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President and
CEO Philips
Lighting
June 23, 1998

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Lighting Business Characteristics

Slow overall growth. Continuous renewal of product lines.
Severe price pressure on commodity items.

Key (Product) Opportunity Drivers :

- Energy Management
- Life of lamps
- Quality of light
- Miniaturisation

supported by Electronics

Plus Batteries

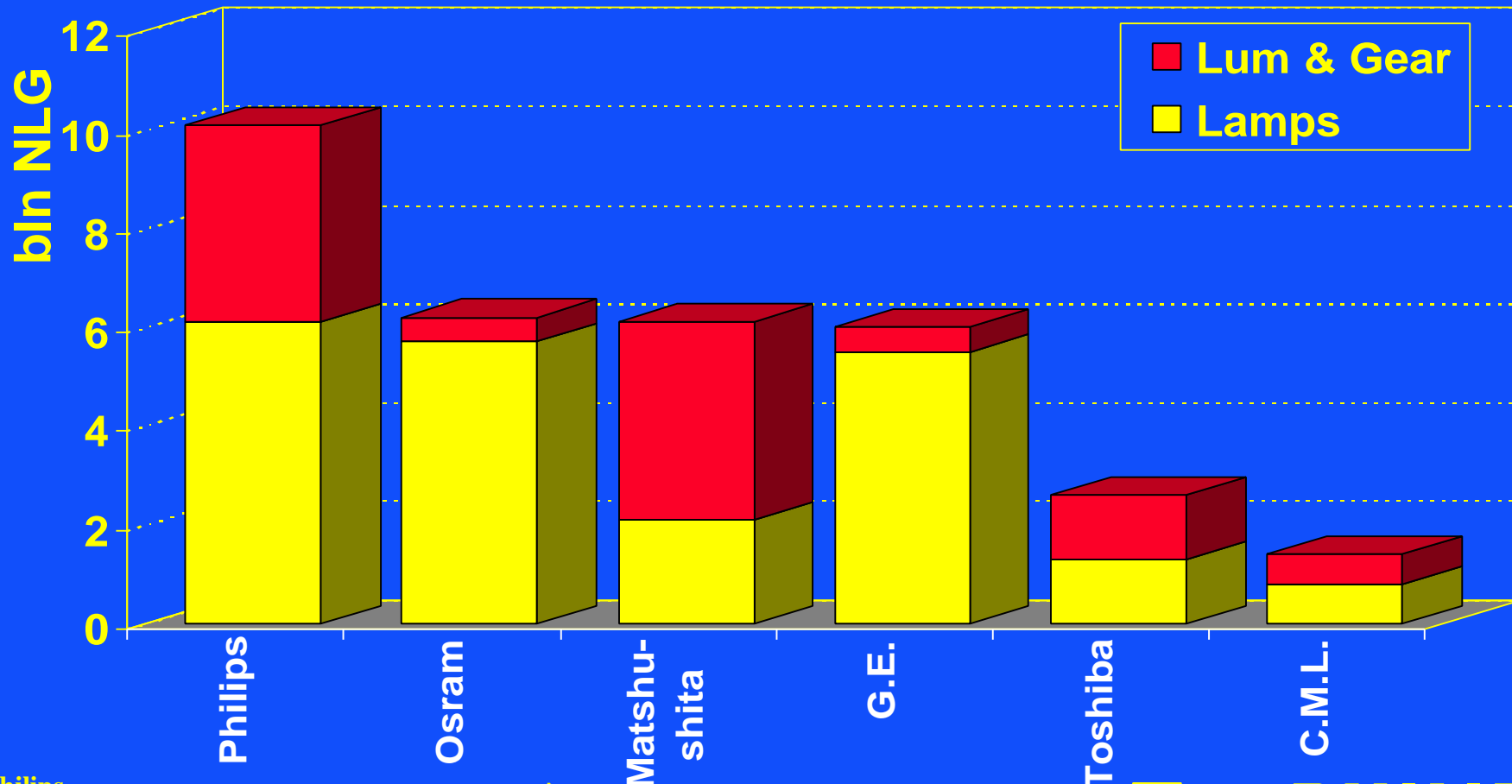


Note: price erosion W. Europe - 4%, N. America -2%

Business Characteristics

Two main competitors in lamps: GE, Osram (plus Japanese in Japan).
New entrants (out of APR, especially via electronics).
Fragmentation in Luminaires.

World Lighting Players 1997



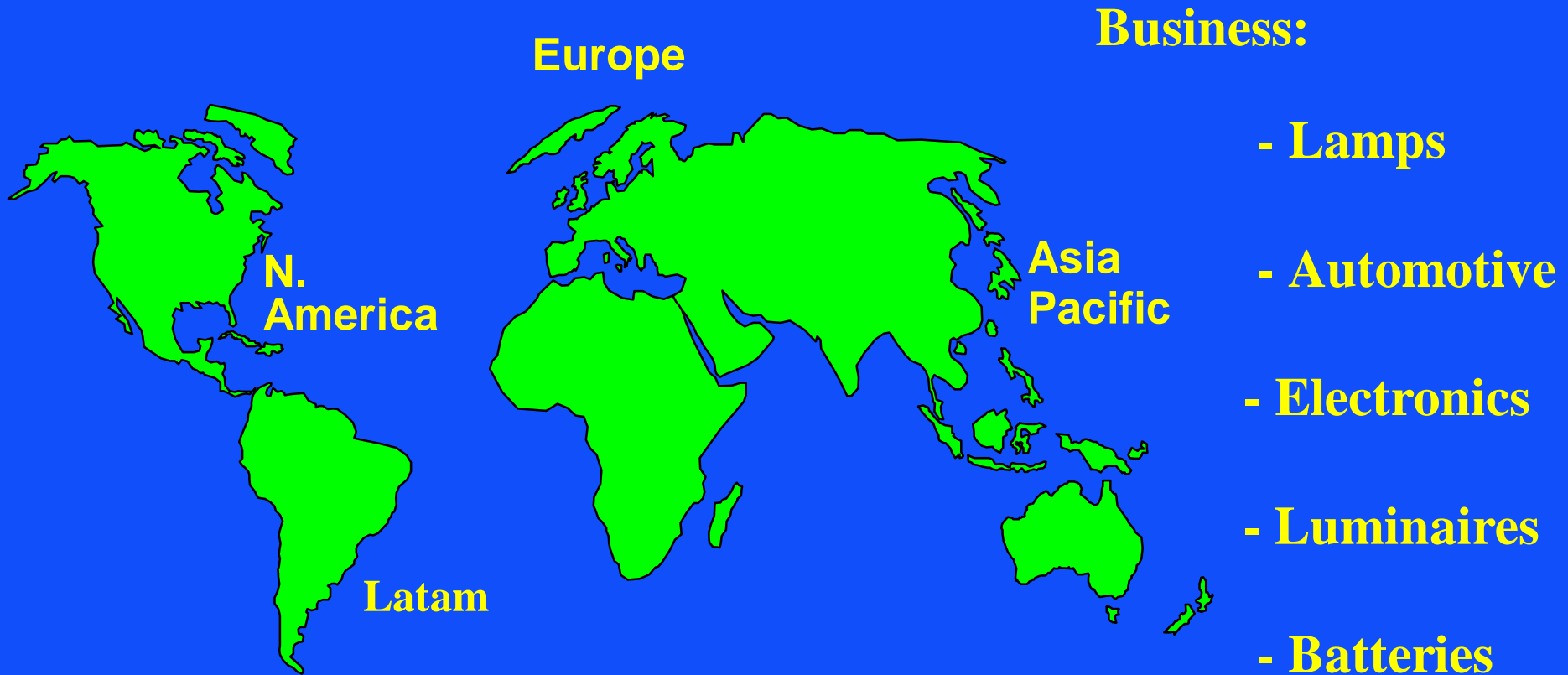
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Lighting Business Characteristics



Business:

- Lamps
- Automotive
- Electronics
- Luminaires
- Batteries

Global spread Philips Lighting



Sales outlets in 150 countries
National sales organisations in 60 countries
Industrial activities in 36 countries

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	1996	1997	1998 Q1
Turnover	NLG 9 bln	NLG 10 bln	NLG 2.5 bln
IFO (net)	NLG 700 mln	NLG 1150 mln	NLG 330 mln
IFO as % Sales	7.8%	11.3%	13.4%
Net Operating Capital	NLG 4.1 bln	NLG 4.0 bln	NLG 4.1 bln
Capital Turns	2.1	2.4	2.4
Employees	50,000	52,000	52,000
RONA (MAT based)	16.4	26.7	28.2

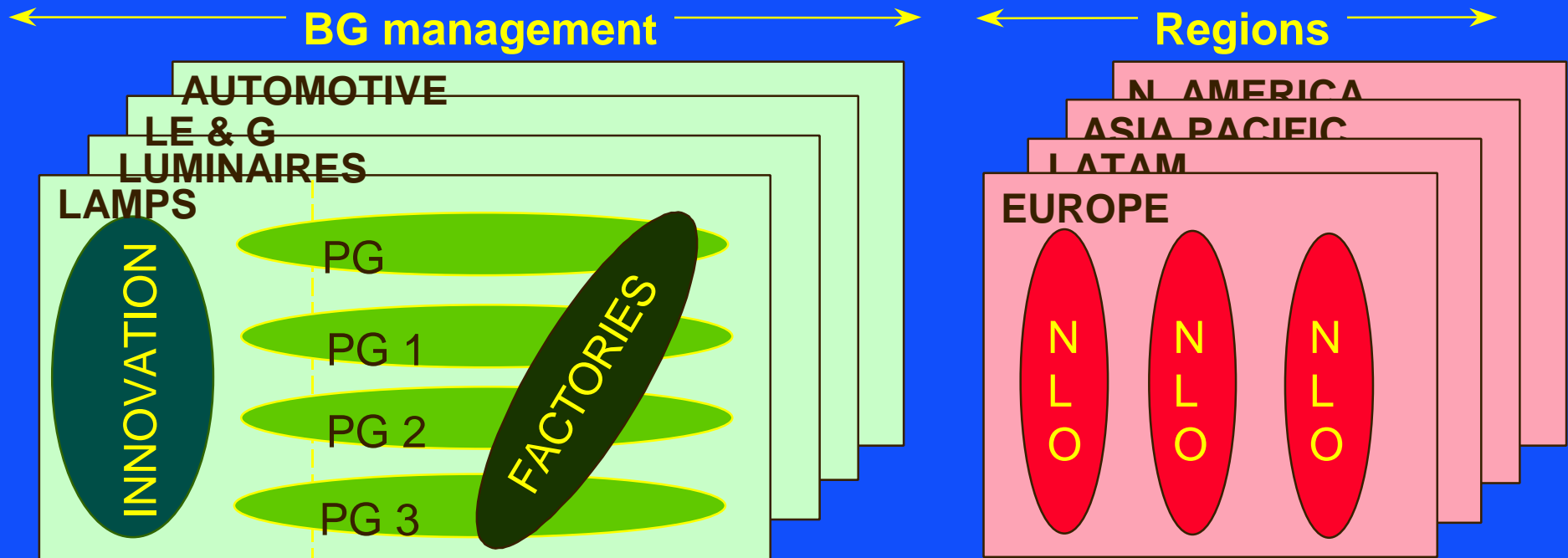
Philips Lighting

- 107 years old.
- A cornerstone of Philips.
- Well respected.

