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Companies face disruption



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Yves Leterme and our role in the 'Global Value Chain'.

Philippe Rogge: disruption of traditional business processes.

Globalization: history repeats itself.

Incubation lab for Belgian entrepreneurial talent.

KPMG's 'must-have' **expertise**.

Sneak preview of Herman Toch's [Happy Profit](#).



cutting through complexity



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design

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Editorial

What will the future look like for company owners and managers like you? And how can you define a ‘smart’ approach to face this future and the challenges that are ahead of us? There is obviously not one right answer to this. But it is an interesting path to be on for sure. Five well known people kindly share their vision and experience in this issue of our magazine.

We spoke to Yves Leterme who gave us insights into our role in the Global Value Chain; Frank Lierman, financial economist who shared a macro perspective on the issues around globalization and the future of business; Prof. Sidharta Gautama, coordinator of the i-KNOW Innovation Centre at the University of Ghent who provided a unique look at the importance of creating a workforce able to meet our future needs for talent; Philippe Rogge, CEO of Microsoft in Belgium, who shared his perspective on the role of technology and tools that will help us to get to that future, and author Herman Toch who gave us a sneak preview to his new book [Happy Profit](#). Despite their varied backgrounds they all share a common vision:

Globalization and interconnectivity present tremendous business opportunities but only if we are able to fulfill the needs of the modern, global customer. Business models will need to be adapted to meet their needs if we are to gain (or regain) competitiveness on a local and global level.

Everyone agrees the time to change is now. But how do you concretely go about fixing the plane while you are flying? This is the question we will try to address over the coming months.

It won’t be an easy journey. But it will be worth it. In fact: the survival of the fittest is increasingly becoming the survival of the smartest.

We look forward to sharing this journey with you!

“The survival of the fittest is increasingly becoming the survival of the smartest.”



PATRICK SIMONS
Senior Partner

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Responsible Editor :

Patrick Simons
Avenue du Bourget - Bourgetlaan 40
1130 Brussels

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Philippe Rogge - Interview

Companies face disruption: traditional business processes are going to disappear

Philippe Rogge, CEO of Microsoft in Belgium, has a clear vision for the future. And an equally clear message to Belgian businesses:

"Technology is no longer a means to optimize business processes," he says. "It is a catalyst for new business models that will sweep the existing models off the table."

Everyone knows that technological evolution is not going to stop. Where the future is taking us is another matter. Philippe Rogge, who has a real passion for technology, sees a great difference in the impact it has on ordinary consumers and businesses.

What does the technological future look like for the consumer?

"Everything will continue to evolve towards the 'Internet of Things' where absolutely everything is interconnected. This is an advantage because your 'computing device' - whatever form that may take - will recognize your context and spontaneously offer you information. Did you buy a plane ticket? Well, your device will notify you when you have to leave, taking into account the traffic jam on the way. Or it will automatically schedule a follow-up meeting after the end of a meeting. Similarly, we can build productivity elements into the interaction between man and machine. The battlefield of the future will lie in the way in which companies are going to bring information to the user via an intuitive interface. Early adopters will find that the apps craze will be over within 3 to 5 years."

Should individuals be worried about keeping up with this rapid change?

"No. The basic technology must remain accessible: manufacturers need to keep it as simple as possible and ensure that consumers do not have to worry about the technology or its platform. We are already familiar with Google Now, Apple's Siri and the advanced Windows Cortana. In the future, it will go even further. We will no longer be restricted by a device or by one program, but will get a context-relevant answer to our questions, thanks to a technology that knows our preferences. That is possible thanks to cloud computing, where both the data and the processing power are in the cloud."

You mentioned 'disruption' for companies. What exactly do you mean by that?

"Technology is going to have a much greater impact than before. In the first phase of digitization, the PC replaced the typewriter and e-mail dispensed with intra-company envelopes. Then came ERP systems which, due to the computing power available, could be used as a technical means to optimize business processes. And now we are entering a third phase: thanks to global connectivity and the billions of devices, such as tablets and smartphones, that keep us constantly online, it is possible to offer the same service via other business models. The potential of this is exponentially more powerful than previous technological changes. The Internet and mobile computing enable businesses to offer services in a completely different way, and therefore traditional players - who adhere to or are tied by elements of traditional operational management - are at a major competitive disadvantage. **Traditional business processes will disappear due to technology. That is the disruption that I was referring to. And the fact that this process has started now is no coincidence: almost everyone has a smartphone or tablet.** The multi-functional technology required is in the hands of consumers so that new business models can be rolled out without the need to invest in hardware."

Can you give us some concrete examples?

"There are plenty of examples, and the change goes beyond the boundaries of sectors, industries and products. Look at how the music industry first dematerialized and changed its distribution channel. Record shops selling CDs had to make way for Internet platforms that sell mp3s. And with platforms like Spotify, it is no longer a matter of buying a digital file. No, you are actually paying for the right to use it. Software vendors are also heading in that direction: now you buy a piece of software on the Internet or you pay a subscription or usage right for a given capacity from Dropbox, Evernote or Office 365. We see that changing business model popping up everywhere. Taxi companies all over the world are being hit hard by competition from Uber and hotel chains are being squeezed by Airbnb."

How can you survive as a company?

"It may take some courage, but you have to dare to ask yourself questions at a high level about your task as a business. Then you need to look at how you can provide that task to the consumer in the best possible way. **And sticking to your own model is not an option. Because that is often the problem: companies are in a mode where they want to protect their own model. But that leads to inertia, protectionism and end ups hindering innovation.** Technology will play an incredibly important role

"Future technology will not make things more efficient but it will allow you to rethink the core of your business."



in the businesses of tomorrow, but not to make existing businesses more efficient and effective. In fact, technology and the opportunities it provides are the perfect catalyst for thinking about your basic tasks as a company, and how you can re-design that basic task from scratch to remain competitive compared with existing competitors and new players who want to exploit the opportunities. I'll use the example of the hotel sector again: the core task of a hotel is not letting rooms but offering a pleasant stay for a certain period of time. The designers of Airbnb have understood that properly, and they have developed a model that can do hotels a lot of damage simply by providing an experience much like 'sitting around the kitchen table' in a manner of speaking. But if the hotel business defines its core task properly and uses all the knowledge and information at its disposal well, then they can strike back."

Are there opportunities for Belgian companies in this new landscape?

"Anyone who has a pessimistic outlook usually assumes continuity of the existing business model. You should not be thinking of 'perpetuating' your business but instead reflecting about how you are going to offer your existing or new task on the marketplace, without restricting yourself by what you have done before, be it cost structure, location or distribution channels. Belgium is a highly developed country, with a high penetration of broadband, PCs and smartphones. We are well educated, are in an excellent time-zone and we are small, so interesting developments can stay under the radar for a while. I think there is no better place to start new things and experiment. In a globalized world it is no longer about commuting or customers in your shop between 10 a.m. and 6 p.m., but whether you can ship something or can offer a dematerialized Internet service 24/7. So there are very good arguments for a Belgian company to take the lead, all it needs is the ambition to start something new and want a piece of that global pie. These present real opportunities for Belgian companies."

