SURVIVAL OF THE SMARTEST

Which companies will survive the digital revolution?
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Introduction

We currently find ourselves in a transformation phase toward a fully networked world. A part of the way is already behind us, but the biggest changes are still ahead: outernet, industry 4.0, smart cities, connected cars, connected homes, big data, e-health, 3D printing, and robotics are just a few examples of foreseeable future developments. These trends will shape the world of tomorrow and bring with them a sustainable transformation of the economy, politics, and society.

Even today, structures, business models, and product portfolios are being put on trial at unprecedented speeds due to digitalization and networking. The boundaries between different markets are becoming blurred, activity areas are expanding and overlapping. Companies from various sectors that have existed parallel to each other until now are suddenly in competition or being forced to collaborate with each other.

This fast development not only forces companies to critically review their existing strategy and business models, but is also flanked by accounting, fiscal, legal, and security-related questions. The NSA monitoring practices that are currently being discussed, for example, are only possible due to developments in information and telecommunications technology, infrastructure and data analysis. Digitalization and networking have complex and far-reaching effects. Ultimately, all business processes and company areas are affected.

To master these serious upheavals, forward-looking thinking and the development of intelligent solutions at different levels of the business are required in all sectors. But what exactly are the challenges? And what might the solutions look like in detail? Specifically, the following topics are at the focus of the study:

- How endangered is the individual business model?
- How endangered is the individual market position?
- Who do consumers turn to?
- What sectors are particularly affected by the major changes?
- What are the success factors for survival on the market?

In short: which companies will survive the digital revolution?

To find answers to these questions, together with TNS Emnid we surveyed 350 management employees from seven sectors and over 1,000 consumers.

This study enables us to provide empirical proof for the first time of the enormous changes and pressure to act that companies are confronted with today and in the near future. We summarized the important results in five hypotheses about survival in the networked world of the 21st century.

We look forward to discovering the digital future and your development potentials together!

Yours truly,

Dr. Robert Gutsche, Head of Division, Consulting
It is clear: future-oriented companies with the aim of sustainable success are distinguished by consciously and proactively taking creative risks (for example with respect to a possible change of strategy or a portfolio reassessment). In addition, they must be prepared to take into account any short-term downturns in revenue, increase their investment volumes, or take the risk of a possible unsuccessful innovation or product launch. The will to change and the readiness to take risks are necessary requirements for survival in the digital age. Those who hesitate and remain in the old templates will be steamrollered by the momentum of the digital world.
In the multi-sector competition of the networked world, companies that embrace digitalization as an opportunity will ultimately survive. Those who want to be successful in the future must react to structural challenges with intelligent concepts and use the possibilities of digitalization and networking. Based on the study results, we prepared five hypotheses of sustainability for companies.

04 Tailor
radically tailor their products and services to an increasingly digital, personalized, and independent customer base.

05 Maximize
take into consideration future success factors and quickly remedy their own weaknesses.

Who is most at risk?
Our study shows that companies in all sectors need to act. The changed market and competition conditions cannot be ignored. Higher risk levels were identified for the media, telecommunications, and energy sectors as well as the finance and retail sectors. Companies in these sectors — but also in others — must face the fact that

• Their business model will seriously change in the upcoming years.
• Some of their existing products and services will become superfluous in the future.
• Both innovation and cost pressure in their business will clearly grow.
• The entry of new market players will excessively increase the competitive pressure.

On the following pages, we present the individual hypotheses and correlate them to the study results.
Traditional business models are under massive pressure.

Companies that break away from traditional business models and consistently reassess their existing product and service portfolios will survive.
At the start of the survey we wanted to know from companies whether in principle they see a risk at all. The results are clear: every third company expects a strong or even fundamental change to its business model by 2020. Only three percent of all respondents expect their own business model not to change at all before 2020. All sectors are thus aware of the imminent transformation.

At the same time, there are differences: telecommunications and media companies along with energy suppliers see their business models as being most at risk. Over 50 percent expect fundamental or at least major changes by 2020. By contrast, the figure in the financial sector and the automotive industry is 20 percent (figure 1).

The self-evaluation of existing business models by companies shows that many of them have to reinvent themselves in the short term rather than in the medium term, in full or at least in part. The basics of current business practices are increasingly disappearing for many companies:

• Existing value chains are broken by digitalization and networking and changed significantly.
• Prior core competencies (for example in the area of print journalism or centralized energy supply) that were helpful in the past are increasingly unsuitable.
• Certain products and services no longer generate revenues, as they are being pushed out by digital substitutes or innovative applications/forms of use.
• The usual environment of the sector is changing. The familiar market is disappearing or overlapping with other markets.
• Established competition and differentiation strategies no longer work.
Companies need the courage to radically change existing product and service portfolios, give up obsolete products or services, and develop completely new business fields. Their position on the value chain must be readjusted as well: is it more promising to be closer to the customer or rather act more as an intermediate provider or supplier?

**Fig. 1**

How much will your business model change by 2020?

Top 2 values on a scale from 1 (“not at all”) to 5 (“fundamentally”) in % of respondents (N=50/Total N=350)

- Automotive: 20%
- Banks and Insurance: 20%
- Transportation and Logistics: 28%
- Retail: 28%
- Total: 34%
- IT and Electronics: 34%
- Energy Sector: 50%
- Telecommunications and Media: 60%

Source: KPMG, 2013
Cross-industry thinking is in demand.

Companies that think beyond their own sector and use growth opportunities in new sectors will survive.
2.1 New market participants increase competition pressure.

Let us start with a few scenarios: in the market segment of electric motoring, very new providers (technology companies or energy companies) might compete with the established car manufacturers and suppliers in the near future. The reverse development is also possible: car suppliers expanding into the energy sector. Manufacturers of car batteries, for example, may use their expertise and develop storage for renewable energies. Similar changes could occur in other sectors. With smart grids, the boundaries between energy and telecommunications are becoming blurred, just like the boundaries between IT and healthcare with e-health, and the barriers between technology, telecommunications, retail and the finance sector with mobile payment.

