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After Two Decades of Supply Chain Practice, Return on Assets for US Companies Continue to Fall, New Report from Deloitte Says

Unbelievably, ROA today is just 25% of 1965 Levels; Productivity Gains Simply Competed Away?

SCDigest Editorial Staff

We need to do some additional analysis, but we were intrigued at SCDigest about some of the research in an intriguing new report from Deloitte consulting on various factors that will drive companies and their supply chains in the future (full report available at: **Deloitte 2009 Shift Index report download**.)

The entire document is interesting, but we found this statement quite surprising: "ROA [Return on Assets] for US firms has steadily fallen to almost one quarter of 1965 levels at the same time we have seen continuous, albeit it much more modest, improvements in labor productivity."

In summary, ROA is calculated by dividing its net profits or income (after tax) by its total book asset value in the balance sheet. It is a key financial metric for company executives and investors/Wall Street analysts.

Can this really be true? The chart below, taken from the report, graphically illustrates what is going on:

Our first reaction here at SCDigest was: how can this be? The notion of dramatically declining ROA while productivity has increased many fold on the surface does not make sense – companies should be getting more value out of each asset.

That's before other factors that should be also driving ROA higher, such as:

- Increased use of outsourcing/offshoring, which should be reducing a company's asset base, and the goal of improving ROA is often a driver of those types of outsourcing decisions
- The supply chain focus of many companies on improving ROA as a key performance metric. As an example, in the mid-2000s office products retailer Staples decided to focus its supply chain goals around one key metric, Return on Net Assets (RONA), a similar measure which divides income by fixed assets plus working capital.
- Effective corporate tax rates for most US firms have dropped substantially since 1965 – by some 13% on average.

Deloitte says that while the ROA of the financial sector has been especially poor over this period, affecting the overall results, the ROA trend is occurring across most of the 15 industry sectors evaluated

For its part, Deloitte says that "that gap in performance between winners and losers has increased over time, with the "winners" barely maintaining previous performance levels, while the "losers" experience rapid deterioration in performance."

It further says that while the ROA of the financial sector has been especially poor over this period, affecting the overall results, the ROA trend is oc-

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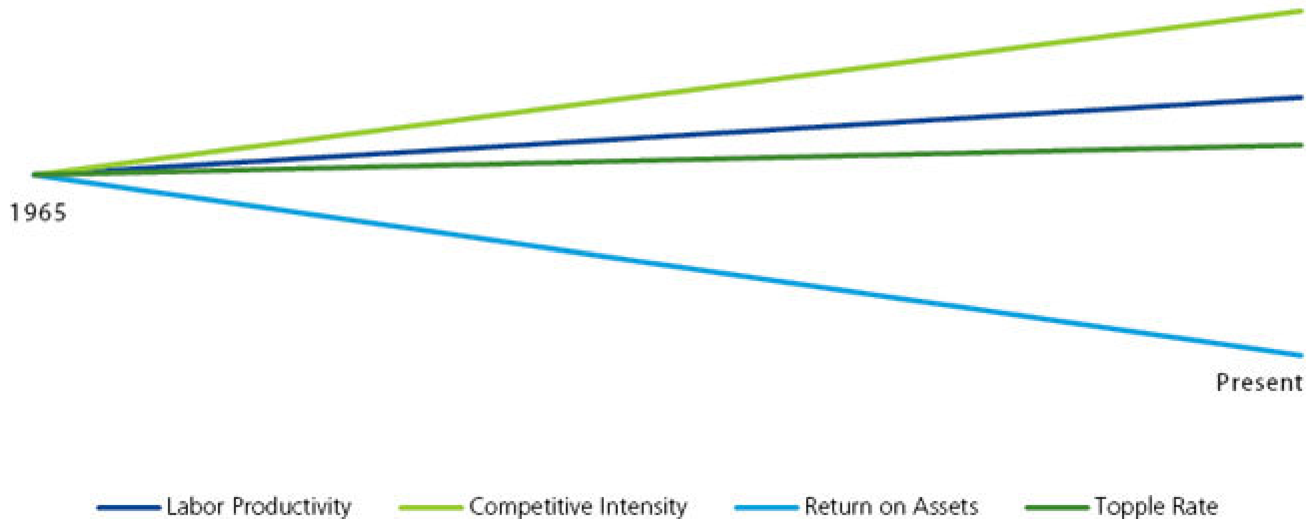

curring across most of the 15 industry sectors evaluated.

It also says that what it calls the "topple rate," or the pace at which big companies lose leadership positions, has more than double, meaning it is hard to stay on top for long.

Deloitte also says much of the productivity gains have simply been lost to increasing competitive intensity, which it says has doubled over the past 40 years.

We need more time to really analyze this here, as this data actually is somewhat troubling, in some ways.

If anyone has any insight to share on this, we would welcome the input.

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