What can help us on our way?

"The problem is not really being under pressure, not actually feeling the pain. And that is an important contextual factor: major changes only happen after severe pain stimuli. So the question is whether our managers might not need to feel sufficient pain to fundamentally question the way they do business. Because if we stay in our comfort zone and just increase productivity a little bit, achieve the next quarterly targets or complain about the next index-linked pay adjustment, we will just be tinkering on the sidelines, nothing more. **No. At a high level, we need to question things and dare to devise radical new business processes in order to achieve competitive advantages.** And we need to focus on emerging markets, particularly the Far East. We still have a lot of advantages to appeal to our local markets, but we need to open our minds. We must avoid thinking narrow-mindedly, and force ourselves into a corner. We must forge alliances and seek 'the best of both worlds': explore the cultural sensitivities in order to respond to the next wave of customers who live in those new markets. If we don't, we will become less and less relevant."

Yves Leterme - Interview

Belgium's place in the "Global Value Chain"

Is the West losing its global leading economic role to the Far East? Yves Leterme, former Prime Minister of Belgium and Vice-President of the OECD confirms the rebalancing of the world economy, but also sees opportunities: ***"The demand from the global market will continue to grow. We need to adopt a new mindset in the West, learn to think in terms of Global Value Chains and see which links can generate the greatest value."***

The key question is how a continent like Europe, which has fewer natural resources and suffers from a rapidly ageing population, can ensure that it can still create sufficient value to hold its own.

Yves Leterme: "We do start with a handicap: we need to begin by resetting our mindset. When we scaled down heavy industry 25 years ago, in Flanders we started with Flanders Technology International and later with the Lisbon process

in Europe. We assumed at that time that much of our heavy industry would relocate because of the issue of labor cost and the shortage of raw materials. We would have to offset those relocations by focusing on R&D and technology-based processes, so that we could create enough value-added to fund our welfare state. We started out from the premise that we are smarter and have the most knowledge and research capacity. That isn't true: in Asia, they are equally smart, study and work even harder than us and there are many more of them than us. We should bear that in mind if we want to continue to play an important role in the global value chain."

So what is the new global premise?

“Due to globalization and technological progress, we must now look at global value chains. The OECD uses this concept of global value chains. Finished products are made with parts that come from all over the world. Services consist of different activities, which are occurring simultaneously in different parts of the world. For open economies like ours, it boils down to having a presence in as many links in that global value chain as possible. Preferably in the first or the last phase: the concept and the marketing, because in these two phases, the most value is added and the most profit created. So we need to get some of those business activities into our country's economy or create products and services here that can play a role in these global value chains. That is possible, but we will have to 'earn' it.”

Do we need to approach it differently to safeguard our future?

“What we are witnessing is a process of continuously accelerating change and therefore we must emphasize adaptability and flexibility. For example, that means that in education, we need to learn new attitudes rather than focusing on factual knowledge, that we must teach and learn where to find knowledge and how to deal with it, that we must encourage learning throughout our lives. Governments need to manage their human resources more flexibly, must adapt their core tasks more efficiently and quickly, be more responsive in terms of licensing and decision-making... Our productivity also needs to rise. We are already efficient, but we can do even better. And there are opportunities: in the global economy, demand will continue to rise, including demand for products that we make

very well. That is not insignificant: we still need manufacturing, since the country cannot survive on services alone. In the long term, job creation is essential, including keeping consumption and the entire ecosystem of the market economy going.”

Is the globalization process irreversible?

“The center of gravity of the global economy is shifting eastward. Last year in July, for the first time, the non-traditional industrial countries produced more financial added value than the traditional countries. In addition to manufacturing, the population and - more importantly - its purchasing power is shifting increasingly to India, Africa and Southeast Asia. We must respond to this. Especially since quite a number of emerging economies are realizing that that growth is possible only if it is sustainable and if there is solidarity within the community. In China, for example, the intention is to replace export-led growth by domestic consumption. To do this, they need to build a social security system and a good pensions system, otherwise the Chinese will continue to save for their old age instead of consuming. There is currently a convergence movement under way, at least in India. So this is the perfect time for us to join that movement and regain our competitiveness. In the US you notice the return of industry to the motherland, which we call reshoring. This is also possible in Europe. But then some things have to be put right. With 7-8% of the global population in Europe, we represent 25% of the added value and 50% of the spending on social protection. That is not sustainable in the long term. Therefore, we need to focus our social protection on issues where real solidarity is needed. We need to protect people rather than jobs, invest in the resilience and adaptability of people. Show solidarity where it is really needed and get our social

security and welfare state fit again and target it on the real problems. The financing of that social protection needs to happen in such a way that base erosion and profit shifting is avoided so that funding from sources besides taxes on labor is possible.”

How should we tackle that in Belgium?

“It is important for our businesses that they be able to spread their risks and respond quickly to demand from the market, from global consumers. We have the assets that we need to do that: we are efficient, flexible, pragmatic and have no 'agenda' to which we have to adhere to as a country. Our people also have a lot of knowledge, but we must be careful that we provide sufficient scope for training in this country dominated by SMEs. And we need to liven up because we are suffering from the 'Law of the handicap of a head start'. Our good infrastructure, education, public services, social services, etc. sometimes inhibit us from making things even better. If we take the example of mobility, improvements are definitely required as a matter of urgency. Flanders no longer has the tools to fulfill its logistic role properly due, among other things, to the lack of an efficient modal shift in the port of Antwerp and the gridlocked traffic. It's now or never, and it is possible because we now have five years ahead of us without political elections. We also need to invest in 'intangible assets', also known as 'knowledge-based capital' because in this regard, we are lagging behind our direct competitors. We have all taken some hard knocks as a result of the crisis, but we need to be 'resilient', just like a bamboo plant that can bend to a tremendous extent without breaking, and afterwards springs back upright just as strong as before.”

Flexible reward plans

Flexible reward plans, often referred to as 'cafeteria plans', are a hot topic when it comes to designing a modern and competitive compensation structure. By implementing a flexible reward plan, employers can offer their employees the possibility to shape a compensation and benefits package that suits their individual needs. This flexible approach allows companies to meet the challenge of finding and retaining qualified staff members. But implementing a flexible reward plan can bring with it administrative challenges and the complexities in dealing with the Belgian legal context of such a plan can be a burden on management teams.

KPMG's Belgian Reward Practice, a division of KPMG Tax Advisers, specializes in advising corporate companies on effective remuneration strategies. Recently, they worked with a major Belgian based automotive company. By leveraging its extensive experience in the discipline, the KPMG team was able to help ensure that the cost, tax and legal implications were factored into the company's decision-making process. The team brought to bear all of the technical and practical aspects of flexible reward plans, including individual tax, social security, corporate tax, VAT, labor law, process, IT and communication. In addition, KPMG developed an easy-to-use dashboard that allows employees to simulate and shape a compensation and benefits package that suits their individual needs. The client is now able to effectively provide their employees with flexible options; a big step forward in competitive and smart human resources management.



