Methodology Changes for the 2021 Gartner Supply Chain Top 25

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Initiatives: Supply Chain Strategy, Leadership and Governance

This research advises supply chain leaders of methodology changes for the 2021 Gartner Supply Chain Top 25 ranking. It addresses feedback from the supply chain community, highlights findings from our analysis and communicates plans for evolving the Top 25 methodology for 2021.

Overview

Key Findings

- The objective of the Top 25 ranking has not changed. Through this research, we continue to shine a light on best practices, generating debate of supply chain excellence across industries and providing a platform to learn from exceptional leaders.

- Leading supply chains continue to focus on the effective use of their assets and the productivity of their inventory. For 2021, return on physical assets (ROPA) will remain the measure of supply chain efficiency and weighted at 20%. The inventory turns methodology will remain the same and the weighting will remain at 5%.

- The setting of a science-based target (SBT) relating to greenhouse gas (GHG) emissions will be added to the environmental, social and governance (ESG) component as an indication of commitment. As previously communicated, in 2021, an ESG score greater than zero will be required in order for a company to qualify for or inclusion in the Supply Chain Top 25 research study.

Recommendations

Chief supply chain officers (CSCOs) and supply chains leaders can learn from the strategy and leadership of the top global supply chains by doing the following:

- Drive the supply chain profession forward by providing inputs into future Supply Chain Top 25 methodologies.

- Reassess how your organization views supply chain performance by including expanded impact measures linked to environmental, social and governance.
Assess ESG areas where the supply chain can take a leadership position when comparing themselves against the Top 25.

Analysis

In 2020, we celebrated the 16-year anniversary of the Supply Chain Top 25 ranking. This is only possible thanks to leaders who are willing to share so that others can learn and grow. From the beginning, the idea of the ranking has been pretty simple — to identify leading supply chain organizations, such as:

■ Companies focused on operating supply chains with an end-to-end orientation.
■ Organizations that effectively balance operational and innovation excellence.

Through this assessment and a continuously evolving methodology that grows in line with the supply chain profession, numerous objectives can be achieved (see Figure 1).

For example, 2020 highlighted the importance of the supply chain profession and how supply chains support organizations during disruptions. During the past 16 years, significant advancements in processes, the availability of technology tools and the depth of the talent pool have elevated the supply chain profession to new heights. COVID-19 fueled a dramatic rise in the visibility of the supply chain profession and its importance to the goals of the business. For example, 55% of respondents in Gartner’s 2019 Supply of the Future Survey indicated that “supply chain is understood as an equally important part of business success as sales and marketing or R&D/product development.”

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Figure 1: The Purpose of Gartner’s Supply Chain Top 25

The Purpose of Gartner’s Supply Chain Top 25

Elevate the Profession  
Spark the Debate  
Learn From Leaders

Raise the Bar for All  
Cross-Pollinate Ideas

Source: Gartner ID: 451322

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Supply chain has gone from being defined by distribution centers and transportation to a strategic capability that enables purpose-driven organizations, drives business model transformation and drives digital orchestration. Through all this, the ranking has helped to generate debate and discussion about what supply chain leadership really means, fueling continued advancements.

The methodology that we use to determine the Supply Chain Top 25 has been closely scrutinized over the years. We continue to welcome feedback from the supply chain community about the ranking. We take this feedback seriously and are continually investigating ways to improve the ranking. At the same time, we are balancing the need for change, the ability to compare performance across years and the ability to operationalize methodology changes with the need for consistency across diverse industries.

There is no one right way to highlight supply chain leadership. Consistent with the purpose of the Supply Chain Top 25, we believe that the celebration and sharing of best practices should be done under a “big tent” that reflects a diversity of opinions. Since we are all doing this for the community, the more recognition there is of how supply chains are helping their companies and the world, the better.

Our 2021 Methodology
Here is a quick review of the methodology beginning in 2021. As shown in Table 1, the Top 25 ranking continues to be based on a combination of financial performance and opinion data. The financials give us an objective basis on top of which we place the community peer vote component.
### Table 1: The Supply Chain Top 25 Methodology

<table>
<thead>
<tr>
<th>Category</th>
<th>2020 Measure</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Data (50%)</td>
<td>Return on Physical Assets (ROPA)</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>Inventory Turns</td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td>Revenue Growth</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>Environmental, Social and Governance (ESG)</td>
<td>15%</td>
</tr>
<tr>
<td>Community Opinion (50%)</td>
<td>Analyst Vote</td>
<td>25%</td>
</tr>
<tr>
<td></td>
<td>Peer Vote</td>
<td>25%</td>
</tr>
</tbody>
</table>

