor base. Even if a company's portfolio-migration strategy makes perfect business sense, the company can suffer in the capital markets if it fails to communicate clearly the logic of the various moves it is making or if investors lack confidence that the management team can make the transition effectively.

One apparel company we have worked with, for example, wanted to improve its growth prospects by acquiring some smaller but higher-margin businesses to complement its large legacy businesses that were still profitable but had few prospects for additional growth. The company had begun to execute its strategy and made a few small acquisitions—only to see its valuation multiple suf-

10. See *Managing for Value: How the World's Top Diversified Companies Produce Superior Shareholder Returns*, BCG report, December 2006.

11. See *The Return of the Strategist: Creating Value with M&A in Downturns*, BCG report, May 2008.

fer as the company’s traditional value investors fled the stock because they didn’t like the higher risk associated with the new growth businesses. The company began to gain traction in the capital markets only when it developed and executed a carefully sequenced three-phase strategic plan to progressively shift its strategy and its investor base over a two-year period. (See Exhibit 2.)

The plan carefully orchestrated an internal timetable for key financial moves, including both acquisitions and divestitures, with a sequence of investor communications to shape the context for how investors perceived these moves. In the first phase, the company reasserted its attractiveness to its traditional value investors by reducing its growth guidance, emphasizing its strong free cash flow, and nearly doubling the company’s dividend. That move alone had a major impact on the company’s valuation multiple—causing it to increase by 30 percent within six months of the announcement. In the second phase, the company laid the groundwork for its new growth strategy by separating out reporting for its high-growth brands, adding to revenues by means of a small tuck-in acquisition, and divesting itself of its largest legacy brand (which had been a drag on the company’s overall growth rate). In the third phase, as the company shifted decisively to a high-growth path, it began emphasizing to analysts and investors the depth of its brand-management skills and released financial targets aimed squarely at investors in-

terested in higher growth. Although recently the downturn has caused the company’s TSR to decline, over the past ten years the company’s average annual TSR has been twice that of its local stock-market average and nearly three times that of its peer group.

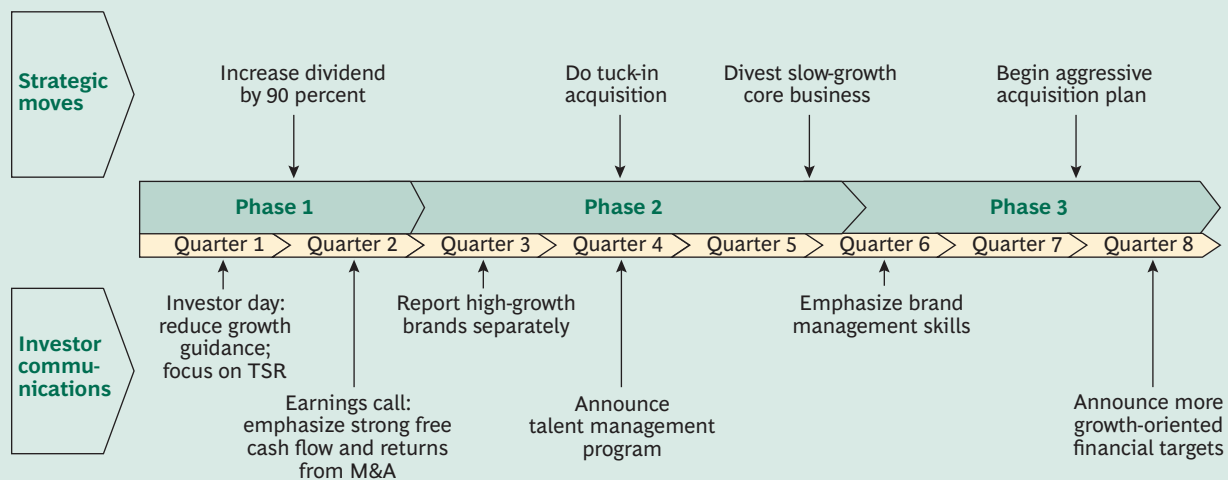
The Value Impresario

Many large companies will eventually reach a point at which the size and complexity of the business require them to pursue not just one of these pathways to sustainability but all of them—with varying degrees of emphasis at different moments in time. We call this approach to sustainability the *value impresario*.

