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Changing industry dynamics

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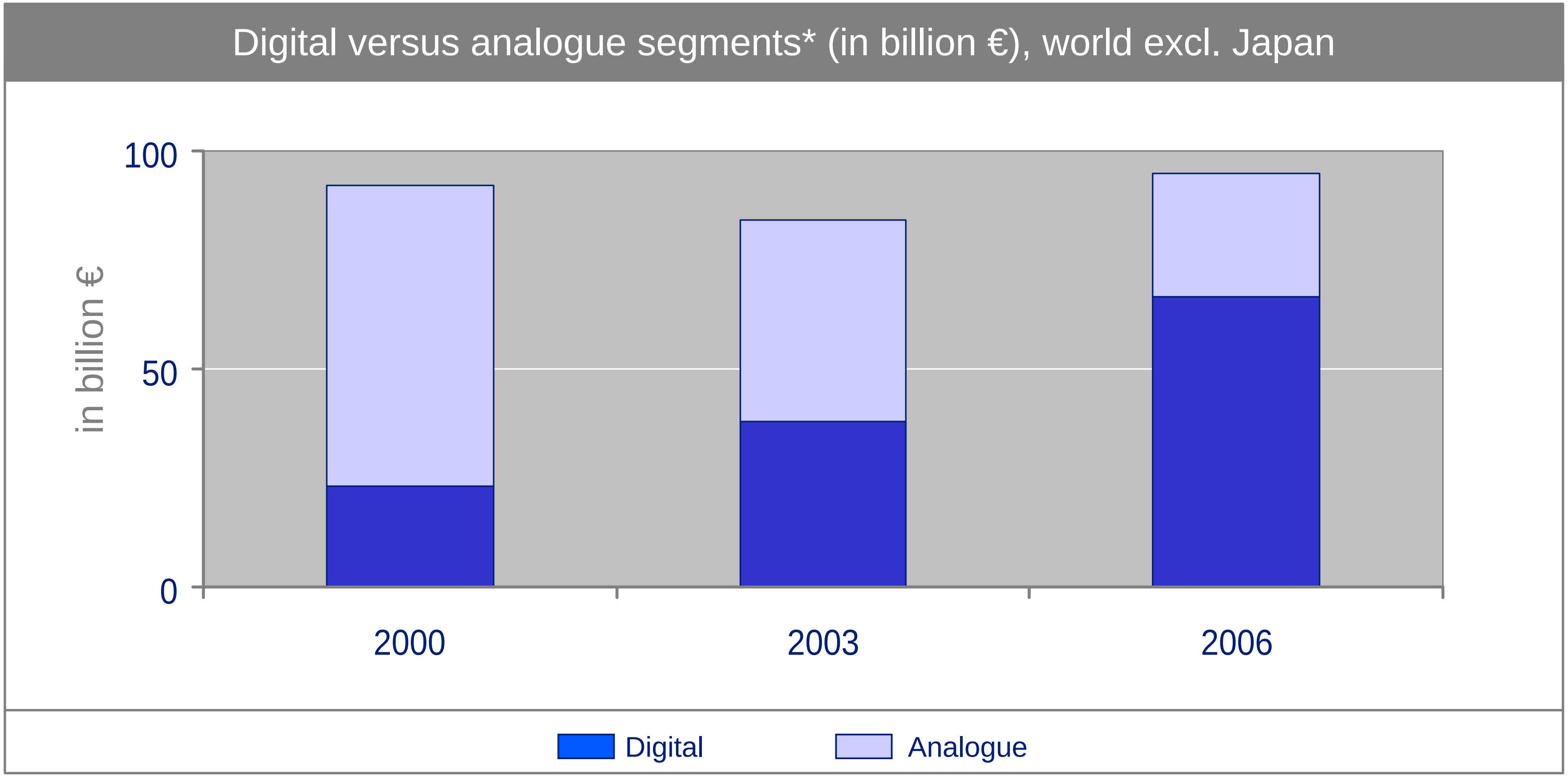
Changing industry dynamics

- Trends
- Threats
- Opportunities

Changing industry dynamics

- Trends
  - Convergence
  - Content revolution
  - Globalisation
- Threats
- Opportunities

As CE markets become digital…



Source: Philips CE World Market Forecast 2003
* Philips served segments. Excluding: camcorder, still picture camera, game console, PDA, home PC, PC peripherals