Source: Gartner (November 2020)

The first step is establishing a pool of qualified companies. The list starts with companies above a revenue threshold on either the Fortune Global 500 or Forbes Global 2000 lists. Since 2015, the revenue threshold for inclusion in the overall company list has been $12 billion. This revenue level provides a manageable list of companies and will not be changed in 2021. We then remove companies that are not manufacturers, retailers or distributors, which yields a list of approximately 300 companies. Once our company list is defined, a composite score is created for each company based on 50% financials and 50% opinion. We have three financials that come from each company’s publicly available financial statements: ROPA, inventory turns and revenue growth.

- ROPA gives us a view into productivity of the assets managed by the supply chain.
- Inventory turns are a proxy for efficiency.
- Revenue growth provides an idea of how the supply chain is enabling innovation and growth through normal as well as disruptive times.

All of the financial components are averaged over multiple reporting periods. The remaining business data is composed of third-party evaluations of each company’s commitment, transparency and performance in various environmental, social and governance domains.
The other half of the ranking is based on opinion polls. We have two equally weighted voting panels: Gartner and peer. The opinion component plays an important role in identifying the “leadership” aspect of the ranking. Each year, we have 150 to 200 supply chain executives balanced across major geographies and industries, and 40 to 50 Gartner analyst voters covering a breadth of supply chain domains.

Methodology Changes for 2021

As we reflect on the feedback gathered from the supply chain community over the course of this year, a set of frequently asked questions emerged:

**Question:** ESG was expanded to include data from Ethisphere (ethical companies list) and Bloomberg (gender equality index) as well as increasing the weighting to 15%. Do you plan to make any changes to ESG measures in 2021?

**Answer:** ESG will have two changes in 2021. First, we are adding another third-party organization to the commitment component of the methodology. Since 2016, signing the U.N. Global Compact (UNGC) was the only indicator available to organizations for scoring the one point available in the commitment component of the Supply Chain Top 25 ESG methodology. As we’ve monitored ESG reporting trends over time, setting a science-based target for greenhouse gas emissions and biodiversity emerged as a focus area for many organizations. To reflect that, we will be adding data from sciencebasedtargets.org as an alternative path to obtain one point available under the commitment portion of the ESG methodology.

In 2021, a company will receive one point for either committing to set targets (and providing a date) or setting targets and providing the target classification (Scope 1, 2 or 3) for GHG or biodiversity. Beginning in 2022, companies must have set targets and provided the classification to receive one point for commitment or be a signatory of the UNGC. Phasing in the commitment requirements provides companies an opportunity to become more familiar with setting science-based targets. More information on the process can be found at sciencebasedtargets.org.

The second change in 2021: companies must have a total ESG score greater than zero to receive a ranking.

We will also be reassessing and potentially raising the threshold for the ESG component in 2022. With the growing importance of ESG across the community, it is important that the Top 25 ranking reflect organizations that are committed, transparent and sustain a level of ESG performance.

We recognize that industry-specific third parties have emerged and are measuring ESG impacts within those industries. As these third parties continue to evolve, we will begin exploring the feasibility and practicality of industry-specific ESG third parties for the 2022 cycle.

**Question:** Return on assets (ROA) was changed to return on physical assets in 2020. Any changes to ROPA in 2021?
We are not making any changes to ROPA in 2021. We moved to ROPA in 2020 as a means to remove activities not directly influenced or managed by the supply chain (e.g., extraordinary income/losses, merger and acquisition [M&A]-related goodwill, etc.). We believe that ROPA more accurately reflects the operational performance that supply chain has direct control and influence over.

We have received some feedback from the community that the ROPA measure tends to favor business model decisions around leveraging partnerships versus vertical integration. Some companies with supply chain strategies, built on partnerships and relationships, where physical assets are not as intensive, saw a benefit with the new ROPA calculation. Other companies, with more vertical integration and physical asset ownership, had a lower normalized ROPA score in some cases. It is important to note that when a company chooses to outsource functions that traditionally deliver outcomes using assets, that the brand owner often pays a premium to the asset owner relative to the cost of leveraging its own assets. There is also additional risk borne by brand owners that choose to outsource since they do not directly control use of the underlying assets.

These early observations should not be interpreted as one strategy is “better” than another. Rather, each company must decide the appropriate supply chain strategy for their organization, keeping in mind that the market rewards performance and not a particular strategy. We will continue to review the impact of ROPA as we move into the second year of incorporating this metric.

