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The Power of Telecom  
*A Catalytic Force in the  
Economic Downturn*



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**Contact Information**

**Beirut**

**Bahjat El-Darwiche**

Principal

+961-1-985-655

bahjat.eldarwiche@booz.com

**Louay Abou Chanab**

Senior Associate

+961-1-985-655

louay.abouchanab@booz.com

**Dubai**

**Karim Sabbagh**

Partner

+971-4-390-0260

karim.sabbagh@booz.com

**Jonathan Fiske**

Senior Associate

+971-4-390-0260

jonathan.fiske@booz.com

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## EXECUTIVE SUMMARY

*The telecom sector has traditionally been a stronghold of financial resilience. However, its value in the Middle East and North Africa (MENA) region could be undermined by the recent economic turmoil if regulators and policymakers continue pursuing strategies that were formulated for different economic circumstances. Instead, policymakers and regulators need to step back, consider how to preserve the sector's resilience during the economic downturn, and adopt a broader approach to telecom policy—one that recognizes the sector's importance to the overall economy and enhances its vitality for the long term.*

To do so, policymakers and regulators need to review the schedules for privatization and liberalization and determine whether they are still appropriate in light of the economic downturn. They should also consider reducing operators' direct financial obligations and adopting a broader perspective in accounting for government returns from the

sector. Both of these measures will help safeguard the industry's existing players.

Policymakers and regulators should also invite governments to invest in national broadband infrastructure and should incentivize infrastructure sharing and traffic syndication between operators. These steps will

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improve investment efficiency in the sector. They should also look to accelerate the growth of information and communication technology (ICT) literacy among users and the workforce, triggering faster digitization of the economy.

Finally, policymakers and regulators should accelerate the institutionalization of long-awaited

sector governance and regulatory reform, creating a more conducive environment for investment.

Beyond their positive impact on sector resilience in the short term, these measures should help sustain the long-term value of the sector and make telecom a catalytic force to stimulate the wider economy.

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### Key Highlights

- In the context of the current economic downturn, telecom policymakers and regulators in the MENA region need to enhance the enduring value of their sector.
- The telecom sector can catalyze the economy as a whole by attracting investment, making it easier to access and share information, spurring innovation, and improving productivity.
- Current economic conditions mean that existing strategies and plans for the telecom sector may no longer be suitable; regulators and policymakers need to reassess their perspectives and approaches.

*Policymakers and regulators can ensure that the telecom sector will remain a robust pillar of the economy for years to come.*

# RETHINKING TELECOM REGULATION

Turmoil in international markets has left governments across the globe scabbling for an economic recovery lifeline. In the MENA region, governments may be able to reach for telecom, which has traditionally shown financial resilience. To ensure this remains the case, however, it is essential for policymakers and regulators to strengthen the sector. By anticipating the inevitable pressure that the global economic downturn will bring about and adjusting their strategies accordingly, policymakers and regulators can ensure that the telecom sector will remain a robust pillar of the economy for years to come.

The current environment of economic uncertainty presents an opportunity to broaden the boundaries of telecom's domain and bolster other parts of the economy. Telecom has expanded in recent years to touch almost every sector of the economy and enable increased digitization. All organizations—governments, large corporations, and small enterprises—rely on telecom for their daily operation. If anything, this dependence will increase during the economic downturn, as budgets

allow for less travel and organizations demand greater productivity.<sup>1</sup>

Individuals, too, have made telecom a part of their everyday lives. They simplify their lives by accessing services online, entertain themselves with digital media, and connect to family and friends using a variety of social media and digital tools. Although telecom operators' market performance may focus on traditional connectivity services, they may now have an opportunity to enter into new spheres of activity. In a time that calls for government intervention, policymakers who take a broader look at the telecom sector and take action to release its catalytic potential can create a multiplier effect that helps rejuvenate a nation's entire economy.

The MENA telecom industry experienced healthy growth over the past decade, but the financial landscape suddenly changed toward the end of 2008, and it is not certain how long the economic downturn will last. MENA operators are facing a number of new challenges: approaching market maturity, changing customer needs and preferences, and continuous transformation in technology, business, and operating models. There is a danger that the economic downturn could delay the industry's ability to embrace these imperatives.