These examples illustrate a changed competition momentum in the digital age: first, new providers could arise in the volatile, technology-driven markets from one day to the next. Second, companies that are confronted by saturated markets in their core business, or whose business model is no longer future-oriented, are increasingly looking for new growth areas. Other sectors increasingly come into focus in the process. Third, this transformation of the market and competition environment is accelerated by technological developments and kept constantly in motion.

In a digital and networked world, there is often an overlap of previously separate sectors: products and services come together, integrated solutions are in demand, old value chains are broken. Digitalization and networking decrease the formerly high entry barriers in many sectors. This increases competitive pressure from new market players, but also opens up additional growth prospects.

We explicitly asked companies which sectors they fear competition from by 2020. About 60 percent of management employees expect new competitors from at least one of another six sectors. In the energy and financial sectors, as well as in the telecommunications and media sectors, this figure is even over 70 percent. This clearly proves that the competition in many sectors will increase due to new market players (figure 2).

A detailed overview of the imminent competition is provided in figure 3. It shows the sectors which the new competitors are coming from according to the estimates of the respondents. In this assessment, it is clear that the financial sector in particular is facing turbulent times. It will be pressured from several sides in the future. The biggest risk for banks and insurance is from the sectors of retail, telecommunications, and media, as well as the automotive sector.

The total percentage values result in a competition index. The higher the value, the higher the future risk from new competition from other sectors.

The competition index in banking and insurance is more than three times as high as it is in the logistics sector and more than twice as high as in the IT and automotive sectors. Another considerable indicator value is the energy sector. Energy companies fear above all new competition from the telecommunications, retail, and technology sectors. Indicators are relatively low for the telecommunications, media, and retail sectors. In view of the fact that these sectors are especially affected by digitalization and networking, these values seem very low.

The question is: Who is poaching whose territory?

1 BMW had long discussed the development of the i3 electric car. The decision to go ahead with this project was partly based on the concern about a completely new competitor that threatened to take over this market segment: Apple (“Studies showed that a good 20 percent of European premium customers were prepared to buy an electric car from Apple in 2008. BMW had to react.” Manager Magazine, issue no.7/June 2013).
**Fig. 2**

Is your business at risk of new competitors from the following sectors by 2020?

“Yes” answers in % of respondents (N=50/Total N=350)

- **Energy Sector**: 82%
- **Telecommunications and Media**: 74%
- **Banks and Insurance**: 72%
- **Total**: 61%
- **Retail**: 60%
- **IT and Electronics**: 54%
- **Transportation and Logistics**: 44%
- **Automotive**: 42%

Source: KPMG, 2013

**Fig. 3**

In your company’s view, will the following sectors be considered competitors by 2020?

“Yes” answers in %, multiple answers possible

- **Automotive (N=50)**: 40%
- **Banks and Insurance (N=50)**: 14%
- **Energy Sector (N=50)**: 8%
- **Retail (N=50)**: 18%
- **IT and Electronics (N=50)**: 12%
- **Telecommunications and Media (N=50)**: 10%
- **Transportation and Logistics (N=50)**: 22%

**Competition index**: Total percentage of respondents who expect competition from other sectors (multiple answers possible). The higher the value, the higher the risk of new competitors for the sector.

Source: KPMG, 2013
2.2 Growth opportunities are opening up in new sectors.

While digitalization and networking increase competition risk on the one hand, they open up new growth opportunities in additional markets on the other. About 70 percent of all surveyed companies see revenue potentials in at least one of the six other sectors. This assessment covers all the surveyed sectors: overall, the clear majority of respondents see growth opportunities in other industry sectors. In many cases, these potentials may even be bigger than in the established core market, which is becoming increasingly saturated and consolidated (figure 4).

As with the competition analysis, the results of the expansion efforts can be detailed in a table. According to this table, the technology sector (IT and electronics) has the biggest growth potential on foreign territory: its expansion indicator is by far the highest. That means: in this sector, the efforts to expand the individual business field to other sectors are the greatest (figure 5).

Attractive target markets for technology companies are the automotive industry, the energy sector, and the telecommunications and media sectors. Between 34 and 40 percent of the surveyed IT and electronics companies recognized revenue opportunities there. The finance and energy sectors, the logistics sector, and the telecommunications and media sectors also reached comparatively high indicator values, meaning that these companies will also heavily expand into other sectors in the future. In all cases, retail is considered to be an attractive target market.

The identified growth potentials of the individual sectors enable a second assessment of the imminent competitive risk. Which markets and/or sectors are especially at risk from this perspective? The vertical column of the matrix (column total) provides answers. According to this, retail is especially at risk. It is the focus of expansion for many other sectors. With some limitations, the same applies to the technology and logistics sectors as well as the telecommunications and media sectors.
In which markets do you see growth opportunities for your company? Are the following sectors considered to be expansion fields by 2020?

