

PHILIPS

Global Marketing Management

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Financial Analysts Day
December 5, 2006

Agenda

- **Marketing as an accelerator of profitable growth**

Marketing: focus on two areas to create/accelerate profitable growth

1. Strengthen/focus the Philips Brand to drive:

- purchase preference (B2B and B2C)
- value creation in acquisitions (Lifeline, Avent)
- market share in existing businesses (Norelco, Sonicare)
- expansion in new categories (Health & Wellness)

2. Structural improvement of Marketing fundamentals to:

- redirect/optimize R&D investments (VPH - Value Proposition House)
- expand the category scope/identify new categories (End-user Insights)
- accelerate/improve go-to-market (Mission Critical Initiatives and Marketing Plans)
- deploy customers' feedback (Net Promoter Score)
- make better use of outstanding Design competence

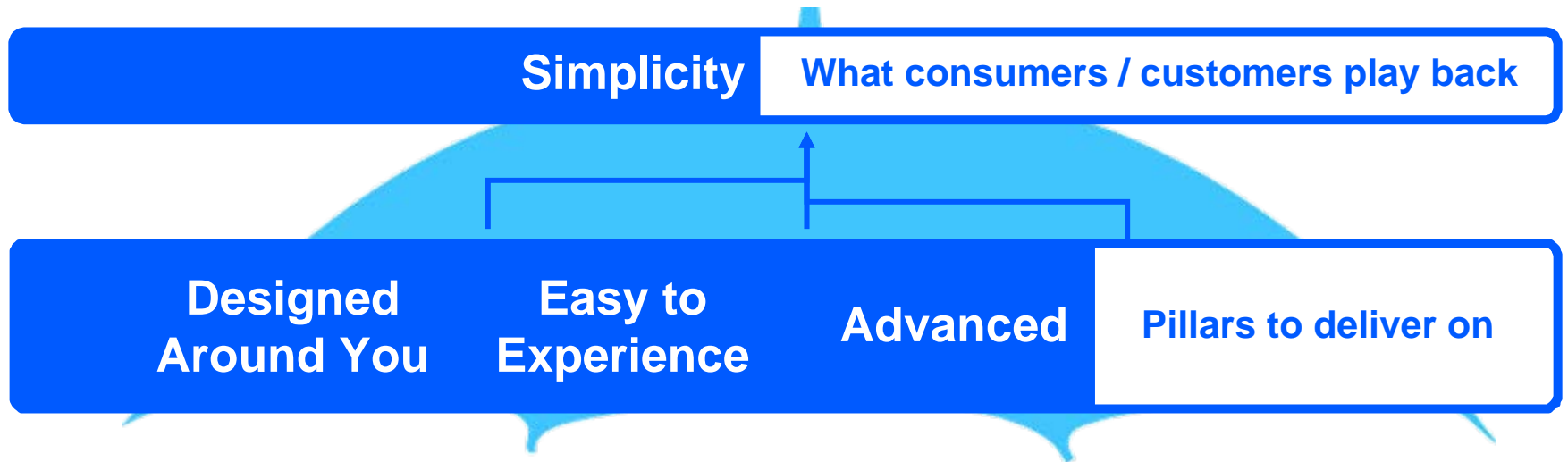
1. Strengthen/focus the Philips Brand

New Brand Promise launched in Sept 2004, supported by a Brand Campaign.

- “Technology is there to help us, make our lives easier and more productive. So why is it so often such a hassle, full of complexity and frustration?”
- We are convinced that no matter how complex and advanced a product or solution is, you should be comfortable using it. It is this very simplicity that transforms a task into an opportunity, a burden into a pleasure.
- Which is why Philips is committed to delivering products and solutions that are easy to experience, advanced, and designed around you. We keep it simple for you, no matter how advanced the technology.”