Incubation lab for Belgium's future entrepreneurs

"Innovation is becoming an increasingly complex matter. The time is long gone when innovation was a sequential process starting with an invention and ending with marketing of a product or service. Innovation revolves around the consumer. Businesses should not just see consumers as customers but also involve them in the innovation process", says Professor Sidharta Gautama, coordinator of the i-KNOW Innovation Center at the University of Ghent.

Society and the market are changing rapidly these days. Flexibility is an essential but difficult task for firms. It implies that companies must, on the one hand, respond to changing conditions fast enough, but at the same time must be tenacious enough to keep hold of a potentially good idea despite doubts expressed on the market. A good example is Tele Atlas, which began making digital maps as long ago as 1984, then switched to mobile mapping and 'digital' surveyors, and in a next step, under the wing of TomTom, moved towards a system of crowdsourcing that is fed by its users.

Should the new business mantra be 'power to the people'?

"Innovation does indeed revolve around the consumer. Companies must crawl inside the customer's head, as it were, and see what they want. This is rather complex. A telephone becomes a TV set, a means of payment and a health monitor. Therefore, companies need more dialogue with consumers and even to let them help to create innovations and develop them further. Terms like 'crowdsourcing', 'participatory design' and 'co-design' are increasingly important. This means that the step-by-step plan of innovation is no longer as simple as it used to be. It's no longer about coming up with a product and then marketing it. The boundary between product and service is gradually becoming blurred. Different areas of expertise will merge in innovation projects and more interaction is needed with the final consumer. It is complex, but also enriching. Just look at open source software projects. Not only is the development of a product organized completely differently; but the initial goal of the designers can be completely altered by other developers. After all, they have the opportunity to put modules on the platform that respond to their specific needs. So in addition to appealing to the 'crowd' as a developer, this brings the final product close to what the market ultimately needs. And we need to prepare for that: achieving cross-pollination between different areas of expertise or companies on one hand, and consumers on the other hand."

Can we do that in Belgium?

"In Belgium, we certainly have the brains, but I have three reservations. Firstly, we have a good education system, but the number of students taking technological courses is falling, whereas that is precisely where a large part of our future lies. Secondly, our best brains do not always get steered in the direction of innovation. That is why the status of 'student-entrepreneur' was established at Ghent University. We seek to give students the flexibility to work on their own business while they are studying, in a comparable way to the elite athlete status. It is successful because we already have about 40 mini-businesses, and within our university, we have not only academic profiles but also real young entrepreneurs. These two groups can inspire each other. It also creates the feeling that 'something

is happening', which in turn attracts other people, beyond pure researchers, to help build the innovation activities in and around the University. Thirdly, we need to bring our best brains from different disciplines together more effectively. Innovative products and services are becoming more multi-functional and therefore we need to approach innovation in a holistic and integrated manner. **To sum it up: simple innovation processes are behind us.** Now comes complex innovation, where experts from different fields such as technology, sociology, mobility or medicine will have to collaborate on products and services, all in close cooperation with the final customer. A university is an ideal incubation site for exploring the first steps in this process."

Do you have any examples?

"You can see it happening everywhere. For example, Philips has evolved from a manufacturer of consumer products to a health care provider, where the company gears its products and services to a specific target group and therefore must collaborate with companies and organizations in the health care sector. In automation, you see a different story:

Google is buying 'smart thermostats' company Nest with a view to introduce their software as the backbone of the Internet-of-Things. In 'Smart Factories', people are working holistically to link technology and psychology to human capital. For example, one company in Boston is mapping out how teams collaborate and how such collaboration can improve. That's interesting because that is precisely the field in which a factory's production process can still make substantial improvements. It is a complex exercise to bring the different areas of expertise together; and yet everyone is gradually working on it, including the government. Look at Smart Cities, for example, this doesn't just involve implementation of ICT technology for a connected city but integration and interaction between government/citizens/technology to map out a sustainable process that creates value for all stakeholders. A good example is the 'Trojan bicycle' project in Ghent. A group of 25 people from government and business are supporting small change projects in sustainable mobility, driven forward by citizens. From these projects we learn (partly using crowd sourcing technology) the trends and best practices to help outline major social

changes. Thus, government has an important role to play in the field of innovation: they not only have to spend the money, but must themselves contribute ideas and collaborate on new services with the technology providers, in collaboration with the consumers and citizens. This principle also applies to mobility or infrastructure-sharing: only integrated cooperation between all stakeholders - and therefore the user too - will provide sound technical solutions and the necessary change of mentality.

What still needs work ?

In Belgium, it is not easy to make our good inventions and innovations sustainable. Some really great innovations are developed here, but often there is a lack of venture capital to scale-up a project. This is different from the United States, where there is a great deal of investment in new products, services or businesses. An example is Metris, which after a brilliant start still ended up being foreign-owned. We really ought to be able to keep these kinds of companies in our own country.

INCUBATION LAB FOR TALENTS

The i-KNOW innovation center headed by Sidharta Gautama brings together research teams working on digital information and intelligent information management. 300 researchers from 20 specialist fields attempt to bridge the gap between theoretical research and market demand by pooling know-how and technology. "Often students leave after obtaining their doctorate and join the business world without their full potential being explored. We want to give life to their ideas and projects. For valuable ideas, we allow an incubation period of 2 to 3 years so that this concept or idea can be developed, ready to transfer to an existing company or a new spin-off company", says Gautama. Examples are Gatewing (unmanned aircraft), MOVE (monitoring of travel behavior) and Progeno (data mining for molecular markers). Another example is 'Coscale' that has unleashed the powerful University of Ghent computer simulation models that are used by Intel for the development of new processors, on data centers. Thanks to this project, it can be tested immediately whether the hardware and software of data centers is geared to the required response time – this is important for a positive user experience on large sites such as Amazon. At the same time the project works on the optimization of their energy efficiency. The latter is important because data centers account for around 10% of global energy consumption.

'Out of the car thinking' for increased mobility

Air pollution, parking problems and tedious traffic jams. The mobility issue in Belgium keeps on growing and that is a real problem since our country is a real logistics hub for Europe. We need to improve our approach to mobility; but the question is how all the players – the government, employers and employees, will tackle these problems. Therefore we must think outside the box. Or, in this case, think about the most efficient means of transportation in function of professional and private mobility needs. This can include both the company car and/or alternative means of transportation.

As a first step in this direction, the VIM (Flemish Institute for Mobility) is launching the "Intelligent mobility budget" pilot project. Twenty-five companies are making the transition to a flexible and variable budget for commuting and work-related journeys. KPMG is involved in two ways: both as an implementing partner (asking 10 employees to manage their own mobility budget for the next year) and as an advisory partner on tax and social security matters. In the end KPMG will take the results to make concrete recommendations to the government in order to reshape our future tax and social security landscape for these issues.

