TELLUSANT QUICK READS

THE LARGEST U.S. COMPANIES IN 2024

Which are the largest U.S. companies? Every year, Fortune and others publish a ranking based on revenue. But this is not a satisfying way to measure size.

Economists and governments instead measure valued added and hardly glance at revenue. The sum of value added across society equals GDP (after a few small adjustments).

What is value added (VA) for a company? It is what is created internally. This is the sum of labor and capital that belong to the company. It excludes external purchases, which are VA of other companies. VA = revenue minus purchases = labor plus capital expenses (including tax payments).

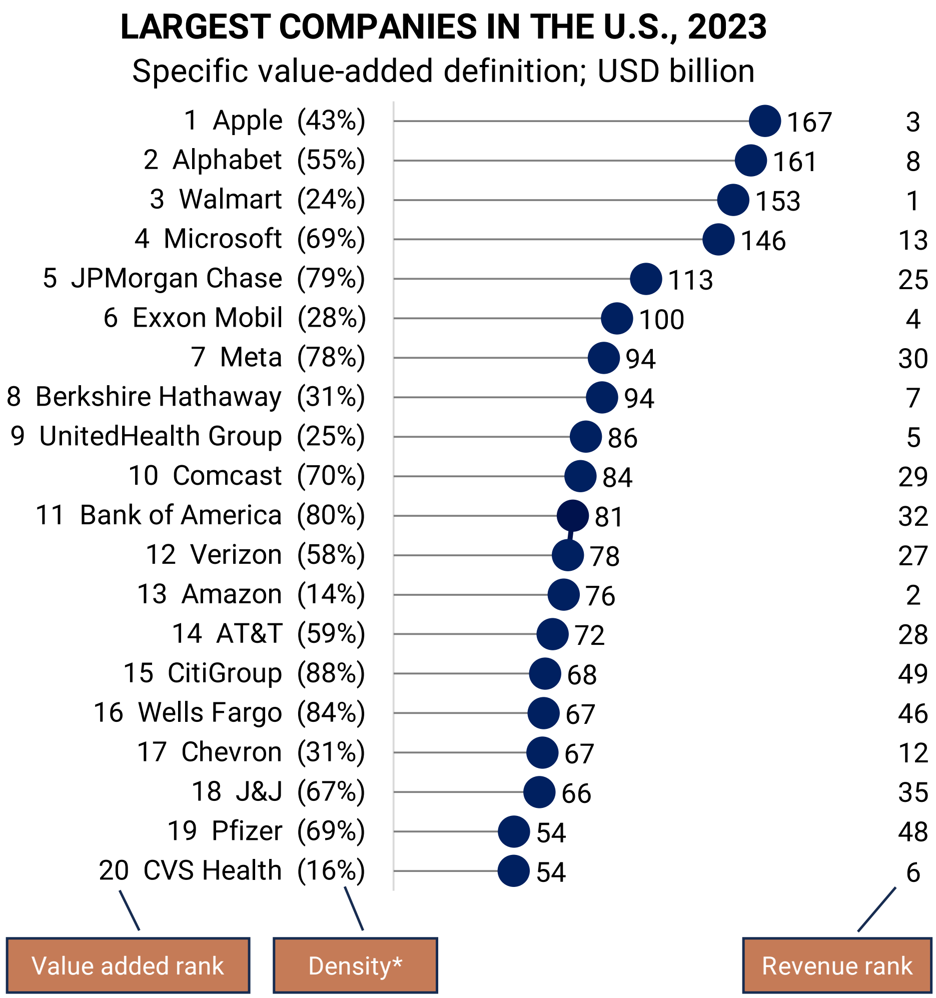
To illustrate: Let us say that we sell you a pen for 1 trillion and 1 dollars (1,000,000,000,001). You immediately sell it back for 1 trillion dollars.

We have suddenly created the world's largest company by revenue (and you the second largest). Yet our value added is only 1 dollar—not noteworthy.

In real life, trading companies are close to this example: enormous revenue, little VA. Distributors are next, followed by retailers. Banks, on the other hand, have high VA relative to revenue.

In our analysis of 50 companies that resulted in the chart of the 20 largest companies, StoneX has less than 2% VA as share of revenue. American Express has the highest ratio at almost 90%.

The graph below shows the new ranking based on VA. It is significantly different from the Fortune 500 list. Apple takes the top position followed by Alphabet. Walmart, commonly seen as #1, drops to third. Companies like McKesson and AmerisourceBergen drop from the list (distributors).



* Density = Value added / Revenue
Source: Yahoo Finance; Tellusant analysis

Value added is not immediately available in corporate accounts,[1] which is probably why it is not used in the common rankings.

We needed a quick way to create the ranking, so we simplified the analytical task. We define Specific VA as General VA (see above) less non-asset specific activities.[2] By doing this, we approximate VA as operating costs plus operating profit. This, for many companies, is called operating margin.

This is only an approximate metric, but it brings us closer to the truth than the revenue metric. Remember the pen anecdote.

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[1] Governments diligently collects VA though. It is published at the industry level and not by company.

[2] Asset specificity is a well-established concept within transaction cost theory, a sub-field of economics.