*Yes* answers in %, multiple answers possible

<table>
<thead>
<tr>
<th>Sector</th>
<th>IN %</th>
<th>Automotive</th>
<th>Banks and Insurance</th>
<th>Energy Sector</th>
<th>Retail</th>
<th>IT and Electronics</th>
<th>Telecommunications and Media</th>
<th>Transportation and Logistics</th>
<th>Total (competition index)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive (N=50)</td>
<td></td>
<td>2</td>
<td>16</td>
<td>38</td>
<td>10</td>
<td>2</td>
<td>30</td>
<td>98</td>
<td></td>
</tr>
<tr>
<td>Banks and Insurance (N=50)</td>
<td>24</td>
<td>22</td>
<td>42</td>
<td>30</td>
<td>28</td>
<td>10</td>
<td>156</td>
<td></td>
<td></td>
</tr>
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<td>Energy Sector (N=50)</td>
<td>4</td>
<td>10</td>
<td>42</td>
<td>26</td>
<td>46</td>
<td>20</td>
<td>148</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail (N=50)</td>
<td>14</td>
<td>18</td>
<td>14</td>
<td>16</td>
<td>14</td>
<td>36</td>
<td>112</td>
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<td>IT and Electronics (N=50)</td>
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<td>14</td>
<td>36</td>
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<td>34</td>
<td>28</td>
<td>178</td>
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<td>Telecommunications and Media (N=50)</td>
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<td>10</td>
<td>10</td>
<td>54</td>
<td>50</td>
<td>18</td>
<td>152</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transportation and Logistics (N=50)</td>
<td>32</td>
<td>12</td>
<td>18</td>
<td>38</td>
<td>22</td>
<td>20</td>
<td>142</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Expansion index:** Total percentage of respondents who see revenue potential in other sectors (multiple answers possible). The higher the value, the higher the probability of this sector expanding into other sectors or the greater its efforts to do so.

The expansion table shows at the same time that there are hardly any clear boundaries. IT companies intend to poach the automotive sector, retail in turn wants to venture into logistics, media and telecommunications companies into IT and energy suppliers into telecommunications. In a multi-layered way, all participants are involved in an increasingly multi-sector competitive environment. No one is immune to new competitors. The outlined momentum also reveals new constellations in terms of partnerships and alliances, which are being entered into across sector boundaries.

It is important to make the most of the changed growth possibilities. Companies from nearly all sectors are being forced to expand: their national markets are often too small to offer long-term growth prospects. In addition, there is pressure from the capital markets: companies that are undervalued because they are small or lack prospects can be taken over quickly. Lack of size can thus become a risk in terms of global competition. In consequence, all growth potentials should be examined – both multi-sector and multinational. The development of new markets usually boosts the exchange rate and thus lowers the risk of takeover.

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1 Lichtblick, Volkswagen and other companies, for instance, formed a consortium that connects electric cars with power and wants to use them as mobile energy storage. Other examples are the latest alliance between Telekom and Axel Springer AG (Telekom customers can get digital subscriptions for the newspaper “Bild”) and the founding of a joint venture by Allianz and Volkswagen called Volkswagen Autoversicherung AG.
2.3 The changed competition dynamics create winners and losers.

Our study hints at potential winners and losers in the new multi-sector competitive field: possible losers are companies that see few opportunities for growth in new markets while operating in sectors that are witnessing increased competition pressure from other sectors.

Winners and losers in the digital age can be deduced by contrasting two parameters per sector:

(a) the risk of being attacked by other sectors (competition risk), and

(b) the individual growth opportunities and turnover potentials in other sectors (expansion efforts).

The anticipated winner is the technology sector. The respondents from this sector see big growth potentials in other sectors, but do not really fear any new competition. In contrast, the position of retail, banks and insurance, energy companies, telecommunications and media companies is critical. Here, the competition risk is relatively high, whereas the growth opportunities in other markets are assessed as being relatively low. These sectors are most seriously at risk of being “swallowed” by other sectors. At the very least, it is to be expected that the “slice of pie” for established providers will get smaller, because new competitors from other sectors will join them at the table in the future.
(a) In the view of your company, will the following sectors be considered competitors by 2020? (b) In which markets do you see growth opportunities for your company by 2020? Are the following sectors considered to be fields for expansion?

“Yes” answers in % of respondents, multiple answers possible (respectively N=50)

Circle size = number of employees in the sector in Germany

Source: KPMG, 2013
Comparing the column total of the expansion index (page 15) with the competition index (page 13) sheds light on interesting differences between self-assessment and external assessment, and these are illustrated in the following matrix. The matrix shows both inward and outward perspectives, and contrasts feared competition (self-assessment) with the revenue potentials and expansion targets identified by others (external assessment).\footnote{By contrast, the competition matrix on page 13 only shows the inward perspective, i.e. the individual sectors’ self-assessments in terms of expected competition and identified growth opportunities. The results of the competition matrix are not rendered invalid by the second representation; the differences are to be attributed to a shift in perspective. It may be the case that the self-assessment of the sectors in terms of new competition is more realistic or accurate than their assessments of revenue potential on new terrain.}

How can differences and strategic misjudgments be identified? Retail, for example, only sees itself as being partially threatened (its competition index is toward the middle) yet is viewed as an attractive target market by almost all sectors surveyed (retail has the highest column total in the expansion table). This demonstrates how future competition risks can be underestimated.

Another example illustrates exactly the opposite: the majority of banks and insurance companies surveyed expect new competition from a variety of different sectors (high competition index). The other sectors, however, have little intention of expanding into the financial industry (low column value in the expansion table).

These two examples show that it is not enough to view other industries with an inward perspective. Those looking to recognize tomorrow’s competitors need to understand the situation of companies from other sectors and anticipate their possible strategies. Companies that attempt to fend off the wrong rivals are squandering valuable resources. Companies that fail to spot their future competitors, however, will not survive the battles to come.
(a) In the view of your company, will the following sectors be considered competitors by 2020? (b) In which markets do you see growth opportunities for your company by 2020? Are the following sectors considered to be fields for expansion?

“Yes” answers in %, multiple answers possible (respectively N=50)

Circle size = number of employees in the sector in Germany

Source: KPMG, 2013
03 Plan
A flexible innovation and investment culture is needed – costs remain in focus.

Companies that allocate sufficient resources toward a dynamic innovation and investment culture while permanently optimizing their costs will survive.
Eighty-five percent of the surveyed companies expect that the pressure of innovation will increase in their business area by 2020. The same picture is seen for cost development: nine out of ten companies forecast growing cost pressure.