Each of the participating employees will receive a personal mobility budget that will allow them to choose their means of travel: car, public transport, (electric) bicycle, etc. Frank Vancamp, Partner at KPMG: **"We are witnessing a change of mentality. Both the employer and the employee need, and are interested in, a flexible policy; unfortunately, we still lack a legislative framework to make this possible. We really want to play a pioneering role in this, and show that it actually is possible within this legislative framework."**

An intelligent mobility budget has major advantages. On the one hand, the employee has improved flexibility in planning his/her commuting with even more freedom of choice. And on the other hand, the employer can operate more efficiently, cut costs and promote sustainable mobility. Everyone has something to gain without reinventing the system. And with the growing popularity of 'working from home' this approach becomes even more important, making mobility planning a part of a smart business approach. There are also benefits to society at large. Intelligent mobility can reduce traffic jams, which has economic advantages since they cause huge costs and have a negative effect on our position as a logistics center. And it improves the quality of life for everyone.



Preparing our mindset for a new world order

“Is the current globalization process a revolution? No, it’s just history repeating itself. Except that this time, we are on the opposite side of the spectrum”, says Frank Lierman, until recently

Chief Economist at Belfius Bank. With this statement, he immediately sets the tone for our discussion on his views about the globalization process and the Belgian position in it.

Globalization seems to be a thousand-headed monster: it has an impact on so many different fields, which are all interconnected. That makes succeeding in business a complex task, and it is a challenge for any entrepreneur to continue to see the big picture and discover the opportunities they offer both for local and international sales markets. In order to gain a clearer understanding of this tangled web, we talked to Frank Lierman. At the same time we take a close look at some of the topics that are at the top of mind for entrepreneurs.

Frank Lierman - Interview



What are some the greatest challenges for Belgian businesses today?

“We are living at a pivotal moment. Since 2008, we have been experiencing a very severe recession which is not over yet. The time to speak of a return to ‘business as usual’ has not yet come. And when that time does come, we will find ourselves in an altered context. We will have to adapt to new conditions, which will be dictated in part by globalization. One result is that many jobs that are traditionally created when there is an upturn in the economy will no longer be available in Belgium. This is due to the high degree of outsourcing to other parts of the world. Employment in manufacturing immediately springs to mind, but also higher-skilled jobs such as administration or IT have also been outsourced to Central Europe or Asia. Due to advances in technology and global interconnectivity, off shoring and outsourcing are becoming easier and this has implications for ‘traditional’ employment here. In particular, the threshold of what we consider to be ‘full employment’ has been raised dramatically. In the seventies, we considered that there was full employment if the unemployment rate hovered around 2%. However, in the future, that threshold will be around 6 to 7%. And so fundamental choices will have to be made: how are we going to react or - better still - be proactive, if we don’t want to be the global backwater and thus forced into poverty? That is easier said than done, because it requires a complete shift in mindset from many players. But one thing is clear: if we cling on to our old ideas and values, then we are done for.”

For our businesses, it boils down to not being in the danger zone of “outsourcing to the East”. But how can this be accomplished?

“Companies need to adapt to the new global market conditions. They must be

innovative, take initiative, invest and take risks. But at the same time, they need to reduce their debt burden and evolve to other funding models so as to escape the suffocating pressure from the financial markets, which demand a high return on equity. **We see that companies in Belgium are still funded about 75% by banks, but there are new opportunities: bonds, commercial paper, crowdfunding, or win-win loans, for example.”**

Is this actually possible in times of crisis?

“Especially in times of crisis it is necessary to take initiatives and invest. It is definitely possible. Just think of the Scandinavian banking crisis of the ‘90s: at that time, Nokia and Ericsson emerged as a result of a successful policy bent on changing the balance of the economy. In Belgium, one of our strengths is in the field of genetic engineering of food crops. You may be opposed to this on ethical grounds, but it is a business opportunity and it is a necessary part of our future if we are to continue to be able to feed a growing world population.”

Can we compete against the emerging economies, particularly the Far East?

“Indeed, the emerging economies are taking a bigger slice of the pie. But the European countries’ slice of pie is qualitatively better: we are strong in creativity and innovation. However, it is certain that we need a different social model, especially in Belgium. Our current system was built after the Second World War, when we were in a growth phase. The entitlements that we acquired over the years are no longer tenable. Therefore, we need to revise our model and eliminate certain rigidities: we need to build in more flexibility, partially privatize our social security system, reach collective bargaining agreements at company level and so on ... Some sacred cows will have to be sacrificed, but

“Time to hit the refresh button. Belgium needs a new set of stars, just like we used to have with Bekaert, Solvay or Delhaize.”

it is necessary. The alternative is to see more big companies moving elsewhere and is that what we want? The key question is: ‘Do we want to go back to square one, or are we going to take action to maintain our position?’ In the latter

case, we will have to change our tune to keep pace with the world around us. And then there will certainly be opportunities in store for us: due to the development of a middle class in emerging countries we will be able to export more. This shift will occur not only for the better products, but

also for services, as we see it occurring in the health care sector. We can already anticipate that change. Moreover: the production of cheap goods in emerging countries has also been positive for us because it greatly increased our purchasing power. And it brought about a shift in the world of work in Europe: fewer lower-skilled and more higher-skilled jobs. Only we have to accept that and respond to the fact that we are now on the opposite side of the spectrum. Previously - at the time of the industrial revolution - we were the global center of economic production. Today, that is no longer the case. We should not try to look for growth in the primary and secondary sectors, but in the tertiary and quaternary sectors. **In a sense, the digital revolution is running in parallel ways to the industrial revolution that preceded it, only our role has changed.”**

Is growth indispensable?

“We must ask ourselves serious questions about the sustainability of our future: an ever-growing global population, concurrent to a rapidly ageing population in the West and Japan (and even China), rampant technological change that leads to high energy consumption and a large environmental footprint, the impact of climate change, endangered stocks of fossil fuels, our mobility and infrastructure problems ... It seems insurmountable. And yet: those challenges can

be addressed with an integrated approach. Everything is linked to everything else, and that is the great challenge of the economy. We have already developed a lot of technology that can provide an answer to these problems. And there is enough money available. **What is still missing is a government that creates a framework to stimulate entrepreneurship and that releases resources in the form of co-financing to get the economic engine going again.”**

Does that offer opportunities for Belgian companies?

“Of course. We need to focus on starting up and/or refining technological innovations. We must file the patents for these innovations and export the technology. Manufacturing will largely take place in the Far East, we should have no illusions about that. Although we already have a tradition here of innovative spin-offs that can make the difference, we are missing one thing, and that is how to exploit our innovations. At present, new ideas and products are often immediately “cashed in” and sold to foreign companies that use them to build up a business outside our country. We must retain control over that process. In fact, I really think we need our new ‘stars’, like Bekaert, Solvay or Delhaize of the last century ...”