Mature Business Characteristics

- **Brand well established.**
- **Strong relationship:**
 - Customers
 - Internal
- **Comfortable.**
- **Control culture**
(vs improvement culture).
- **Slow moving: reluctant to change.**
- **Over confident: over managed.**
- **Internally focused.**
- **High cost structures: overheads.**
- **Lack of focus.**
- **Political.**

Lighting organisation (old)



PG = Product group Management

Develop + Make (worldwide)

NLO = National Lighting Organisation

Market + Sell (regionally)

- Channels

Professional/wholesale

Retail

OEM

Plus acquisitions: Advance (1972), Westinghouse (1983), EBT (1992)

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Consequences

1. **No BUSINESS focus**
 - No P/L
 - No B/S
2. **No accountability**
3. **Supply organisation disconnected from market** } stock
4. **Selling disconnected from supply** } interface
5. **Power structures, not business structures**
6. **OEM customers - little trust**

BUT:

7. **One face to the market**
8. **Worldwide capacity + technology management (from Europe)**

Product Market Combination

(in NLG bln)	<u>Prof./Wholesale</u>	<u>Retail</u>	<u>OEM</u>	<u>Total</u>
Lamps	3.0	1.0	0.7	5.7
Luminaires	2.0	0.0	0.0	2.0
LE & G	0.0	0.0	2.0	2.0
Automotive	0.0	0.7	0.0	0.7
Batteries	0.0	0.3	0.0	0.3
Total	6.6	2.0	2.1	10.7

Luminaires

- not one business

	Project	Replacement
Indoor	✓	✓
Outdoor	✓	✓

and (for all businesses) the balance of

Regional : Global

Product Market Combination

(in NLG bln)	<u>Prof./Wholesale</u>	<u>Retail</u>	<u>OEM</u>	<u>Total</u>
Lamps	5.0	0.7	0.0	5.7
Luminaires	2.0	0.0	0.0	2.0
LE & G	0.0	0.0	2.0	2.0
Automotive	0.0	0.7	0.0	0.7
Batteries	0.0	0.3	0.0	0.3
Total	6.6	2.0	2.1	10.7

Control over the business processes is a prerequisite for accountability and commitment

Innovation to market process

Development

Order fulfilment process

Make & Distribute

Demand generation process

Selling

Strategic value creation

RONA

IFO (constructed, based on transfer Price)

Stock/payables

Receivables

Costs

Costs

Costs

Three different models

1

I.T.M.	O.F.	D.G.
Global	Global	Europe
		N. Am.
		Asia P.
		Latam



Automotive Lighting

2

I.T.M.	O.F.	D.G.
Global	Europe	
	N. America	
	Asia Pacific	
	Latam	



Lamps
LE & G

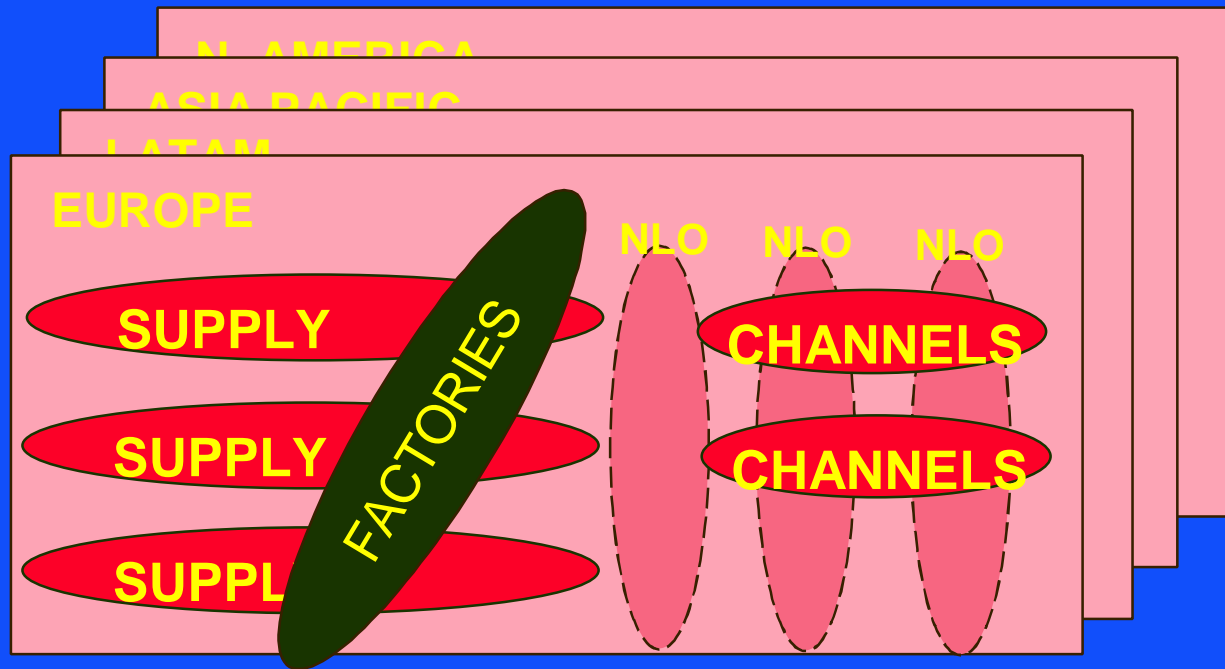
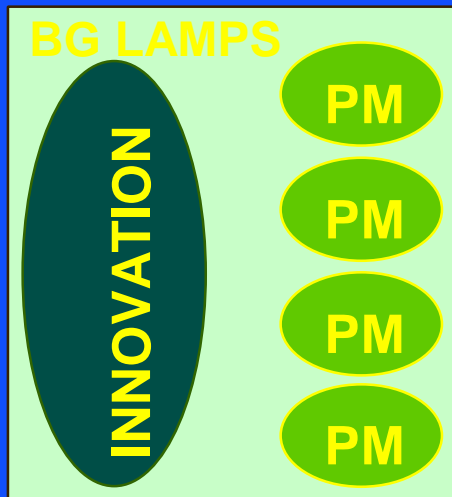
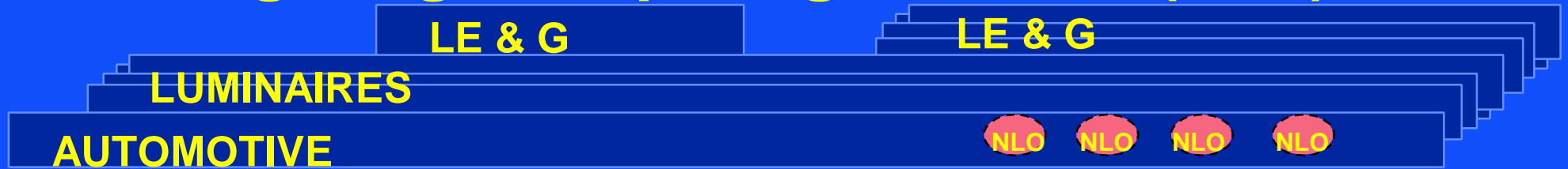
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I.T.M.	O.F.	D.G.
Global	Europe	
	N. America	
	Asia Pacific	
	Latam	



Luminaires

Lighting: Lamps organisation (new)



← Innovation to market →

← Order fulfilment — Demand generation →

← RONA accountability →

PM = Product Management
 NLO = National Lighting Organisation

Batteries - Retail Business
 Components (Global) - ITM Lamps
 Special Lighting - Global

Business Structure (Business Management)

By LoB:

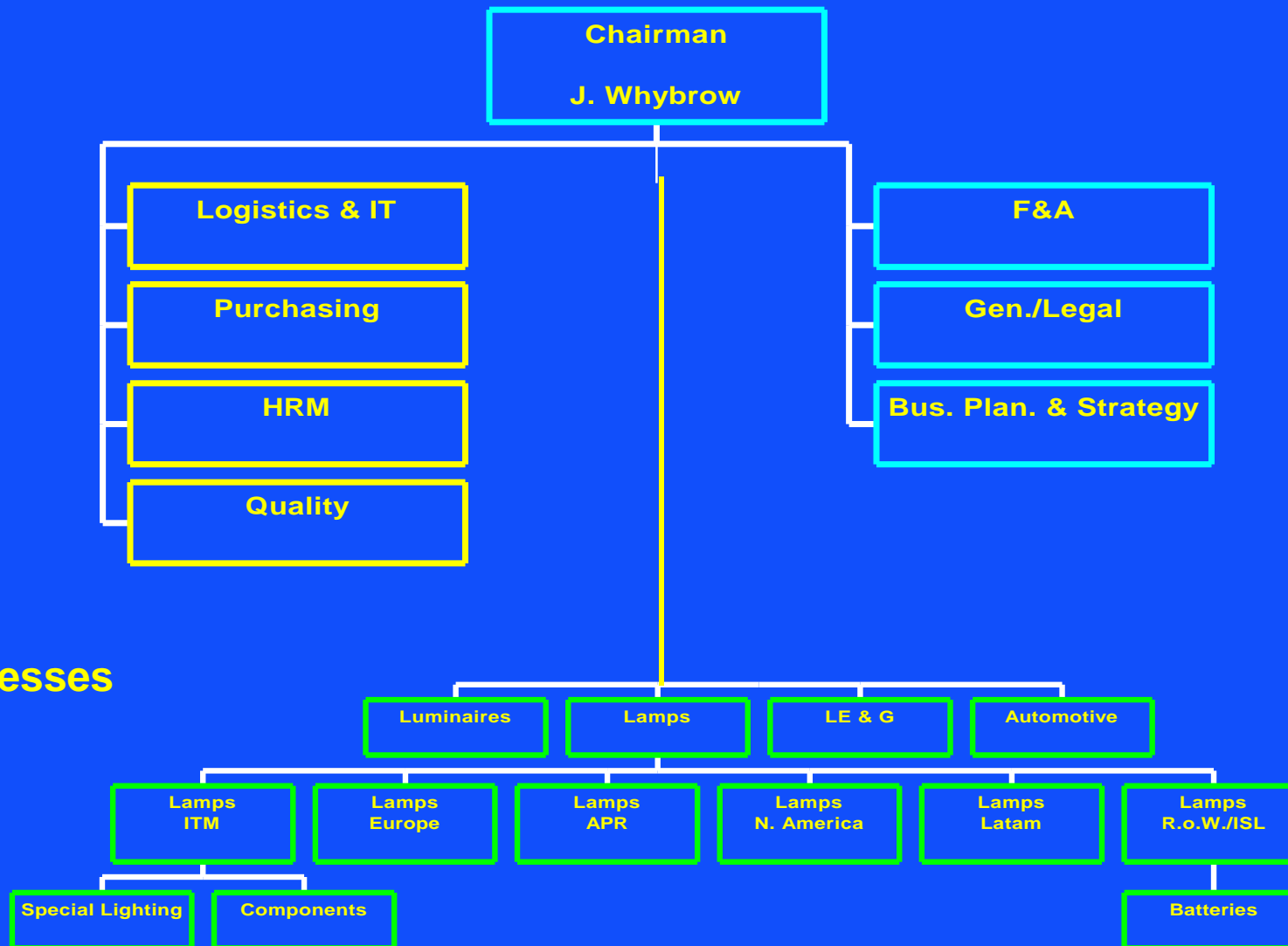
- P/L
- B/S
- Accountability
- Benchmarking
- Objectives
- Activity based costing:
 - correct allocation of overhead
 - to businesses, to products
- Product Division overhead
1.9 % \longrightarrow 0.3%
- New info systems