1. Strengthen/focus the Philips Brand

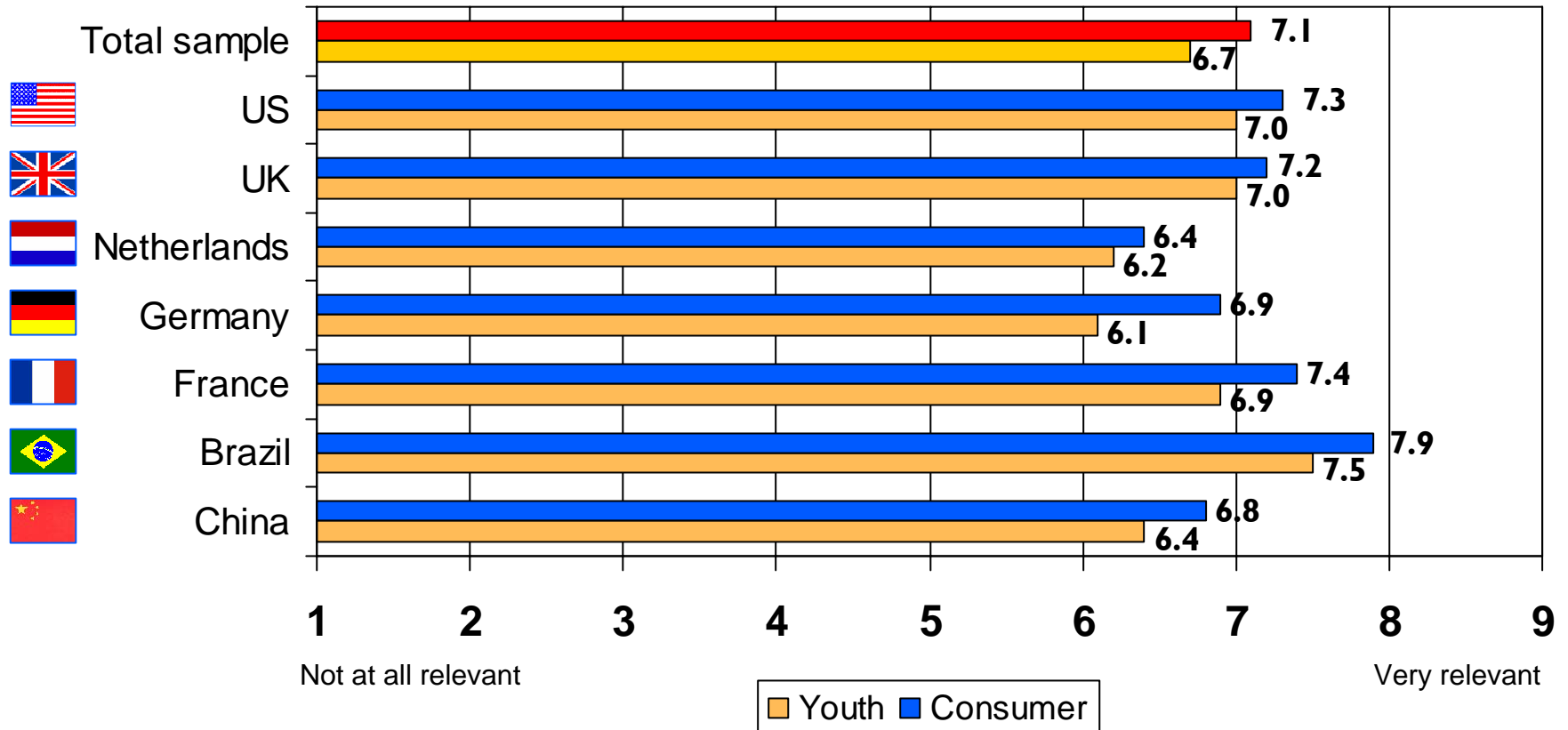
New Brand Promise launched in Sept 2004, supported by a Brand Campaign.



Sense and Simplicity:

A very relevant Brand Promise

Relevance of the Positioning Statement per country



Mean score is at 4,5.