Companies that follow this pathway are generally large, established companies with a variety of businesses in their portfolio. Consistently exceeding investor expectations for these companies is especially difficult for the simple reason that the market tends to be more efficient about estimating their future prospects. The companies are well known and closely followed by professional investors and market analysts. The outlook for their markets is often more predictable.

Value impresarios aren’t wedded to any single pathway to sustainability. They tend to use all of them, shifting their emphasis to the approach that has the most poten-

Exhibit 2. Successful Portfolio Migrators Carefully Orchestrate Strategic Moves and Investor Messages



Source: BCG analysis.

tial to exceed investor expectations at any moment in time—and sometimes using different approaches simultaneously for different businesses in their portfolio. And they are keenly aware of the impact of any one lever of TSR on all the others.

Value impresarios share some common characteristics. First, they tend to take the long view of company performance. Instead of just managing to annual plans, they define those plans within the context of a detailed three- to five-year value-creation strategy. And even as they focus on executing that strategy, senior leadership is often already thinking about what the most important drivers of value creation for the company will be in the subsequent five years.

Second, value impresarios have a clear understanding of the precise role that each business unit needs to play in the company's overall value-creation strategy. One company we have worked with, for example, assigns each of its more than 45 lines of business to one of three roles in the company's overall portfolio: *growth businesses*, with strong prospects for long-term expansion and sustainable profitability based on clear competitive advantages; *financing businesses*, with solid competitive positions and the aspiration to be important sources of net cash flow; and *turnaround businesses*, which require major restructuring or possible exit in order to create value. In addition to defining the aspirations and key performance indicators for each business, these roles also determine the specific metrics used to evaluate executive performance.

Third, value impresarios use TSR as the central metric for value creation. Because it incorporates the value of dividends and other cash payouts, TSR is a far more comprehensive measure than share-price appreciation. It is also a better metric than commonly used operational proxies for value creation such as growth in EPS or economic profit, or even cash-based metrics such as cash flow return on investment (CFROI) or cash value added (CVA).

Fourth, value impresarios manage the drivers of TSR directly at the business unit level. In effect, they treat business units as independent companies competing for capital in a kind of internal stock market. Units are responsible for delivering a required contribution to TSR through some combination of sales growth, margin im-

provement, and increased asset productivity. Internal TSR metrics are a comprehensive way to ensure that a company's internal targets are tightly linked to what actually creates value for shareholders. Instituting such a system, for example, was a key factor in Procter & Gamble's (24) turnaround after a major decline in its share price in 2000.

TSR is a far more comprehensive measure than share-price appreciation.

When A.G. Lafley was appointed CEO of P&G in June 2000, the company was at a low point. One of the most important of the many steps Lafley took to transform P&G's performance was to start managing the company explicitly for TSR. The process began with setting an ambitious TSR goal. Lafley and his team defined a peer group that included not only traditional consumer-goods rivals such as Unilever and L'Oréal but also large corporations in other industries that were competing with P&G for investors' dollars. The company's TSR target was for P&G to be in the top third of this group over rolling periods of 3, 7, and 10 years—something that none of the companies in the group had achieved over the previous 20 years.

Defining this ambitious goal put the company's current problems in stark focus. The company's current growth rates were nowhere near enough to meet the new TSR target. Executives estimated that in order to achieve top-third status within its peer group, P&G would need to nearly double its current revenue growth rate. Even worse, what growth the company was delivering was increasingly coming at the expense of margins. Although, on the whole, the company's top line had been growing slightly, too much spending chasing questionable growth initiatives was causing its overall EBITDA margin to decline. This decline contributed to the company's missing its earnings estimates in March 2000 and was causing investors to question the company's growth plan. So the challenge wasn't just generating more growth; it was doing so at lower cost and higher profitability.

The company's new focus on TSR was a key factor in pushing the organization to strike the right balance between these sometimes conflicting goals. P&G created an internal system of metrics known as "operational TSR" to measure the performance of its brands and business units in terms of their contribution to the company's TSR. Not only did a business unit's operational TSR become a crit-

ical metric for benchmarking its performance against competitors, but also, and even more important, it became one of two key criteria (the other being growth in EPS) used to set executive compensation throughout the senior management ranks.