FOCUS

Back to Basics

- **P/L:**
 - **Highest price** : **Lowest costs**
[**Brand index** : **Productivity, waste**]
- **B/S:**
 - **Asset utilisation**
Capital spending
 - **Working capital**
Inventory

Philips Lighting Organisation per March 1998



Businesses



Organisation

Development

Roadshow

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CONTENTS

- **Financial results**
- **The need for change**
- **Principles & structure**
- **Business process & discipline**
- **Improvement & breakthrough**
- **Strategic plan**

Beliefs and Behaviour

**Business
Focus**

Integrity

Speed

Simplicity

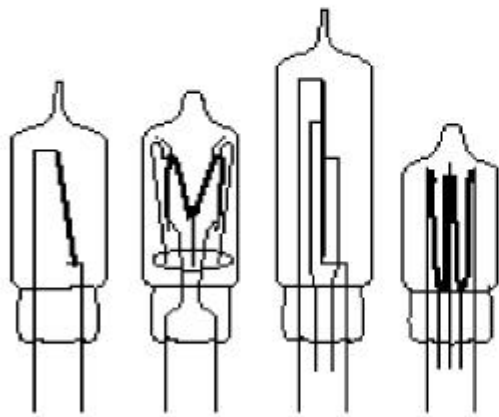
**Personal
Quality**

Teamwork

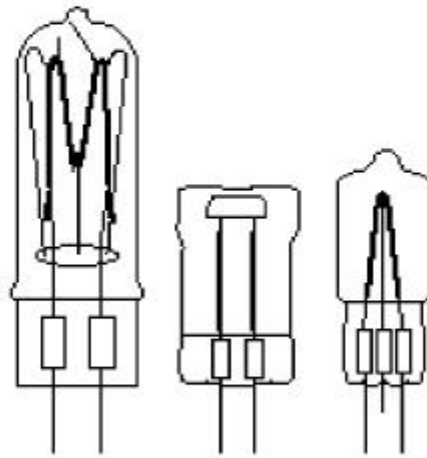
PD Policies (above the Line of Business)

- **Brand**
- **Systems**
 - Financial
 - Logistics
 - Communication infrastructure
- **Standardisation**
 - Products
 - Processes
 - Equipment

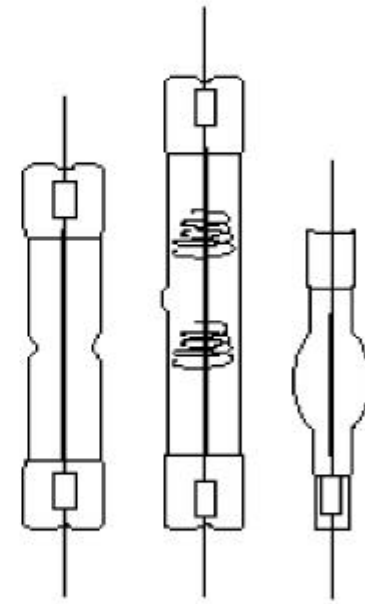
Philips mains voltage burner variants



Single ended Hard glass



Single ended Quartz



Double ended Quartz

PD Policies (above the Line of Business)

- **Common view on strategy**
 - Technology
 - Products
- **Improvement principles**
Business Excellence
 - **HRM Policies**



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WORLD PICTURE PHILIPS LEAD IN WIRE PRODUCTION CENTRE



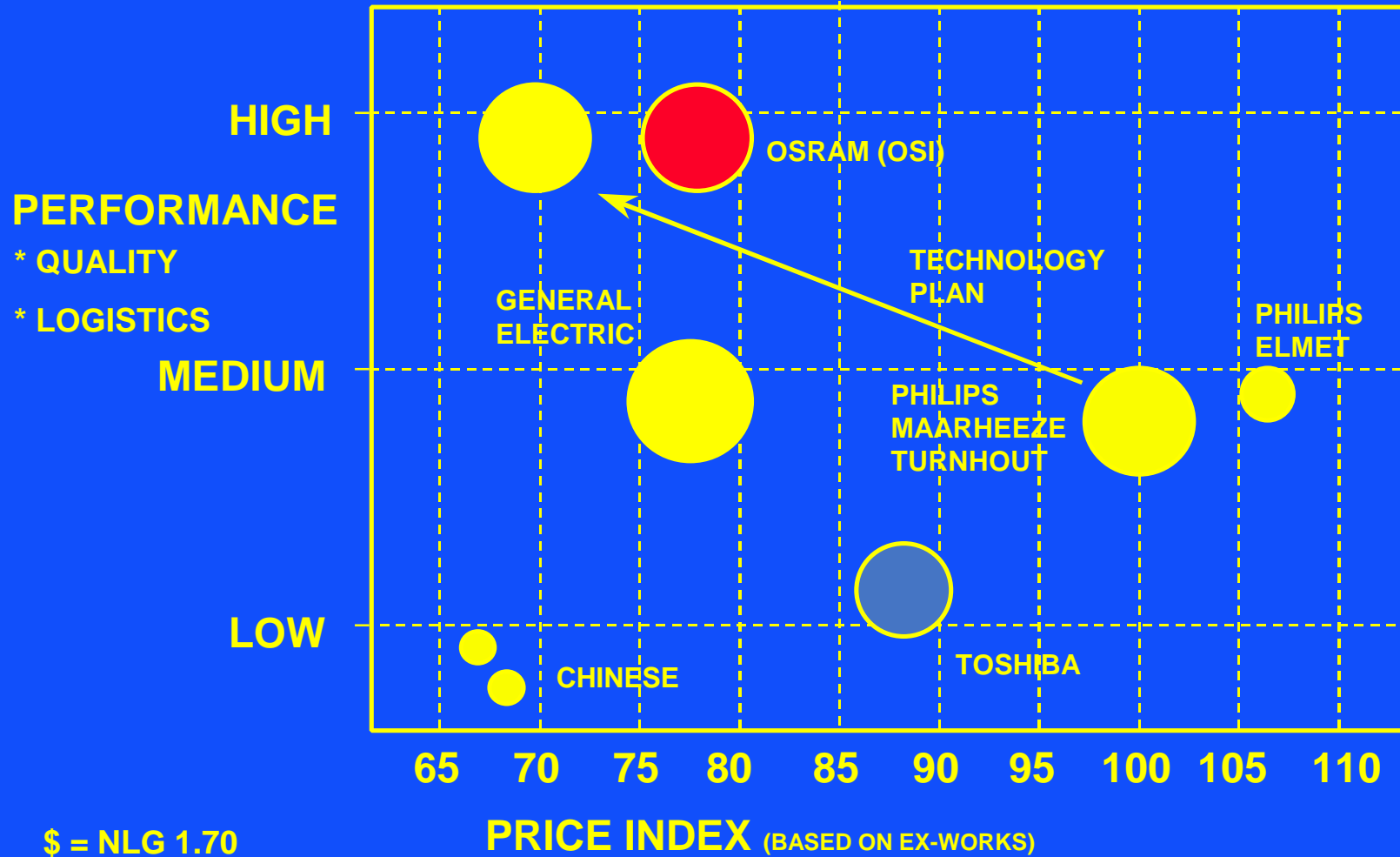
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BENCHMARK MAIN COMPETITORS: THICK WIRE (250 micron)



Product Creation (Lamps) Innovation to Market (ITM)

- Technology (Research & Development)
- Director → Marketeer
- Speed → Definition of products required
(for the market)
- Scrum meetings

“The market into the organisation”

Ambitions

No. of development projects in progress simultaneously	Future <i>halved</i>
Average throughput-time	<i>halved</i>
Successful introductions	<i>doubled</i>

Competitive product portfolio

Market Orientation

Speed

Reliability

Costs

Issues

Strategy (1997 review)

- | | |
|---|--|
| <ul style="list-style-type: none">• Maintain No. 1 Position Europe | Cost Reduction - Lamps, Indoor Luminaires
Reduction of Variety - Customers, Products |
| <ul style="list-style-type: none">• Improve position USA | Market position - No. 2, Brand, Pricing
Restructuring GLS |
| <ul style="list-style-type: none">• Regional Expansion | Extend leadership AP, LATAM
Expand C & E Europe
Upgrade Industrial Performance
Brand Management |
| <ul style="list-style-type: none">• Improve business performance | Logistics, Lead time, Cycle time
Integral costs, Components (Glass JV's) |
| <ul style="list-style-type: none">• Business Chain Management | Market Driven Integration
Accountability
Speed |

Business Excellence Programme

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BEST for Lighting

Business

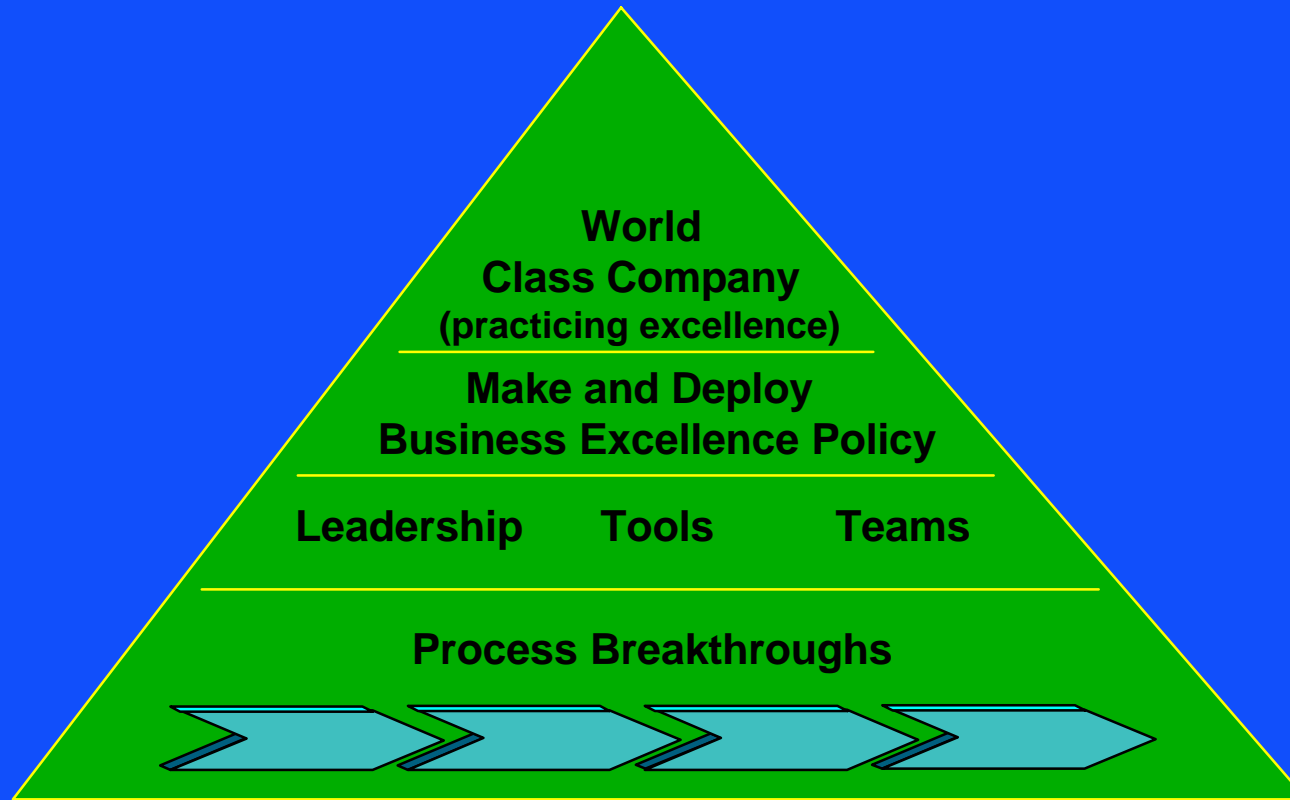
Excellence:

Speed &

Teamwork

**for
Lighting**

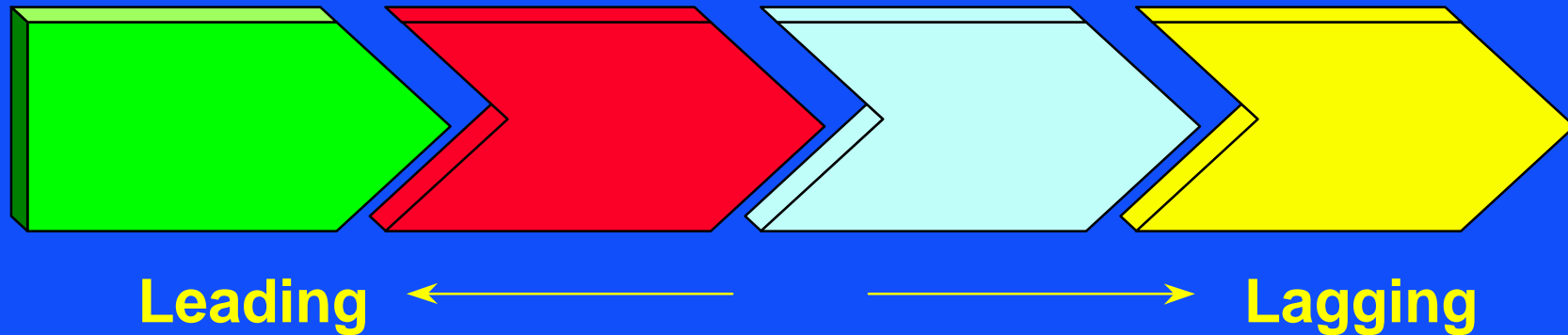
BEST Targets



- **Innovation to Market**
- **Demand Generation**
- **Order Fulfillment**

Balanced Windows: Cause and Effect Format

Learning Processes Customers Business Results

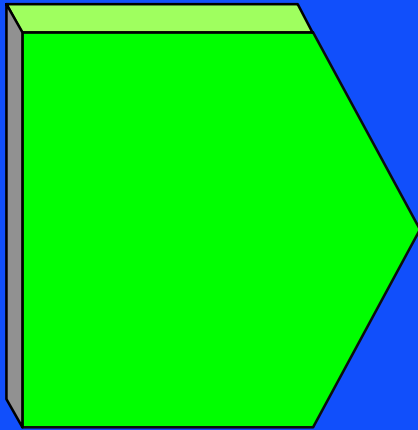


World class businesses:

- Understand Lagging and Leading indicator concepts
- Understand Cause and Effect relationships
- Report and Review a balanced set of indicators

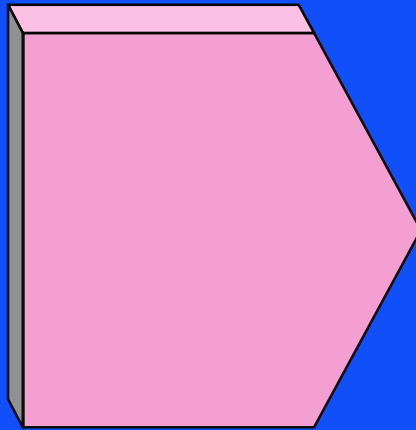
Balanced Scorecard: Philips Lighting

Learning



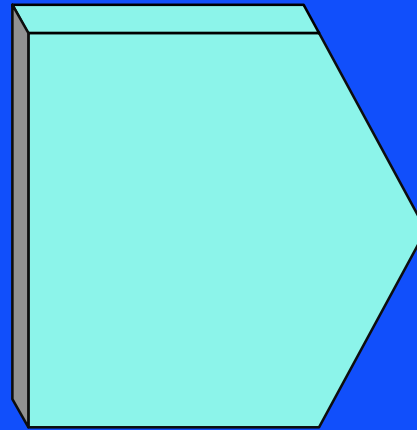
Training
QIC
PQA-90

Processes



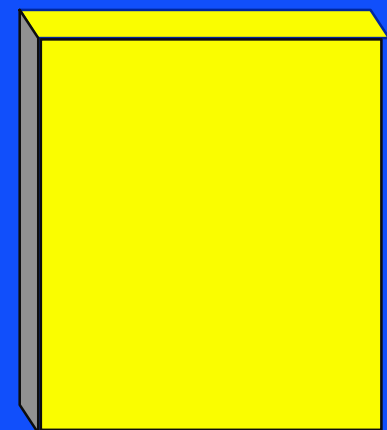
Cycletime
Waste
Asset Util.

Customers



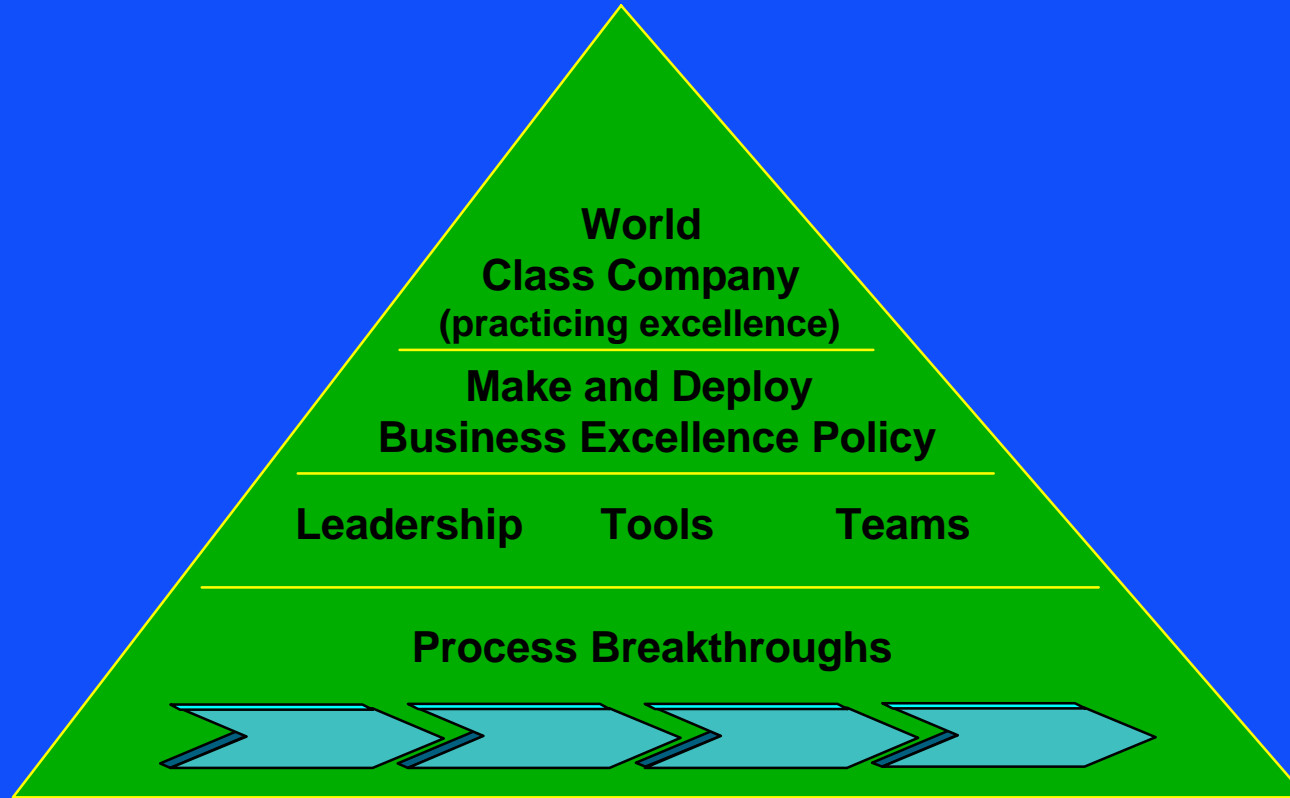
Surveys
ICSL

Financial

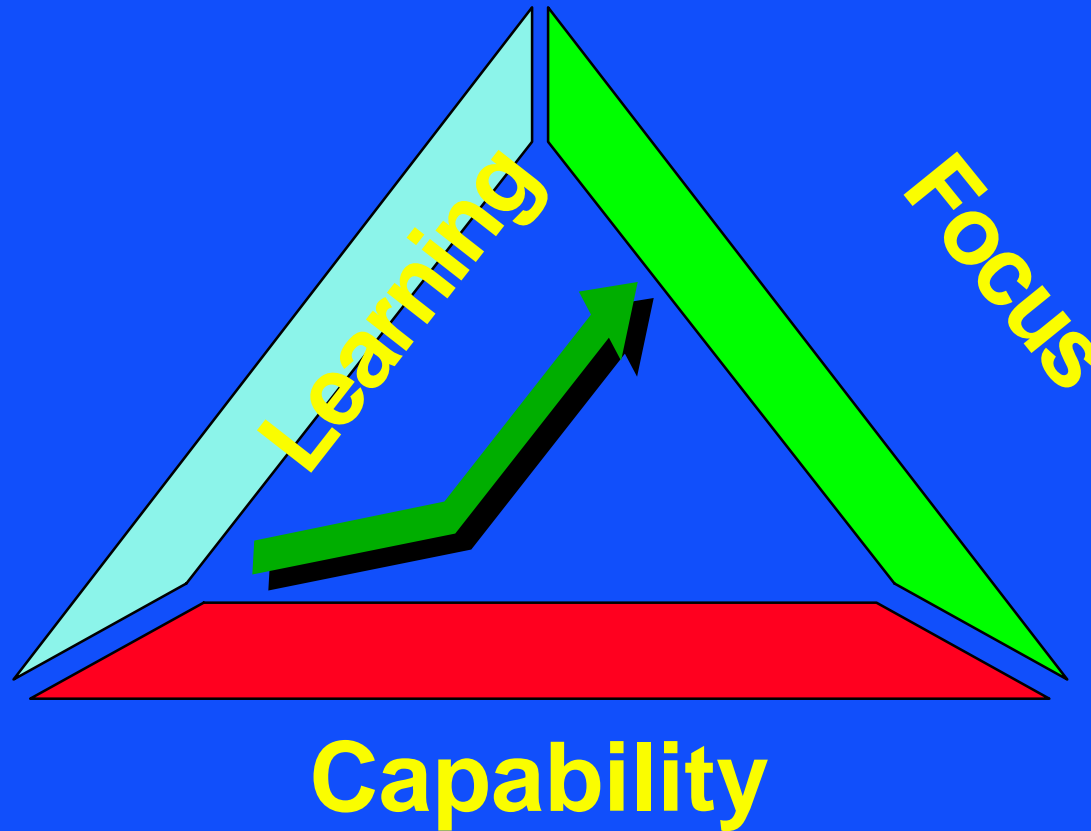
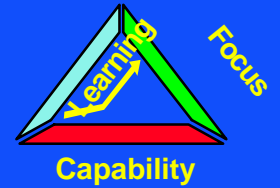