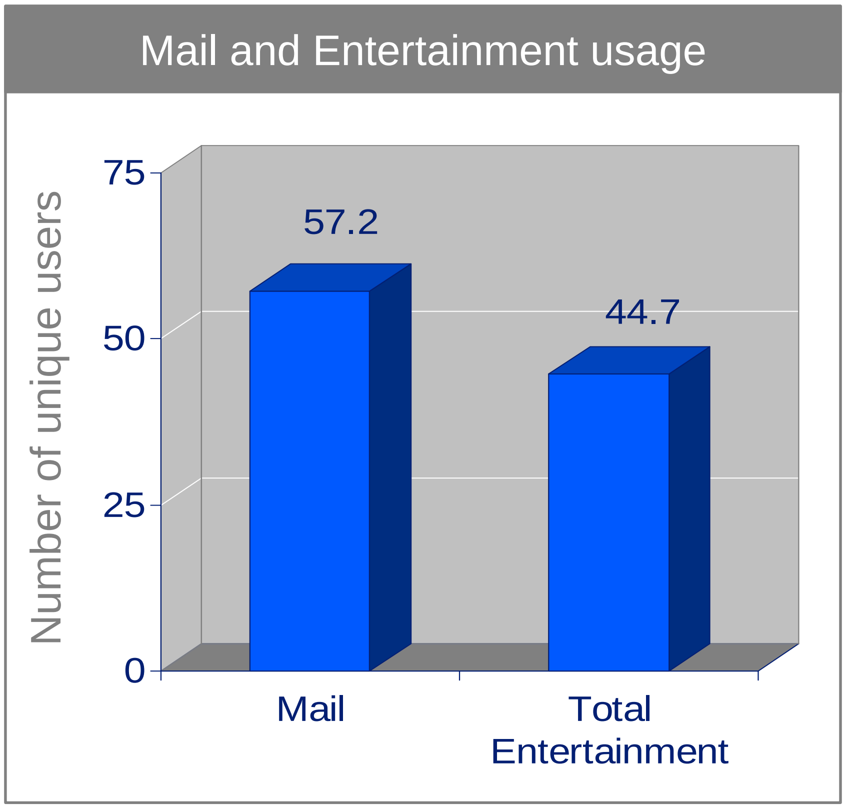
…multiple industries are converging

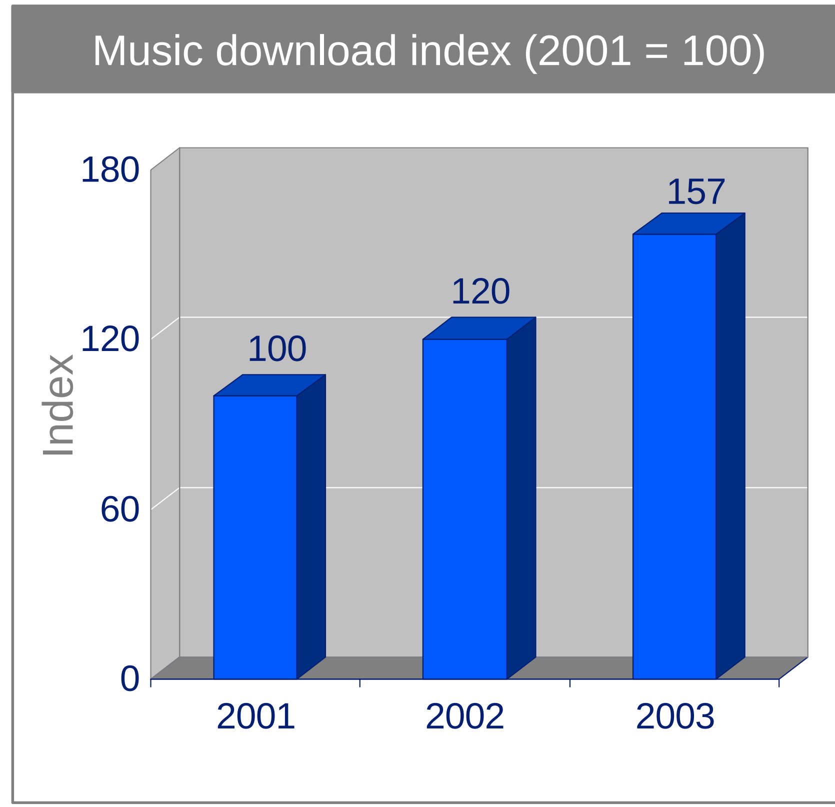
Convergence drives new consumer solutions

Convergence in the home

Portable convergence

Internet is driving the content revolution…





Source: Nielsen / Netratings, home & work combined, April 2003 Source GFK, 2003

The amount of content explodes on the Internet:
music, games, music videos, movies, etc. become abundantly available