The new TSR metrics forced P&G's business-unit heads and brand managers to be careful stewards of the cash that they were employing and more disciplined and tough-minded about which growth initiatives they would propose. And, at the corporate level, the metrics helped senior management more accurately assess the value of the company's broad portfolio of initiatives.

The new discipline about value creation helped the company aggressively transform its approach to innovation by simultaneously increasing the number of new product ideas and more than doubling the yield of its R&D and new-product development pipeline. It has also led the company to divest many traditional brands that, although still profitable, did not meet the company's more aggressive financial goals. At the same time, P&G has moved aggressively into new sectors with higher potential to generate TSR, such as beauty care, through both organic growth and acquisitions—for example, the 2001 acquisition of Clairol from Bristol-Myers Squibb, the 2003 purchase of the German hair-care company Wella, and, most prominently, the 2005 acquisition of Gillette, which made P&G the largest consumer-goods company in the world.

Since 2001, P&G's EBITDA margin has been rising steadily, gaining a full six percentage points from its 2001 low. And the combination of steadily improving margins, more commercially successful innovation, and game-changing acquisitions has allowed the company's sales growth to explode compared with our global consumer-

goods sample. So far, P&G has met its goal of remaining in the top third of its peer group. And between Lafley's appointment as CEO (he recently stepped down but continues as the company's chairman) and the end of 2008, the company's market capitalization roughly doubled to \$187.5 billion, making P&G one of the five most valuable companies in the United States and among the ten most valuable in the world.

Finally, value impresarios actively engage with their investors to understand how they view the company and its businesses. For example, one of the first things that Lafley did when he took over P&G was to hold a series of one-on-one meetings with key investors and analysts to see how they viewed the company's prospects.

Becoming a value impresario isn't easy. Managing the complexity requires explicit focus, at the corporate level, on choosing the right metrics, targets, and incentives. And a value impresario's credibility in the capital markets is all about management's track record—its ability to deliver consistently over time. Put another way, a company has to “win the right” to become a value impresario and then continuously manage the ongoing shift in emphasis among the drivers of TSR. Those companies that succeed, however, often enjoy a premium in the capital markets.

Deciding which pathway is most appropriate for any particular company will depend on a number of factors: the TSR aspirations of its senior team, the company's starting point in the capital markets, and the future potential of its businesses. In the concluding section, we describe a process for determining a company's TSR sustainability profile and therefore its best strategy for sustainable value creation.



A Road Map for Consistent, Sustainable Value Creation

Sustainable value creation is all about making choices that optimize the total performance of the business. But how do senior executives of consumer companies identify the right trade-offs and most appropriate options for their company, given its starting point in the capital markets, its competitive position, and the dynamics of its industry? The best way is to start looking at the company's TSR potential the same way that investors do—by developing an in-depth understanding of the company's TSR sustainability profile. That profile shows where the sources of value creation are likely to be and indicates how likely it is that value creation will be sustainable.

Although each of the routes to sustainable value creation described in this report has a distinctive emphasis, whatever approach a company decides to take will be successful only if it optimizes performance across all of the drivers of TSR. Growth engines emphasize rapid growth exceeding investor expectations, but they deliver sustainable above-average TSR only when that growth does not come at the expense of severely eroding margins or diminished expectations that result in lower valuation multiples; indeed, in the best case, the growth actually delivers higher margins by exploiting scale advantages that create operating leverage. Similarly, a cash-machine strategy will deliver sustainable above-average TSR only as long as the company's valuation multiple does not grow too large; if and when it does, it is probably time to shift to another pathway. And, of course, both portfolio migrators and value impresarios are always on the lookout for the next best way to beat investor expectations and deliver superior TSR.

Understanding the sources and sustainability of value creation through a company's TSR profile is only the first

step on the road to consistent value creation. But done right, a consumer company's senior executives should eventually come out of the process with a detailed road map that includes the following:

- ◇ An explicit TSR target that strikes an appropriate balance between a company's aspirations and what it can realistically achieve and between performance over the short term and over the long term
- ◇ A detailed understanding of the performance improvements required in order to achieve that target and the precise sequence in which those improvements need to take place
- ◇ A sense for how shifts in the company's valuation multiple will likely impact the company's performance requirements, as well as contingency plans for dealing with those shifts if and when they occur
- ◇ TSR-based operational targets and metrics that the company can drive down into the organization and embed in its incentive and compensation system
- ◇ A robust framework for shifting planning, budgeting, and capital allocation away from an annual cycle based on incremental improvements to historical performance and toward a set of criteria based on contribution to long-term TSR

Analyzing a company's performance in terms of its ability to deliver sustainable value creation is what investors do every day. Armed with the right tools, there is no reason why consumer company executives can't develop an even better-informed perspective, given their intimate knowledge of the company's plans and of industry trends.