EPR
Sales/wage
Inventory
Cash

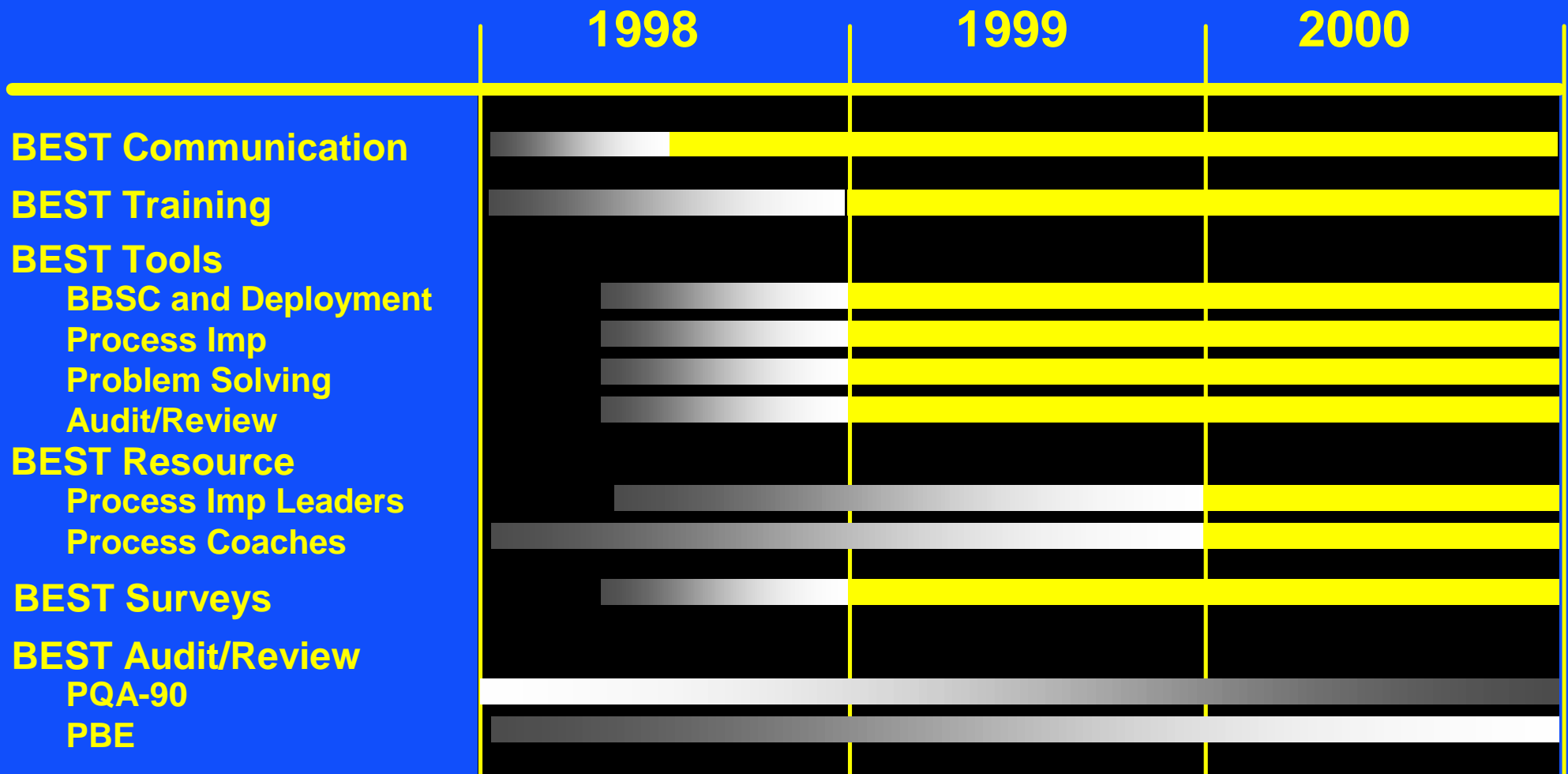
BEST Targets



The *BEST* Logo



BEST Programme





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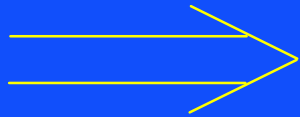


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Conclusion

- Leadership
- Supportive infrastructure
- Clear policies, organisation

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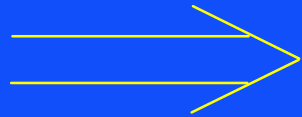
- Process Management
- Business Management
- Focus
- Results

Business Units

Conclusion

- Leadership
- Supportive infrastructure
- Clear policies, organisation

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- Process Management
- Business Management
- Focus
- Results

Business Units

IMPROVEMENT: FUN

“The underlying source of competitive advantage is the sustainable capacity for change”

R. Pascale



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BU Luminaires

Kick Stam

June 1998

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Redesign of the Luminaires Business

- Business scope and characteristic
- Difference in structure 1996 versus now
- Supply chain redesign
- Next steps in business redesign
- Results so far

Philips Lighting Luminaires Scope



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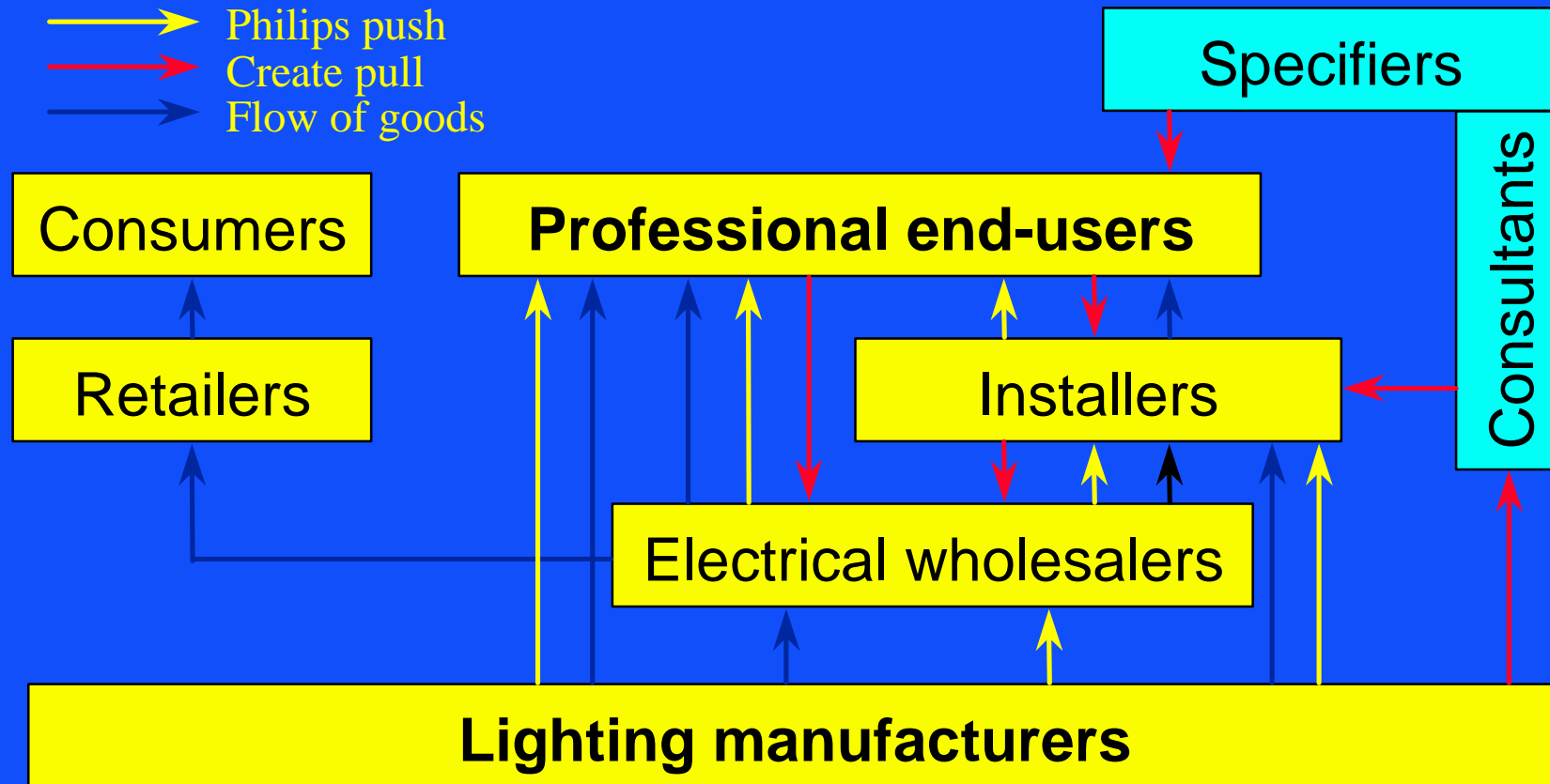
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Market structure

Professional lighting market



Luminaires Activities Worldwide

Indoor, Outdoor

AEG, Idman

Europe

C.&E.Europe

NLG 2 bln turnover

NLG 17.2 bln world

market: 12% m.s.

NLG 8.5 bln W. Eur.

market: 18% m.s.



Europe still 3/4 of activities, but other regions have grown >20% p.a.