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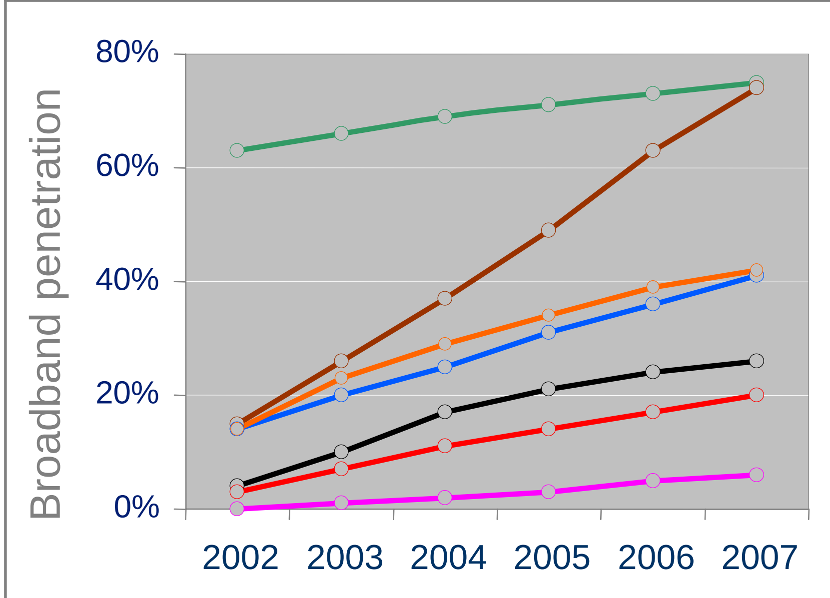
… supported by strong growth in broadband penetration and home networking

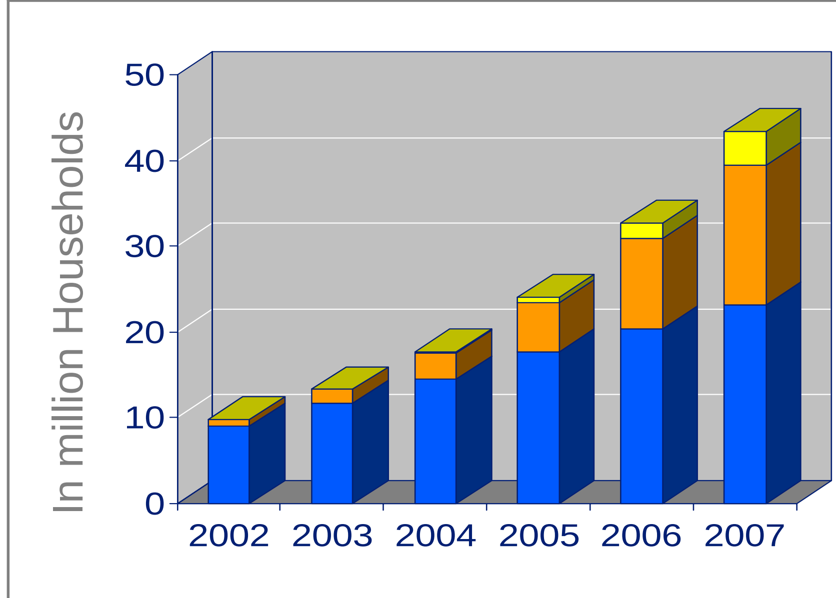
Broadband penetration in selected countries 2002-2007