The reasons for the increasing innovation pressure are varied: technology advances, shorter product lifecycles, and changing customer needs. The trend is seen in nearly all sectors, although with varied intensity. IT companies, telecommunications providers and media companies see the biggest risks. This result is hardly surprising, because these sectors have already been confronted by fundamental technology advances in the past. In contrast, the evaluation of the retail sector is surprising: a third of the respondents – more than twice as many as in all other sectors – stated that the innovation pressure will stagnate. We find this forecast hardly plausible, because mobility, digitalization, and networking massively change how, where and when retail takes place. Innovative solutions will seemingly be imperative in retail based on that.5

A uniform picture across all sectors is provided by cost development: almost all companies expect a clear increase in cost pressure by 2020. This is not new knowledge. The question is, however, how this known challenge can be solved in the future and harmonized with innovation expenditures that are bound to increase (figure 8).

The matrix shows expectations of companies regarding cost and innovation developments. It clarifies that none of the researched sectors are really relaxed about the future – neither in one perspective nor the other (see empty field on the lower left). On the contrary: five of seven sectors expect both increasing cost pressure and a growing pressure of innovation (see the field in the upper right).

In the future, successful companies must cope with the difficult balancing act between cost efficiency and innovative strength. With minimal cost expenditures, maximum innovative abilities must be achieved. In this way, a “business as usual” approach to costs could be helpful: temporary and reactive “diet programs” that decrease staff and department costs are no longer in focus. Sustainable, cost-oriented and long-term optimization of all processes and structures is necessary.

Therefore, the following will be needed in the future:

• Create cost transparency at process and product levels.
• Establish instruments for permanent control and monitoring of costs.
• Design procedures and processes in a more streamlined, flexible and efficient way.
• Increase speed of all business processes to minimize product introduction times (time to market).
• Build up in-house R&D activities or buy innovative competence (for example by acquiring start-ups).
• Form partnerships, alliances, and joint ventures to lower costs (for example procurement and sales) or to increase innovation.

5 The changes coming up for retail are also shown, for example, in the KPMG study “The Future of Shopping.”

This is available at www.kpmg.de/zukunft-des-einkaufens
Fig. 8

How will innovation and cost pressure develop in your business in the period until 2020?

Top 2 values on a scale from 1 ("not at all") to 5 ("fundamentally") in % of respondents (respectively N=50)

Circle size = number of employees in the sector in Germany

(a) Development of innovation pressure

(b) Development of cost pressure

- Transportation and Logistics
- Banks and Insurance
- Energy Sector
- Telecommunications and Media
- Automotive
- IT and Electronics
- Retail

Source: KPMG, 2013
Results of customer survey: Products and marketing must be tailored to new customers.

Companies that consistently tailor their products and marketing strategies to an increasingly digital, individualized, and independent customer base will survive.
4.1 The customer of the future is mobile, networked, and independent.

Big adjustments are needed in interfaces to customers, because their preferences and needs are changing greatly. In the past ten years, use of media, communication and information customs, as well as shopping behavior, have changed dramatically. Smartphones and tablets for the younger generations of today are normal everyday tools. People under 30 spend almost four hours a day with these versatile mobile devices (just in their free time), which is double the time they spend watching TV.

These mobile and networked consumers are more independent from companies and their products. Smart end devices, constant availability of easy-to-access information, independent knowledge or comparison portals, and networking via platforms like Facebook and Twitter ensure growing independence of consumers from companies and their products. Brand loyalty is decreasing and readiness to change is growing. Previously, a customer was reliant on the advice of a seller. Today, the opinion of the crowd is Googled and the latest recommendations are reviewed in appropriate networks, blogs and forums. Mobile apps scan QR codes and provide information on where a specific product is cheapest. Obtaining neutral information and the experiences of other buyers are the most important aspects of buying decisions for a majority of consumers (see the graph below). By contrast, the trust in, and attachment to, specific brands and products is an important buying criterion for only half of the respondents (figure 9).

In addition, the desire to exert influence and participate is increasing. Sixty-six percent of those under 30 want to participate in product design, for example by choosing colors or functions. For school kids, this figure is as high as 81 percent. This is another trend championed by younger generations, and it will solidify as they grow up. As far as customer influence and participation are concerned, they lead to a “reversal” of added-value stages: previously, production came first and marketing second; whereas in the future, production may only come after marketing, configuration, and ordering. What automotive manufacturers are practicing already will then be relevant in other sectors too: such as the textile industry, household appliances, and the media sector (for example individualized newspapers). The principle of mass customization will also be relevant for a multitude of sectors in the future.

Even the organization of work within companies is affected by the outlined development. The omnipresence of mobile devices results in the blurring of free time and work time, private and professional worlds. In the future, increasing virtualization of workplaces will be needed (working from home, working on the move, webinars) to adapt to the changed needs and habits of employees (for example with respect to flexibility, mobility and work/life balance).
Fig. 9  
How important are the following aspects for you personally when buying a product?  
Top 2 values (“probably important” and “very important”) in % of respondents

![Bar chart showing importance of aspects for product purchase]

4.2 The buying behavior of consumers is changing.

The customers of tomorrow will not just shop on the Internet more frequently or use their smartphone for the most varied purposes. They will also look for products and services based on other perspectives than those that companies are currently used to. This has a direct impact on sales strategies, product presentation, customer service, and customer communication.

Companies must develop innovative strategies and attractive concepts to target customers, so that they can reach consumers in the expanse of the digital universe. The future success of companies is also dependent on correct communication. To this end, it must be understood when and why consumers use various channels, media, platforms, and devices. The needs of customers are becoming more complex and heterogeneous. Accordingly, not only does the product and service portfolio need to be tailor-made, individualized, and target-group-specific in its design, but customer communication must be more differentiated and platform-dependent in the future than it is today.
Our study shows that both traditional and modern advertising forms have only a subordinate significance for a majority of consumers. Only 40 percent of them consider classic TV commercials or printed advertisements as helpful sources of information when choosing a product. However, contemporary alternatives, such as newsletters or automated recommendations based on an evaluation of user profiles and shopping habits, are even less attractive from the customer’s perspective (figure 10).