In the current economic climate, and at this stage in the region's telecom market development, policymakers and regulators must challenge their

ongoing strategies and practices and, where needed, readjust their focus and approach. They need to align their telecom sector strategies with changing national economic objectives and shift focus from quickly extracting value to creating long-term resilience and sustainable growth. Governments may need to reverse old trends and consider re-intervening in areas in which they have been gradually disengaging since the late 1990s. Cooperation between sector stakeholders is essential, be they regulators and operators or incumbents and new entrants. Regulators and policymakers need to rapidly address inefficiencies in sector governance and regulation as they put in place the elements that will create sustainable value.<sup>2</sup>

Policymakers and regulators in the region should consider six essential strategies for preserving the telecom sector's resilience and leveraging telecom as a catalyst for the rest of the economy.

1. Review the schedules for privatization and liberalization
2. Reduce operators' direct financial obligations
3. Invest in national broadband infrastructure
4. Incentivize infrastructure sharing and traffic syndication
5. Grow ICT literacy among users and the workforce
6. Accelerate sector governance and regulatory reform

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## REVIEW THE SCHEDULE FOR PRIVATIZATION AND LIBERALIZATION

Although privatization and liberalization schedules that call for action in the next year or two were suitable prior to the downturn, recent events may require MENA policymakers and regulators to step back, reassess how successful such moves might be in the current economic context, and revise their approach.

There is room for more competition in most markets in the region, but sustaining existing players' resilience needs to be a higher priority at this stage than introducing further competition. Caution is necessary to attract solid and long-term investments to the sector, and it may be appropriate to include rescheduling imminent privatization or the issuing of new licenses.

Selling national assets at this stage may not yield the optimal return; licensing new facility-based operators could have a negative impact on existing players' incentive to invest. For example, the government of the

Sultanate of Oman postponed the sale of a 25 percent stake in state telecom firm Omantel in December 2008, in light of the deteriorating global economy and declining stock markets.

Similarly, in October 2008, the government of Algeria delayed the privatization of Algérie Télécom for at least another two to three years while the company implements an improvement program that will help increase its value and ensure better proceeds for the government once it sells part of its equity.

In another example, the Egyptian government recently announced it will probably delay beyond 2009 any further offering of Telecom Egypt's shares. And the Egyptian government's plans to grant a second facility-based fixed license have been put on hold for at least a year. In particular, policymakers and regulators should reconsider the timing of new facility-based licensing, especially given that attracting

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## REDUCE OPERATORS' DIRECT FINANCIAL OBLIGATIONS

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investment might be difficult at this stage. It is more likely that governments can create value by attracting qualified players to invest in service-based licenses. This would introduce new services and applications, improve the customer experience, broaden the telecom sector's boundaries, leverage existing operators' infrastructure, and add value to the sector and the economy.

Policymakers and regulators should make sure that further liberalization remains on their sector agenda for future consideration when the economic climate is more favorable and they are more likely to see an interest in investment from existing operators and new entrants. The privatization and liberalization approach that the region's telecom policymakers and regulators have taken so far has paid off. Well-timed additional moves in this direction would contribute to restoring investors' confidence and supporting economic recovery.

Policymakers and regulators in the region should ease financial pressure on telecom operators to give them room to breathe and allow them to make the necessary strategic choices in a cash-constrained environment. Reducing license fees, spectrum fees, taxes, royalties on licensees, and high dividends on largely government-owned operators would help ensure the sustainability of competition, investment, and employment levels in the sector. Doing so would also lead to increased government proceeds in the long term, as bolstering the sector would improve ICT uptake and have a multiplier effect on the economy, which would lead to additional government returns from taxes on incremental economic activities.

More important, though, this measure could provide an incentive for operators to invest further in network rollout and innovations in products and services. Such investments would have a multiplier effect on the broader economy while at the same time increasing both direct and indirect government returns. The government of Bahrain announced a 20 percent reduction in annual license fees for

telecom operators in the country with this idea in mind.