Positive scores (6 or higher).

n=968 target consumers / n=471 young consumers

1. Strengthen/focus the Philips Brand

solid progress in just 2 years

- The organization rallies around the new direction, 2 years into the new promise:

	Early 2005	Mid 2006	End 2006
I am committed	49	60	
My management is committed	39	48	

- The brand has strengthened substantially as evidenced by Interbrand

	2004	2005	2006
Brand value - \$MM	4.4	5.8	6.7
Ranking	65	54	48

- Philips is more than ever being recognized as leading edge marketer:
 Advertising Age Sep.'06: **“Philips' 'Simplicity' Campaign: A Brilliant Creative Standout”**
Gold Lion Cannes award in category beauty and luxury products for Philips Bodygroom

Structural improvement of Marketing fundamentals

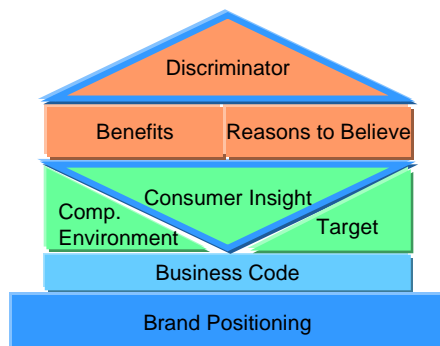
End-user Insights and the Value Proposition House

- End-user driven insights are a required part of the marketing curriculum. Over 2000 marketers trained and company experts installed in each division
- Insight Master Classes drive the new capability to Top 500 executives
- Commercial Leadership Gateway (highly appealing 2-day recruiting process for top talent) continues to attract approx. 20 top marketers annually.
- Tracking of % of R&D investments supported by a validated VPH

The standard format for the Value Proposition House


Benefits	Reasons to Believe	Discriminator
...top 3-5 functional/emotional benefits	...3-5 Key reasons to believe	...One sentence
Competitive Environment	Target	Consumer Insight
...describe environment 3-5 bullets	...Describe target and Situation	...One sentence

WorkSheet ValueHouse



Business Code: (refer to the relevant Business Code for this category)		
Designed Around You	Easy To Experience	Advanced
...Highlight the key proofpoints	...Highlight the key proofpoints	...Highlight the key proofpoints

