Winning the Battle for Consumer Healthcare

Science Versus the Marketers

This paper is the first in a series on the fight between consumer goods and pharmaceuticals for an emerging new market. One industry is strong in marketing; the other shines in science. Which will win?
Big changes are afoot in consumer markets, thanks to shifting global demographics that are creating a new battleground between pharmaceuticals and consumer goods. It seems that most food companies are keen to persuade consumers that their products are both tasty and healthy. Personal-care companies are following a similar path, emphasizing that their products have a scientific basis. At the extreme end of this trend, emerging new products promise to deliver health benefits traditionally offered by pharmaceutical products. These products are scientifically tailored either to address specific health needs or to increase some dimension of performance—and it is big business; going beyond the traditional over-the-counter (OTC) market, it is estimated at approximately $125 billion globally. For example, functional foods alone, which have a potentially positive effect on health beyond basic nutrition, are predicted to grow from a global market of around $165 billion in 2007 to more than $240 billion by 2012, according to Euromonitor.

Although these complex, scientifically based products were originally the domain of niche companies such as Yakult, major consumer goods companies are now focusing on opportunities for growth and profitability. Danone is investing heavily in medical foods through its Nutricia brand, Minute Maid has introduced juices with added plant sterols, multivitamins, and omega-3 fatty acids, and Nestlé has started a consumer health business. The company has already launched several joint ventures with L’Oréal, including one called Inneov Laboratories that combines the nutritional expertise of one with the dermatological expertise of the other. At the same time, pharmaceutical companies, starved of new blockbuster prescription molecules, are also getting into the act. For example, GlaxoSmithKline bought sports-nutrition specialist Maxinutrition to expand its line of consumer health products.

As demand grows for products that people believe will make them healthier, a whole new consumer healthcare segment is emerging.

Why is everybody so interested in consumer health and what is required to succeed in this market? Here, we examine the global demographic changes that are leading to demand for mass-market consumer-focused healthcare products and look at how these changes are affecting markets, creating a huge new struggle for territory. Finally, we analyze what consumer goods companies and pharmaceutical firms need to do to win.

Big Demographic Changes

Healthcare around the world is being transformed by major demographic shifts: increased wealth, improved lifestyles, and urbanization. Wealth brings people many benefits, not the least of which is longevity and reduced risk of death from infectious disease, malnutrition, and diarrhea. Yet improved lifestyles mean richer diets and less exercise, which lead to obesity, and consumers can afford to vacation in the sun and buy cigarettes. As people live longer, they
Changing demographics create risk factors that accelerate the growth of chronic diseases

Wealth | Risk factors | Chronic diseases
---|---|---
Lifestyle | Obesity | Osteoporosis
Urbanization | Smoking | Diabetes

are at greater risk of suffering from one or several chronic diseases, including osteoporosis, diabetes, cancer, vasculitis, and dementia (see figure 1).

Indeed, the incidence of chronic disease is rising at an alarming pace. And the health risk factors (obesity, smoking, and longevity) are expected to accelerate throughout the next decade. Today, 45 percent of the United Kingdom’s total population can lay claim to one of the three main risk factors; by 2020, this figure is expected to be 60 percent. Developing countries are experiencing the same trends. In India, for example, 25 percent of today’s population have one of the risk factors; in 2020, it is estimated this figure will rise to 40 percent (see figure 2).
Most health systems are ill equipped to deal with an explosion of chronic diseases associated with these risk factors. Long-term management requires changing the behaviors that caused the diseases and many years of treatment with a variety of drugs. However, today’s health systems have generally been designed around short-term interventions, with only about 50 percent of patients taking their medicines as prescribed. Thus, the cost burden is huge. A diabetic patient in the United States is estimated to consume more than three times the health resources of a non-diabetic.

Although different countries are approaching the problem in different ways, three major trends are encouraging consumers to participate in their treatments:

**Increased focus on prevention.** Governments and payers are investing in public health campaigns to convince citizens to change behaviors and begin early treatment, focusing primarily on obesity and smoking. They are also providing incentives for doctors to identify those at risk and engage them in their own treatments.

