

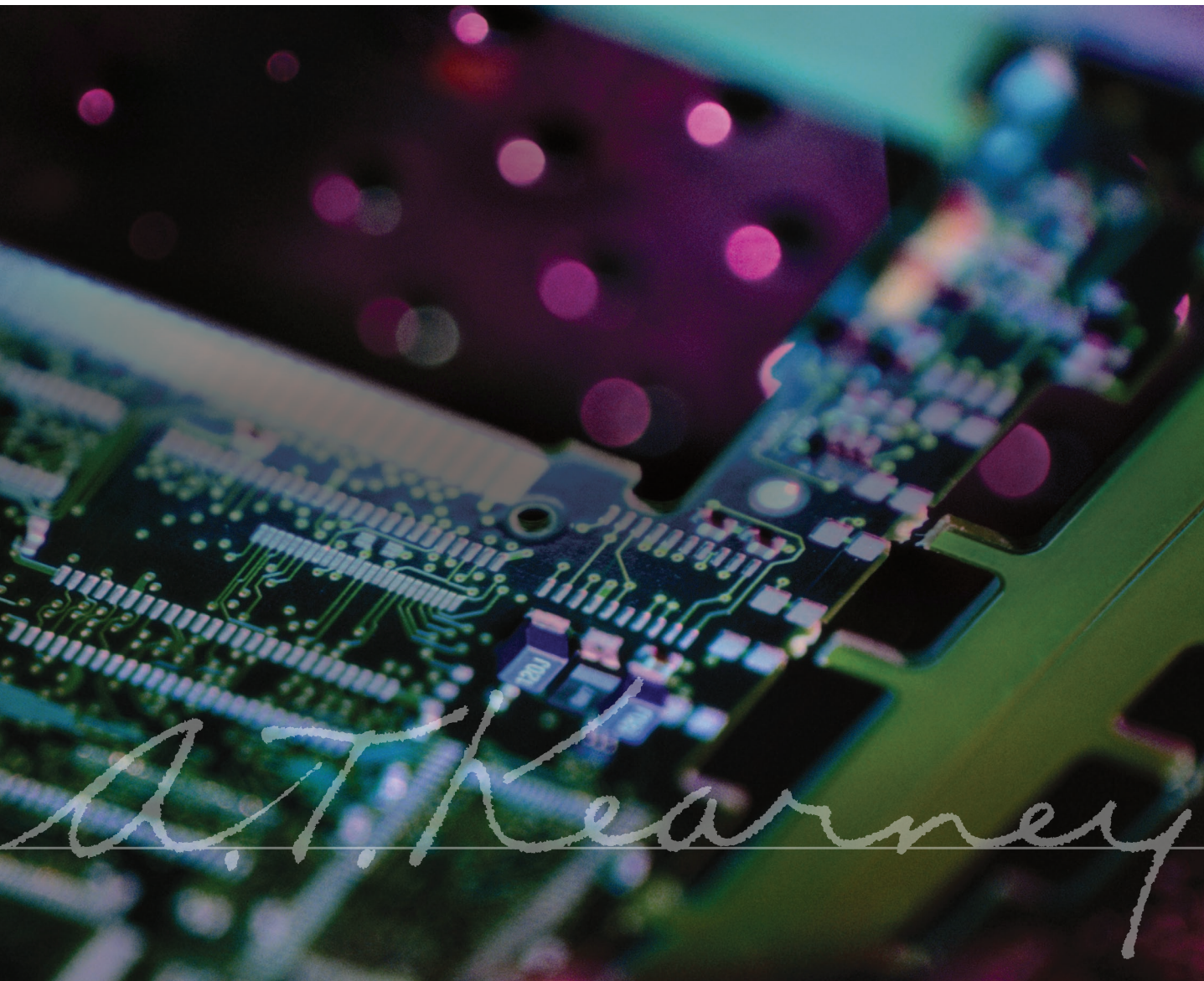
ATKearney

Revolutionizing Business by Building in Digital

Digital Business Forum Executive Roundtable

New York | 8 November 2013

Zurich | 15 November 2013



About the Digital Business Forum

The Digital Business Forum (DBF) is a multidisciplinary global network of experts focused on developing strategic foresight into the impact of digitization on business, industry, government, and society. Sponsored by A.T. Kearney and in partnership with our Global Business Policy Council, the DBF comprises members who are dedicated to exploring digital trends and their transformative impact on global business.