The Value Proposition House for Ambilight

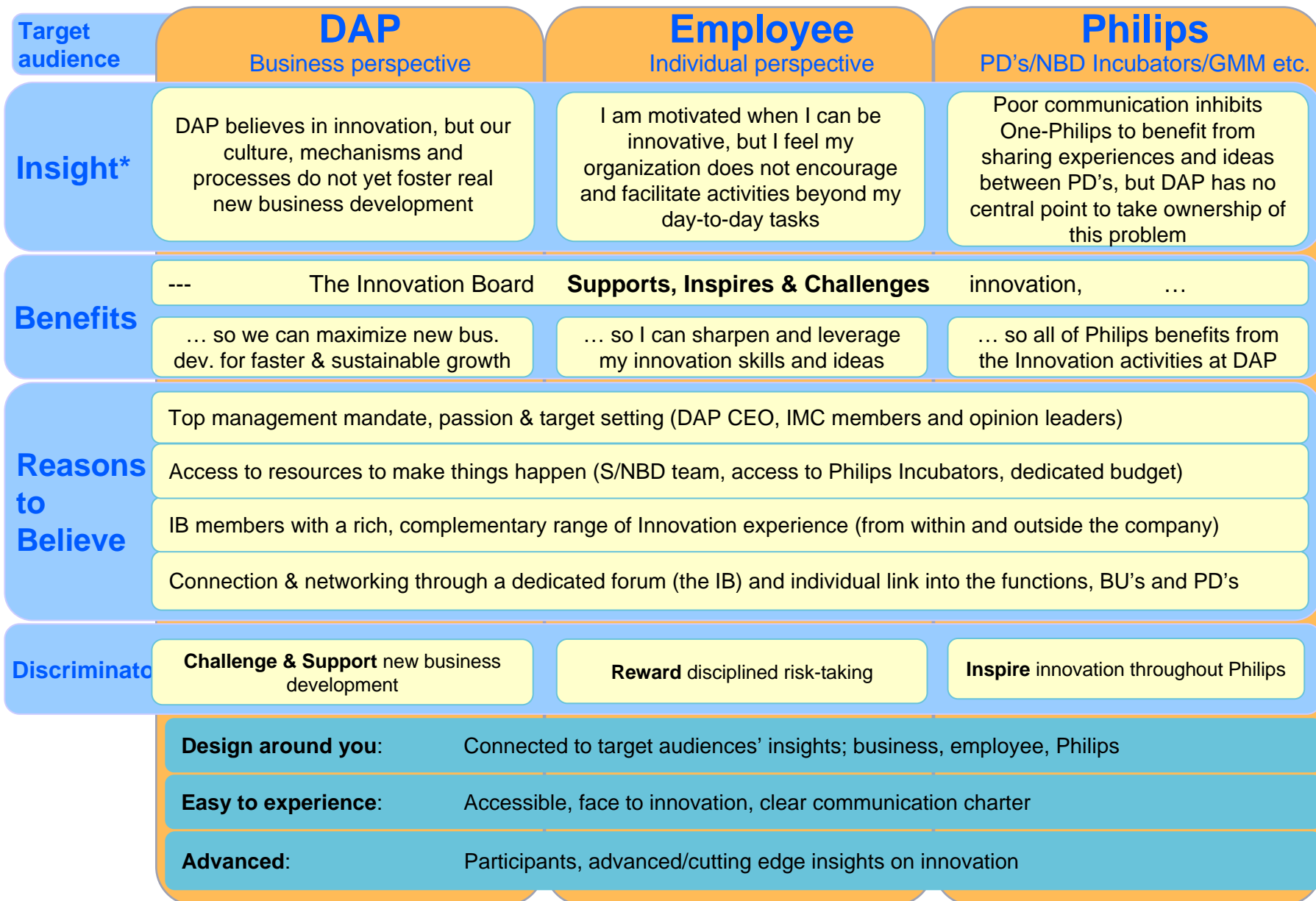
<p>Benefits</p> <ul style="list-style-type: none"> • The Philips Cineos Flat TV with Ambilight Full Surround gives you the ultimate viewing experience : you can now choose to project yourself into the most immersive cinematic experience. 	<p>Reasons to Believe</p> <ul style="list-style-type: none"> • Ambilight Full Surround • Pixel Plus 3HD • Breakthrough design 	<p>Discriminator</p> <ul style="list-style-type: none"> • Only with Ambilight, you have the power to go for an “overdrive” viewing experience. 
<p>Competitive Environment</p> <ul style="list-style-type: none"> • Philips is value market leader in FTVs (12%). • Market for “standard” FTVs is very competitive, with many brands claiming superior PQ through video processing engines. • Design widely used as differentiator in Flat TV market by all players. • High Definition standard to breakthrough in Europe in 2006. 	<p>Target</p> <ul style="list-style-type: none"> • Selectives: main target. • Innovators: targeted for the technology endorsement and image building on Selectives 	<p>Consumer Insight</p> <ul style="list-style-type: none"> • “You do not watch TV always the same way. Sometimes when you watch TV you look for the most immersive cinematic experience”.