South Korea | USA | China
Japan | United Kingdom
Netherlands | Italy

Source: Yankee Group, base: all Households, June 2003

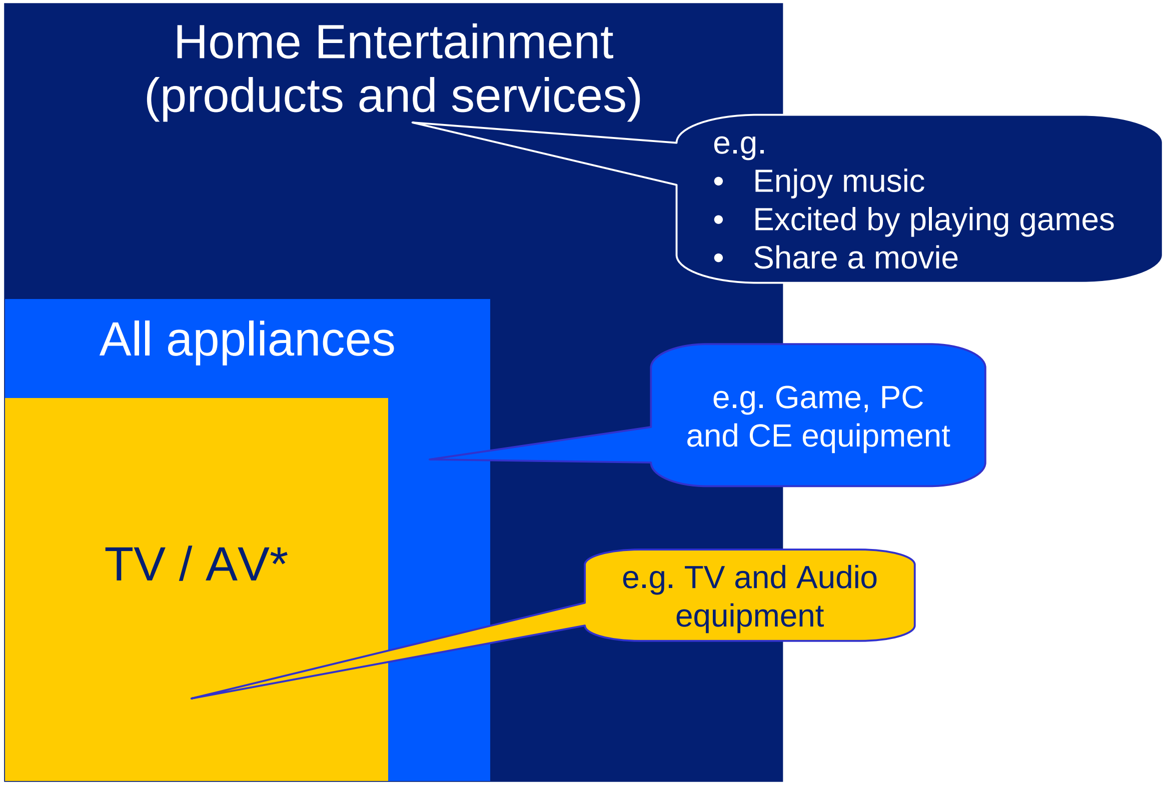
US Home networking (in million HH)



Entertainment networks — CAGR ‘03-’07: 246%
Multimedia networks — CAGR ‘03-’07: 77%
PC networks — CAGR ‘03-’07: 19%

Source: IDC, March 2003

Hybrid product-service offerings are emerging



Industries are becoming more global

Local → Global

- Global supply base
- Regional/worldwide customers
- Transparent information

High Barriers → Low Barriers

CRT TVs — Large flat TVs — Medium displays

- Digital lowers barriers to entry
- High investments required

Services ← → Standards

- Faster changing of standards
- Hybrid hardware & services business models

International retailers leverage their global presence

Source: McKinsey survey of leading FMCG suppliers

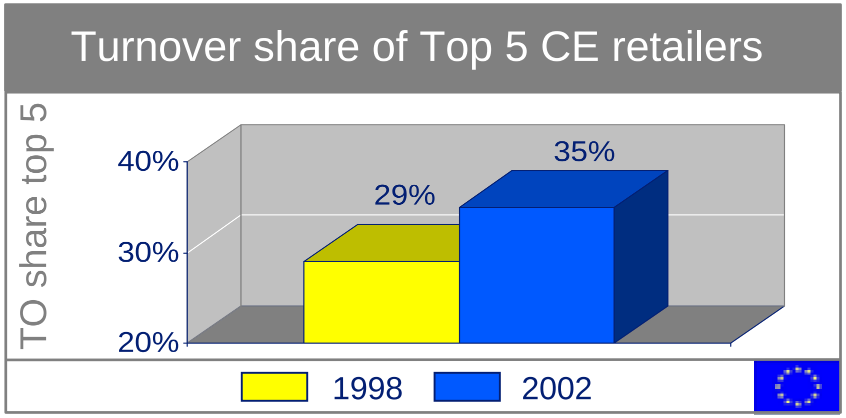
Tariffs, duties and trade barriers are still significant

- WTO talks promised tariff cuts/better market access from 2004. Failure at Cancun means delay until ~2005/6
- Europe and USA still willing to lower import duties on CE in exchange for better market access elsewhere.
- Emphasis might shift to sectoral, bilateral or regional trade agreements.
- As tariff barriers fall, standards and non-tariff barriers increase in importance
- Technological convergence blurs distinction between CE (4-30% tariffs) and IT (0% tariffs) products.
  Planned new system for 2007 of classification
- Chinese competitors become global players