When they do, they can stay one step ahead of investor expectations and consistently generate superior shareholder value for many years to come.

In conclusion, we offer ten questions about sustainable value creation that every consumer-company CEO should know how to answer.

1. *Do you know the historical sources and drivers of your company's relative TSR performance?* Have you appropriately considered the mix of growth, margins, and cash flow? Do you understand how and why your valuation multiple has moved?
2. *Have you set an explicit TSR target?* Is it realistic considering your past performance, your current starting point, and the future potential of your business?
3. *Can your current momentum and business plans deliver against that target?* If not, how will you fill the gap? Do you know the likely contribution of each of your business units to overall company TSR?
4. *What is the shape of your future TSR outlook and how sustainable is it?* Do you know what will be the main drivers of your future TSR? Are you confident that these drivers will deliver your target TSR over the long term? If not, have you begun to identify the necessary changes to ensure long-term sustainability?
5. *Do you understand how your plans are likely to affect your valuation multiple?* Are you doing everything in your power to minimize the risk and impact of a multiple decline?
6. *Is your future TSR profile aligned with the priorities of your current investors?* If it is not, do you need to migrate to a new investor mix? Or do you need to change the profile so that it is more appealing to current investors?
7. *Are your financial policies—for example, debt-to-capital ratio and dividend payout—aligned with your business strategy?*
8. *Do your individual business-line managers understand how their businesses contribute to overall TSR?* Are managers rewarded on the basis of their contribution to TSR and the appropriate underlying operational metrics?
9. *Do your other management processes—such as planning, budgeting, and capital allocation—align with your objectives for driving long-term sustainable value creation?* Are you setting appropriate targets for each business to ensure the right value-creation outcome? Are you defining portfolio roles for each business, and are you aware of the resulting implications for cash generation versus cash usage?
10. *Have you translated your strategy to deliver sustainable TSR into a detailed multiyear timeline of business and financial moves?* Do your employees understand the logic behind the strategy? Do your investors?



Appendix

The 2009 Consumer-Company Value Creators Rankings

The 2009 consumer-company Value Creators rankings are based on an analysis of total shareholder return at 155 global consumer companies for the five-year period from 2004 through 2008.

To arrive at this sample, we began with TSR data for more than 6,000 companies provided by Thomson Reuters. We eliminated all companies that were not listed on some world stock exchange for the full five years of our study or did not have at least 25 percent of their shares available on public capital markets. We also eliminated all companies that are not in the three sectors of the consumer industry we are tracking: consumer goods, retail, and travel and tourism. We further refined the sample by establishing an appropriate market-valuation hurdle to eliminate the smallest companies in each sector.

In addition to five-year TSR performance from 2004 through 2008, we show TSR performance for 2009, through October 16.¹ We also break down TSR performance into the six investor-oriented financial metrics used in the BCG decomposition model.²

What kind of improvement in TSR was necessary to achieve truly superior performance, given the sample average?

- ◇ The average annual return for the 155 consumer companies we studied was 3.9 percent. The average annual TSR of the top ten across the three consumer-industry sectors was 24.5 percent (about six times greater).
- ◇ To qualify for the top ten in our sample of 155 global consumer companies, a company had to achieve an average annual TSR of 20.7 percent. The top per-

formers achieved an average annual TSR of 30 to 35 percent.

- ◇ Companies in the top quartile of the three consumer-industry sectors we studied had a TSR of at least 11 percent per year.
- ◇ The weighted average annual TSR for the top ten consumer-goods companies was 21.1 percent; for retailers it was 19.5 percent; and for travel and tourism companies it was 15.1 percent. (See Exhibits 1, 2, and 3 for the performance breakout of the top ten companies by sector.)