Digital disruption is one of the most significant sources of business and societal change, and it will continue to be so for the foreseeable future. Today's well-established companies in traditional industries have survived and even flourished through previous waves of technology innovation. Is the current wave of digital innovation any different? We think so. The speed, scope, and sources of innovations are more intense. They are profoundly challenging existing business models—and offer large companies tremendous opportunity to use scale to revolutionize their businesses through digital transformation.

By the end of this decade, **50 billion devices will be connected to the Internet.**

Our November 2013 executive roundtables in New York and Zurich engaged participants in a dialogue on three topics central to the long-term success and differentiation of any business: products and services, channel transformation, and the digital organization. Speakers and panelists included some of the world's most accomplished digital experts, business innovators, and global thought leaders on the front lines of digital business. This summary reflects the main themes and insights that emerged from the different sessions.

Opening Remarks: The Digital Acceleration

Todd Huseby, partner, A.T. Kearney

Michael Roemer, partner, A.T. Kearney

Digital is big, and it is getting bigger. Faster connectivity and the insatiable consumer appetite for data and digital commerce are making it imperative for companies to adapt and innovate quickly. Already, consumers spend more than one third of their shopping time on e- and m-commerce channels, with many using them to research potential purchases online before acquiring a product at a brick-and-mortar store.¹

By the end of this decade, 50 billion devices will be connected to the Internet—literally dozens for each person living in the developed world. And all of these devices will generate tremendous amounts of data that will dwarf the seemingly countless bytes already produced and collected daily.

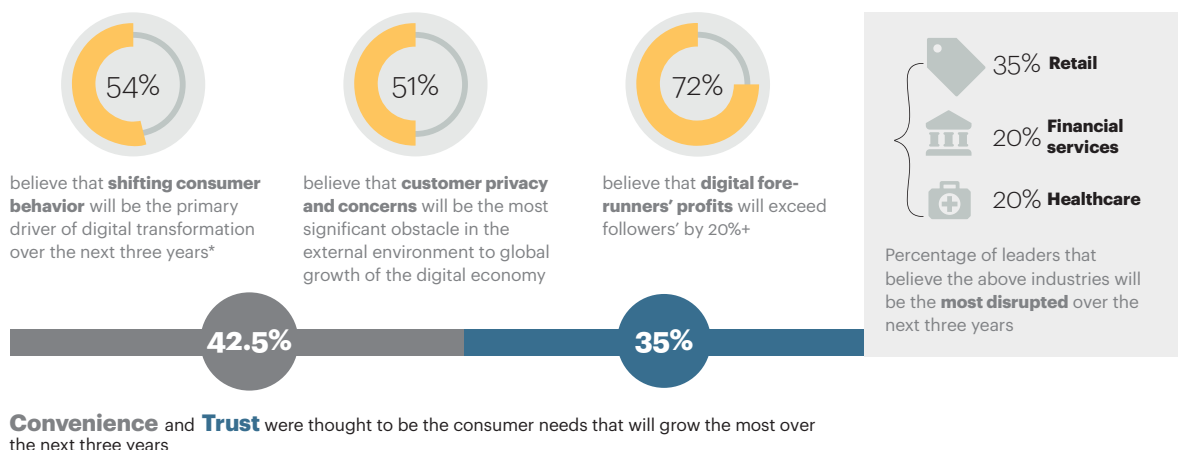
While every new product may not have a built-in digital component, many traditional products and services are complemented by a digital experience. The fact is that no new product can be successfully launched today without digital support, from R&D all the way through to marketing programs and after-sales support.

Although their approaches vary significantly, new ventures and traditional companies of all sizes are unlocking value through digital. In fact, 70 percent of our executive roundtable participants believe that digital leaders can realize profitability gains of more than 20 percent with respect to digital followers (see figure 1 on page 2). With this in mind, the Digital Business Forum (DBF) focuses on how technology innovations are changing industries and how individual companies can best capture the value of digital.

¹ Please see "Recasting the Retail Store in Today's Omnichannel World" at www.atkearney.com.