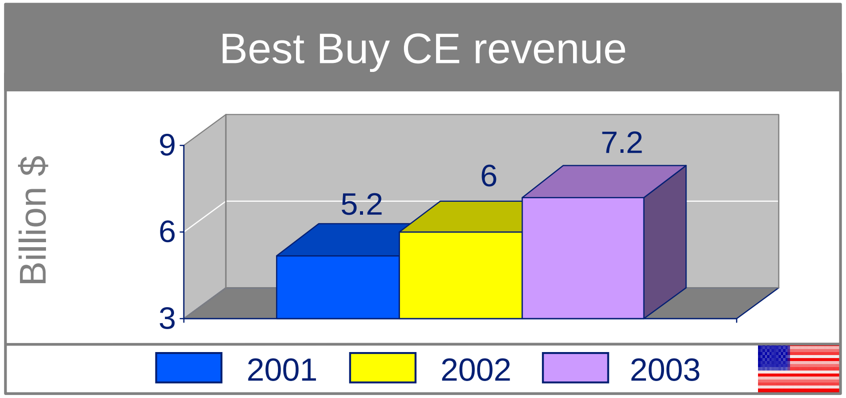
Changing industry dynamics

- Trends
- Threats
  - Increasing retail power
  - Changing competitive landscape
  - Short product lifecycles and commoditisation
- Opportunities

Top retailers in Europe and the US strengthen their positions in the market



Source: Mintel 2003

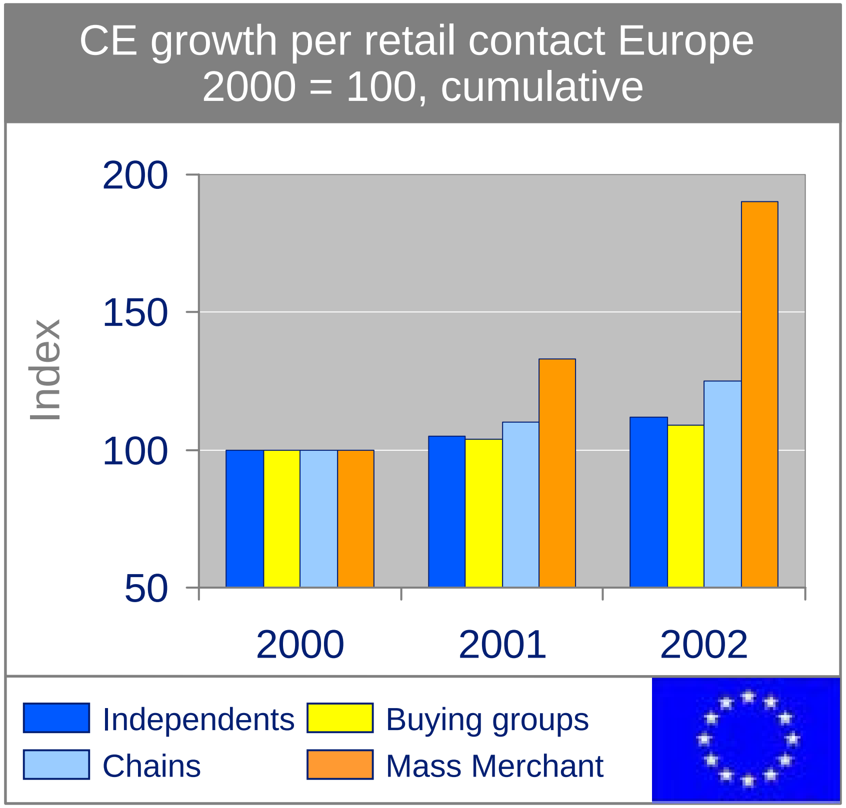


Source: Best Buy quarterly report, June 03

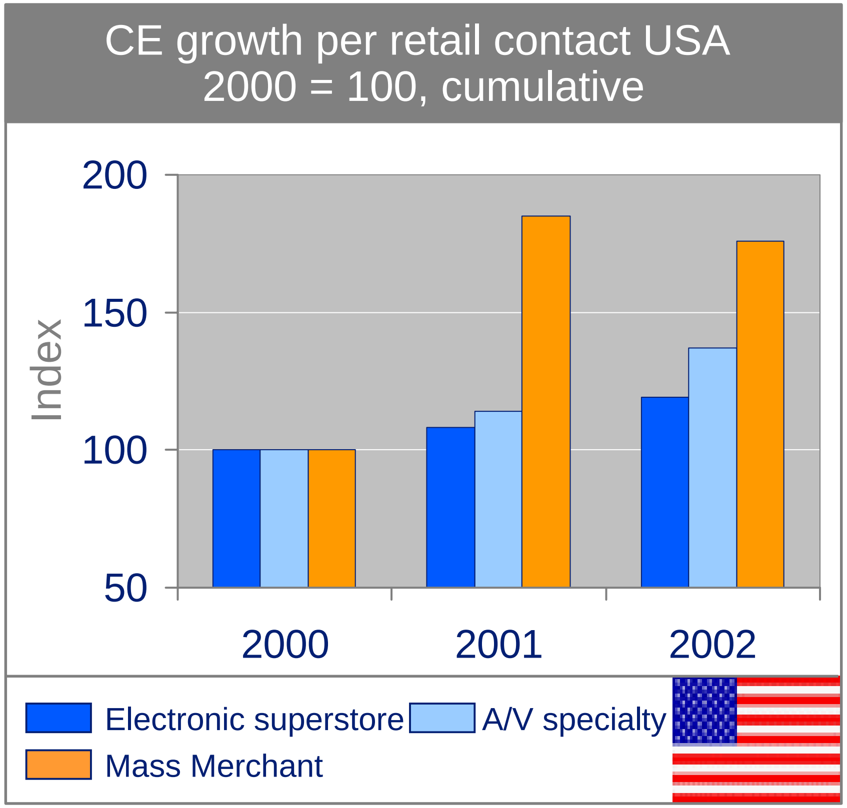
- In Europe Top 5 controls >35%
- European retail top 3:
  1. MediaMarkt/Saturn
  2. Dixons Group
  3. Euronics Buying Group