In previous crises, some regulators adopted a supportive approach toward licensees, easing financial obligations and ensuring a smoother ride through tough market conditions. In Italy, licensees were granted an extended license period; in France, an extended rollout period; and in Spain, staggered license payments. Singapore lowered license fees and relaxed nationwide rollout requirements.

In general, telecom operators' financial obligations must be robust enough to finance sector policy-making and regulation activities, as well as research programs and universal service funds. At the same time, financial obligations should be modest enough to make the sector attractive in order to increase reinvestments.

Many MENA countries continue to impose higher direct financial obligations on telecom operators than do their contemporaries in more mature telecom markets.<sup>3</sup> Proceeds from the telecom sector constitute a primary source of revenue for many governments in the region. This may be the right time to start looking at the sector from a broader angle—not simply as a revenue generator, but as an engine that powers the economy. Allowing telecom operators to put more of their returns back into their business would not only sustain their competitive advantage in this cash-constrained environment, but also improve their long-term economic prospects.

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## INVEST IN NATIONAL BROADBAND INFRASTRUCTURE

The trend in the MENA region has been to privatize telecom operators and increasingly leave it to the private sector to drive the pace and scope of investment in telecom infrastructure. However, individual operators are having a difficult time making the business case for investing in national broadband infrastructure, such as high-speed fiber-to-the-premises networks. During the economic downturn, governments in the region may want to step in and consider playing a more active role in contributing to these investments. If they forgo these investments in increasingly challenging economic circumstances, it could subsequently slow operators' investment in national broadband infrastructure and reduce the potential to create value when the economy does finally pick up.

To ensure that government investment in infrastructure does not dampen competition or upset market dynamics, it should focus primarily on passive infrastructure, which is often subject to strict sharing regulation. Active infrastructure, which can be a source of competitive advantage for operators, should remain under their jurisdiction.

Investment could come, as one alternative, in the form of government-backed utilities such as national network companies that would commit the required funds, with expectations for long-term returns rather than quick payback. Although their equity structure may substantially involve existing operators, these network companies would need to make their infrastructure available to all telecom operators and ICT service providers. The potential benefits are better access to customers, higher bandwidth, economies of scale, and new applications that would benefit the broader economy.

Government investment could also come in the form of grants to operators, provided that they offer incentives to encourage end

users to upgrade to next-generation broadband access. In Singapore, for example, as part of the recent OpenNet national broadband network initiative, the government offers the network operator a grant worth S\$750 million (US\$498 million), in return for which the operator waives some fiber termination charges for home and building owners.<sup>4</sup>

A recent *BusinessWeek* article<sup>5</sup> compares the rationale for government investment in broadband infrastructure with the rationale for government investment in highways and roads in the 20th century. The latter effort supported the growth of the automotive industry and created a “network effect” on the rest of the economy; in the same way, stimulation of the telecom sector could generate a comparable network effect and jump-start the wider market.<sup>6</sup> This sort of investment is rapidly becoming a worldwide trend. The U.S. government recently announced a stimulus package to spur investment in broadband networks and drive network effects on the economy. This initiative seems to be based on the assumption that such investment not only leads to direct job creation,

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but also enables the development of new businesses that create innovative products and services using the improved capabilities of the communications network.<sup>7</sup>

In another example, the Portuguese government recently signed agreements with major telecom network operators to develop next-generation networks for the country.<sup>8</sup> These agreements include an €800 million (US\$1.17 billion) line of credit for investments in new networks and possible European Union development funds for broadband deployment. Similarly,

South Korea recently announced government plans to invest in a national broadband infrastructure to enhance the country's existing IT infrastructure and increase broadband speeds by more than tenfold.<sup>9</sup> And the German federal government has just set targets to roll out comprehensive broadband networks over the next five to 10 years.<sup>10</sup>

Governments are taking a progressive view of the role of infrastructure as an essential part of an economy and the role of government in the provision of that infrastructure, especially when telecom companies

are likely to find it difficult to raise cash. In doing so, governments will lay the foundation for the sector to be stronger after the downturn while stimulating the economy at the present. National broadband infrastructure is key for the telecom sector's future development, as well as broader national economic development. Government investment in national broadband infrastructure should help countries weather the impact of the economic slowdown while preparing the ground for a stronger rebound.

