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# Superstar firms

Presentation at ITIF panel discussion
*Is "Big Tech" now synonymous with Big Oil or Big Tobacco?*

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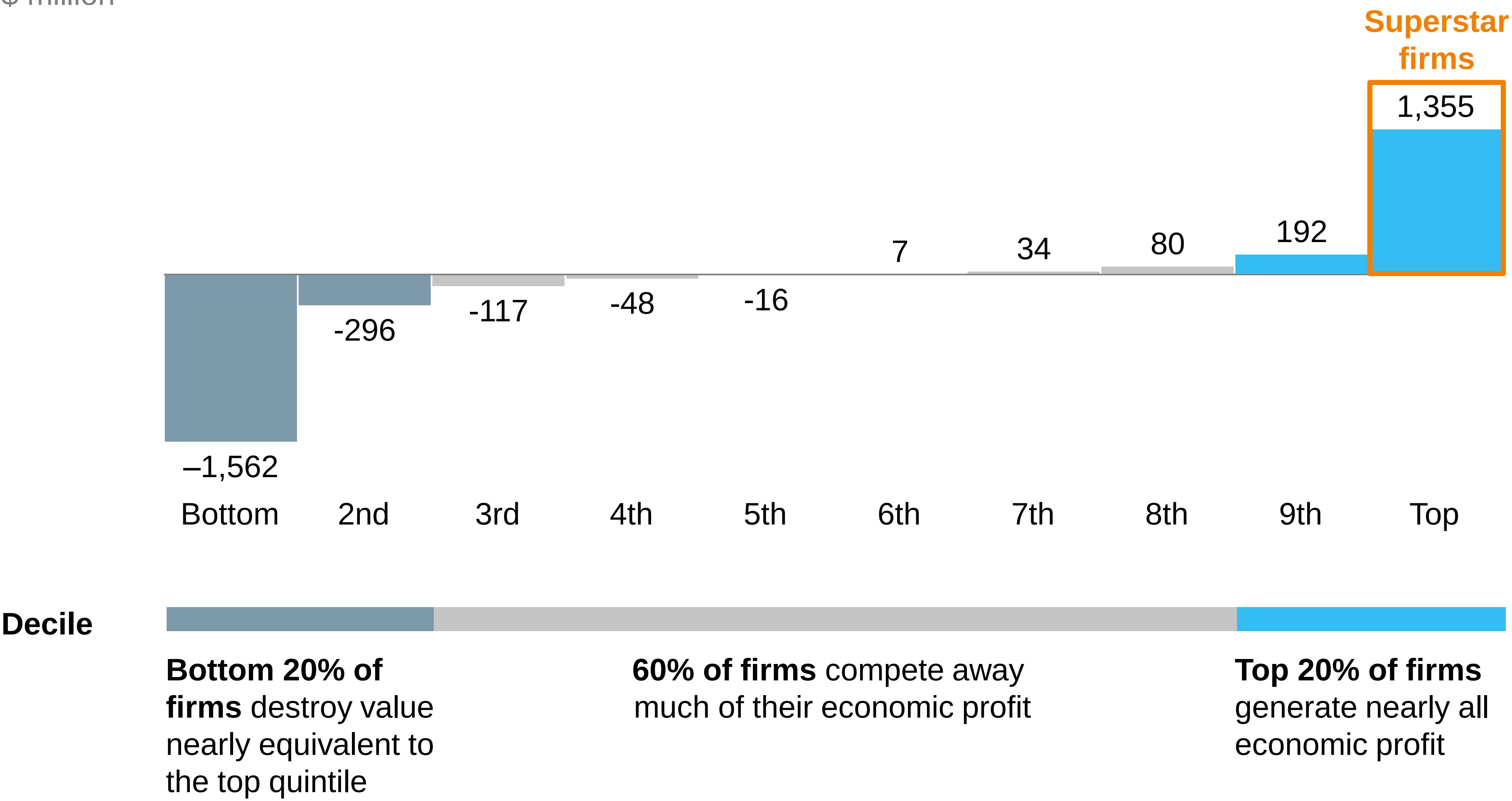
mck.co/superstars

# Superstar firms, making up the top 10 percent of firms by economic value, account for 80 percent of all economic value creation worldwide

**Distribution of economic profit among large companies with average sales above $1 billion**

Average economic profit per firm in each decile, 3-year average (2014–16) (n = 5,750)