Figure 1

Digital disruption is primarily driven by consumers; companies that adapt will be rewarded. Of the digital leaders attending A.T. Kearney's 2013 Digital Business Forum:



Note: In attendance at A.T. Kearney's 2013 Digital Business Forum were digital leaders from corporate, startup, and academic backgrounds.

Source: A.T. Kearney analysis

Presentation: The Future of Digital

Rudolph Lohmeyer, director, Global Business Policy Council, A.T. Kearney

Digital permeates almost every aspect of life and business—and is expected to do so for years to come. It continues to change the nature, form, and distribution of power at all levels of society, and business must digest these changes and find new opportunities. Technology is becoming invisible as, more and more, it seamlessly merges in applications in retail outlets, the cloud, and even our bodies.

Technology powers process improvement and efficiencies; more importantly, it affects strategy and innovation, penetrating the very building blocks of business model design. Digital technology is a main driver of the change disrupting the business environment; those that adapt best to these changes will have applied an interdisciplinary approach.

Five major digital trends are heavily influencing and transforming the current environment:

1. The quantified world of big data and the Internet are fueling real-time predictive analytics to identify risks and opportunities.
2. Self-orchestrating systems, from social networks to coordinated execution technologies, are creating scalable open-source solutions.
3. Empowered consumers and citizens are using technology to bring new intelligence to purchasing decisions, utilizing their networks for a range of purposes, and employing social media to quickly bring people together to support a cause—or tarnish a business's reputation.
4. Cybersecurity is growing as both a central strategic concern and a cost for business.
5. Technology and labor polarization are becoming a source of apprehension, as they feed a war for talent on the one hand and increase the risks of social instability on the other.

Scenario planning helps businesses rise to the challenge of a more digital future. Scenarios work against default assumptions of the future by considering a systematic range of outcomes to aid in demarcating the future that may present itself a decade down the road. They allow for the development of a strategy that can be resilient in the face of the full range of possible outcomes and is best tailored to that which appears most likely.²

Technology powers process improvement and affects strategy and innovation, penetrating the very building blocks of business model design.

A.T. Kearney's Global Business Policy Council has developed three distinct potential geo-technological future scenarios:

- **Data empires.** In this scenario, nations are weakened. Huge technology superpowers possess a disproportionate amount of power; they set the rules of the game and are unhindered by government authority. Consumers are armed with choices and are deeply dependent on private institutions; however, purchasing power is highly stratified for want of a robust middle class, as technology replaces many traditional blue- and white-collar jobs. Success in this scenario requires impeccable cross-platform execution, the effective use of big data and predictive analytics, sophisticated partnering capabilities, and a robust cybersecurity model.
- **Cyber states.** This scenario presupposes that governments have the most power; societies are organized geographically around nation-states with effective cyber barriers and a strong emphasis on information technology protectionism. The cyber landscape is tightly governed: Technology is firmly integrated *within* individual nations, but not at all across them. State capitalism and deep public-private partnership models dominate the business environment. A company's success hinges on the ability to work locally, navigate government channels and strict regulations, and protect data.
- **One world.** In this optimistic scenario, government takes a back seat as consumers and citizens become exceptionally empowered through their social networks and by a wide range of employment opportunities (thanks to a frenzied war for talent among corporations). Economic power and innovation are globally distributed through dynamic, self-governing networks. The cyber landscape is globally integrated, leaving it vulnerable to broad-based failure. The business environment is hypercompetitive. Government agencies are tied to their counterparts in other nations, sharing information and best practices across borders. To thrive, companies must make use of open-source business and innovation models, build a well-developed digital strategy and analytic capacity, and attract highly skilled technology workers.

² For more information, please see "Scenario-Based Strategic Planning in Times of Tumultuous Change" at www.atkearney.com.