Are we on the right track to achieve that vision?

We are held back by a number of structural handicaps, like our rigid social dialogue model, high wage costs and heavy taxation. But we have some real strengths in Belgium too, which we must not throw away. We are optimally located in Europe, but we are facing a huge problem of mobility. This is jeopardizing our reputation as a logistics center and transit country. We are good at languages but that is declining. So a great deal is required from our education system, which should evolve from creating knowledge to creating interpretation so that we can maximize our creativity. We are also very productive, creative and flexible. So we have the assets we need to be successful. As long as we are prepared to move away from what was achieved in the past and to carve out a new place in the world even though it is on the proverbial other side of the spectrum.”

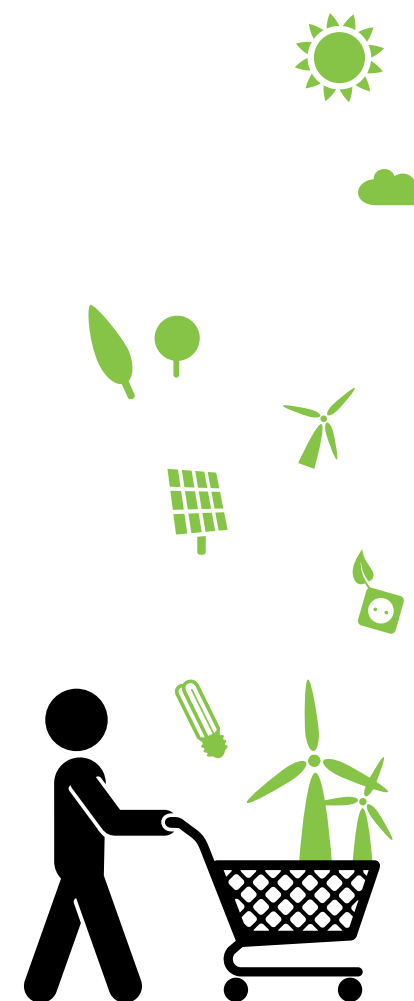
Colruyt Group: integrated approach to green future

When we talk about sustainable diversification in Belgium, we cannot avoid talking about Colruyt Group. This process was started over 15 years ago, with the installation of the group’s first wind turbine at the Dassenveld distribution centre in Halle as one of the first milestones. Meanwhile, economy, ecology and CSR have merged into one within Colruyt Group and a large portion of the family assets are being invested in ecology.

The Colruyt family are keen advocates of green energy and therefore willing to invest heavily in it, even though the risk is relatively high and the returns remain relatively low - no more than 10 to 12 per cent. Large investments were made not only in wind farms (Belwind, Northwind) but also in solar panels and biomass.

At present, Colruyt Group is testing the potential of hydrogen - which is generated via electricity which in turn is derived from solar panels and wind turbines - as fuel for the logistics chain. At present, this is being done mainly with forklift trucks, but the group has just bought the first mass-produced hydrogen car in Belgium, which makes the green mobility project immediately palpable. At the other end of the chain, the group is studying the possibilities of reducing its ecological footprint: it has already opened a number of low-energy shops.

“The result of this far-reaching philosophy is that since 2011, we have been energy-neutral: all energy is generated in an environmentally sustainable manner”, says Stephan Windels, Business Unit Manager WE-Power. “We aim to make a lasting difference to our world in order to ensure the future of our children and grandchildren. At the same time, it allows us to diversify our activities and apply the knowledge acquired in a smart way to operations throughout the group.”



Using data mining to respond more effectively to customer requirements

The PVC sector has been through tough times in recent years: demand fell by 30% and there is no immediate prospect of a recovery. ***“As a B2B producer of a commodity like PVC, a fast changing business, it is important to remain focused and change course to better reflect the goals and expectations of your market and your customers. You don’t need to convince the customers with the product anymore. Where we can add real value is in streamlined processes, providing quality services and high internal efficiency. Big data helps us do that”***, says Hans Mattheeuws, CFO & CIO of Ineos ChlorVinyls Belgium.

Hans Mattheeuws - Interview

When Tessenderlo Chemie was taken over by Ineos three years ago, the overall operation including the cost structure was put under the microscope, which led to recurring cost savings of 25%. "In any business, you can cut at least 10% of your costs without having much impact on your operational management," says Hans Mattheeuws. "You need to keep 'nice to have' and 'need to have' strictly separate or - put in financial terms - look at what changes the bottom line. That is essential to survive in an industry that is under severe pressure and where there is barely any scope to increase margins through product or production innovation. The advantage of such a thorough screening is that it will shift your focus, as far as it is possible, to meet your business and customer expectations."

Is there a future for PVC production in Belgium?

"Our industry is saddled, as it were, with a cocktail of difficult ingredients: we are a commodity, operating in a declining market, with rising raw materials prices and high energy costs compared to other countries. And now there is an additional element: large-scale extraction of shale gas in the United States. This gives the US additional competitive advantage in two ways: it cuts their energy costs drastically, and shale gas also provides cheaper derivatives such as ethylene which is the main component of PVC, at 50%. The American chemical and energy sectors have already made significant investments in recent years, and that is only likely to increase. One example of a way to deal with this reality is to organize new ways of sourcing: so INEOS is

going to build a new ethylene storage facility in Antwerp, which allows us to import this cheap raw material from the US and exploit other economies of scale. We do have the advantage that PVC production is largely geared to the local market, partly due to the relatively high transport costs and just-in-time delivery to customers in conjunction with sales on the spot market. But it remains a difficult exercise and we are continuously walking a tightrope."

So how can you add value?

"We want to continue to respond to the needs of the customer, who in turn is responding to the changing business context and challenges. This responsiveness is essential in the dynamic world around us. It doesn't just apply to our branch of industry. So we wonder what the customer wants, when he wants it and how we can make it happen. Of course, this forces us to think across a very broad range throughout the organization, because it is not just about the product but also about the service we provide. The total price tag for this change of direction is also important, because we have to bring all our resources to bear: from IT and mobility via sales people who need to be informed at all times and everywhere, to communication that has to happen faster, so that issues can be identified more quickly, etc. It means that we must match our business architecture to the drivers that can make our business successful. In addition to the commodities in our product range, which unfortunately leave little room for us to differentiate ourselves, our streamlined processes in the broadest sense of the term and our ability to provide effective administrative service represent clear added value for our customers. Given the changes we went through a few years ago, it was not easy to implement this whole program, but in fact that challenge applies to all businesses. Companies are constantly faced with this. Their basic processes are being disrupted and they are undergoing continuous change. So you have to get everything under control and see how you can hold your own in the 'competitive landscape'."

As CIO/CFO, how are you involved in this process?