- In the US Top 5 controls ~45%
- US Electrical retail top 3:
  1. Best Buy
  2. Wal-Mart
  3. Circuit City

Retail power of mass merchants increases due to combination of growth and concentration



Source: GFK, July 2003

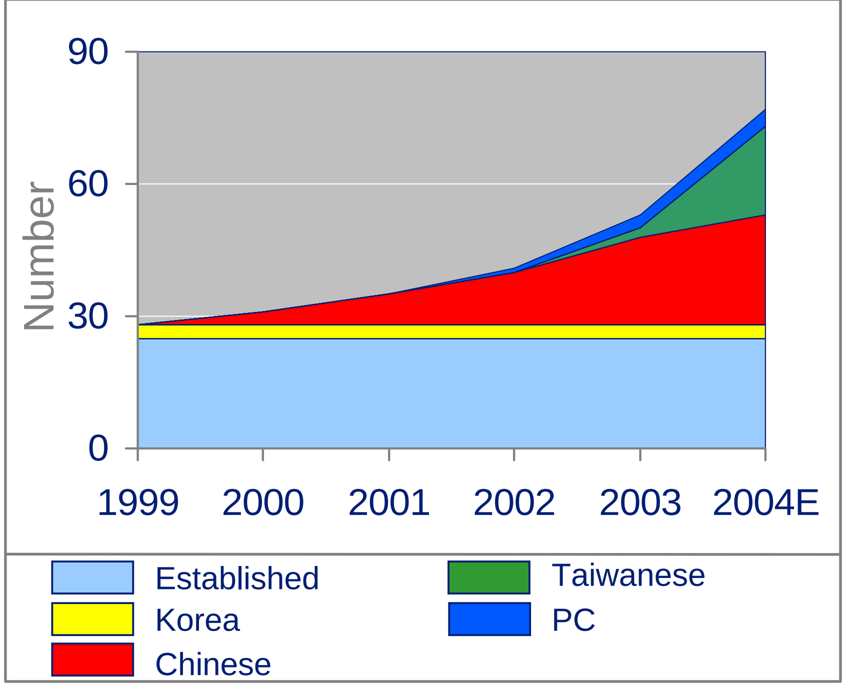


Source: NPD Intelect, July 2003, excluding Wal Mart

Both in Europe and the US, mass merchants realise the fastest growth

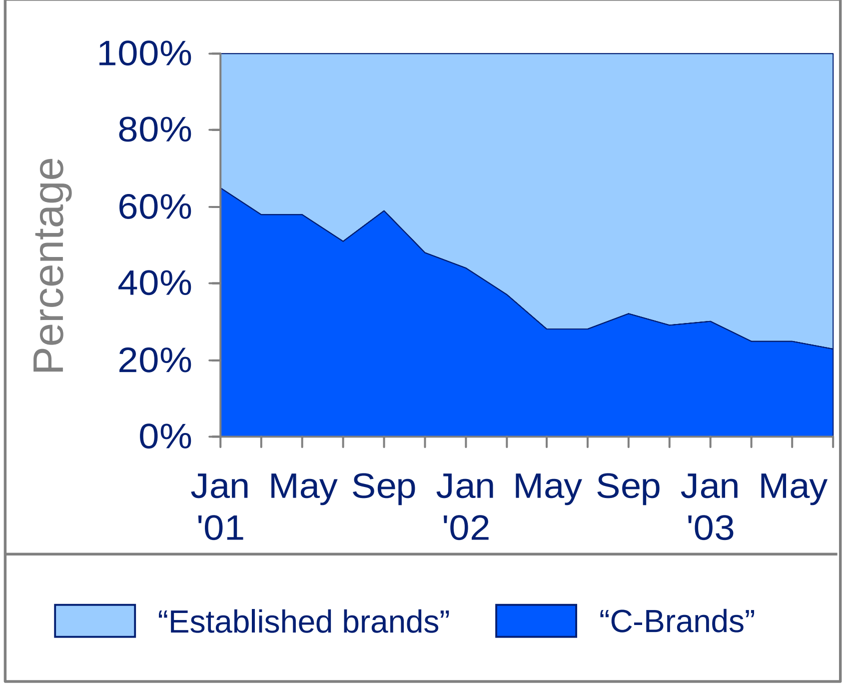
New entrants change the competitive landscape