Session One: Digital Products and Services—Building Digital into the Business in a Hyper-Connected World

Moderators:

- Reuben Chaudhury**, partner, A.T. Kearney
Jan-Piet Nelissen, partner, A.T. Kearney
Ted Aerts, consultant, A.T. Kearney

Panelists:

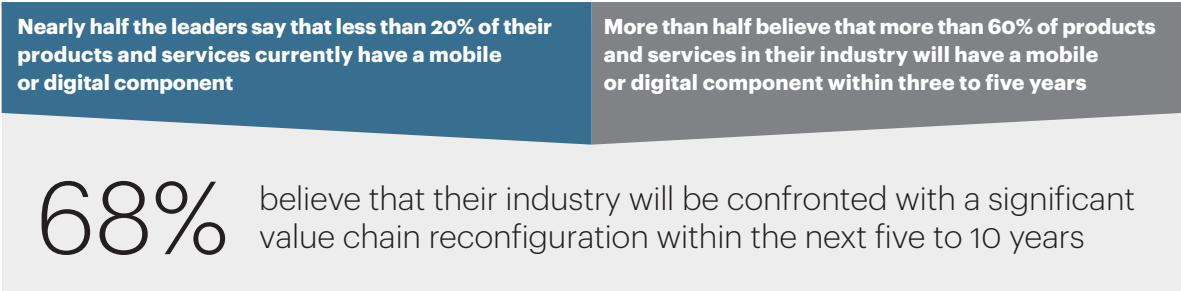
- Dr. Walter Brenner**, director, University of St. Gallen
Frank Engelhardt, vice president for enterprise strategy, Salesforce.com
Arndt Groth, chief executive officer, PubliGroupe
Jonathan Hewett, group chief marketing officer, Octo Telematics
Dan Kraft, director of product and service development for vehicles, Allstate Insurance
Ari Lightman, distinguished service professor, Carnegie Mellon University
John Mayo-Smith, executive vice president and chief technology officer, R/GA
Dr. Peter Niermann, chief executive officer, Niermann Consulting
Dr. Ulrich Quay, managing director, BMW i Ventures

The panel’s discussion focused on the importance of building digital—specifically mobility—into products and services, exploring its role in both new product innovation and in enhancing the existing portfolio (see figure 2).

Three important themes emerged from the dialogue:

- Building in mobile can significantly increase customer value and engagement.
- Data privacy and ownership are both an opportunity and a threat.
- New product innovation demands a “go big or go home” approach.

Figure 2
Products and services are becoming increasingly digital, resulting in a disruption of industry value chains



Note: In attendance at A.T. Kearney’s 2013 Digital Business Forum were digital leaders from corporate, startup, and academic backgrounds.
Source: A.T. Kearney analysis

Increased customer value and engagement

Mobility exhibits its true power when consumer and enterprise customers can use it to improve their real-world experiences. Wherever an inefficient use of expensive resources exists, there's an opportunity for mobile to create value—for example, by providing less expensive access to a service, by making access to commerce more convenient (anywhere, anytime), or by lowering the cost of ownership through resource sharing.

Physical businesses such as bicycle- and car-sharing services can owe much of their existence to mobile services. As apps and devices “learn” users’ habits, their experience improves thanks to more targeted offerings. Companies in many industries are benefiting from deeper customer relationships enabled by mobile technology. In the financial and insurance industries, for instance, companies can use apps to both increase the number of customer touch points and offer richer services.

Companies that actively ensure data privacy, while also giving customers access to their own data, have an **enormous opportunity to deepen customer relationships.**

Personal data as both opportunity and threat

Data—both big and small—is a major driver of digital value. The proliferation of data generated from connected devices, mobile services, and online transactions and activity can serve consumers and enterprises alike. Companies can analyze this data to better understand customers, tailor offerings, and improve operations. For consumers, access to personal data in the form of helpful data visualizations can unlock a whole new dimension of products and services and create a quid pro quo: “You get my data, and I get something useful in return.” Data is power, but the power of each byte declines as greater volume is generated. And it is becoming more difficult with each passing day to find the signal among the noise and isolate the data patterns that can be converted into value.

Questions also arise about who owns the data: Is it the collector, the contractors that perform data collection, or consumers themselves? And what are customers’ real expectations for data privacy? Consumers may force a move toward open-source platforms that will replace today’s proprietary offerings; they may even gain ownership of their personal data and use their bargaining power accordingly.

Companies willing to open up their data architectures have a chance to win over consumers, while giving third parties an incentive to innovate and experiment. Larger companies, however, mostly prefer to keep user data under lock and key in an attempt to monetize their data streams.

At the same time, companies that actively ensure data privacy, while also giving customers access to their own data, have an enormous opportunity to deepen customer relationships. And, of course, the misuse of personal data has the potential to completely wipe out a brand’s equity.