1. TSR is a dynamic ratio that includes price gains and dividend payments for a specific stock during a given period. To measure performance from 2004 through 2008, 2003 end-of-year data must be used as a starting point in order to capture the change from 2003 to 2004, which drives 2004 TSR. For this reason, all exhibits in the report showing 2004–2008 performance begin with a 2003 data point.

2. This model has been described in previous Value Creators reports. See, for example, *Missing Link: Focusing Corporate Strategy on Value Creation*, The 2008 Value Creators Report, September 2008, p. 20.

Exhibit 1. The Consumer Goods Top Ten, 2004–2008

| # | Company | Location | TSR ² (%) | Market value ³ (\$billions) | TSR Decomposition ¹ | | | | | | 2009 TSR ⁵ (%) |
|----|--------------------------|----------------|-------------------------|-------------------------------------------|--------------------------------|-------------------------|----------------------------------------|--------------------------|------------------------|---------------------------|---------------------------------|
| | | | | | Sales Growth (%) | Margin change (%) | Multiple change ⁴ (%) | Dividend yield (%) | Share change (%) | Net debt change (%) | |
| 1 | KT&G | South Korea | 35.9 | 8.1 | 7 | 1 | 21 | 5 | -2 | 3 | -9.0 |
| 2 | Nintendo | Japan | 30.3 | 42.5 | 27 | 7 | 1 | 3 | 2 | -9 | -26.0 |
| 3 | British American Tobacco | United Kingdom | 23.4 | 53.2 | 3 | 2 | 10 | 5 | 1 | 2 | 16.2 |
| 4 | ITC | India | 22.4 | 13.3 | 5 | 10 | 6 | 2 | 0 | -1 | 49.7 |
| 5 | UST | United States | 19.8 | 10.3 | 3 | -2 | 10 | 6 | 2 | 1 | NA ⁶ |
| 6 | Imperial Tobacco Group | United Kingdom | 18.1 | 28.9 | 24 | -14 | 10 | 4 | -5 | -2 | 1.8 |
| 7 | SABMiller | United Kingdom | 17.8 | 25.6 | 25 | -1 | 2 | 3 | -8 | -3 | 43.4 |
| 8 | Reckitt Benckiser Group | United Kingdom | 17.7 | 26.7 | 12 | 4 | 1 | 2 | 0 | -2 | 24.2 |
| 9 | Hermès International | France | 15.8 | 14.6 | 8 | -1 | 8 | 1 | 1 | -1 | 0.1 |
| 10 | AmBev | Brazil | 14.8 | 26.7 | 18 | 5 | -3 | 4 | -10 | 0 | 63.6 |

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

Note: n = 61 global companies with a market valuation greater than \$7 billion.

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

²Average annual total shareholder return, 2004–2008.

³As of December 31, 2008.

⁴Change in EBITDA multiple.

⁵As of October 16, 2009.

⁶No calculation because of delisting.

Exhibit 2. The Retail Top Ten, 2004–2008

| # | Company | Location | TSR ² (%) | Market value ³ (\$billions) | TSR Decomposition ¹ | | | | | | 2009 TSR ⁵ (%) |
|----|--------------------|---------------|-------------------------|-------------------------------------------|--------------------------------|-------------------------|----------------------------------------|--------------------------|------------------------|---------------------------|---------------------------------|
| | | | | | Sales Growth (%) | Margin change (%) | Multiple change ⁴ (%) | Dividend yield (%) | Share change (%) | Net debt change (%) | |
| 1 | Dairy Farm | Singapore | 26.2 | 5.8 | 14 | 2 | 3 | 7 | 0 | 0 | 44.8 |
| 2 | McDonald's | United States | 23.0 | 69.3 | 7 | 7 | 0 | 3 | 3 | 3 | -2.9 |
| 3 | Woolworths | Australia | 21.4 | 22.8 | 13 | 6 | 2 | 4 | -3 | 0 | 15.9 |
| 4 | Nitori | Japan | 20.7 | 4.4 | 20 | 3 | -1 | 0 | -1 | -1 | 7.2 |
| 5 | Wal-Mart de México | Mexico | 19.7 | 22.5 | 13 | 4 | 2 | 2 | 1 | -1 | 31.3 |
| 6 | Colruyt | Belgium | 17.0 | 6.9 | 13 | 0 | 2 | 2 | 2 | -1 | 4.0 |
| 7 | Fast Retailing | Japan | 16.5 | 14.0 | 14 | 4 | -1 | 2 | 0 | -2 | 19.9 |
| 8 | Inditex | Spain | 16.5 | 27.1 | 18 | 1 | -6 | 2 | 0 | 1 | 27.2 |
| 9 | Esprit Holdings | Hong Kong | 16.2 | 7.0 | 23 | 6 | -18 | 4 | -1 | 2 | 29.5 |
| 10 | H&M | Sweden | 16.0 | 32.0 | 13 | 3 | -4 | 4 | 0 | 0 | 38.5 |

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

Note: n = 54 global companies with a market valuation greater than \$4 billion.