**Increased consumer spending.** In the developed world, payers are experimenting with different co-payment mechanisms to both reduce the cost of healthcare and encourage appropriate behaviors. In the developing world, as emerging health systems fail to keep up with the expectations of their citizens, consumer spending is filling the gap. Between 2000 and 2015, for example, consumer spending on healthcare services is forecast to increase 130 percent in India, nearly 80 percent in China, and more than 70 percent in Thailand.

**New spending trends as a result of an aging world population.** By 2030, 36 percent of Germans and 30 percent of Chinese will be older than 60 years of age, and more than one million centenarians will be living in the United States. These older populations will have a wide range of self-medication options and aspirations, including maintaining fitness levels, preserving youthful appearance, preventing fractures, halting muscle decay, and staving off dementia.

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**Consumer goods companies can use their marketing might and access to mass-market channels to crowd out first-mover rivals.**

The consumer market is developing around these trends, as science provides solutions to meet increased consumer demand. With greater understanding of how diet and behavior influence the development of disease, scientists are finding ways to reverse negative effects. The diets of those at risk of heart disease, for example, have long leaned toward avoiding foods that would increase cholesterol; now they’re evolving to include cholesterol-lowering foods. Similar advances are being made to address risk factors for diseases such as diabetes and osteoporosis. Now, mass-market products—including food and drinks, personal-care products, and OTC pharmaceutical-type products—show great promise for helping consumers avoid disease.

Of course, this consumer focus has some less benign effects. A tendency also exists to “medicalize” conditions that in past years might have been deemed to be quite normal.

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1 “State of Diabetes Complications in America,” American Association of Clinical Endocrinologists
consequences of aging. The whole area is also extremely susceptible to fads. For example, the evidence that many of the so-called superfoods have any real effect is often extremely weak, and research suggests that many health food supplements may actually be harmful.

Effective or not, demand is growing for products that people believe will make them healthier. Which companies will be best placed to meet this demand?

New Battlegrounds

To meet the increasing demand for these products, a whole new consumer healthcare segment is emerging, midway between the mass market, supermarket-based world of consumer goods companies and the scientific, pharmacy-based world of pharmaceutical companies (see figure 3). This new segment is largely occupied by fragmented niche players, but those players are likely to be swallowed up or swept aside by the incipient entry of giants. Indeed, as populations with risk factors grow (again, by 2020 it’s likely to be about 60 percent of the population of a country such as the United Kingdom and about 40 percent of India), healthcare products will move to the heart of the mass market.

The battle has already begun. Many pharmaceutical companies, facing structural declines in the value of their branded drug portfolios, are focusing more on nonprescription products. Consumer goods companies are planning to increase margins and accelerate growth by enriching products with health-oriented features. It has been known since 1984, for example,
that a strong link exists between blood cholesterol and heart disease—a link that led to Lipitor, Pfizer’s cholesterol-lowering treatment, becoming the world’s best-selling drug. By 2009, this class of drug—which includes Crestor, Questran, and Lescol—was worth more than $25 billion. The industry has also made pushes into OTC remedies such as the nonprescription Zocor Heart-Pro. To build on its strengths—making and proving claims, capitalizing on medical endorsements, and accessing pharmacy channels—the pharmaceutical industry focuses on the technical aspects of these products. They’re packaged in white, functional boxes, for example, to make them look like the prescription products they replace.

Meanwhile, many niche manufacturers have developed OTC anti-cholesterol products, including Raisio Group’s Benecol, Cedar Health’s Lestrin, and Futurebiotics’ Cholesterol Balance. Consumer goods companies are also offering products designed to lower cholesterol: Kellogg’s Optivita cereal, for example, boasts of its oat bran. Danacol Danone, a dairy drink, contains plant sterols, which are also the key to Unilever’s Flora pro.activ product line of drinks, yogurts, and spreads. The selling point for all of these products is that they help lower cholesterol, but their makers—seeking to build on strengths in mass-market distribution, brand development, and understanding of consumer needs—focus on the products’ appeal to consumers. For example, the products come in colorful packages designed to build emotional associations.

