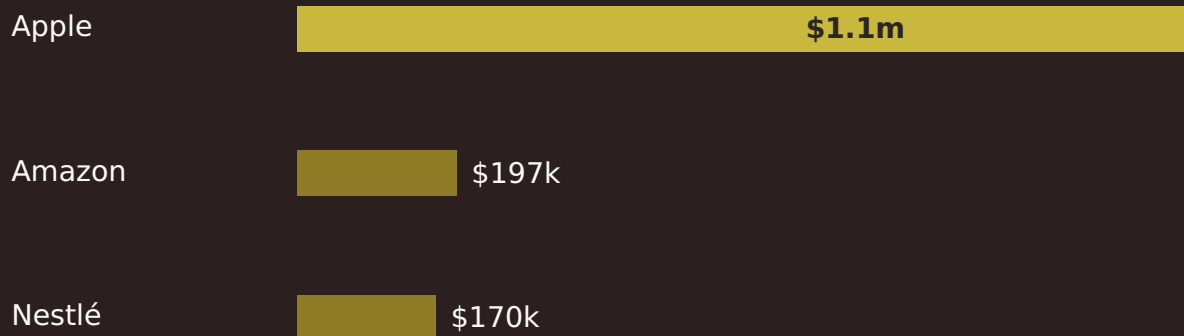




SAME MARGIN, SIX AND A HALF TIMES THE VALUE

Apple 46.2%.
Amazon 47.0%.
Nestlé 46.7%.

Indistinguishable? Perhaps ...



Approximate gross profit per employee, most recent full-year accounts. Illustrative comparison.

... until you ask the right question.

From the white paper that follows:

More From the Same

Part Two of The Value Creation Imperative · Andrew Roberts

Swipe on →

More From the Same

Andrew Roberts

A question I asked at Wrigley

Some years ago, before the Mars acquisition, I asked a simple question about the business I was part of. Wrigley had grown from around \$2 billion of revenue to nearly \$5 billion over roughly a decade. Impressive headline growth by any standard. What I wanted to know was: were we a learning organisation? Were we getting better at creating value, or just bigger?

So I looked at profit per head across those ten years. It sat at around \$35,000, near enough a constant, the entire decade.

We had more than doubled the business, but we'd done it by expanding and acquiring our way across geographies, and by putting steadily more capital behind every person we employed. More people, more plants, more markets, more revenue. More from more. What we hadn't done was learn to create more value per person. The gains we made were bought, not learned. The productivity of the organisation, person for person, was much the same at \$5 billion as it had been at \$2 billion.

Bigger isn't necessarily better. It's just bigger!

There's nothing wrong with growth by expansion. But it answers a different question than most leadership teams think they're asking. Growth comes two ways: more from more, through added people, capital, and footprint, and more from the same: more value from the resources you already have. The first shows up in every headline. The second is where productivity actually lives, and it's the one this paper is about. (There's a third posture, the same from less, that matters in mature and declining markets, but the productivity lens covers that too. It's the same discipline pointed the other way.)

One line deeper

In the first paper in this series, I made the case for revenue per head as the North Star: one number that tells you what kind of business you're looking at and how it converts people into revenue. Within a single company over time, as at Wrigley, or between businesses with similar models, it does that job well.

But to compare *competing* models, or businesses across sectors, you need to go one line deeper. Revenue rewards turnover; a distributor moving product on thin margins posts huge revenue per head while creating little value. Subtract the cost of goods sold and divide by full-time equivalent employees, and you get **gross profit per head**: the value a business actually creates and keeps, per person. That's the fair comparison.

The puzzle

Now watch what it reveals. Take three of the world's most recognisable companies and their most recent full-year accounts.

Apple's gross margin: 46.2%. Amazon's: 47.0%. Nestlé's: 46.7%. On the measure most people reach for first, these three utterly different businesses are indistinguishable.

Gross margin

Apple	46.2%
Amazon	47.0%
Nestlé	46.7%

Gross profit per head

Apple	\$1,102k
Amazon	\$197k
Nestlé	\$170k

Same margin. A 6.5× difference in value created per person.

Margin explains almost nothing here. So what does?

The decomposition

Gross profit per head breaks, exactly and always, into three parts:

$$\begin{array}{|c|} \hline \textbf{Gross Profit} \\ \hline \text{PER FTE} \\ \hline \end{array} = \begin{array}{|c|} \hline \textbf{Gross} \\ \textbf{Margin} \\ \hline \text{VALUE KEPT} \\ \hline \end{array} \times \begin{array}{|c|} \hline \textbf{Asset} \\ \textbf{Turnover} \\ \hline \text{CAPITAL SWEAT} \\ \hline \end{array} \times \begin{array}{|c|} \hline \textbf{Operating} \\ \textbf{Capital} \\ \hline \text{PER FTE} \\ \hline \end{array}$$

Three terms, three questions. How much value do we keep from each pound of sales? How hard do we sweat our capital? And how much capital do we put behind each person?

(Tangible operating capital, briefly: net plant and equipment, plus leased assets, plus the working capital tied up in, or released by, the operating cycle. The capital genuinely running the business.)

Our three companies share the same margin, so the entire 6.5× gap sits in the other two terms. And the numbers tell three very different stories.

Nestlé is the classic integrated manufacturer: about \$153,000 of capital behind each of 277,000 people, turning over 2.4 times a year. Factories, inventory, a global distribution estate, working steadily. Result: \$170,000 per head.