$ million

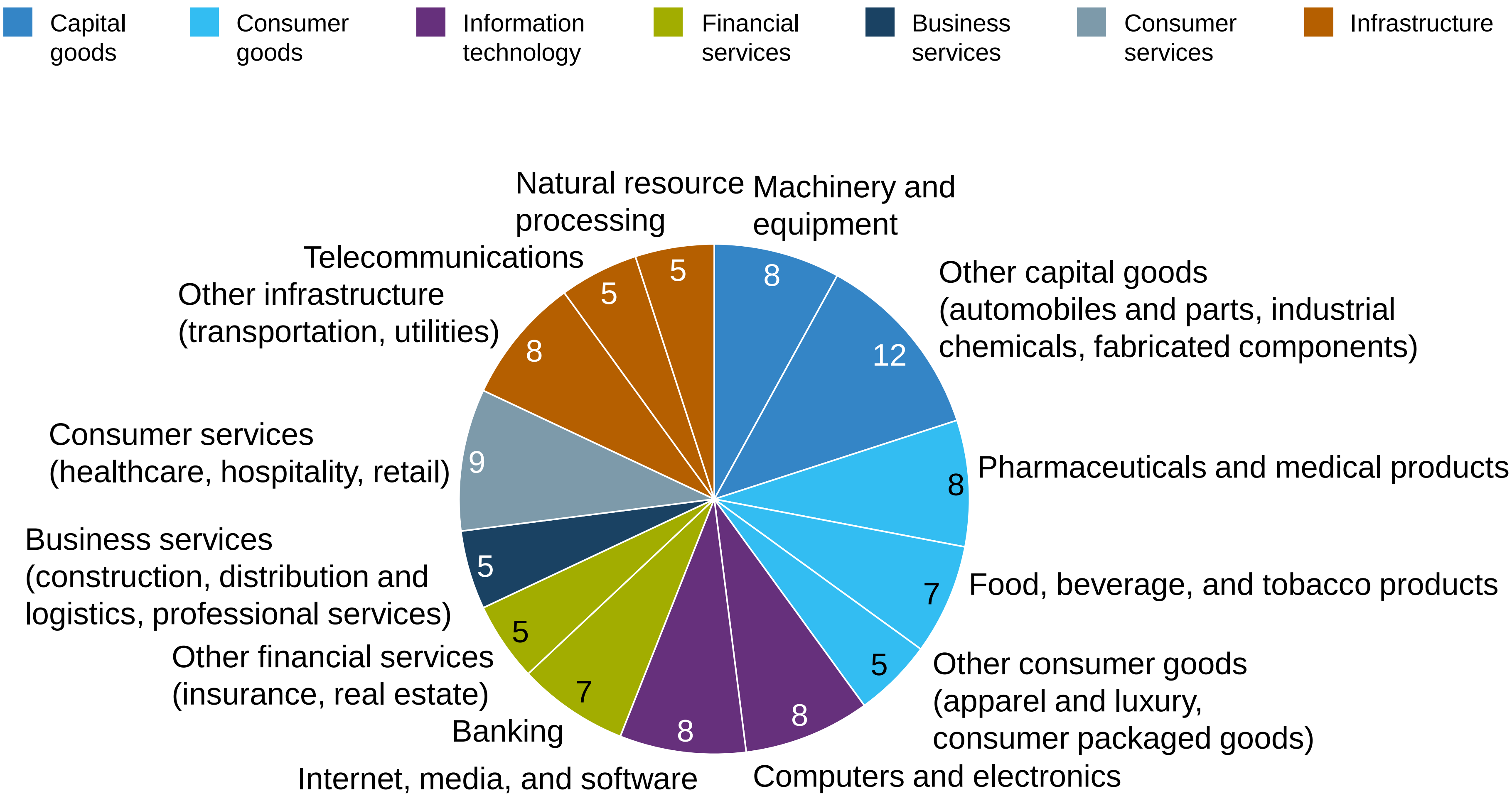



SOURCE: McKinsey Corporate Performance Analytics; McKinsey Global Institute analysis