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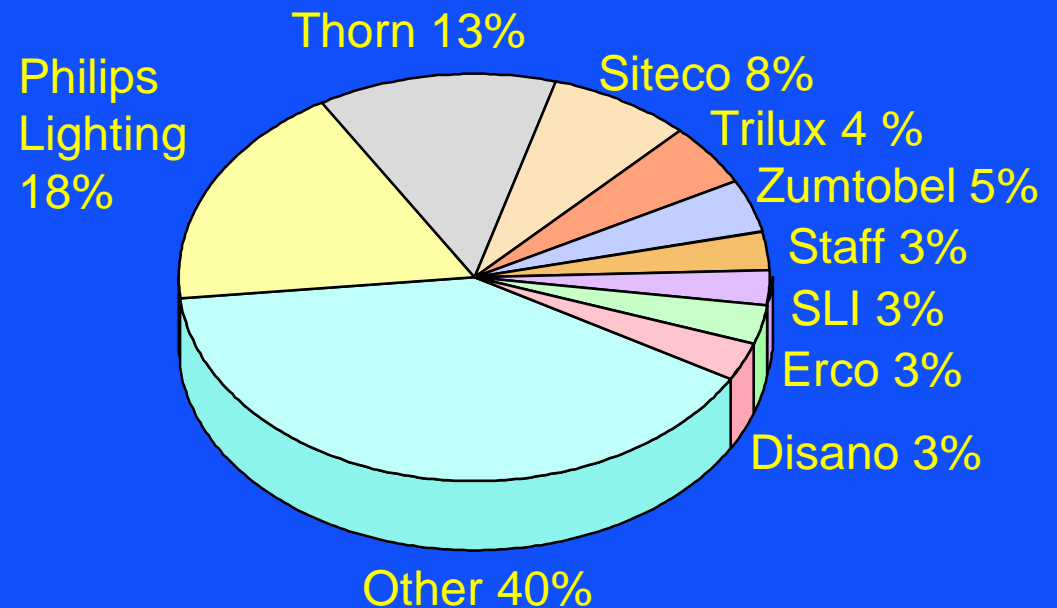
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Competition

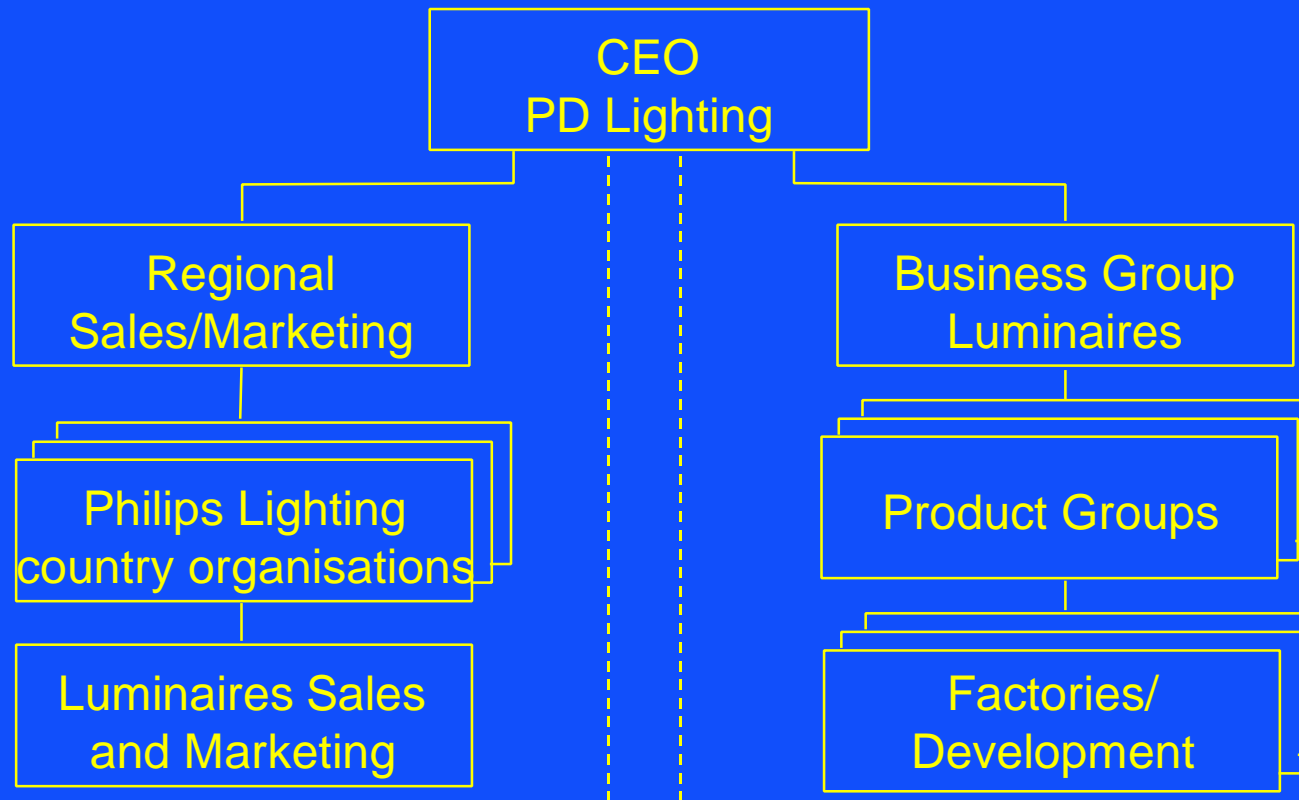
Major (regional) competitors:

- MEW
- Lithonia
- Thorn

European marketshares 1997 Luminaire market

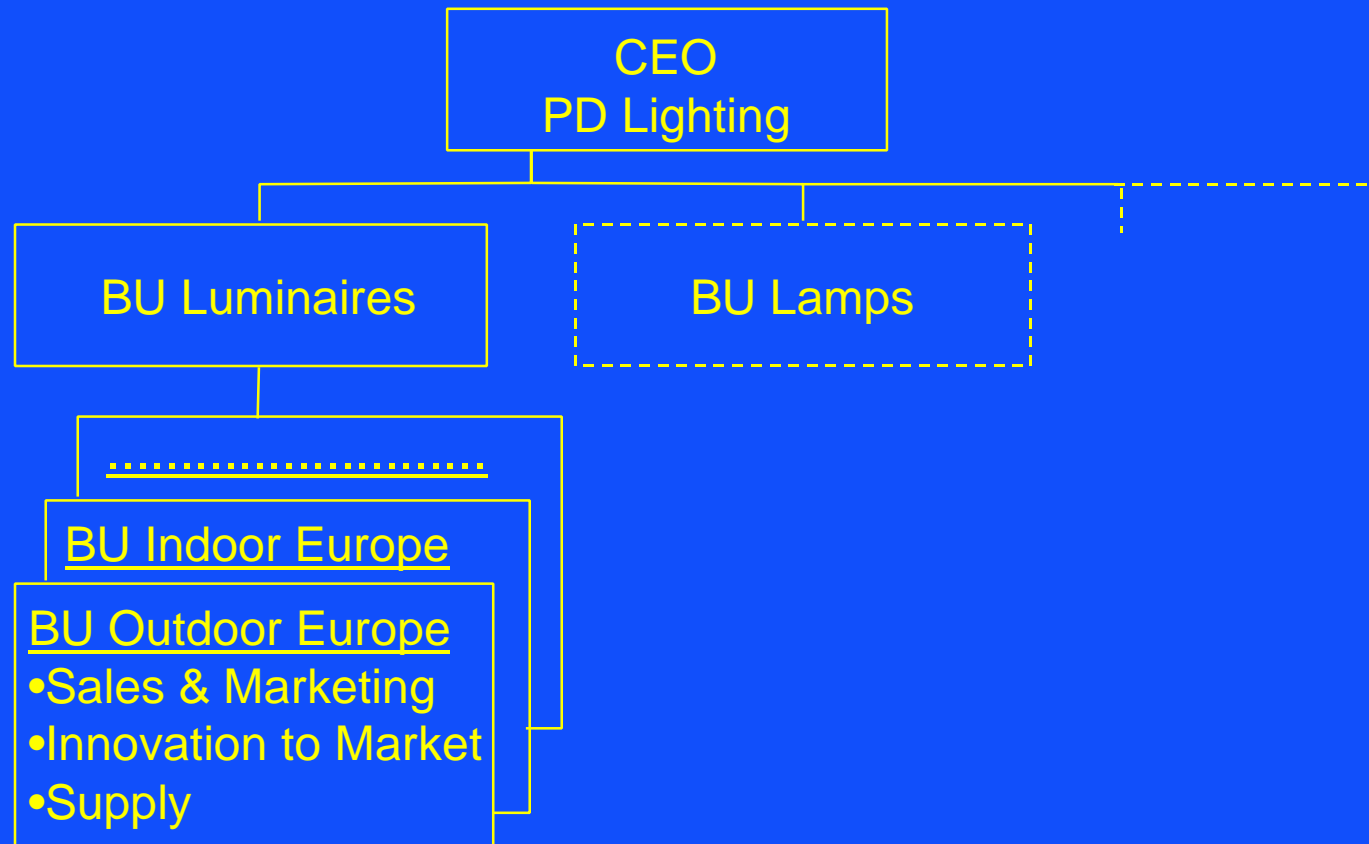


1996 Structure



- Business processes split
- Limited management information over the business chain
- Long decision making time
- Accountability “shared”