The current widespread strategy of companies addressing customers via social media platforms like Facebook or Twitter is met with little love by the latter. Only 20 percent of all respondents find these communication forms important or helpful in terms of obtaining information about products.6 Finally, communication via mobile devices is shown to be problematic, because consumers are extremely dismissive of this form of advertisement. In the future, there is a big need for action by advertisers to develop intelligent and acceptable forms of advertisement for smartphones and tablets.

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**Fig. 10**

It is possible to get information about products in different ways. How important will the following information sources be to you in the next five years?

Top 2 values (“probably important” and “very important”) in %, multiple answers possible

<table>
<thead>
<tr>
<th>Information Source</th>
<th>Total (N=1001)</th>
<th>14-29 years old (N=211)</th>
<th>60+ years old (N=293)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommendations of friends or acquaintances</td>
<td>90</td>
<td>85</td>
<td>65</td>
</tr>
<tr>
<td>Reviews on the Internet</td>
<td>83</td>
<td>65</td>
<td>40</td>
</tr>
<tr>
<td>Classic advertisements (for example TV, newspaper)</td>
<td>41</td>
<td>39</td>
<td>40</td>
</tr>
<tr>
<td>Automatic recommendations through assessment of user data</td>
<td>40</td>
<td>25</td>
<td>24</td>
</tr>
<tr>
<td>Newsletter via e-mail</td>
<td>24</td>
<td>21</td>
<td>18</td>
</tr>
<tr>
<td>Dialogue with the manufacturer and seller through social networks</td>
<td>16</td>
<td>20</td>
<td>15</td>
</tr>
<tr>
<td>Advertisement via smartphones or tablets</td>
<td>23</td>
<td>12</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: KPMG, 2013

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6 Naturally, reasons for this reluctance would have to be researched in depth. Do consumers want to remain amongst themselves? Or are the social media offers currently provided by companies simply not attractive for the most part? In view of the continuing wide reach and popularity of social networks, the question for companies is not whether digital channels and platforms should be used, but how.
What aspects will affect the buying process in the future?

Before, it was most important for customers to receive personal advice and to be able to touch products before buying. In the over-60 age group, both of these are still the most important criteria. These aspects are two good arguments for stationary commerce. For younger consumers, however, preferences are shifting and becoming more diverse by comparison. For younger generations, “advice” is one of many buying criteria. Since they are already extensively informed through Internet research and Facebook recommendations, advisory services lose meaning for them. As seasoned online shoppers, they can also often do without the need to touch the product before buying (figure 11).

Fig. 11 Please state which three of the following eight points are personally the most important to you when you think of shopping in the future.

Ranking of criteria with the most frequent points mentioned in % of respondents (N=1001)

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Total (N=1001)</th>
<th>14–29 years old (N=211)</th>
<th>60+ years old (N=293)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal advice</td>
<td>55</td>
<td>49</td>
<td>66</td>
</tr>
<tr>
<td>To be able to touch products before buying</td>
<td>49</td>
<td>44</td>
<td>53</td>
</tr>
<tr>
<td>Big selection</td>
<td>45</td>
<td>44</td>
<td>53</td>
</tr>
<tr>
<td>Immediate availability</td>
<td>42</td>
<td>38</td>
<td>43</td>
</tr>
<tr>
<td>To be able to purchase with flexibility and spontaneity</td>
<td>37</td>
<td>30</td>
<td>41</td>
</tr>
<tr>
<td>Home delivery</td>
<td>37</td>
<td>30</td>
<td>34</td>
</tr>
<tr>
<td>Image and reputation of the provider</td>
<td>21</td>
<td>21</td>
<td>29</td>
</tr>
<tr>
<td>Shopping as an experience</td>
<td>10</td>
<td>5</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: KPMG, 2013

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Other aspects of shopping are indeed gaining significance and coming into play on an equal footing along with advice and touch: the younger generations value a big selection and the possibility of being able to buy with flexibility and spontaneity. These are two criteria better served by the Internet than stationary commerce. The manufacturer’s or provider’s reputation is also a relevant aspect of the buying behavior of many younger people. In view of adolescent target groups, companies should avoid products and activities that harm their image. “Shopping as an experience,” however, is important for only five percent of those under 30. That is an astonishingly clear vote against flagship stores, warehouses, and shopping malls.

Overall, the results show that younger consumers prefer shopping criteria better served by online retail. Since these generations will become more dominant with increasing buying power, companies must digitalize their sales structures much more. A simple Internet offer is no longer enough though. Instead, the smartphone and tablet display must turn into a point of sale with appropriate apps.

Companies must accept this development and adapt to the changed needs of customers. Each sector is affected, because people are perceiving advertisements differently, shopping via new channels, demanding innovative products or services, using mobile applications, or setting other requirements for their workplace. This has the following consequences, for example:

- Existing product and service portfolios must be adapted to the needs of “digital natives.”
- More attractive and differentiated communication forms need to be heard in the multitude of information sources, networks, and communities. Classic ways to boost brand recognition are increasingly proving themselves to be ineffective.
- The growing awareness, independence, and readiness to change on the part of consumers make a stable customer base less and less probable. Business is more volatile. Processes must be designed with more flexibility and customer acquisition must be boosted.
- Products and services should take into account the individual wishes of customers. The correct ratio between standardization and individualization must be found for this purpose.
- An increasing virtualization of workplaces is needed. This lowers costs (for example for travel or offices), increases flexibility and raises employer attractiveness at the same time.