Amazon, surprisingly, looks structurally similar: \$192,000 per head of capital, turning 2.2 times. Its warehouses and logistics network are its factories. Result: \$197,000 per head. It's similar to Nestlé, reached through fulfilment centres rather than food plants.

Apple is playing a different game. Around \$365,000 of capital behind each employee, double the others, turning 6.5 times a year, three times their velocity. That combination produces \$1.1 million per head, and it is no accident. The factories that build Apple's products sit on its partners' balance sheets. Its suppliers and customers largely fund its working capital. The pattern continues in real time: this month's expanded Broadcom partnership commits over \$30 billion to US-made chips through 2031, yet it's Broadcom investing the \$1.5 billion to expand the plant that will make them. A \$30 billion manufacturing programme, structured so the capital belongs to someone else. That isn't an accounting quirk. It's the strategy.

Businesses compete on models, not just offers

This is the deeper point the decomposition surfaces, and I first saw it in UK retail.

Tesco, through the 2000s, set out to capture more of the consumer's spend: wider ranges, more categories, more services. And for a decade it worked. Revenue, gross profit and the bottom line all grew, on operating margins the sector had held for thirty years. Meanwhile Aldi and Lidl were running a different model altogether: limited range, ferocious stock turn, structurally lower overheads, and, being privately owned, no City expectations to manage. They weren't beholden to quarterly optics, so they could make different decisions.

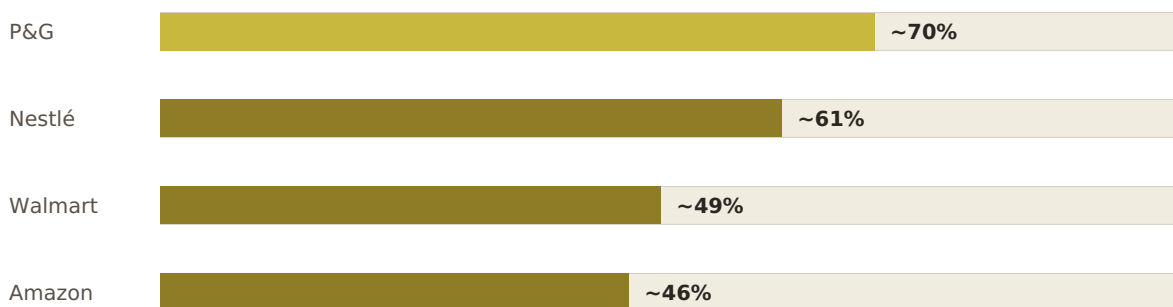
From around 2010 the discounters' model reached critical mass in the UK, and the economics inverted with startling speed. Sector margins that had held near 5% for a generation fell to 3% and below; Tesco's profits peaked in 2011/12, and within three years record profits had become a record loss (a well-documented accounting issue over the timing of supplier income didn't help, itself the kind of thing that happens under margin pressure).

The two weren't really competing on the shelf. They were competing on business models. Tesco pulled the margin-and-breadth levers; the discounters pulled turnover and cost. Both defensible, both coherent, but with entirely different economics, different vulnerabilities, and different definitions of winning. You cannot see that contest in the headline numbers. You can see it immediately in the decomposition.

How much "same" do you have left?

More from the same only works if there's headroom in the same. So the last step is estimating how hard the engine is currently working.

Set gross profit per head against operating profit per head and you can locate breakeven, and from there, roughly how much of a business's revenue capacity is in use. Applied to our set, from the outside: **P&G** runs at about 70% of capacity, which is, not coincidentally, about where a well-run business should sit before its next wave of investment. **Nestlé** sits near 61%: healthy, with headroom. **Walmart** appears to be at roughly half its capacity, and **Amazon** similar: enormous machines built ahead of demand.



Estimated share of revenue capacity in use. External estimates from published accounts, all-costs-fixed snapshot basis.

And an honest limit: for Apple and Microsoft the heuristic breaks down, because their economics are so rich that breakeven sits below any sensible floor. Knowing where a tool stops working is part of knowing how to use it.

A business at 70% faces a different choice than one at 46%. The first is nearing the point where growth needs new investment: a bigger vessel. The second has growth already paid for, sitting in unused capacity; the task is utilisation, not expansion. More from the same, or more from more, isn't a matter of ambition. It's a matter of where you actually are, and most leadership teams, if pressed, couldn't say.

Put the two questions together, how much of your capacity is in use, and whether your last gains were bought or learned, and you know what kind of growth problem you actually have. That pairing deserves a paper of its own; it gets one next in this series.

The beginning of the right conversation

Everything above was built from published accounts. That's the strength and the confession.

The strength: even from the outside, the decomposition separates business models that headline numbers blur together, exposes strategies, like Apple's, that are invisible on the P&L, and puts a first credible number on how much capacity remains. But these are estimates, and they raise questions rather than settle them. Is Walmart really near 50%, or does its capital intensity push breakeven, and utilisation, higher? How much of Amazon's headroom is real, and how much is built for a peak that arrives every November? The outside numbers can't say. The inside ones can.

A diagnostic isn't a verdict. It's the beginning of the right conversation: the questions I'd walk into the room with.

So: are you getting more from the same? If you can't answer with a number, that's the first thing to fix.

Figures derived from most recent full-year published accounts (Apple FY2024, Amazon FY2023, Nestlé FY2024, Walmart FY2024, P&G FY2024, Microsoft FY2024); Nestlé converted from CHF at the year-end rate. Gross profit stated on a consistent basis across companies; tangible operating capital includes leased right-of-use assets and net working capital. Figures are approximations for comparative purposes.