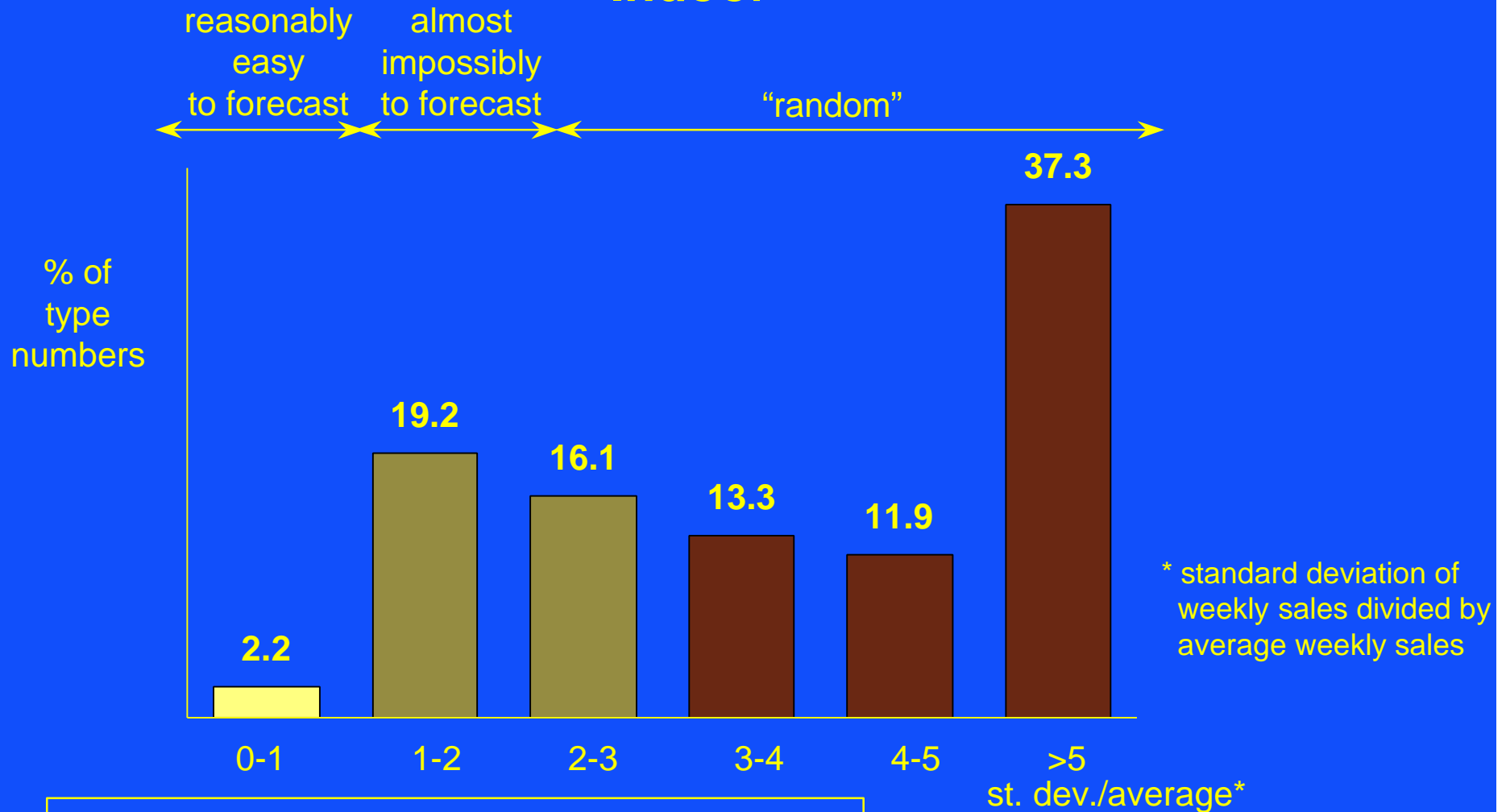
1998 Structure



- Integration two levels lower
- Full accountability over all business processes
- Focused on luminaires business

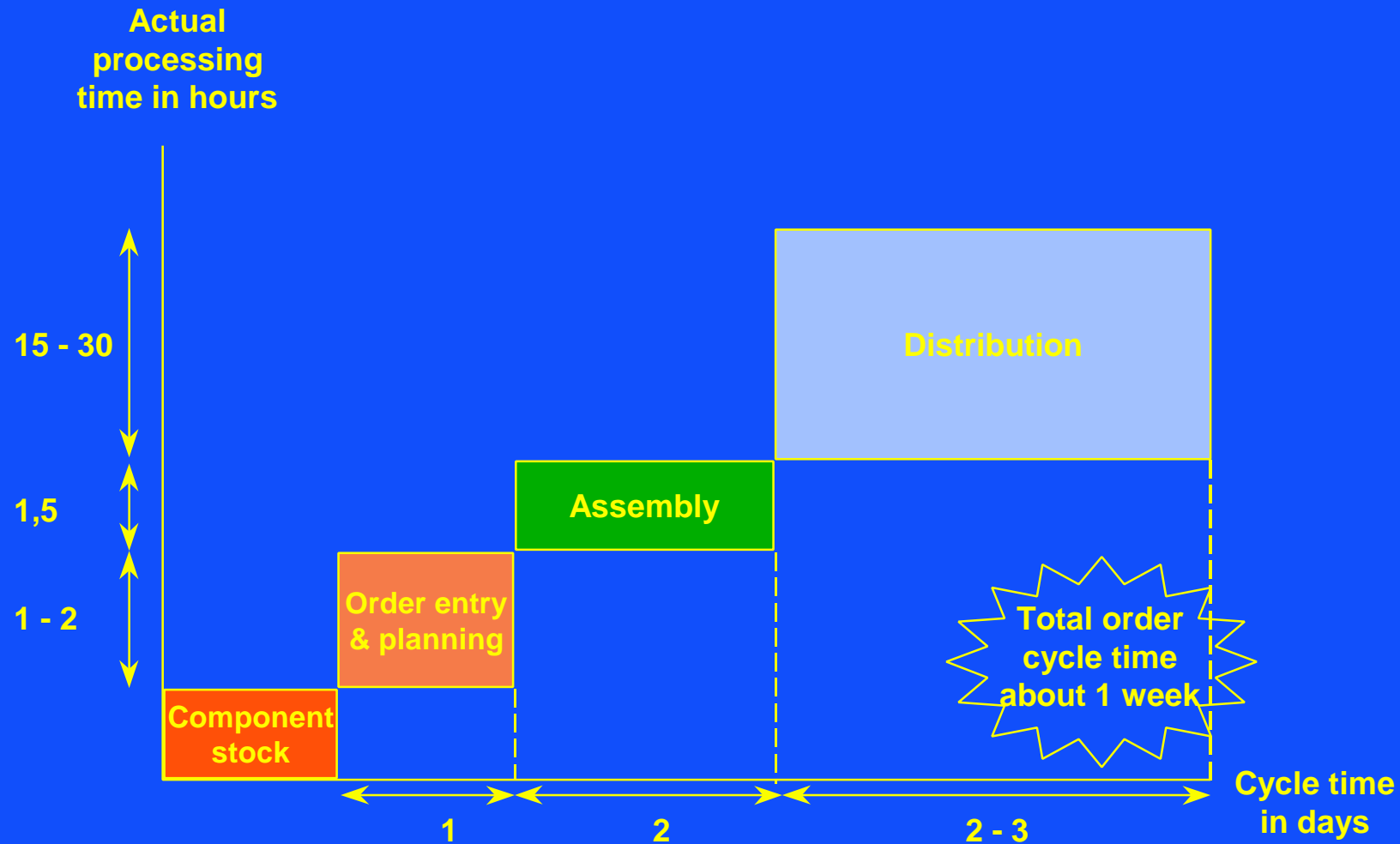
High volatility difficult to forecast

Indoor



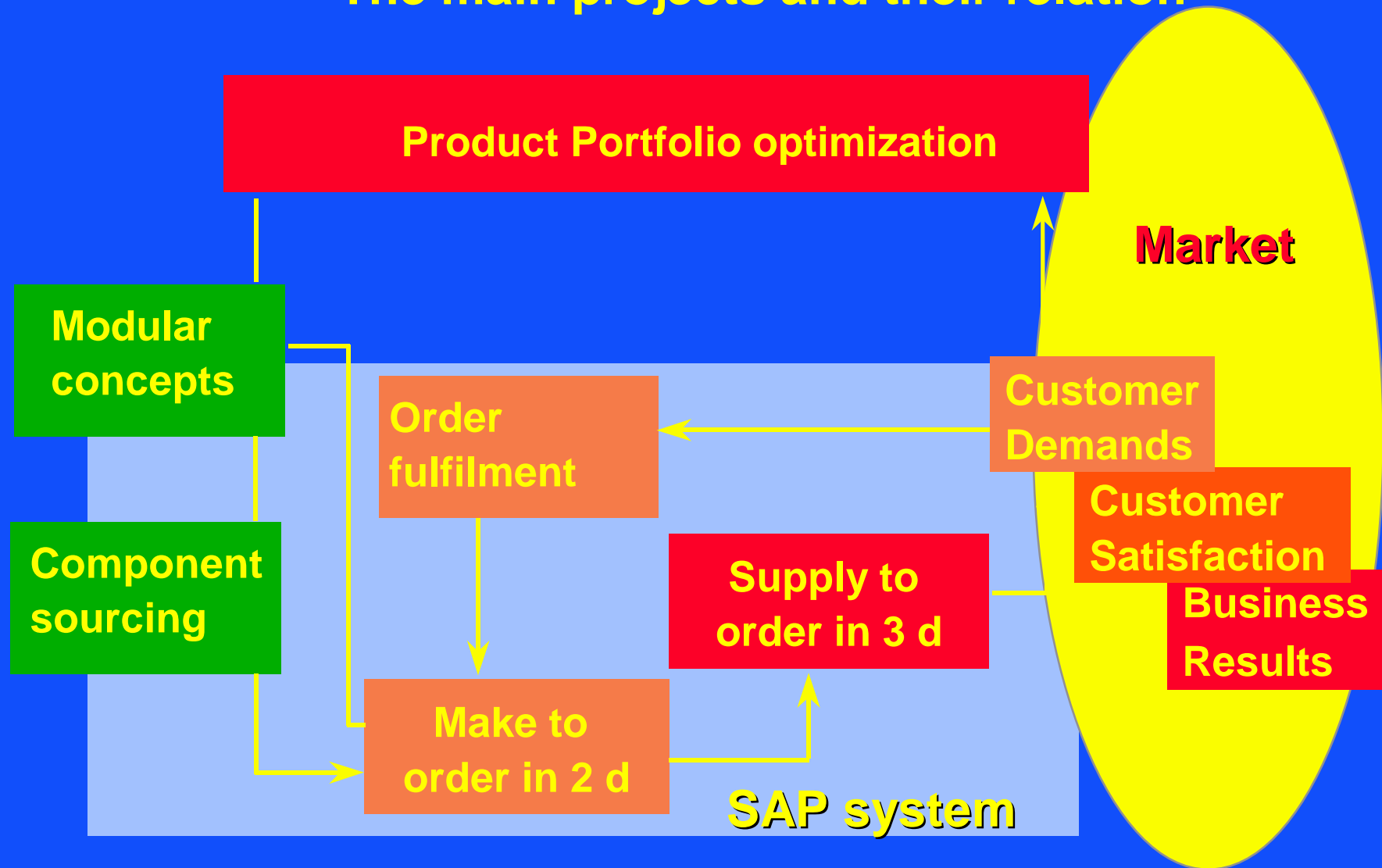
77% of the type numbers to be classified as "random"