4.3 The risk of substitution by mobile applications and e-commerce continues to increase.

Today, we are experiencing sectors that grow together, overlap or even swallow one another. This development is heavily driven by the growing possibilities of mobile end devices like tablets and smartphones. The increasing functionality and networking of technical devices means a risk of substitution for traditional products, services, and sales channels (figure 12).

In the scope of this study, consumers were asked what they use their smartphone or tablet for/what they would use it for if it were possible (for example through physical access to a device). The results showed that many consumers are actually interested in the innovative functions of mobile end devices. As expected, this is especially true of the younger generations.
Could you imagine using a smartphone or tablet for the following purposes, if it were possible?

Top 2 values ("probably yes" and "certainly") in %

- Shopping and ordering goods: Total (N=1001) 56%, 14–29 years old (N=211) 57%, 60+ years old (N=293) 55%
- Controlling water and energy consumption: Total (N=1001) 54%, 14–29 years old (N=211) 53%, 60+ years old (N=293) 55%
- Reading newspapers, magazines, and books: Total (N=1001) 66%, 14–29 years old (N=211) 68%, 60+ years old (N=293) 64%
- Monitoring the apartment and the house: Total (N=1001) 40%, 14–29 years old (N=211) 40%, 60+ years old (N=293) 41%
- Taking care of official matters: Total (N=1001) 36%, 14–29 years old (N=211) 36%, 60+ years old (N=293) 35%
- Watching movies: Total (N=1001) 58%, 14–29 years old (N=211) 61%, 60+ years old (N=293) 55%
- Getting health checkups: Total (N=1001) 37%, 14–29 years old (N=211) 36%, 60+ years old (N=293) 38%
- Checking functionality of the car: Total (N=1001) 39%, 14–29 years old (N=211) 37%, 60+ years old (N=293) 41%
- Paying or transferring money: Total (N=1001) 35%, 14–29 years old (N=211) 34%, 60+ years old (N=293) 36%
- Controlling appliances: Total (N=1001) 48%, 14–29 years old (N=211) 43%, 60+ years old (N=293) 53%

Source: KPMG, 2013
If the individual applications are taken into consideration, m-commerce is the most popular. Fifty-six percent of all consumers stated that they buy or order goods using their mobile device. Among those under 30, this share is even over 70 percent.

The interest in applications that are not even on the market or that have only very recently come onto the market is highly astonishing:

- Over 50 percent of respondents would use their smartphones or tablets to track their energy and water consumption.
- Nearly 40 percent monitor their house or apartment using their mobile device.
- Over 30 percent would take care of official matters, get health checkups, check the functionality of their car, pay by using the smartphone or control appliances.

These numbers indicate a major “early adopter” potential for innovative mobile services and applications. Trends and technologies in the areas of smart grids, e-health, mobile payment, smart homes and connected cars actually have a realistic chance of gaining widespread popularity.

Digitalization and smart devices massively change the way we listen to music, read books, book trips, set up apartments, buy goods, and make payments. This shift to the digital world makes classic (analog) products and services superfluous in many areas. The CD has been replaced by digital music files, the daily newspaper by news apps and online news. A similar fate is threatening the camera, whose function is increasingly being taken over by smartphones. Furthermore, classic services (such as financial consulting, medical checkups, car maintenance) and infrastructures (nationwide branch structures or insurance agencies, cash desks, ATMs) are threatened by digital substitutes and innovative applications (online banking, telemedicine, remote maintenance, e-commerce, mobile payment).

By virtue of this transformation, there are more and more providers out there that can offer digital products, services or structures faster and possibly even better than the “heavy-weights” of the analog world. In almost every sector, the question is whether and to what extent established companies are successful at digitally transforming their products and services. Success in the analog world is rarely transferrable to the digital world.

The inexorable development of the Internet into an important sales channel promotes the overlapping of individual sectors; it poses a risk of substitution for classic sales structures. More and more products are operated electronically and reach a considerable market share in this way. In many sectors or groups of goods, about a third of the classic sales business is threatened by the Internet. Even products like furniture, medicines, cosmetics, cars and insurance, for which a major haptic value or advisory need can be assumed, will be purchased at a rate of about 20 percent over the Internet in the future. Consumers now only have reservations about groceries (figure 13).

On the topic of online shopping, we once again encounter the known age differences: younger generations are clearly more Internet savvy than their older counterparts. Since it has to be assumed that younger people will keep their habits and preferences for the most part as they get older and at the same time their buying power will grow continuously over the course of time, there will be another market shift in favor of e-commerce and m-commerce in the upcoming years and decades. Both will make up a significant share of revenues in some sectors.
Fig. 13

What percentage of the products and services listed below do you think you will buy and/or use on the Internet in the next five years?

Average values in %

- Travel
- Messages and reports
- Clothing
- Financial investments and banking services
- Furniture and equipment
- Medicines
- Cosmetics and body care
- Cars
- Insurance
- Groceries

*In five years, on average x% of these products and services will be bought online.

Source: KPMG, 2013
Success factors must be correctly recognized and weaknesses remedied promptly.

Companies that take into consideration future success factors and quickly remedy their own weaknesses will survive.
5.1 Success factors for the networked world.

In view of the fundamental changes, individual companies must be fit for the challenges of tomorrow. Therefore, we asked the managing employees to provide their evaluation of which aspects and factors they find especially important for future business success.

In all sectors, customer loyalty has top priority; it is at the top of the future success factors. Nine out of ten companies find it important or even very important. In the overall overview, flexibility, innovative ability, and market strength are also considered important for success. Also, technological competence, intelligent use of data, and flexible staff management were identified as important or very important by over 60 percent of all respondents.

However, there are also sector differences: for example in the energy sector, a commitment to the environment and society, and strategic cooperation were in second and third place respectively. In the finance sector, in turn, market strength and flexibility were in these ranks, and in the automotive industry these positions were occupied by technological competence and innovative ability.