Going big or going home

More than 70 percent of participants highlighted that developing new products and services based on digital—or enriching existing ones—is among the most important innovation strategies for growth over the next three years (see figure 3). Innovation—and not just incremental innovation, but *big* innovation—is absolutely vital. Large companies, however, often find it difficult to make bold moves, and start-up entrepreneurs can be dismissive of large companies’ ability to “get” digital—though clearly some do.

Figure 3

The greatest opportunity lies in incorporating digital into the product and service portfolio



Note: In attendance at A.T. Kearney’s 2013 Digital Business Forum were digital leaders from corporate, startup, and academic backgrounds.

Source: A.T. Kearney analysis

Start-ups come of age in a digitally native culture where rapid innovation and failing fast are not only rewarded, but essential for survival. Established players employing the same practice, however, fear customer confidence might be eroded. As a result, many pursue perfect product releases, which take time—often so much time that a smaller, nimbler company beats them to the market. The challenge, then, for big companies is to find ways to experiment and be innovative, signaling their tolerance for a progressive approach and destigmatizing failures along the way.

Having said that, it is important to remember that those brands that have succeeded over the past decade and a half have kept the emotional and storytelling aspects at the top of mind. Amazon and Apple may be powered by technology, but they resonate with customers as highly trusted and inspirational brands.

Session Two: Channel Transformation—Making the Digital Physical and the Physical Digital

Moderators:

Mike Brown, partner, A.T. Kearney

Martin Handschuh, partner, A.T. Kearney

Joshua Hubbert, principal, A.T. Kearney

Panelists:

- Dr. Richard Anson**, founder and chief executive officer, Reevoov
- Alex Campbell**, cofounder, Vibes
- Uli Huener**, head of innovation, EnBW
- Ari Lightman**, distinguished service professor, Carnegie Mellon University
- David Hung**, chief executive officer and cofounder, FYT (Find Your Trainer)
- Glen Salow**, former chief information officer, Ameriprise
- Dr. Tim Seewöster**, head of digital partner management, PAYBACK
- Volker Wiewer**, founder and chief executive officer, eCircle

During the second session, panelists and participants discussed how the digital and physical worlds are transforming one another. While nearly half of participants said they believe digital channel sales will surpass those of physical channels within five years, the consensus was that physical channels and interactions will not disappear (see figure 4). Consequently, the following themes emerged from the dialogue:

- Digital and physical channels are converging and mutually enriching one another.
- Consumer behaviors are both driving channel transformation and changing as a result of that transformation.
- Leaders use a digital-first approach to design the customer experience.
- The traditional organization must be significantly transformed to create a truly integrated channel experience.

Mutual transformation of digital and physical channels

Digital and physical channels are no longer just competing; they are converging and mutually enriching each other. Increasingly, the answer is not physical or digital, but rather physical and digital.

Figure 4
Digital channel transformation is changing the way companies serve their customers



Note: In attendance at A.T. Kearney's 2013 Digital Business Forum were digital leaders from corporate, startup, and academic backgrounds.
Source: A.T. Kearney analysis

New technologies are being embedded into brick-and-mortar stores to create a better customer experience and improve operations. Examples include Starbucks's mobile and Square apps that recognize customers in the shop, Apple's newly released iBeacons, and L'Oréal's pop-up vending machine in New York's Times Square. At the same time, digital brands such as Warby Parker are opening physical outlets to offer some of the personalized, high-touch experience that cannot yet be replicated in the digital world. In all these examples, mobile technologies, working at the intersection of location and interaction, are a major enabler of the integrated world. Where these technologies come together lies the opportunity to create entirely new channel experiences.

For some businesses, the cost of maintaining physical sites is becoming difficult to justify. Is in-person service needed? For an insurer, perhaps not. For a personal financial services provider, where people typically come to trust and develop an attachment to their personal advisor, maybe so—even if the advisor relies heavily on technology to determine the best products for investors. Similarly, although people may self-diagnose online, real medical diagnoses and care continue to take place in person.

More e-business start-ups are establishing physical spaces where customers can experience products in person.