# Superstar firms are not just technology companies—they come from all sectors of the global economy

**Representation of top-decile firms by sector**

%

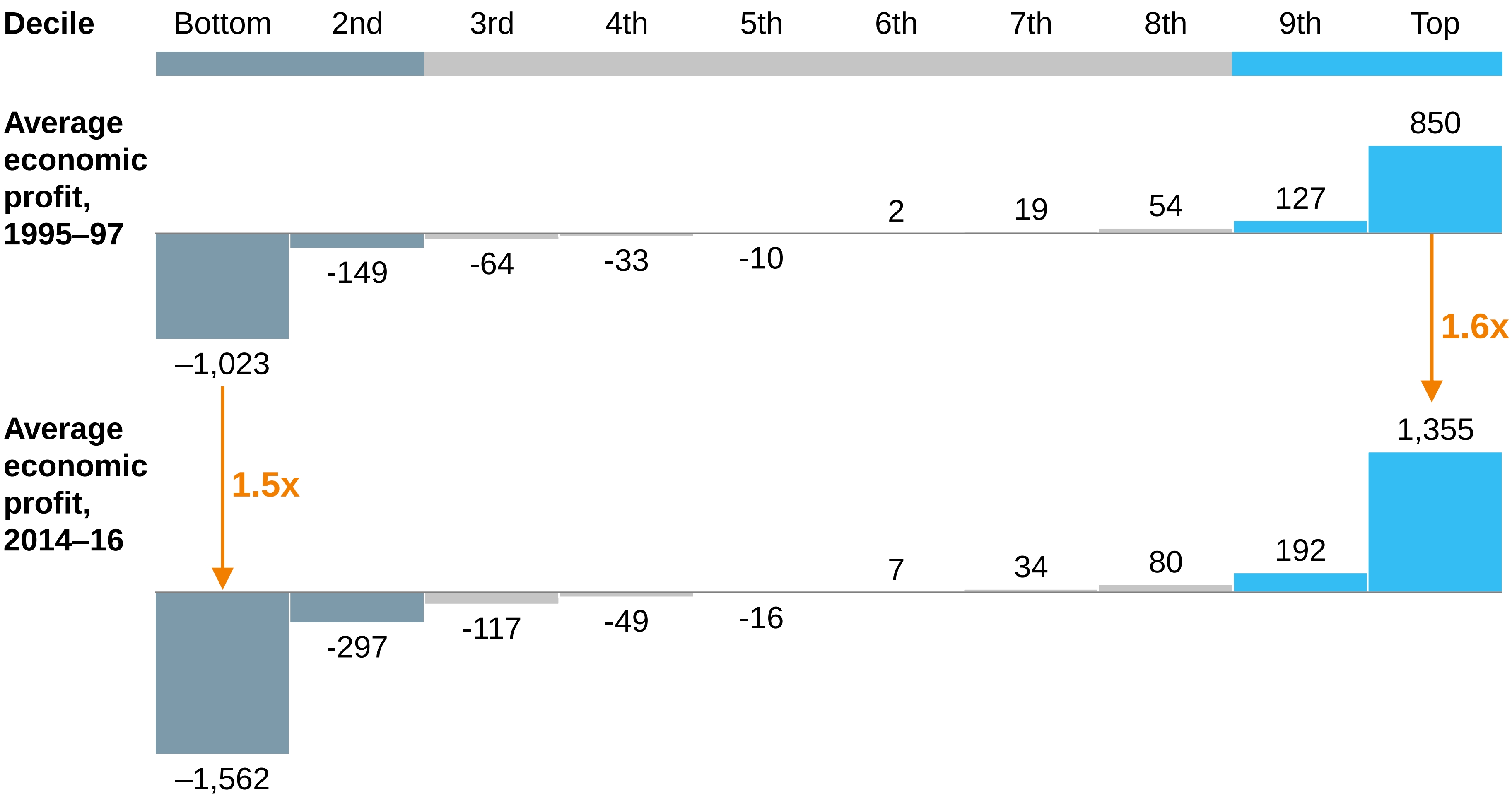



SOURCE: McKinsey Corporate Performance Analytics; McKinsey Global Institute analysis

# The economic profit curve has become steeper over time at both ends

**Average economic profit per firm in each decile of the economic profit distribution**

$ million (2016 dollars)




SOURCE: McKinsey Corporate Performance Analytics; McKinsey Global Institute analysis

# Competitive intensity and profit margins have not changed as economic profit distribution has become more skewed

## Contestability has not changed over time

- Nearly half of superstar firms fall out of the top ranks in every business cycle—churn rate has not changed over the past 3 business cycles
- When superstars fall, they tend to fall far—nearly 40 percent fall to the bottom decile

## Returns have not increased over time

- When intangible assets are counted, return on capital for superstar firms remains unchanged on average—with most firms seeing lower return
- The profit skew is driven by more invested capital, including more M&A and spending on intangibles

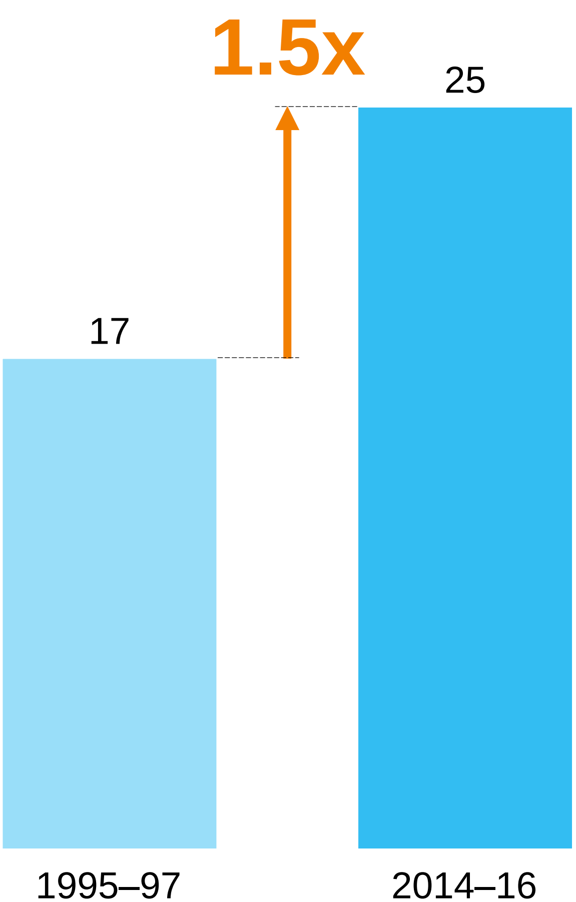
## Bottom decile is a mirror image of superstars