A two-day production process allows for a “make to order” supply chain concept

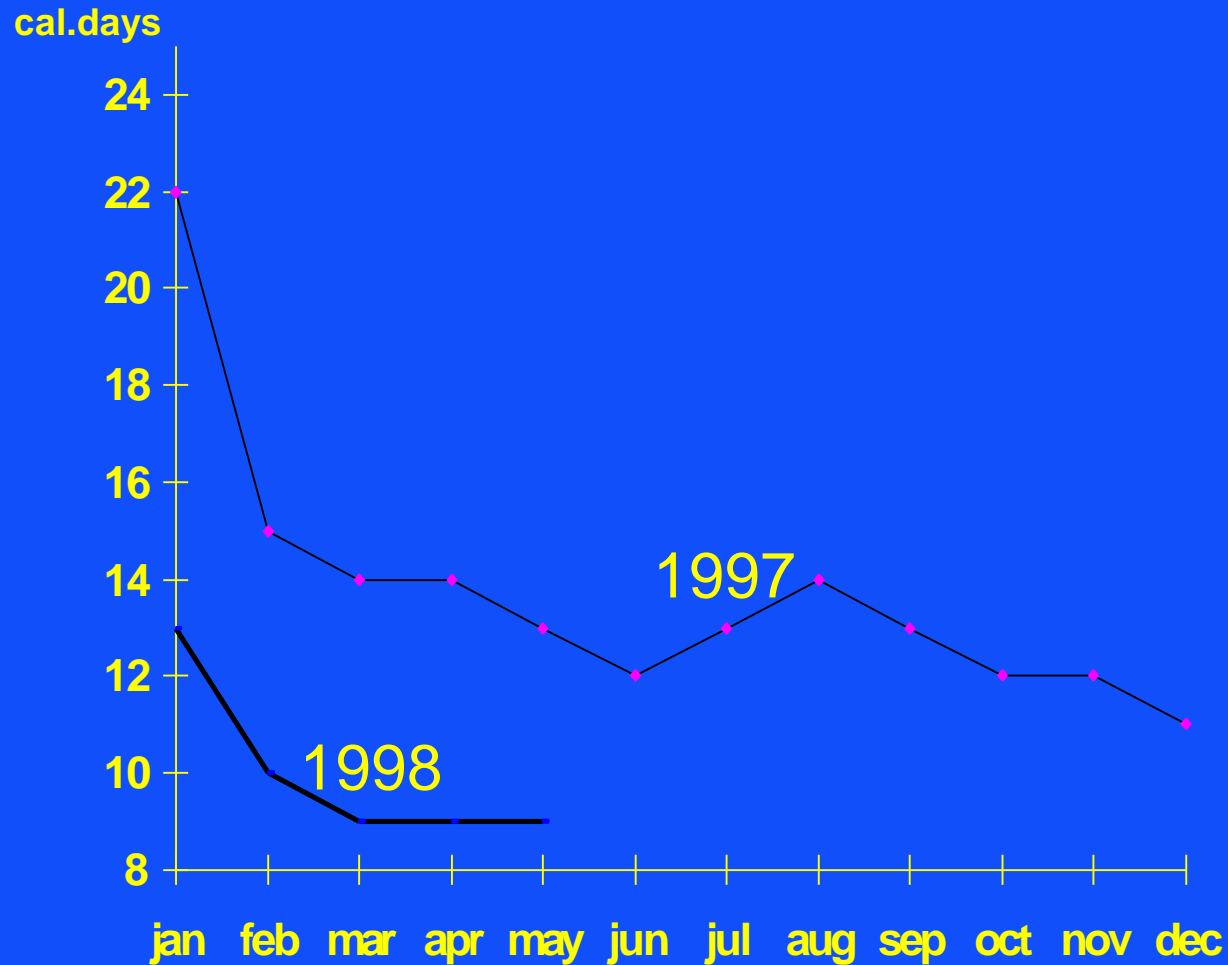


Redesign Luminaires Business

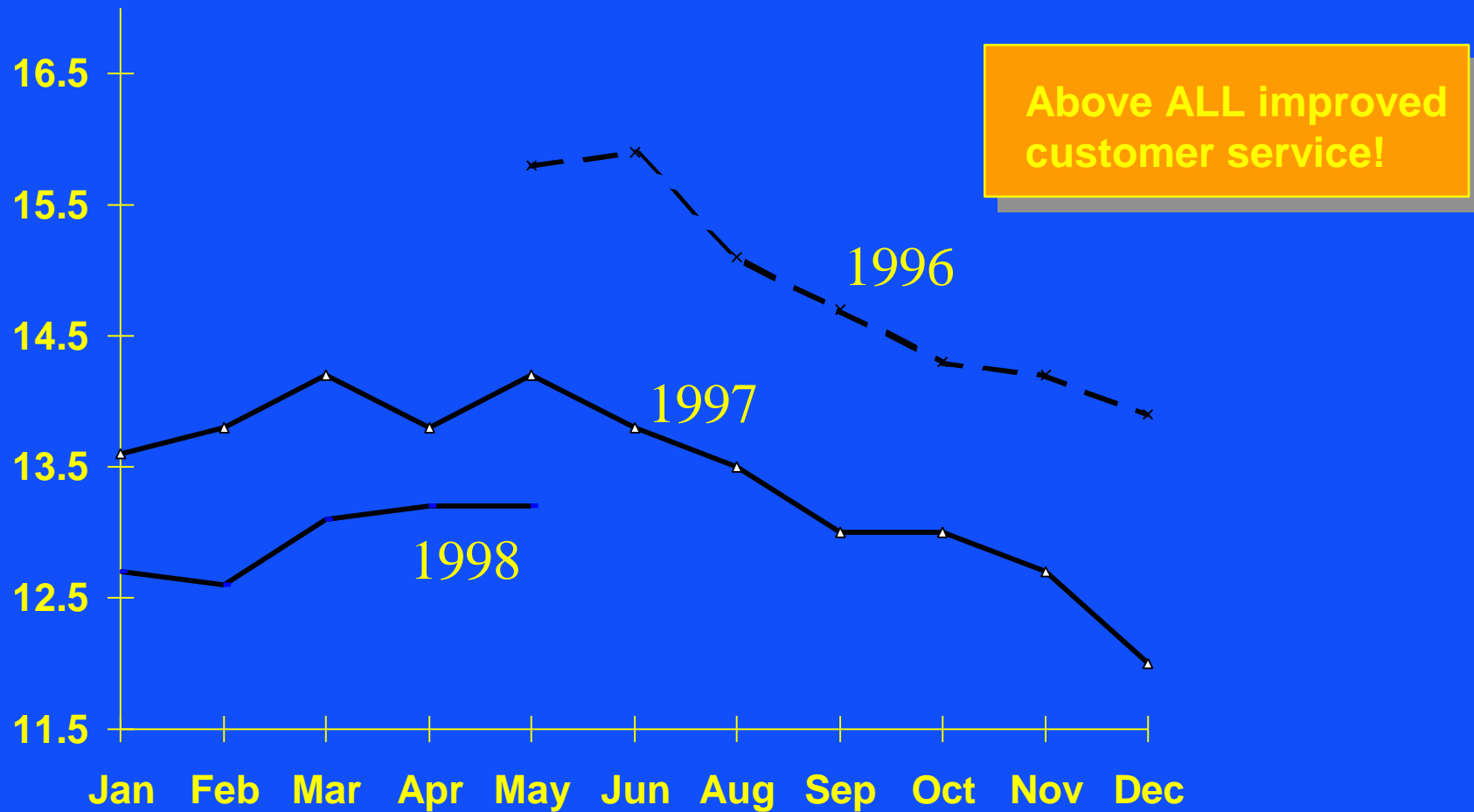
The main projects and their relation



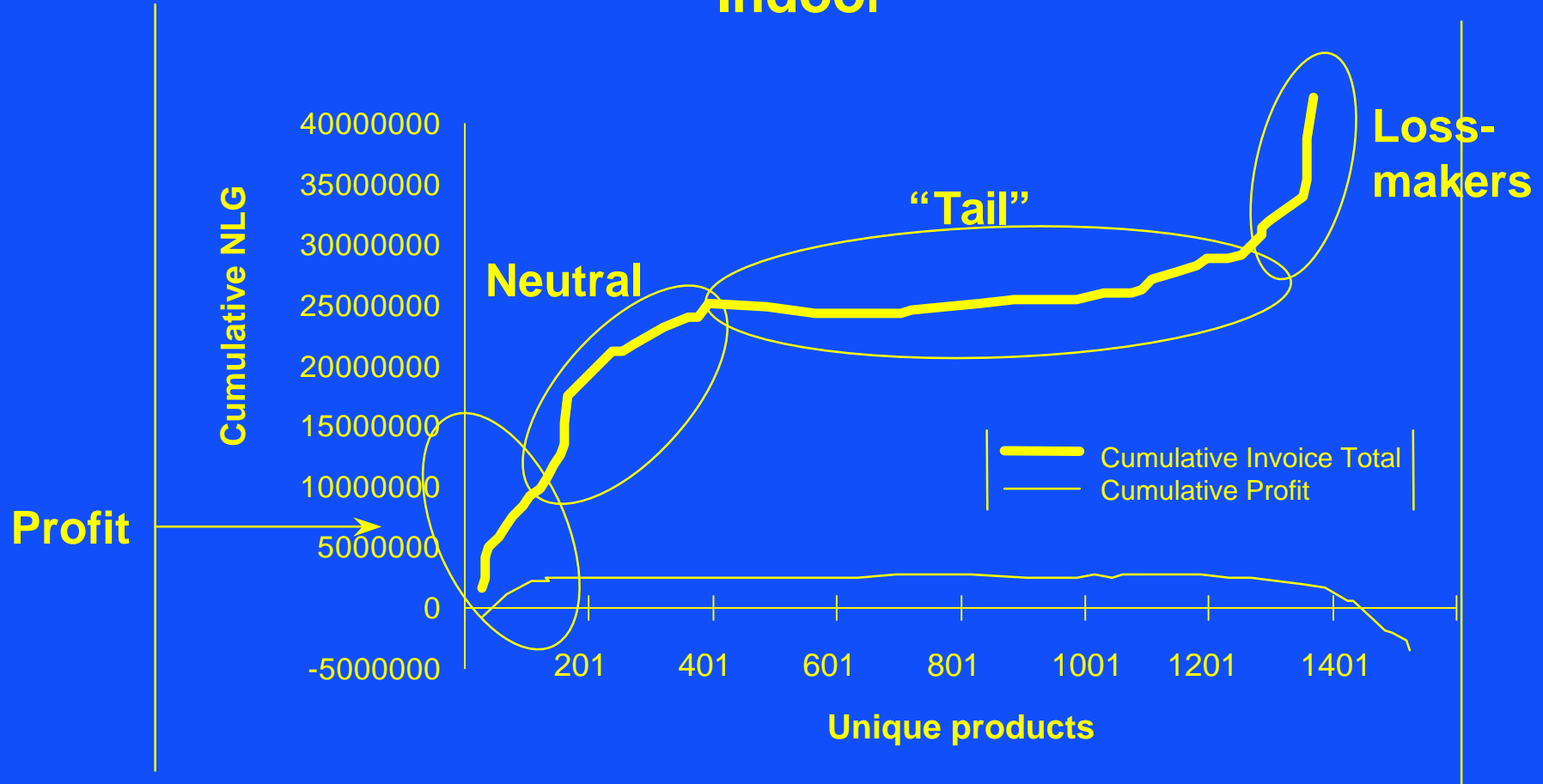
BU Luminaires Realised Av. Factory Leadtime



Integral stocks Europe in % of Sales MAT Total BU Luminaires



Cumulative profit and invoice total (Typical example) Indoor



Next phase in business redesign

Sales re-engineering

started 1/1/98

Goals:

- Sales force productivity
- Account- and project profitability
- Preparation for SAP/R3 implementation
 - activity based costing
 - true time spent

Expected breakthroughs

- **Double productive customer interaction time**
- **Transparency in account- and project profitability**

Results sofar

- Capital rotation speed from 4.45 to 6.0
- Stock turns 6.3 to 9.0 ('99 10 turns)
- Cost of organisation down
- Speed to adapt
- Improved customer service
- Clear accountability



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