While some retailers are reducing their physical footprints, e-business start-ups are increasingly opting to establish physical spaces where customers can experience their products in person. Powerfully unique experiences result when the digital and physical worlds meet. A case in point is Times Square, where several merchants allow both on-site and remote visitors to push photos and other content onto giant display screens.

The digital experience also complements the physical world through the power of marketplaces that connect buyers and sellers and make the system operate more efficiently. Amazon Marketplace does this by giving customers the option to purchase goods from third-party sellers, earning Amazon a healthy commission without the need to actually procure, store, or ship the merchandise.

Shifting consumer behaviors

Just as the need to maintain a physical location varies by brand, so too does the amount of on-demand human interaction that companies need to offer. Brands catering to young consumers typically require fewer live customer service representatives than those that cater to a more mature clientele.

Interactions can be personalized by apps pulling data together, humans reading off a computer screen, or a familiar face welcoming a customer in person. A retailer using technology such as iBeacon can tailor its customer service, based on data from previous purchases and preferences. Within the next few years, customers will be able to enter a store, make a purchase, and walk out the door without any employee interaction. Customers' mobile devices will guide them to the desired items and pay for them invisibly using "disappearing payment" technology.

Digital-first approach to design the customer experience

Companies wanting to create a truly integrated channel experience need to put digital first. To do so, it is necessary to clearly understand customer expectations, map out the interplay of physical and digital experiences and assets along the entire customer journey, and assess the role and value of digital and physical at each stage.

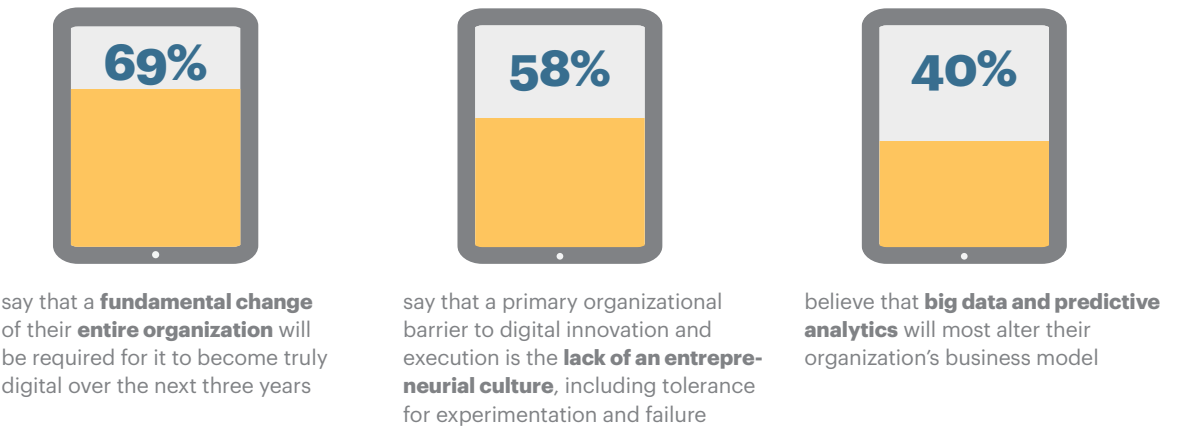
Organizational transformation to create an integrated channel experience

As with any major change, creating an integrated channel experience depends on transforming people, processes, and systems.³

First of all, individuals’ roles and skill sets must change to adequately respond to customer needs in the context of physical interactions—and also to manage the technical and analytical aspects of an omnichannel enterprise. For example, sales associates’ product knowledge must be deeper than that of consumers, many of whom may already have researched products online before entering the store. That means that retail salespeople must know how to truly sell, while also making judgment calls on pricing and offers. Moreover, 40 percent of participants said that big data and predictive analytics are the factors that will most affect their company’s business models (see figure 5). Given the importance of these elements and other innovations such as mobility, geo-fencing, and wearable computing, staff will need to acquire a whole new set of capabilities to develop and execute emerging channel initiatives.

At the same time, organizational, process, and IT barriers to cross-channel integration must be overcome. Structures should be examined to ensure that all groups are laboring toward a common goal, processes need to work without glitches across all channels, and—most importantly—the IT infrastructure must be flexible and adaptable to assimilate new channels, technologies, and data sets. While the Holy Grail of a single view of the customer has been talked about for years, now is the time to really invest in this goal.