Number of competitors in CE worldwide ‘99-’04E*



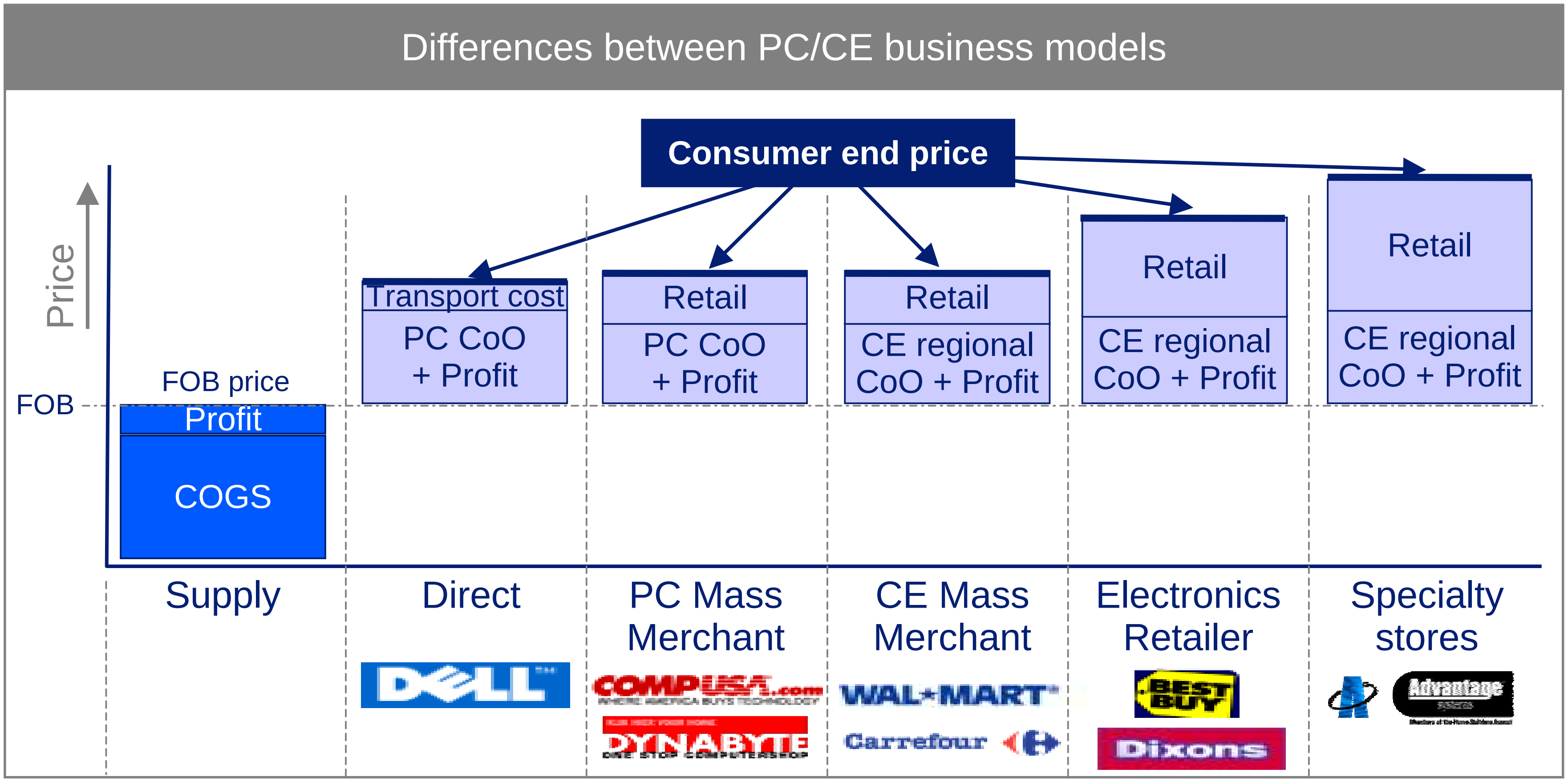
Source: Philips amalgamation based on annual reports, industry studies and press releases 1998-2003