Question: While some guidance is provided to peer voters, it seems the level of due diligence is left up to the individual voters. Do you have recommendations on how to be a more data-driven peer voter?

Answer: The premise of the peer voting process relies on the “wisdom of the crowd,” whereby the collective opinion of a group of individuals can make a better decision than an individual expert. Over the past 16 years, peer voter methodologies have evolved from relying on personal or anecdotal experiences to taking a more data-driven approach. More data-driven peer voters create their own evaluation criteria, often creating a small voting committee to reach consensus on how to cast their votes. This criteria could include:

- Financial information from companies in the previous years’ list.
- Searching publicly available information for companies whose supply chains stood out as impactful, and looking at their financial information.
- General cross-industry research about organizations’ supply chain capabilities.
- Perspectives on whether companies are considered “customers of choice” to their suppliers and “suppliers of choice” to their customers.

Question: Will there be any changes to the inclusion criteria in 2021?

Answer: The inclusion criteria is the primary mechanism used to keep the overall company list at around 300 companies. We have found it difficult to get quality peer voting input when the company list exceeds
300. To effectively manage the company list, we will not be adding any new industries as part of the inclusion criteria and the revenue threshold will remain at $12 billion. During 2021, we will evaluate the impact of adding additional industries (e.g., asset-heavy service companies) as well as raising the revenue threshold.

Question: Which part of the process can companies proactively participate in and what are the timings?

Answer: For all companies that meet the inclusion criteria, there is an internal process within Gartner that gathers the financial and ESG data. Companies do not “submit” this information. Companies can choose to engage with the Gartner analyst community in two ways. First, companies can submit a Supply Chain Request for Information Packet (SCRIP). The SCRIP is completed online and allows companies to provide more specific insights into their supply chain strategies, organizational span and influence, key initiatives, and impacts supply chain has had on the success of the business.

Second, companies that submit a SCRIP also have the opportunity to conduct a company briefing with the Gartner analysts. These company briefings last 60 minutes (90 minutes for first-time companies), and provide an interactive session for companies to expand on key elements of the SCRIP. The timeline for SCRIPs and briefings is as follows:

- SCRIP information sent to companies or requested from Gartner (early November).
- SCRIP surveys returned and analyst briefings completed (8 March 2021).
- Analyst voting completed (end of March 2021).

Company financials must be released and available via CapIQ by 9 April 2021.

Question: With the exception of the change to ROPA in 2020, the financial measures have remained consistent since the inception of the Top 25. Are any new financial metrics under consideration for 2021?

Answer: We are always interested in feedback on the financial components of the methodology. The challenge is to find a measure or measures that are consistently represented in the financial information across all companies in the population. We will not be making any changes to the financial measures in 2021. We will explore additional metrics over the course of 2021, in addition to feedback we have already received, such as working capital and free cash flow. Companies should continue to provide feedback in this area so we can test plausible ideas over the summer of 2021, keeping in mind any changes must be measurable across the entire Top 25 population.

Question: 2020 certainly put supply chain resilience to the test. How might this account for disruption and will there be a formal measure of resilience in the 2021 methodology?
Answer: The financial information consists of weighted averages over the past three years. While the most recent year is weighted the most, the remaining two years will help balance severe swings.

There will not be a formal measure of resilience in the 2021 methodology. However, in 2021, resilience will be picked up indirectly in several ways:

- An organization's ability to effectively respond to demand will be picked up by the revenue metric.
- Inventory turns will be another indirect measure of resilience and how well organizations managed their inventory.
- Resilient organizations could also be recognized and rewarded by their peers and Gartner analysts via the community voting components.

We recognize that resilience is a critical capability for supply chain success moving forward. We will publish a separate resilience report using historical Top 25 data to highlight industries and companies within industries that outperformed their peer group. An older version of this research can be found in the Recommended Reading section. Finally, once the report is published, we will use feedback from the supply chain community to determine whether a formal resilience component should be added to the methodology in 2022.

Evidence

1 Gartner's 2019 Supply Chain of the Future Survey.

Recommended by the Author

The Gartner Supply Chain Top 25 for 2020
Gartner Supply Chain Top 25 Results for 2020
2020 Gartner Supply Chain Top 25: Europe Top 15
2020 Gartner Supply Chain Top 25: High Tech
2020 Gartner Supply Chain Top 25: Asia/Pacific
2020 Gartner Supply Chain Top 25: Consumer Products
2019 Gartner Supply Chain Top 25: Industrial