*Governments are taking a progressive view of the role of infrastructure as an essential part of an economy and the role of government in the provision of that infrastructure.*

# INCENTIVIZE INFRASTRUC- TURE SHARING AND TRAFFIC SYNDICATION

Liquidity is limited in the market, so operators need to get the best returns from their investments. MENA policymakers and regulators should consider incentivizing operators to undertake infrastructure-sharing projects together to allow more effective management of the financial resources available to them, without giving up their competitive advantage.

Governments could relax selected regulations in return for operators' commitment to infrastructure sharing—for instance, bypassing tariff regulations for incumbents and reducing network-deployment obligations for new entrants. The objective would be to create incentives for more cooperation between market players to take advantage of possible economic efficiencies and to push for these efficiencies to be realized on a mutually agreeable commercial basis.

Infrastructure sharing is often a source of tension between regulators and operators, as it is traditionally imposed as a regulatory obligation, guaranteeing access to essential infrastructure and end customers for other market players. Notably, infrastructure sharing has previously succeeded when done on a market-driven basis.<sup>11</sup> Regulatory intervention could take the concept one step further and push for mandatory infrastructure sharing in cases of abuse by dominant powers or market failure.

The MENA region has already started to see market-driven infrastructure-sharing deals supported by some policymakers and regulators. In late 2008, the UAE's Telecommunications Regulatory Authority highlighted the need to establish a shared telecom infrastructure approach for the sector to avoid infrastructure duplication and achieve optimal usage.<sup>12</sup>

Other parts of the world have also recently witnessed an increase in such deals. In India, for example, Etisalat and Reliance Communications (RCOM) are in discussion about sharing RCOM's tower infrastructure.<sup>13</sup> In December 2008, Deutsche Telekom (DT) agreed to provide utilities provider Ewe with VDSL broadband Internet access in eight cities.<sup>14</sup> Simultaneously, DT formed a similar partnership with Vodafone Germany in selected locations.<sup>15</sup> These deals are expected to reduce capital expenditure and accelerate time to market.

Regulators could also intervene to promote the development of traffic syndication ventures, such as regional roaming hubs or Internet exchange points. In proposing pertinent licenses and setting enabling regulation, regulators can bring related benefits such as cost efficiencies, network performance improvement, and increased reliability to all market players.

As competition matures in telecom markets in the MENA region, market-driven infrastructure sharing and traffic syndication ventures have started to emerge, but in a very limited way. Thus far the incumbent operators, which control a large part of the infrastructure, have been conservative in offering infrastructure-sharing deals and have usually done so in reaction to regulatory pressure. However, times are changing. At the recent Booz & Company Middle East Telecommunications Leaders Summit, which gathered telecom C-level executives from the Middle East, Europe, Asia, and Africa, there were strong calls for infrastructure-sharing initiatives from both incumbents and new entrants.<sup>16</sup>

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## GROW ICT LITERACY AMONG USERS AND THE WORKFORCE

The development of ICT literacy and investment in national broadband infrastructure must be synchronized for each to achieve its potential value. Without the necessary human capital, technological advances in telecom networks and services cannot be effectively employed to generate innovation and drive economic growth.

Public familiarity with ICT is essential for the widespread adoption of digital services, which in turn increases individual productivity and consumer welfare. Governments in the region could take advantage of the economic downturn to broaden investments in ICT initiatives that enhance and

develop ICT knowledge and adoption throughout the population.

In coordination with relevant sectors, including finance, education, health, transport, and utilities, MENA governments should encourage their citizens to use online services with convenient, affordable access. Governments can motivate individuals to do so by emphasizing the time and possibly money that can be saved by using e-government services. Structuring an official education framework and defining quality criteria for courses would lend integrity to ICT qualifications. Furthermore, there are a host of initiatives that governments could undertake to promote the value of ICT competence, such as launching institutions that encourage involvement in the sector and integrating e-competence into national curricula.