Full surround Ambilight



Cineos Signature	“Maximize the experience”	
Designed Around You	Easy To Experience	Advanced
<ul style="list-style-type: none"> • Breakthrough design that supports and enables optimal Ambilight performance: <ul style="list-style-type: none"> -Ambilight on 4 sides -Built around canvas • Ambilight allows you to personalize (control) your viewing experience. 	<ul style="list-style-type: none"> • Ambilight is active on all content and initiated by push of a button. • Enjoy Ambilight feature irrespective of home environment. 	<ul style="list-style-type: none"> • Ambilight responds to content variations at each side of the TV, maximizing the immersive effect. • Design that represents configuration of FTV identity (“picture frame”, “floating”) • Pixel Plus 3 HD

The Value Proposition House for DAP's Innovation Board



Structural improvement of Marketing fundamentals

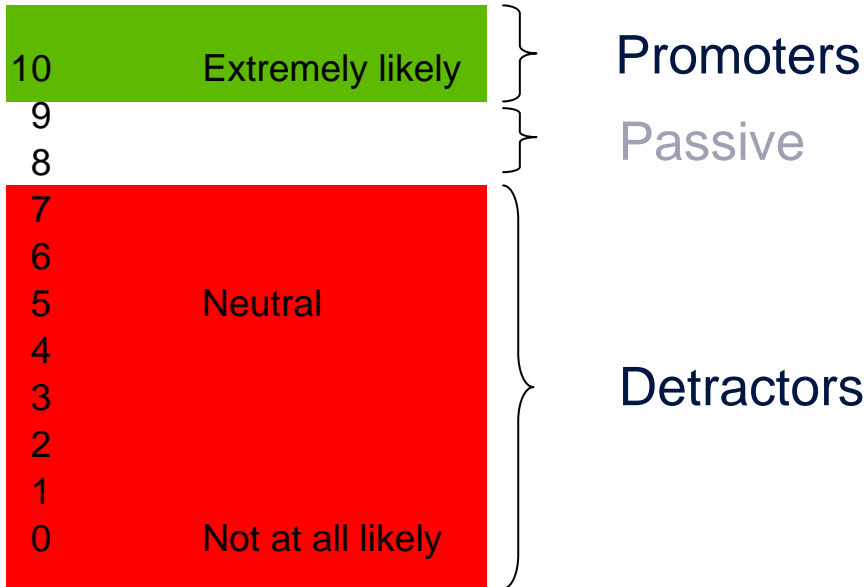
Mission Critical Initiatives and Marketing Plans

- All Product Divisions required to identify Mission Critical Initiatives on a 3-year horizon
- For all Mission Critical Initiatives (and in the future for ALL initiatives), the businesses are required to define a 3-year Marketing Plan, to be used as a benchmark in status reports and Management Reviews
- Marketing Plans have to be signed by all Business/Functional Heads, up to CEO of Product Division
- Mission Critical Initiatives and Marketing Plans allow for:
 - better focus/optimal resource allocation
 - task-led marketing
 - leadership approach to new initiatives/categories

Net Promoter Score (NPS): what is it

ONE QUESTION

How likely will you recommend?



Performance benchmarks

% Net Promoters (promoters minus detractors)

Costco	79%	
Amazon.com	73%	
Cisco	57%	
Fedex	56%	
Southwest	51%	
Dell	50%	
GE Medical		30%
Enterprise UK	25%	
National UK		-3%
Hertz UK	-20%	
Avis UK	-32%	

NPS is measured as standard methodology and correlates strongly with profitable growth across Industries: Wintel PCs ($r^2=0.68$), US Life insurance ($r^2=0.86$), Korean car industry ($r^2=0.68$), US Airlines ($r^2=0.68$), Internet providers ($r^2=0.93$), UK Supermarkets ($r^2=0.84$)

Growth – Marketing progress

- Validated value proposition house as a starting point for R&D:
3x more R&D funds are allocated to these projects versus 2005
- Marketing investments are more effectively synergized, delivering substantially higher impact with limited incremental spend

	2004	2005	2006
Total investment*	96	99	105
% of marketing spend in media and external activities	67	69	77

* Index vs average of last 5 years

- The net promoter score will be integrated as non-financial business performance metric over 2007

Marketing as an accelerator of profitable growth