- Firms in the bottom decile destroy as much or more economic value as superstar firms create—and their losses have grown over time
- Losses are becoming more persistent, and growing share of firms are becoming “zombies”

SOURCE: McKinsey Corporate Performance Analytics; McKinsey Global Institute analysis

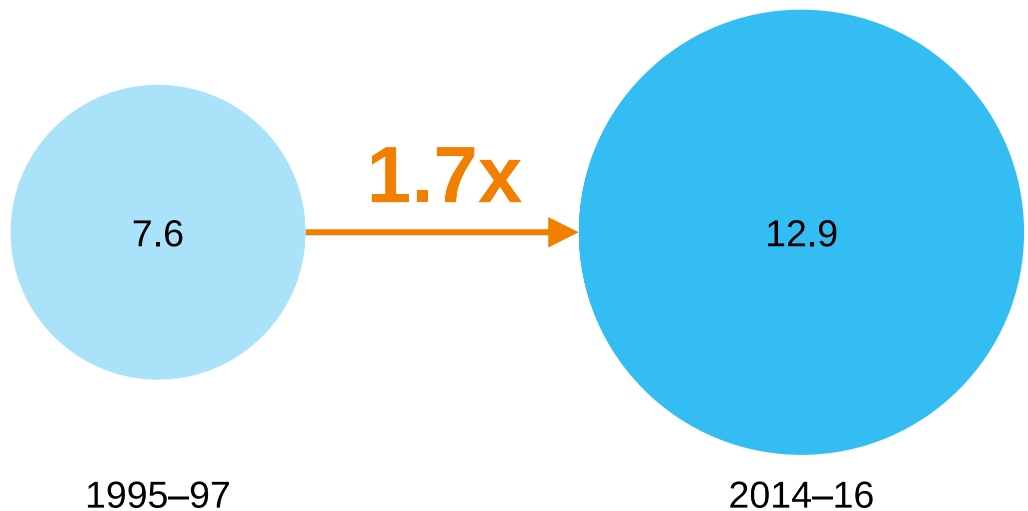
# Superstar firms have 1.5x more invested capital today vs. 20 years ago—and nearly 2x more investment in intangibles such as intellectual property

**Invested capital for average top-decile firm**
%




**Net stock of property, plant and equipment**
$ billion, current market value


**Net stock of intangible assets, incl. acquisition goodwill and capitalized spend on intangibles**
$ billion, current market value




SOURCE: McKinsey Corporate Performance Analytics; McKinsey Global Institute analysis

# A superstar ecosystem may be emerging

**Superstar firms, superstar sectors, and superstar cities—all 3 are "pulling away" from the global economy of all firms, sectors, and cities**

**Link between sectors and firms**

Superstar sectors generate surplus that accrues to corporations—and often predicts superstar firms

**Link between sectors and cities**

Superstar sectors' surplus drive labor and wealth gains that are geographically concentrated, often in superstar cities

**Link between firms and cities**

Most superstar firms are based in superstar cities, and their earnings benefit investors—who are disproportionately in superstar cities

SOURCE: McKinsey Global Institute

# The research throws up new questions to investigate

- **Drivers.** What is unique about superstar firms? Are there different patterns of superstars—e.g. based on activities, presence, or knowhow? Why do some superstars persist for a while but others fade?
- **Mobility.** What factors influence the mobility of companies into and out of superstar status? Are there inflection points along the way? Is there a link between mobility and persistence among superstars?
- **Intangibles.** Why do some superstar firms see higher returns with intangible assets, but most firms see lower returns after intangible assets are included? What drives differing outcomes with intangibles?
- **Zombies.** Why are firms in the bottom decile seeing longer durations and greater losses than in the past? Why do some become zombies? What is the impact on healthier firms in the same market?
- **Competition.** What is the impact of superstars on markets and incumbents? Is concentration really increasing, and if so what are the prospects for new firms to enter markets where superstars exist?

SOURCE: McKinsey Global Institute analysis