Governments could go so far as to facilitate interaction between academic programs and the ICT private sector; for instance, by

creating sponsorship programs and internship opportunities. Initiatives of this type are already under way in many countries in the region, including the UAE, Saudi Arabia, and Egypt. With the economic downturn intensifying the need for a workforce that can meet private-sector demands for talent, governments could make additional efforts to advance these initiatives, especially given that ICT literacy rates are still relatively low in the region compared to those in other countries.

Investing in ICT literacy would accelerate ICT adoption, encourage digitization of the economy, promote investment in ICT, increase individual productivity, and create a more highly skilled and competent workforce. This investment is symbiotic with the creation of national broadband infrastructure. Although ICT investment would act as an economically stimulating venture in the short term, it is also essential for the long-term development of the telecom sector.

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## ACCELERATE SECTOR GOVERNANCE AND REGULATORY REFORM

The telecom sector is an enabler for the wider economy. However, its ability to act as a catalyst for economic recovery is closely linked to three factors: the ability of regulators and policymakers to effectively fulfill their various functions, the level of integration between governance of the telecom sector and governance of media and technology, and the level of maturity of regulatory practices.

Although sometimes handled by the same public institution, telecom policy making and sector development as functions should be clearly distinguished from regulatory activities. Long-term strategic planning that effectively links telecom sector objectives and priorities to the rest of the economy should be rapidly institutionalized to promote the sector as an economic enabler. This may require closer integration between telecom, media, and technology governance. Furthermore, the capabilities for effectively driving high-impact sector development initiatives need to be swiftly built to support government investment and public-private partnership initiatives.

In terms of regulatory reform, improving sector resilience and laying the groundwork for sustainable growth require transparency in regulatory practice. Publishing regulatory development plans and gaining public support for decisions should help build investor confidence and enable growth.

Regulators in the region should also rapidly step up their economic assessment capabilities and base all their decisions on thorough analyses that guarantee value creation and efficiency for sector stakeholders—that is, customers, operators, investors, and the government.

Finally, regulators need to exercise increased vigilance and scrutiny when it comes to anticompetitive behavior and market value destruction. As a case in point, when signs of a price war raised the risk of sharp value erosion in the Saudi market, and companies were putting out offers for free call terminations, the Saudi regulator decided to impose a minimum fee for call termination when roaming.<sup>17</sup>

If sector governance and regulatory reform are not undertaken in a timely manner, the sector may be unable to attract investment, and operators may find it difficult to adopt new business models after the downturn. Concentrating on reform now would focus resources on generating the maximum returns from past initiatives and would create an encouraging environment for new initiatives. At this time, when previous growth avenues are less attractive, developing best practices in governance and regulatory reform is a prudent undertaking that will set the stage for world-class performance when the economic winter passes.

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## CONCLUSION

These six strategies highlight direct actions that policymakers and regulators can take in the telecom sector to stabilize and stimulate their national economies. Rethinking strategic perspectives is essential given the current economic downturn, and through this targeted approach to regulatory change and cash injection,

telecom offers a strong hand to help lift economies back onto their feet. At a time when MENA nations require a cornerstone of security, they have an opportunity not just to weather the storm and emerge unscathed, but to reshape their economic building blocks into a new, information-driven economy with telecom at its core.

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### ***About the Authors***

**Karim Sabbagh** is a partner with Booz & Company in Dubai. He leads the firm's global communications, media, and technology practice and specializes in sector development strategies, institutional and regulatory reforms, large-scale privatization programs, and strategy-based transformation programs.

**Bahjat El-Darwiche** is a principal with Booz & Company in Beirut. He specializes in sector strategy and policy, market liberalization, regulatory management, corporate and business development, and strategy-based transformation for the communications, media, and technology industries.

**Louay Abou Chanab** is a senior associate with Booz & Company in Beirut. He specializes in telecom sector policy making, regulatory management, sector development, and infrastructure business models for the communications, media, and technology industries.

**Jonathan Fiske** is a senior associate with Booz & Company in Dubai. He specializes in telecom sector policy making, sector governance, regulatory management, and licensing for the communications, media, and technology industries.

## Endnotes

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