As is often expected in any new market, both sets of players have made missteps. It’s hard to know exactly how to price such products, convince consumers that they will deliver on their health promises, find the most effective distribution channels and marketing media, assemble complementary ingredients (for example, does it hurt the health claims of food products when they contain genetically modified organisms or artificial sweeteners?), or build loyalty. The smartest companies are learning from these experiences. Going forward, some companies will refine their approach and become global leaders. The only question is: Which companies will they be?

Which Companies Will Win?

According to a quote attributed to Mark Twain, “History does not repeat itself, but it does rhyme.” If so, the pharmaceutical companies are in trouble. Traditionally, consumer goods companies have mastered the art of using their marketing might and access to mass-market channels to crowd out more specialized first-mover rivals (see sidebar: Traditionally, Marketers Beat Scientists on page 7). In some segments of the consumer health market, we already see these forces at work.

Take probiotic yogurt drinks, for example—they’re mass-market products focused on health benefits. The market for probiotic yogurt drinks did not exist in Europe in the early 1990s, when the Japanese company Yakult made its regional launch. Yakult was a classic small innovator, with technical expertise gleaned from having marketed its small bottles of “friendly bacteria” in Japan since 1935. Its drink proved relatively popular, penetrating 1 percent of UK households by 1999. That was enough to prompt Danone to launch its Actimel brand. Actimel had a huge advertising campaign and could take advantage of Danone’s powerful distribution network and innovation pipeline. Danone, therefore, kept introducing new flavors of Actimel. By 2002, Actimel was slightly ahead of Yakult, and during the next three years, its penetration tripled to

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2 Merck has likewise sought to make Mevacor available over the counter, but its attempts have been rejected by the U.S. Food and Drug Administration.

Traditionally, Marketers Beat Scientists

Historical precedents suggest that consumer goods are successful at ousting the more “scientific” players from new markets. Consider the perfume industry, for example: In the 1970s, fragrance was practically a crafts business. Targeted at an elite niche, it was full of small, fragmented players (see figure). The 1980s, however, saw an increased number of launches and expanding brands, such as Jacques Bogart. Attracted by the boom in demand and the industry’s high margins, chemical players and even pharmaceutical companies came to see it as a natural extension of their chemical expertise—but then the consumer goods giants decided to enter the fray massively.

Unilever, L’Oréal, and P&G turned this niche product into a mass market, applying many strategies that had proved successful with shampoos, soaps, and washing powders—such as mass marketing, distribution expansion, and line extension. A few of the more specialized players, such as LVMH and Coty, also participated in this consumerization and market consolidation. More scientific players, such as Croda and Elf Sanofi, chose to exit the market. By the beginning of the 1980s, consumer goods and chemical companies each owned about 20 percent of a global market estimated at $5 billion. Today, consumer goods companies control 60 percent and chemical companies less than 5 percent of a $25 billion market. The winners, therefore, were not the companies with the best technical understanding of perfumes. The winners were the companies that best understood consumer aspirations and distribution. Is it a prediction of the healthcare market’s future?

*Note: Coty is the primary fragrance division of Benckiser.

Sources: Company websites; A.T. Kearney market research and analysis

Figure

The perfume industry illustrates how consumer goods ousted more “scientific” players

Fragrance is a small, niche market
New companies and brands launch (e.g., Jacques Bogart)
Industry consolidation begins (e.g., LVMH, Coty*)
Vertical integration begins (e.g., LVMH, L’Oréal)
Outsiders enter and grow aggressively (e.g., consumer goods, chemical)
Losers exit (e.g., Elf Sanofi, Croda, Hoescht, Unilever)
Winners expand their franchises (e.g., P&G’s Hugo Boss)
Companies move into emerging markets

Total market ($ billion)
$5 $13 $20 $25

*Note: Coty is the primary fragrance division of Benckiser.