Figure 5
Fundamental change will be required to take advantage of digital



Note: In attendance at A.T. Kearney’s 2013 Digital Business Forum were digital leaders from corporate, startup, and academic backgrounds.
Source: A.T. Kearney analysis

³ Please see “Fit Transformation™: Making Your Company Strong, Agile, and Lean” on www.atkearney.com for a more detailed look at how we approach transformation.

Participants noted that this is just as true in B2B as in B2C. Increasingly, the behaviors and demands that drive consumers in their private purchasing are also influencing how they buy in a business context. Consumers that have become accustomed to anytime, anywhere mobile transactions and data visualizations for personal use now expect this same level of accessibility and functionality in their business lives.

Session Three: Digital Organization—Organizing and Innovating at the Speed of Digital

Moderators:

Beth Bovis, partner, A.T. Kearney

Armin Scharlach, vice president, A.T. Kearney Procurement & Analytic Solutions

Nikolay Kolev, principal, A.T. Kearney

Panelists:

Fabio Cannavale, chief executive officer, Bravofly

Erica Dhawan, chief executive officer, Cotential

Andy Goldstein, chief executive officer, German Entrepreneurship

Andreas Harting, chief operating officer, Heilemann & Co.

Justin Hendrix, acting executive director, NYC Media Lab

Jeremy Hlavacek, vice president of strategy and business development, WeatherFX Group (The Weather Channel)

Dirk Ramhorst, chief digital officer, BASF

Veronika Sonsev, chief executive officer and founder, inSparq.com

Participants attending the third session agreed that most companies can flourish by working in ecosystems, provided they are prepared to bring value to the other participants. Improving at innovation is more about time and connectivity than sheer genius; the multiplying power of networks can easily make up for a lack of superstars. Companies that innovate best are often those that approach the subject from a problem-solving perspective.

The dialogue highlighted the following themes:

- Innovation capabilities are best acquired by developing a collaborative ecosystem and building on outside start-ups' momentum.
- Innovation requires a strong corporate culture and vision—and a willingness to fail.

Working in an ecosystem

Preparing the enterprise to exploit digitally enabled opportunities is a major challenge, especially considering how quickly things change. Many companies use an extended enterprise or ecosystem approach to limit the number of skills and technologies that must be mastered internally. These ecosystems may include entrepreneurs from incubators and accelerators, together with suppliers, academics, customers, and ideation firms.

Start-ups are often eager to innovate for large companies and are generally able to do so more quickly and efficiently than their more staid clients. As with any outsourcing arrangement, companies need some internal expertise to manage vendor relationships and ensure alignment with the strategic priorities. Likewise, open networks are critical to understand the full spectrum of possibilities. And optimizing the value chain beyond the company's borders—for example, through collaborative optimization with customers and suppliers—is yet another prerequisite to success.

Agencies that bill out their technical and creative staffs have an advantage over organizations that attempt to perform all their digital efforts internally. Blended models that balance internal and external resources can also work out, as owning both technology and data offers the potential for significant value.

Working with the right agency can make an old-line brand seem very avant-garde, as when R/GA helped L'Oréal to create a pop-up makeup shop in a New York subway station—effectively marrying marketing and technology. This sort of effort merely scratches the surface of what is possible. But with so much invested in legacy infrastructures, many corporations are hesitant to fund the R&D and manufacturing of such a system in-house.

A word of caution is in order: While it is important for companies to be involved in an innovation ecosystem, those with weak internal innovation capabilities are likely to obtain subpar results. Innovation capabilities can neither be solely sourced from a network, nor can they be entirely drawn from within. There is no absolutely wrong culture for fostering innovation, but there are wrong actions. Each company must determine on its own what works best and seek the talent and skills to make it happen. The ability to solve problems lies at the heart of innovation. In fact, the most innovative companies tend to talk more about solving problems than about innovation itself.

Finally, every business must assess the marketplace to determine which aspects of technology can be purchased and which are better developed internally. Data protection is an important consideration, so agreements must be crafted to offer protection while still providing value. But however the content is ultimately produced, digital must be more than just a box to be checked off on a marketing plan; it must create genuinely compelling experiences that fully incorporate the brand.