"In short: the Finance department converges transactional processes - which repre-

sent a huge volume of data - efficiently into information to support the business. IT acts as an enabler and carrier in that process. So my departments form the central hub of data and technology resources: on the one hand, an ERP with all processes and transactions passing through it, and on the other the entire IT infrastructure that makes it all possible. **Data mining is not an end in itself, but it needs to enable the business to be well organized for the 'competitive battle'.** Following the take-over by Ineos, a thorough screening of all data and processes was a first step, resulting in a significant cost reduction based on, among other things, quite a bit of 'reengineering' and restriction of spending. A second step was the implementation of new rules and processes, where we looked at the extent to which they are being implemented by employees. This is one important aspect concerning everything relating to compliance as well as internal audit. Normally, this is accomplished by spot checks, but we wanted to go further, and monitor everything. It was a major operation that was very time-consuming, but is also extremely important because now it provides both internal certainty and auditor certainty."

So do you really monitor all transactions?

"Ideally, all transactions are screened, but that's not easy. The disadvantage of this method is that an enormous amount of data needs to be processed. We solve that problem by working via data mining so that at regular intervals I can see instantly - via an easy-to-interpret dashboard - what could possibly go wrong. **The constant screening of all transactions is one of the significant differences compared to working via spot checks: your back door is guarded, as it were, and it ensures that your compliance and risk assessment are working the way they**

should. That's reassuring for the entire company because we are a commodity producer with low margins, so we can not afford any risks. Through proper coordination between all components of the business, and controlling all transactions and processes, you limit the risk, avoid surprises and the associated cascade effect. In fact, we not only control the transactional component in this way, but also risk assessment, the fraud component and even potential reputational issues. In the future I want to move to a system of constant monitoring because 'continuous monitoring is continuous assurance'."

How do you create the link from data mining to meeting customer requirements?

"Data mining is great for getting a tangible picture of your processes to optimize them. In a manner of speaking, it is an insurance policy for the business. But you also get a qualitative return from it, which is more difficult to measure: the administration runs more smoothly, people are more confident and feel better about themselves and that has a positive impact on the customer. Let me explain: the people inside the company and the customers notice if a machine is well-oiled and running smoothly. In our case, customers feel that as a supplier, we are well organized, that we understand their problems and that we can help them when they report a problem to us or ask us for a solution. **In fact, the link to customer satisfaction is quite simple: as a company, you must deliver the right product at the right price with the right service.** Good organization and matching of your products and services to the customer's needs is simply a part of the service that has to go with your product. So you are also responding to the needs of the customer."

"Even in B2B for convenience goods, the customer experience is crucial. Using data provides added value that makes a big difference."

Technology = efficiency increase

Technology = business model disruption

"In some ways, technology enables us to humanize the business world again, and to work in a more customer-centric way."

Herman Toch - Interview

'Happy profit'

"The world with its old power structures is under pressure and we are moving towards a new structural balance", says Herman Toch. "We are at a pivotal point, where the relationship with the customer, consumer or any other stakeholder is crucial to the business model ranking above our own ego and our profit targets."

Herman Toch, author of the book Transform or Die ('Transformeren om to overleven') believes that the world is changing dramatically. In this sneak peek for his new book Happy Profit he shares his vision of a new world.

In a manner of speaking, can we no longer make profits?

"That's not what I mean at all. But as entrepreneurs, we need to have the ambition to provide solutions in order to create a better world. We need to not see profits as a goal, but as a reward to leave future generations a better world. In fact, business is about dreaming and doing. Real entrepreneurship starts from an intrinsic urge. But we urgently need big 'dreamers' again. It's as if, in recent decades, dreams have been destroyed by an overwhelming urge for financial status and return on investment, for efficiency and power. That is why entrepreneurship is under such intense pressure nowadays. 'Happy profit' means striving for positive energy and imagination - based on dreams. Doing this helps us to satisfy inner motivation and to foster a positive relationship with all stakeholders, including shareholders. I have developed a visual that shows that relationship: between customers and a brand or a company which I call the 'The Wheel of Happy Fortune' (as illustrated on the next page). It's the only way to make 'profit' sustainable over the long run.

But how can you reach customers in this concept?

"Every business will have to prepare itself for a totally different market; a market with more players and different rules, with increasing complexity and speed, a call for transparency from better-informed players. And where sustainability in its broadest sense is a crucial factor for success. It is a market that will be more bottom-up than top-down. At the micro level, this means we can no longer pigeon-hole people into segments: instead we need to try to understand people on a more individual level. And at the macro level, digitization means

there will be tremendous solidarity and demand for transparency. Customers will want to know: are you trustworthy or not? We are moving from a centrally-managed, top-down controlled society to one which is decentralized, bottom-up.”

Have we reached the tipping point? Why now?

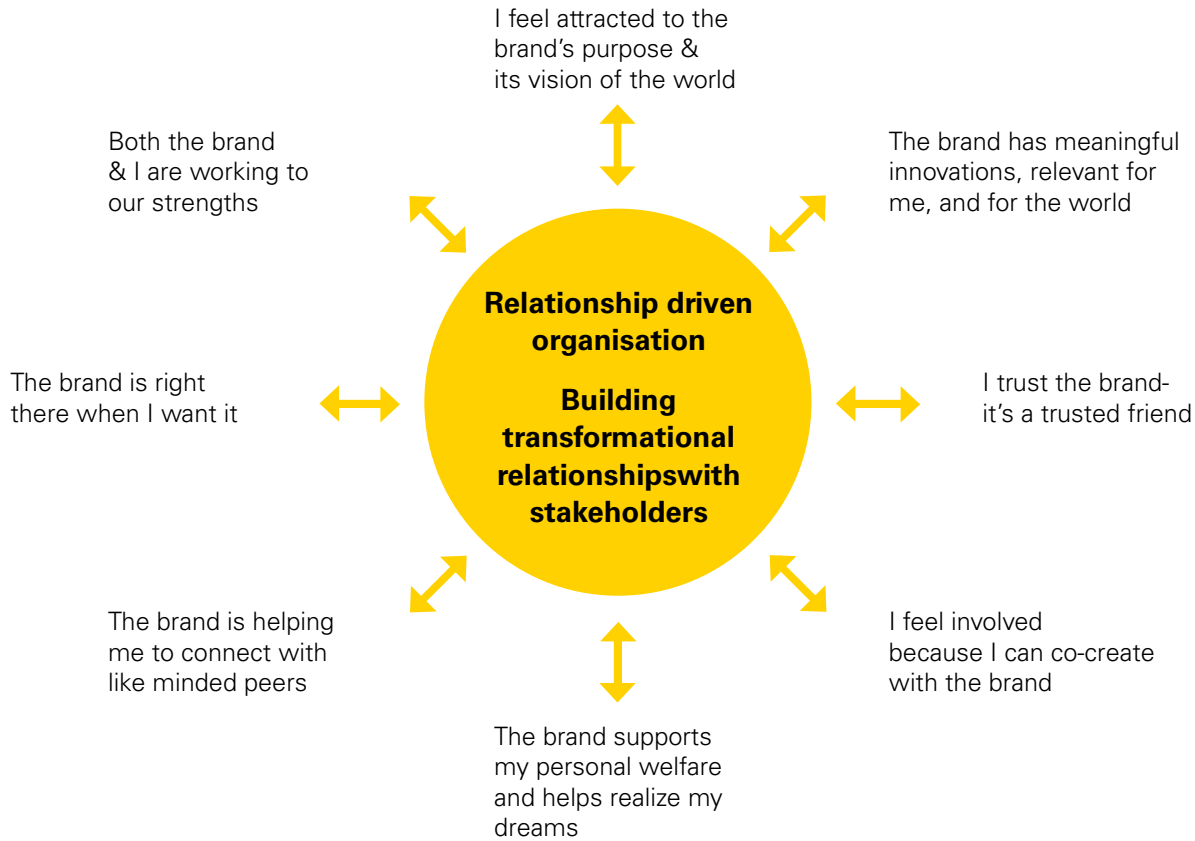
“This is a very challenging time when many crises are manifesting themselves simultaneously: the financial crisis, the ecological crisis, the crisis of norms and values, an ageing population, the mobility crisis and so on. That creates a great deal of uncertainty and a lack of confidence. On the other hand, there is the realization that we cannot continue like this, and great new technological developments are emerging that create new opportunities. For instance, consider open source developments and the miniaturization of technology and production which, more than ever before, are ensuring that anyone can make products and do business. I refer to this as a ‘maker