Sources: Company websites; A.T. Kearney market research and analysis
22 percent of households. By 2005, Actimel was one of the top 10 take-home soft drink brands in the United Kingdom.4

History is not necessarily destiny, however, and the consumer health market may prove to have unique characteristics that could spell trouble for consumer goods companies. One of their biggest problems is how to substantiate their health claims, particularly given the highly sensitive and litigious environment of healthcare. The United Kingdom’s Advertising Standards Authority, for example, has banned some Actimel TV spots, calling them misleading. Danone settled a U.S. lawsuit about similar claims for $35 million, and the European Food Safety Authority forced Danone to withdraw all health claims about Actimel.5 Again, responses vary based on individual countries’ politics, but governments are increasingly requiring proof of any health claim—if not at the same level required for pharmaceuticals, then at least using more rigorous science than in the past. For example, L’Oréal has responded to increasing pressure on claims for anti-aging products with LiftActiv, the first anti-wrinkle cream clinically proven to be effective through a pharmaceutical-type clinical trial. Even in developing countries, where governments are often less vocal, consumers will seek reassurance through brand credibility and recommendations of doctors and pharmacists—both areas where pharmaceutical companies excel.

Regarding innovation, the contest is too close to call. Pharmaceutical companies have a better understanding of risk factors and already have clinically proven molecules with potential applications in consumer healthcare. Their clinical and safety track record is difficult to shortcut or even replicate. For example, in the OTC antihistamine market, Claritin required far less development effort than the typical new product because it represented merely a switch of an existing anti-allergy molecule, with a proven clinical and safety track record, from a prescription to an OTC basis. On the other hand, consumer goods companies are champions at quick derivative innovation, successful brand extension, and effective consumer communication through traditional and new channels. Their shorter development cycles may provide them with enough agility to beat the pharmaceutical companies at getting products onto retailers’ shelves and into consumers’ minds.

The battle for consumer health is not restricted to products; it is also happening in retail channels. Traditionally, drugs were sold through pharmacies and food through mass-market supermarkets. However, these channels are converging. Wal-Mart, for example, has introduced around 100 mini-clinics in its stores to boost its healthcare credentials. In European countries where it is allowed (such as the United Kingdom), major supermarkets are opening more pharmacies and offering reduced prices for drugs—even in such areas as cancer therapies. At the same time, pharmacies are broadening their offerings with food, drinks, and other consumer products. With pharmaceutical companies’ traditional strengths in pharmacy and consumer products’ dominance of mass-market channels, the battle for supremacy is happening throughout the value chain.

A potentially complicating factor in the consumer healthcare market is the all-inclusive nature of its goals. When it comes to improving health, using a single product may not be sufficient, and consumers may already be using a prescription medicine or undergoing therapy. Some physicians, for example, are concerned that OTC statin-based cholesterol-lowering products end up being used inappropriately by two types of consumers: some who don’t really need the

4 ACNielsen, 52-week Probiotic Drink sector penetration to 24.12.05, and Britvic Soft Drinks Report 2006, both quoted in “Actimel: From Hampstead to Hartlepool,” a 2006 Effectiveness Awards case study from the Institute of Practitioners in Advertising
5 “Taste of a stricter future for health claims on food labels,” Financial Times, 22 May 2009
products and are pointlessly subjecting themselves to potential adverse side effects and others who think the products are sufficient to manage their condition, when in fact they need to be under a doctor’s care.\(^6\) In a broader picture, any consumer health product is part of a health solution, which may include other products, services, or technologies (see sidebar: Technologies and Solutions). One key to the long-term success of any product, therefore, may be in positioning it appropriately in the overall package of care—and endorsement by healthcare professionals will be critical in this process. This “medical detailing” is a core competency of pharmaceutical companies, but quite foreign to the mass-market distribution models of many consumer goods companies.