What are the success factors for your company in the future? Please assess the following aspects based on whether they are seen more as special strengths or more as weaknesses of your company.

Assessment of strengths/weaknesses

![Diagram showing success factors and their assessment]

Source: KPMG, 2013

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5.2 The strengths/weaknesses profile shows immediate need for action.

If we compare the success factors with the self-assessment of the companies regarding their own strengths and weaknesses, the result is surprisingly optimistic: in all sectors, the surveyed companies see their position as good or very good in terms of important success criteria. Customer loyalty is considered by nearly 90 percent of all respondents as a special strength of their company. Furthermore, most companies imagine that they are well equipped when it comes to brand strength, technological competence, and innovative capacity. The companies admit deficits in factors that they evaluate as unimportant anyhow: in first place is the use of social media, which most companies consider to be their weakness. The same applies to design and presentation of products and to their social and environmental commitment. These are also areas where companies tend to see their weaknesses while regarding such aspects as relatively unimportant.

Naturally this poses the question of whether the companies are right in their assessment of these factors or whether social media, product design and corporate responsibility will make a much bigger contribution to company success in the future than they do today. The results of our consumer surveys tend to indicate a growing significance of these aspects (cf. page 26 to 28). Therefore, it would have to be assumed that some companies are not yet aware of the changes in customer demands.

In some fields, there are clear optimization potentials and a corresponding need for action. This is especially obvious when the success factors and the strengths/weaknesses analysis are compared in a matrix (figure 14).

The upper left-hand portion of the diagram shows the areas in which the companies are well positioned based on their self-assessment. In contrast, the upper right-hand portion contains aspects with a big need for action in the form of a “smart business transformation.” These are criteria that the respondents identified as important success factors for the future, but for which they also see deficits in their own company.

The results of our strengths/weaknesses analysis put in perspective the optimistic self-assessments of the companies:

- For many companies, there is still a major need for action regarding their flexibility, strategic cooperation, and intelligent use of data.
- The aspect of customer loyalty must be individually analyzed by each company: has sustainability been achieved already? Have the changed preferences, demands, and consumption patterns of their customers (especially the younger target groups) been fully recognized and reacted to adequately? Or is the evaluation of strengths related to circumstances in the analog world?
- Prioritization and assessment of success factors should at least be verified in part as well. Companies run the risk of investing in the wrong strengths and ignoring success factors that would be more important from the point of view of consumers.
- For example, the design of products is relatively unimportant for companies. However, more than half of the customers (even two thirds of those under 30) want to co-design products in the future – that is, influence their design (see page 26). Here, an important success criterion and differentiation feature may have been overlooked.
- The answer to the question of whether “brand strength” is really such a significant success factor for the future is inverse to the views of the companies. The results show: the younger the respondents, the lower the loyalty and bond to specific brands (see page 26). Technology connects customers directly with the product or with the useful value and unique selling proposition, which are used as a basis to purchase the product. Therefore, we are experiencing a trend toward product brand devaluation.
Digitalization and networking are revolutionizing the economy. As in any transformation phase, important questions arise: What is disappearing? What is staying? What is coming? With our study, we applied these questions to selected sectors. The results clearly show that we are dealing with a structural transformation that is fundamentally changing many sectors and putting companies face-to-face with existential challenges.
Traditional value chains are broken, established products are substituted, tried-and-tested business models no longer work. In consequence, there is a completely new market and competition momentum in many sectors. The fronts in the battle for survival are constantly becoming more complex. Nearly every company is involved – as a potential aggressor and/or as a possible victim. The rise of Apple to become the world’s biggest music seller is just one of many examples of how new technologies turn entire sectors upside down and long-time market leaders suffer a crisis. This momentum will encompass other sectors in the future. The result of the outlined development is uncertain for established providers. In contrast to individual products, entire sectors may not disappear in full. However, they will become smaller and lose significance if the companies affected do not adapt to the changed conditions promptly and comprehensively.

The potential winners in the multi-sector competitive environment of the networked world will be the smart companies that react to structural challenges with intelligent and innovative approaches. Promising recipes for the digital age are:

- **Forward-looking actions and intelligent analytics:**
  Early recognition of technological, demographic, and cultural changes (like digitalization, urbanization, individualization, value transformation) and prompt adaptation.

- **Market and multi-sector mindset:**
  Early recognition of new competitors and consistent use of growth opportunities.

- **Strategic repositioning:**
  Embrace digitalization as an opportunity, change business models, streamline existing product portfolios and create new growth fields.

- **Digital and technological competence:**
  Consistently harness the possibilities of digitalization and networking at various company levels, automate and virtualize processes, and use modern IT tools.

- **Permanent cost optimization:**
  Constant control and continuous optimization of all costs.

- **Innovative strength:**
  Ensure a regular supply of innovation at all levels and create a corresponding innovation culture.

- **Speed:**
  Minimize product introduction times and reduce the time it takes to implement and market innovations.

- **Investment and risk mentality:**
  Companies should become venture capitalists in their own field and promote start-ups or innovation pioneers.

- **Increased flexibility:**
  Create adaptable personnel structures and business processes (because in the digital world business will be faster, more volatile and less predictable).

- **Consistent customer orientation:**
  Target the products to the needs of the increasingly digital, heterogeneous, individualized, and independent customers, develop attractive measures to secure customer loyalty.

- **Strength through size:**
  Focus on size through growth and innovation (in line with the following principle: “The biggest have a better chance of survival.”).

- **Cooperation:**
  Form partnerships and strategic alliances at different levels (to save on costs, share expertise, or advance innovation).