movement’ and it creates a whole new business dimension: bottom-up business. This new dimension means we have the ability to focus more on the needs of our customers. And where more things are made-to-order - instead of mass-produced, shipped, stored and sold - there are also opportunities for an industrial economy that is less dominated by commercial interests and more in balance with social interests. So, in some ways, technology enables us to humanize the (business) world again and to work in a more customer-centric way.”

So how would you summarize that idea?

“I see it as a world with new norms and values, in which ethics and morality are regaining their importance. Where striving for profit is applauded, but no longer at the expense of everything and everyone. Which shifts the focus from avoiding risks to creating opportunities. And where an infinite number of opportunities are there to be seized.”

The Wheel of Happy Fortune



Energie 2030

“It is time to take a leap of faith. To go for what we know is right. The ideas, technology and awareness are all there ... It is time to stop our ‘wait and see’ game. A smart future is a future that is truly beneficial for everyone.”

Energie 2030 is an energy company that was founded in 2001 in the region of Eupen. Its goal is to halve energy consumption and produce half from renewable sources by 2030. By realizing this, the founding members will be leaving their grandchildren only a quarter of the energy problem to solve. And more importantly providing them with a brighter and greener future.

Carine Sottiaux has been working in the energy sector for many years and is the CFO at Energie 2030. She shared her perspective on the future of energy in Belgium and some of the challenges she and her small organization face daily to meet that future head on, and hopefully change it for the better.

Carine Sottiaux - Interview

You work for a rather atypical company. How was it started?

“The original cooperative, Energie 2030 SCRL was founded in 1995, and their vision went beyond simply producing renewable energy. They wanted to find a way to encourage citizen ownership of energy; to use more renewable energy faster and ensure its access for all; focusing on the environmental, social and financial benefits of this approach. Not only would members receive dividends from the energy investment, but socially they were part of a group of people who wanted to bring forward a change. Their goal was to provide the cheapest and cleanest energy and promote its smart use. As the cooperative grew, 36 of its members created a company in order to hire staff and so the company began. They kept strong roots in sustainable development of the energy sector and their focus on a cooperative way of working. Both of the structures still collaborate today.”

Smaller organizations often have challenges finding funding. How have you faced this challenge?

“Since we work on innovative projects, banks sometimes find it a risky investment. Instead we focus on self-owned capital. So far, we have been able to quadruple our capital and we are slowly preparing for a fifth capital increase. The cooperative usually invests in projects we develop too. As the number of their members is rising, it means that fresh capital is available for new projects. We also have two partner structures in Germany, but there the laws are totally different. They operate on closed capital focused on specific wind parks.”

So you are present in both Germany and Belgium. How is that an advantage for your work?

“Well we are proud to have put up the first wind-mill in the south of Belgium to be connected to the grid in 1997. This highlights one of the key advantages of our position. We were able to import the know-how from Germany. **Germany is a full 5 to 10 years ahead of Belgium in the energy sector. By being located in the German speaking region of Belgium we have a huge advantage.** Since we function as a bilin-

gual organization we have access to a broader selection of investments, research and innovation through media and publications, for example. While this region of Belgium is sometimes forgotten it has its place. We get the best of both worlds. As is often the way, edges create complexity and opportunities ...”

This probably has its challenges as well?

“Indeed. In Belgium, the fact that we work in three languages is challenging and it does make a big difference. Not only are there three languages, there are also three different sets of regulations. In some ways, it is like working in three different countries. The energy sector is already very complex, add to that all the specifics of the different regions, and the result is a great disadvantage. For larger companies of course it means big investment for small output. For smaller companies, it means a lot of work resting on a smaller structure. This is true for most small companies in Belgium. I think, especially in innovation, it makes it more challenging. You end up spending a lot of time on languages and regulations that do not bring real value but are compulsory. For example, we supply energy, and there have been a lot of regulation changes for households recently. The VAT is now different for companies and private households. The change has required a lot of adaptation of IT systems focused on pricing calculations. This means a lot of work just to be in line with regulations. Such administrative challenges are not an advantage for Belgium.”

How do you overcome this challenge?

“Well, the key way to overcome it really is through hard work. We have a deeply committed team that puts in the hours. **But we are able to stay small, with only seven full time employees, because we work in a network of SMEs and experts. This means less need for full time staff while still having access to specific expertise on a full-time basis.** For example, everything related to IT and accounting we have outsourced. This allows us to focus more on our core competences and creates a win-win situation of shared expertise.”

What are your core competences?

“Our key competence is production and supply of energy from renewable sources. But we have also invested in energy use reduction and in smart use of energy with both individuals and companies. We work with them to ensure low variable cost of energy in the long run. We help companies find ways of improving their energy use but also of investing in their own energy production. **Energy is going to be one of the key factors in the coming decade. While there is the cost of capital investment today, it will make all the difference in the future.** There is also an advantage for companies when they work with us. By working with a third-party-investor they do not have to do it on their own. So some companies are able to save on their energy bill from the very beginning without any financial investment. If companies are ready to share the cake, the results come faster and more easily. Working together is a real win-win.”

What is your view of the future of the energy sector in Belgium? What are the threats and opportunities?