Looking for the Sweet Spot

No company will create this market in toto or dominate it in the short run. Not every company can address every opportunity. Companies will necessarily focus on a limited number of

Technologies and Solutions

Gadget-lovers were abuzz in 2010 over an iPhone and Android app called Instant Heart Rate, a heartbeat monitor that uses the device’s built-in camera. The nearly free tool, which senses the miniscule changes in skin color resulting from pulsing blood, was hailed as creative and surprisingly accurate. It also signaled an imminent trend in consumer healthcare.

As pharmaceutical and consumer goods companies battle over global healthcare revenues, their rivals include a surprising new twist on the idea of a niche player: app developers. Harnessing their creative approaches to existing, prevalent technologies, app developers drop their prices to almost zero—erasing bigger players’ potential revenue gains.

But app developers face the same challenges as other players. For example, smartphone-based heart-rate monitors are targeted at athletes as a way to monitor heartbeat while exercising. As several such devices’ warning labels note, however, “This monitor is not a medical device and is not intended to monitor health concerns.” If users have a heart condition, they need a proven medical device. Despite its innovative design, therefore, the Instant Heart Rate app is missing its full consumer healthcare potential.

At least, that’s how it stands now. However, pharmaceutical companies have developed dozens of iPhone apps to support the quite complex clinical assessments often needed to prescribe drugs properly. It might not be long before low-cost apps become good enough for many uses, especially in developing countries where more sophisticated technologies are not readily available and mobile phones are not ubiquitous. Despite the requirement for regulatory approval, the mobile phone as a hub for a range of medical devices may not be far away.

The most intriguing potential use of technological tools in consumer healthcare is as components of wider solutions. Consider Weight Watchers: It started as a service—meetings providing weight-loss support. It evolved into food plans, exercise plans, and then specific products—foods sold under the Weight Watchers label. Now its website, with its eTools program, is an essential component. Why wouldn’t other preventive health players also evolve into platforms?

One such attempt has been GlaxoSmithKline’s Alli, an OTC weight-loss product that comes in starter kits containing a food journal, a healthy eating guide, and a fat and calorie reference book. Despite the Web-based myalliplan, with weekly advice, articles, recipes, tips, an online community, and customized tools. As an early entrant, Alli’s Web platform is good—but we predict that in the coming decade, the mix of product and technology solutions will become far more widespread and sophisticated.

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\(^6\)“Why Merck Lost Its 3rd Bid to Sell Mevacor Over the Counter,” Natural News, 4 February 2008
markets because of the investments required in applying science, proving efficacy, and marketing. The trick will be to identify those areas that are set to grow the most and to establish where an individual company is most likely to be successful.

We believe the key to success will be for each company to identify and target its sweet spots in the new consumer healthcare market. A sweet spot exists where the following conditions come together:

**A health need that’s not addressed by the state.** What do demographic and epidemiological trends, scientific research, and other new developments suggest about how people can improve their health? Is this an area that has been recognized as important, or could people be educated to understand its importance? Government health systems and structures are set up to provide funding and access to some treatments—but not others. Is this one of the others, in which targeting consumers may be profitable?

**A potential consumer market that’s accessible to your company.** Do consumers have the wealth to afford this product and attitudes to adopt it? Will they see it as something important that will make a difference for themselves or their loved ones? Do they have the products, brands, distribution, and competitive advantage to meet those customer needs?

Identifying the sweet spots will be only the first step. To execute successfully, the consumer healthcare players will have to assemble the right mix of capabilities. The challenge, in summary, is to develop effectively targeted, packaged, and promoted products that are available to a large number of consumers and deliver what they promise. Aspects of this challenge draw on sources of competitive advantage for both pharmaceutical and consumer goods firms (see figure 4).