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

²Average annual total shareholder return, 2004–2008.

³As of December 31, 2008.

⁴Change in EBITDA multiple.

⁵As of October 16, 2009.

Exhibit 3. The Travel and Tourism Top Ten, 2004–2008

| # | Company | Location | TSR ² (%) | Market value ³ (\$billions) | TSR Decomposition ¹ | | | | | | 2009 TSR ⁵ (%) |
|----|----------------------|----------------|-------------------------|----------------------------------------------|--------------------------------|-------------------------|----------------------------------------|--------------------------|------------------------|---------------------------|---------------------------------|
| | | | | | Sales Growth (%) | Margin change (%) | Multiple change ⁴ (%) | Dividend yield (%) | Share change (%) | Net debt change (%) | |
| 1 | SMRT | Singapore | 29.1 | 1.7 | 3 | 2 | 9 | 7 | 0 | 8 | 7.8 |
| 2 | LAN Airlines | Chile | 27.7 | 2.9 | 25 | 7 | -8 | 5 | -1 | -1 | 43.0 |
| 3 | OPAP | Greece | 20.1 | 9.2 | 18 | 2 | -9 | 8 | 0 | 1 | -7.9 |
| 4 | Berjaya Sports Toto | Malaysia | 18.8 | 1.6 | 8 | -2 | 12 | 11 | -9 | -1 | 9.3 |
| 5 | Korean Air Lines | South Korea | 16.5 | 2.0 | 10 | -16 | 8 | 1 | 0 | 14 | 35.5 |
| 6 | Arriva | United Kingdom | 13.6 | 1.7 | 13 | -5 | 7 | 4 | 0 | -5 | -17.7 |
| 7 | FirstGroup | United Kingdom | 13.4 | 2.8 | 15 | -2 | 5 | 4 | -1 | -7 | -1.6 |
| 8 | Penn National Gaming | United States | 13.1 | 1.7 | 18 | 0 | -5 | 0 | 0 | 0 | 22.0 |
| 9 | Sankyo | Japan | 7.7 | 3.6 | 15 | 14 | -5 | 7 | -11 | -12 | 26.6 |
| 10 | Lottomatica | Italy | 6.8 | 7.6 | 4 | 21 | -23 | 1 | -5 | 9 | -3.2 |

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

Note: n = 40 global companies with a market valuation greater than \$1.5 billion.

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

²Average annual total shareholder return, 2004–2008.

³As of December 31, 2008.

⁴Change in EBITDA multiple.

⁵As of October 16, 2009.



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. Examples include the following:

Be Daring When Others Are Fearful: Seizing M&A Opportunities While They Last

A report by The Boston Consulting Group, September 2009

Driving the Shakeout in Private Equity: The Role of Investors in the Industry's Renaissance

A White Paper by The Boston Consulting Group, July 2009

Fixing What's Wrong with Executive Compensation

A White Paper by The Boston Consulting Group, June 2009

Real-World PMI: Learning from Company Experiences

A Focus by The Boston Consulting Group, June 2009

Thriving Under Adversity: Strategies for Growth in the Crisis and Beyond

A White Paper by The Boston Consulting Group, May 2009

The Clock Is Ticking: Preparing to Seize M&A Opportunities While They Last

A White Paper by The Boston Consulting Group, May 2009

Collateral Damage: Function Focus—Valuation Advantage: How Investors Want Companies to Respond to the Downturn

A White Paper by The Boston Consulting Group, April 2009

Get Ready for the Private-Equity Shakeout: Will This Be the Next Shock to the Global Economy?