“First, the fact that we do not have one common energy concept for the three regions is a risk. In addition, we currently depend on energy from abroad and since the energy demand is still rising worldwide, we don’t even know if we have access to it at all in the long run... Prices will be what they will be and there is no way for us to know today what will happen. So we do have an opportunity now. **We can contain this risk by local production from renewable sources to supply what we need and use our energy more efficiently.** Things are moving in this direction everywhere. For instance, China has the largest number of windmills worldwide and they are investing a lot in renewable energy and growing very fast. So they have the know-how and expertise. Our perception of ‘dirty energy’ in China needs to be adjusted. They are a real threat for Germany’s leadership, that has been backing down on renewable energy policies.”

Whose responsibility is it to change how we are operating now?

“Everyone has a role to play – individuals, private companies and the government. We are all consumers and we speak up by buying. We vote every day in the way we purchase and this sends a message to companies and our politicians.

It is also true that the rules are important, but the simpler they are and fewer exceptions there are the more efficiently we will work; especially if we want our place on the global stage. We as companies also have a role to play. Every company has a chance to show its direction. For example, we have the opportunity to build entire sectors within our economy. In Germany they don’t only produce the machines they also have a maintenance sector, universities doing cutting edge research and development and a sophisticated export of their products. Germany has shown us these elements can have a big impact on the economy. Of course we cannot do it alone. There is need for a network on the EU level. Our energy future is intricately linked. But there is a huge change of perception. It is arriving and I am quite optimistic. If we dare a little more, we have our place.”

“It is time to take a leap of faith. A smart future is a future that is truly beneficial for everyone.”

CLOSING THOUGHT

We need to cooperate to take advantage of the great potential available in renewable sources versus competing for access to fossil sources – if we compete to have access to energy we will create walls. If we instead cooperate to produce it we will have a very different outcome.

Physical Asset Management for a smarter infrastructure

Improving maintenance and investments for asset intensive organizations globally

Companies are constantly looking for innovative ways to improve their maintenance costs and investments. By implementing an asset management strategy, organizations will be able to integrate operations with finance and accounting activities resulting in more transparent and efficient financial technical reporting on assets, including reports on the performance of assets and asset risks. In addition, organizations will be able to establish a lean principle that enhances the entire life cycle asset management, including costs, investments, asset performance and asset risks. This way of working will provide managers and leaders with a clear and undisputed audit trail.



The KPMG Asset Management Competence Center provides input and analysis to help asset-intensive companies manage their physical assets to improve their bottom line. By converting company data to the Asset Management Tool (AMT), conducting quantitative analyses, providing Life Cycle Costing trainings for the teams, and establishing investment plans based on the results, greater clarity on the best way forward can be found. The resulting cost benefit analysis can help to prompt the necessary readjustments in the replacement investments and maintenance to better manage average costs. The Global Asset Management Competence Center has conducted these types of projects for a number of companies from the energy, utilities and transportation sectors, providing them with a holistic approach to managing physical assets to create both financial and non-financial sustainable value, over their assets' life cycle.



SMART always wins

Play the winning hand



Rock



Paper



Scissors

Execution within the
value chain

Mastering the global
value chain

Dominate locally

Conquer globally

Product added value

Customer experience

Explaining the campaign

Structure
Mobility
Ability
Resources
Technology

**Getting to the bottom of SMART –
helping businesses become future proof**

Rock, paper, scissors? Who did not play that game as a child. It is basic and yet there is more behind it.

Friends playing a game – both are good but only one will win...

The same is true in the real business battle. We all have the same arsenal but what really makes the difference is having flexibility, skills and vision and the ability to leverage them at the right moment to tackle the challenges that come your way – again and again and again.

On one side we have the classical business models. They are good practices. They get the job done and even gain real success. But to make it in the new interconnected world where the customer is an 'interactive king', you will need to play a winning hand. We will all need to go beyond, in order to not only survive but create real value while doing it.

This new world means that product development can no longer be simply an intra-company process. The future-proof business will think beyond that to customer co-creation. Thanks to input and cooperation with customers worldwide at every step of the process companies will be able to provide clients with exactly what they need. Client-centricity is a key element of the smart future.

It is only possible to make that switch with technology. Technology allows managers to re-think businesses according to clients' needs because for the first time their input is available instantly. This means that technology also takes use beyond increasing efficiency to an actual business model disruption. But only if we let it...

The traditional focus is on improving your business. What if instead you reset your mindset. Hit the refresh button often enough and you should see new opportunities emerge.

In this magazine we offer you some food for thought. But this is just the beginning. We will be back with more based on input from business leaders like you from all over Belgium. Our aim is to provide you with practical insights so that you can future-proof your organization. And that is what this campaign is all about.

You have the power to pick the hand you play but it will only be based on smart insights that will help you to be on the winning side.

smartalwayswins.kpmg.be

General

At KPMG, our passionate people help you think ahead to face the future.

At KPMG our trusted advisors are here to support you as grow your business, address your risk environment and improve your performance. We don't just limit ourselves to helping you find efficiencies every day. Our aim is also to be by your side into the future, as you seek long-term sustainability in a fast changing world.

With deep experience in every sector and a market presence in over 150 countries, we understand your industry, the operating issues and the competitive environment, wherever in the world you happen to be located.

Our multidisciplinary experts seek to provide you with the hands-on support you need, at every step, as you leverage your potential opportunities to be SMART for the future.

Improving Performance

We help you to make better decisions, reduce costs, build more effective organizations and develop appropriate technology strategies.

- Transformational Program
- Management & Post-Merger Integration
- Financial Management & Accountancy Advisory Services
- Physical Asset Management
- Business Intelligence & Analytics
- Strategy & Operations
- Talent & Human Capital
- Management
- CIO Advisory
- Intelligent decision support
- Tax Efficiency & Optimization Advice
- Internal Audit Assurance

Addressing Risk

Many large organizations have turned to us for risk consulting, helping them to navigate through their most complex issues, shaping the thinking from board to operational management, transforming risk to their advantage.

- Internal Audit, Risk & Compliance
- Forensic
- Financial Risk Management
- Actuarial Services
- Sustainability
- IT Risk Management & Investigations
- Tax Compliance
- Tax Technology
- Revenue Audit Assurance

Growing your Business

We have the expertise to shape a client's response to opportunities and challenges right across the deal cycle.

- Transformational Growth Strategy
- Due Diligence
- M&A Support
- Valuations
- Debt Financing
- Restructuring
- Technology Enabled Business Transformation
- Tax Structuring
- Sustainable Audit Assurance

At KPMG, we provide value-adding services that drive and support your boardroom decision making. Our broad advisory skills, combined with our knowledge in audit, tax, and regulatory matters allow us to link your challenges to industry issues and technologies that can help you face the future.

We are here to help you achieve lasting transformation.





cutting through complexity

SMART for the future

The time for easy answers is behind us: the time to become SMART is now.

We live in an interconnected world. Every business challenge is part of a complex interaction between various business drivers. But how to see clearly through the complexity?

At KPMG we approach your challenges with a SMART and multidisciplinary approach. We understand the complexity that surrounds your business, and we can help you face the future. Call on your KPMG trusted advisor. We are here for you.

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