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**Figure 4**

### Consumer goods and pharmaceutical firms have different sources of competitive advantage

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<thead>
<tr>
<th>Pharmaceutical company advantages</th>
<th>Organizational capabilities</th>
<th>Fast-moving consumer goods advantages</th>
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<tbody>
<tr>
<td><strong>Research</strong></td>
<td>Low</td>
<td>High</td>
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<tr>
<td>• Robust molecule pipeline</td>
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<tr>
<td><strong>Regulations and compliance</strong></td>
<td>2</td>
<td>5</td>
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<tr>
<td>• Ability to meet regulatory requirements at lower costs</td>
<td>3</td>
<td>• Innovation leadership (line extensions)</td>
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<td>• Ability to meet and prove claims</td>
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<td>• Efficient product development</td>
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<td><strong>Product innovation</strong></td>
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<tr>
<td><strong>Manufacturing</strong></td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>• Medical endorsements and detailing</td>
<td>3</td>
<td>• Mass-market production</td>
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<tr>
<td><strong>Marketing</strong></td>
<td>Low</td>
<td>High</td>
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<tr>
<td>• Access to pharmaceutical channels</td>
<td>1</td>
<td>• Brand strength</td>
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<td><strong>Sales</strong></td>
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<td>5</td>
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<tr>
<td>• Access to pharmaceutical channels</td>
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<td>• Ability to respond to consumer needs</td>
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<td><strong>Distribution and logistics</strong></td>
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<td>—</td>
<td>1</td>
<td>• Access to mass market</td>
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<tr>
<td>• Efficient supply chain</td>
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Source: A.T. Kearney analysis
Pharmaceutical companies have the clear edge on research, regulations, and compliance. With their molecule pipeline, ability to fulfill regulatory requirements at low costs, and experience at making and proving claims, pharmaceutical companies have the technical expertise and reputation to make consumers healthier. They have marketing and sales functions that play to these strengths, with effective medical endorsements and good access to pharmacy sales channels. They also have the brands to demonstrate clinical capability, even if they are often wary of diluting those brands by association with less well-proven technologies. These strengths alone, however, will not be enough to win: These companies must become capable of far more rapid product innovation and must build flexible supply chains capable of reacting to the promotion-driven sales patterns of consumer goods. They must better understand consumers and their aspirations and improve their ability to adjust product mix and marketing to meet those desires while keeping costs low.

Consumer goods companies face a nearly opposite situation. They are traditionally strong in both speedy product development and incremental innovation and line extension to meet evolving consumer needs. Their marketing is good at establishing brands, which will be especially important in developing countries, where regulations are less of a barrier, and responding to consumer aspirations. Their manufacturing operations and supply chains are agile and efficient at producing and delivering mass-market products. They also use their presence in mass retail to make the products available to everyone. They have profound weaknesses, however, on the scientific side—which is, after all, much of what this market is about. Their brands also may not be extendable into more clinically oriented products—fizzy drinks are not readily associated with obesity reduction. If consumers and regulators do not believe that these products will improve health, then nothing else matters. If these companies cannot produce the research, meet the regulations, and prove their claims, they too will fail.

The winning companies, therefore, will be those able to marry the yin and the yang into a mixed model, with some features from each industry (see figure 5). They need to possess certain attributes of pharmaceutical companies:

**Figure 5**

*Winning companies in this new market will marry the yin and the yang*

Source: A.T. Kearney analysis
• Products with proven efficacy and credibility with both consumers and health professionals
• Health innovation leadership, including the courage to lead the market with new technologies

And they need to display the following characteristics of consumer goods companies:

• Intimacy with and understanding of customers
• Strong brand portfolios that dominate categories
• Excellence in marketing strategies and execution
• Flexible and lean supply chains
• Access to mass retail

Most companies will find it difficult to launch new consumer healthcare brands and businesses from within their existing marketing- or science-dominated cultures. New entrants are typically setting these ventures up as separate business units. Launches will require new thinking and approaches and dedicated cross-functional teams to shape the strategy, develop the capabilities, and mobilize the resources for success. In fact, the unique set of potential roadblocks makes it hard to predict which companies from the pharmaceutical or consumer goods industries will dominate the consumer healthcare market. One thing seems certain, however: Among the unsuccessful will be those companies that don’t dare to try.

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