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7 But the example of the music industry also shows that it is possible to emerge from turbulent times and unrest with renewed strength. Currently, the music industry is experiencing relatively stable growth. However, its structure is completely changed: physical sound media are virtually meaningless, with music streamed via different digital channels. Instead of buying (and owning) music, more and more customers pay a monthly user fee just to listen to music. Moreover, the market is shaped to an increasing degree by completely new competitors (like Apple, Spotify).
Moreover, it is essential to develop new differentiation strategies for an increasingly global and multi-sector competitive environment. We have identified four promising strategies for the digital age.

**01 Consistent digitalization:**
Differentiation through digital competence (maximum possible digitalization and virtualization of products, services and business processes).

**Opportunities:**
- Increased efficiency
- Growth through innovation reduces the risk of bringing superfluous products from the analog world into the future

**02 Scaling core competencies:**
Differentiation through specialization or special competencies (for example the expansion of in-house marketing or infrastructure competence to other sectors). Modern technologies enable a nearly unlimited scaling of competencies, services, and business models.

**Opportunities:**
- Growth through expansion to other sectors
- Reduction of the risk of not escaping the original (and potentially threatened) sector

**03 Customer-oriented forward integration:**
Differentiation through holistic problem-solving competence, which is oriented to the needs of customers (for example the transformation from car manufacturer to mobility service provider or from newspaper publication to information service provider).

**Opportunities:**
- Growth through new services
- Stronger customer loyalty
- Reduction of the risk of being stuck on a threatened step of the value chain

**04 Maximum diversification (conglomeration principle):**
Differentiation through size and cost advantages (mixed groups are operating in various industries. This could result in synergies in the future that are hardly conceivable today. In addition, conglomerates stand out due to their size – an important advantage in global competition).

**Opportunities:**
- Synergy effects
- Size advantages
- Growth through expansion into other markets or sectors
- Innovative strength in various company areas
- Reduction of the risk of dependence on an individual (at-risk) sector
When choosing suitable future strategies and corresponding organization forms, it is not “either/or,” but “both this and this.” A mixed strategy for various business areas that will continue to diversify in the future is a promise of success. Ultimately, it is all about a delicate but effective orchestration of various strategies, and modular organization forms that will satisfy the specifics of individual business fields and market segments.

The departure from tried-and-tested strategies, established products and trusted processes is always a risk. The alternative would be to hesitate and wait. In view of the immense momentum in the progress of technological development, the latter is certainly the wrong strategy. AOL, EMI, Kodak, Karstadt, Nokia – there are enough examples of formerly big and established companies that did not recognize the structural transformation of their sector and were ultimately steamrollered by the pace of development. The present study makes it clear which companies and sectors must expect fundamental changes in the future. The turbulence is foreseeable – there is still time.

Our advice:
BE PREPARED.
BECOME SMART.
Method

For this study, 350 management employees at companies from a total of seven sectors and more than 1,000 consumers were surveyed in a parallel survey in March/April 2013. This process makes it possible to recognize sector differences and compare the self-assessment and external assessment of companies. In addition, an assessment of companies can thus be contrasted with the demands and tendencies of consumers.

The quantitative, computer-supported, and standardized telephone interviews with closed-ended questions and multiple-choice answers were conducted by the opinion research institute TNS Emnid. To create conclusive forecasts, the questions specifically looked at the period up to 2020 or the next five years.

Selection process, surveying, and evaluation

The 350 randomly selected company representatives came from the automotive, energy, finance (banks and insurance), retail, IT and electronics, telecommunications, media, transportation and logistics sectors. Fifty managing employees were surveyed per sector. To determine any differences depending on size, companies with differing numbers of employees and revenue volumes were interviewed. The lower threshold was 50 million euros in minimum annual revenue and/or 1,000 employees.

On the consumer side, 1,001 people from all age groups throughout Germany were surveyed. The selection corresponded to statistic random distribution. This random sampling is evaluated based on federal state, size of place, sex, age, profession, education, and household income, and the result is thus representative. The random company sampling provides valid and conclusive results for the respective sectors, but it is not representative of the economy as a whole due to the focus on seven sectors.
Thematic organization of the study

Central topic: Connected World – Smart Business

Technical, digital, global: the world is changing. If companies want to be successful in the future, they have to change with it.

The KPMG Connected World – Smart Business Competence Team will provide support in this regard. Specialists from the most varied sectors will offer intelligent, pragmatic, and pioneering solutions and build bridges between the customer’s wishes and the market.

Some of the topics at the focus of the report:
- Smart Car
- Smart Communications
- Smart Generation
- Smart Home
- Smart Infrastructure
- Social Media
- Smart Security
- Smart Shopping
- Smart Start
- Cloud Computing
About KPMG

KPMG is a network of companies with over 150,000 employees in more than 150 countries. In Germany, KPMG is one of the leading audit and consultancy companies, with some 8,600 employees at 25 locations.

Our goal: to make a complex world more understandable for companies. Our commitment: to provide the best service in the world. Our tools: quality, innovation, and passion.

Our sound professional and sector knowledge gives our customers security. Security that they need to implement their goals. Our experts show companies business opportunities and help them determine developments and achieve their growth targets.

For more information visit www.kpmg.de

Market research institute

TNS Emnid

TNS Emnid is a long-established institute in Germany. As a member of the TNS Group, the world’s leading provider of market research and social research, the institute offers market, professional, and method competence at a high level of quality – locally, regionally, nationally, and internationally.

TNS Emnid, now operating under TNS Emnid Medien- und Sozialforschung GmbH, was founded over 60 years ago and thus belongs to the long-established providers of market and social research.

For customers from politics and social research, TNS Emnid is a competent partner for national and international research. With the most modern and high-quality collection procedures and instruments of market and social research, TNS Emnid generates up-to-date and exclusive market information using the full spectrum of methods, from face-to-face interviews and phone interviews through to online surveys.

For more information visit www.tns-emnid.com

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