A White Paper by The Boston Consulting Group, published with the IESE Business School of the University of Navarra, December 2008

M&A: Down but Not Out: A Survey of European Companies' Merger and Acquisition Plans for 2009

A White Paper by The Boston Consulting Group, December 2008

Missing Link: Focusing Corporate Strategy on Value Creation

The 2008 Value Creators Report, September 2008

Venturing Abroad: Chinese Banks and Cross-Border M&A

A report by The Boston Consulting Group, September 2008

The Return of the Strategist: Creating Value with M&A in Downturns

A report by The Boston Consulting Group, May 2008

Managing Shareholder Value in Turbulent Times

The 2008 Creating Value in Banking Report, March 2008

The Advantage of Persistence: How the Best Private-Equity Firms "Beat the Fade"

A report by The Boston Consulting Group, published with the IESE Business School of the University of Navarra, February 2008

Eyes Wide Open: Managing the Risks of Acquisitions in Rapidly Developing Economies

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Thinking Laterally in PMI: Optimizing Functional Synergies

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Avoiding the Cash Trap: The Challenge of Value Creation When Profits Are High

The 2007 Value Creators Report, September 2007

**The Brave New World of M&A:
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Opportunities for Action in Corporate
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**Managing for Value: How
the World's Top Diversified
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A report by The Boston Consulting
Group, December 2006

**Spotlight on Growth: The Role
of Growth in Achieving Superior
Value Creation**

The 2006 Value Creators Report,
September 2006

**What Public Companies Can
Learn from Private Equity**

Opportunities for Action in Corporate
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Opportunities for Action in Corporate
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**Successful M&A: The Method
in the Madness**

Opportunities for Action in Corporate
Development, December 2005

**Advantage, Returns, and Growth—
in That Order**

BCG Perspectives, November 2005

**Balancing Act: Implementing
an Integrated Strategy for Value
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**The Next Frontier: Building
an Integrated Strategy for Value
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The 2004 Value Creators Report,
December 2004

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Opportunities for Action in Corporate
Development, November 2004

**Growing Through Acquisitions:
The Successful Value Creation
Record of Acquisitive Growth
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A report by The Boston Consulting
Group, May 2004



Note to the Reader

This report has been adapted from the eleventh annual report in the Value Creators series published by The Boston Consulting Group. Each year, we publish detailed empirical rankings of the stock market performance of the world's top value creators and distill managerial lessons from their success. We also highlight key trends in the global economy and world capital markets and describe how these trends are likely to shape future priorities for value creation. Finally, we share our latest analytical tools and client experiences to help companies better manage value creation.

This year's report addresses the challenges of consistently delivering above-average shareholder value over long periods of time—what we call *sustainable value creation*. The report draws lessons from the world's top sustainable value creators of the past decade in consumer goods, retail, and travel and tourism and describes an approach companies can use to determine their potential to deliver sustainable shareholder value in the future.

Acknowledgments

This report is a product of BCG's Consumer and Corporate Development practices. The authors would like to acknowledge the contributions of the following global experts:

Marcus Bokkerink, a senior partner and managing director in the firm's London office and the leader of the Consumer Goods practice in the United Kingdom

Andrew Clark, a senior partner and managing director in the firm's Auckland office and the leader of the Corporate Development practice in Asia-Pacific

Gerry Hansell, a senior partner and managing director in the firm's Chicago office and the leader of the Corporate Development practice in the Americas

Jérôme Hervé, a partner and managing director in the firm's Paris office and the leader of the Corporate Development practice in Europe

Lars-Uwe Luther, a partner and managing director in the firm's Berlin office and the global head of marketing for the Corporate Development practice

Sharon Marcil, a senior partner and managing director in BCG's Washington office and the leader of the Consumer practice in the Americas

Brett Schiedermayer, the managing director of the BCG ValueScience Center in South San Francisco, California—a research center that develops leading-edge valuation tools and techniques for M&A and corporate-strategy applications

The authors would also like to thank Robert Howard and Sally Seymour for their contributions to the writing of the report; Lisa Giesbert, Martin Link, Corinna Niebling, and Dirk Schilder of BCG's Munich-based Value Creators research team for their contributions to the research; and Barry Adler, Katherine Andrews, Gary Callahan, Angela DiBattista, Kim Friedman, Pamela Gilfond, and Sara Strassenreiter for their contributions to the editing, design, and production of the report.

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