Willingness to innovate (and fail)

As we already saw in figure 5, nearly three out of five participants singled out the lack of an entrepreneurial culture and an intolerance of failure as the biggest barrier to digital innovation and execution. Innovation is essential, but large companies are proving to be surprisingly clumsy at digital experimentation—often for want of a repeatable methodology or platform. Too often, each effort reinvents the wheel by employing a different methodology, governance process, scope, and scale. Some companies use their ecosystem as though it were a toolkit, choosing specific partners for specific efforts. Successful old-guard companies may resist change for fear of disrupting the corporate culture—at the peril of falling behind. Many also tend to resist contributions from outside experts because of the “not invented here” syndrome.

Increasing innovation abilities is a journey that starts with fostering an internal culture of real-time connectivity and idea sharing, subsequently applying this energy to examine each and every business challenge from a design perspective. Innovation-oriented acquisitions, like acquisitions in general, are more miss than hit, and many fail because of poor cultural fit. Interestingly,

companies have had more success with internal start-ups—autonomous digital ventures founded within the larger business to launch a major product: Walmart’s e-commerce team was given nearly a decade to develop the merchant’s website.

Internal creative thinkers are important, but a network standing by can provide a wealth of ideas and solutions. In many cases, the ideas are there; the challenge is to draw them out and shepherd them to a fruitful conclusion. Raised on social networking, millennials are very adept at this sort of activity.

As the number of millennials in the corporate ranks continues to swell, companies must also live up to their internal brand messaging—culture can attract or repel talent. Increasingly, companies are consulting with anthropologists and sociologists to check the cultural fit of potential merger partners or the impact of possible divestments. Also, many younger workers want to use their own devices and personal databases to perform their work—something companies tend to resist because they fear the theft of sensitive corporate data.

Because start-ups have less to lose than large corporations from an imperfect launch, they find it easier to introduce daring, disruptive innovations such as the Uber app for urban ground transportation or Airbnb for short-term rental properties. By discovering a unique way to get something done and by fighting through the constraints and restraints, agile innovators can turn industry dynamics upside down.

Four Takeaways: Turning Big Ideas into Action

1. Adapt to changes

Digital will continue to change the nature, form, and distribution of power at all levels of society and business. Therefore, companies must adapt to the changes digital will bring about and seize the opportunities it will present. Scenario planning can help companies rise to the challenge.

2. Innovate and connect with customers

The growing integration of digital—especially mobile—into existing and new products and services can create value for consumers, improve their experiences, and increase consumption. At the same time, companies can benefit from deeper customer relationships made possible by the proliferation of data from connected devices, mobile services, and online transactions and activity.

To take full advantage, companies must open up their data architectures and give third parties an incentive to innovate and experiment. They must also zealously safeguard data privacy and never lose sight of the human aspect and the value proposition that cements customers’ emotional connections to brands.

3. Get the right mix of physical and digital

As the digital and physical worlds converge, the relationship between them is becoming more symbiotic. An integrated environment is emerging where physical companies are becoming more digital, and digital companies are becoming more physical—to the benefit of both businesses and consumers. Now, as consumer behaviors adapt to a more integrated channel experience, companies

must figure out how much physical presence is really needed and how many digital offerings consumers will accept.

4. Welcome change, accept failure

The ability to adapt to digitally enabled opportunities will be vital to succeed in the future. Acquiring this capability, however, is a major challenge. Companies will have to develop a corporate culture that embraces change and accepts failure. They will need to decide which aspects of technology are best purchased, and which should be developed internally. Working through an ecosystem will be one of the keys to get it right.

Closing Remarks

While the geo-technological scenarios presented in the keynote address may seem somewhat pessimistic, DBF executive roundtable participants actually showed great optimism throughout the sessions (see sidebar: Four Takeaways: Turning Big Ideas into Action on page 12). The panel on digital products and services stressed how crucial mobile technologies are and how important it is for brands to preserve customer trust as they build digital into their offerings. The channel transformation panel emphasized that channels are becoming increasingly integrated, which underlines the need to use data to match the right solution to the right person at the right time in our digitally enabled physical world. Finally, the organization panel made it clear that there is no single perfect model for innovation. As important as innovation ecosystems are, internal capabilities still matter—and without the right corporate foundation and culture, fruitful interactions within an ecosystem are all but impossible.

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