DVD player unit sales in Germany (units)

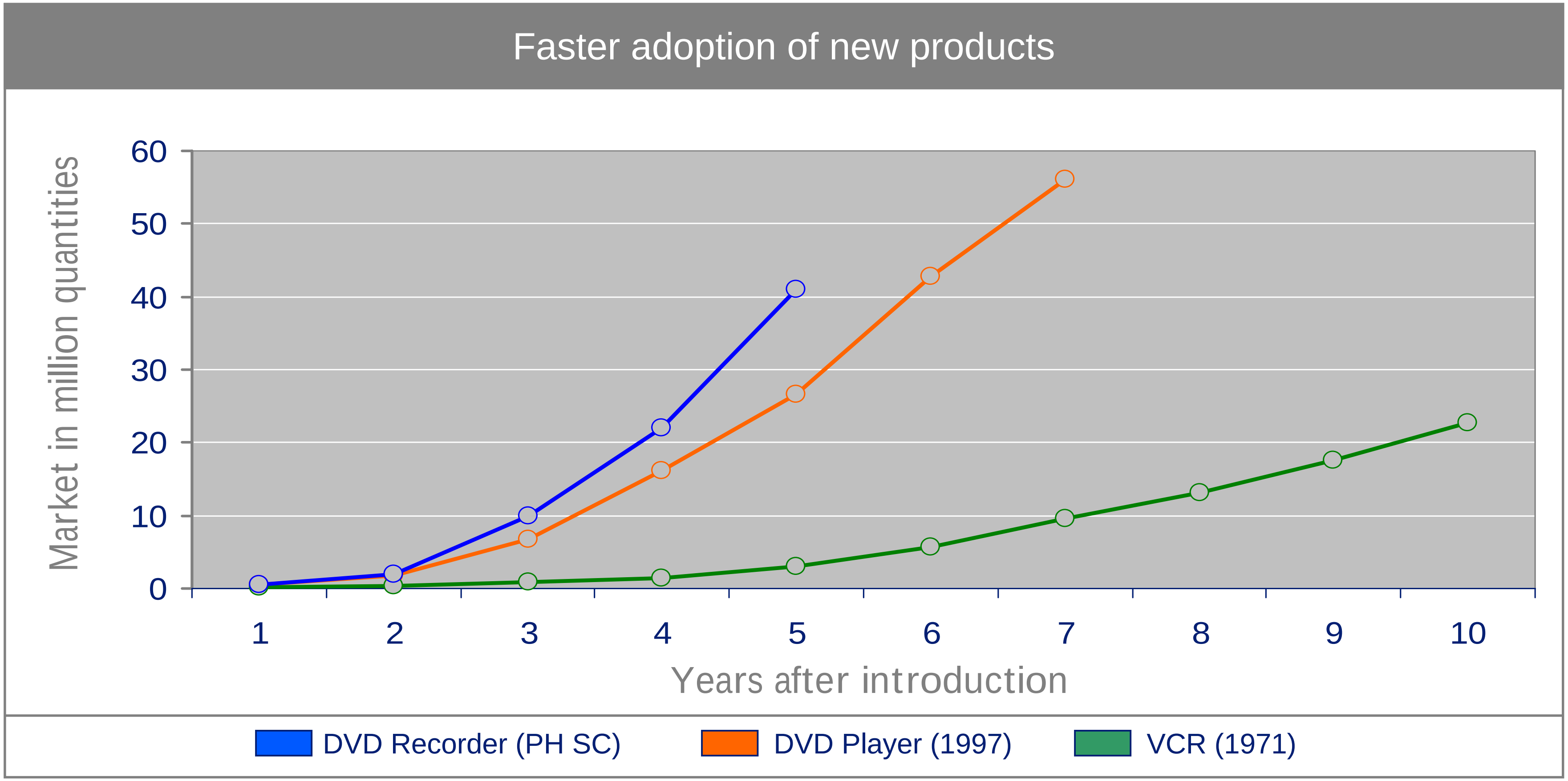


Source: GFK, July 2003
Established brands (global) are: Philips, Sony, Panasonic, Thomson, JVC, Samsung, Pioneer, Toshiba, Goldstar/LG, Grundig, Toshiba, Aiwa, Kenwood, Hitachi
C-Brands are: all other brands sold in CE retail

PC giants enter CE with new business models

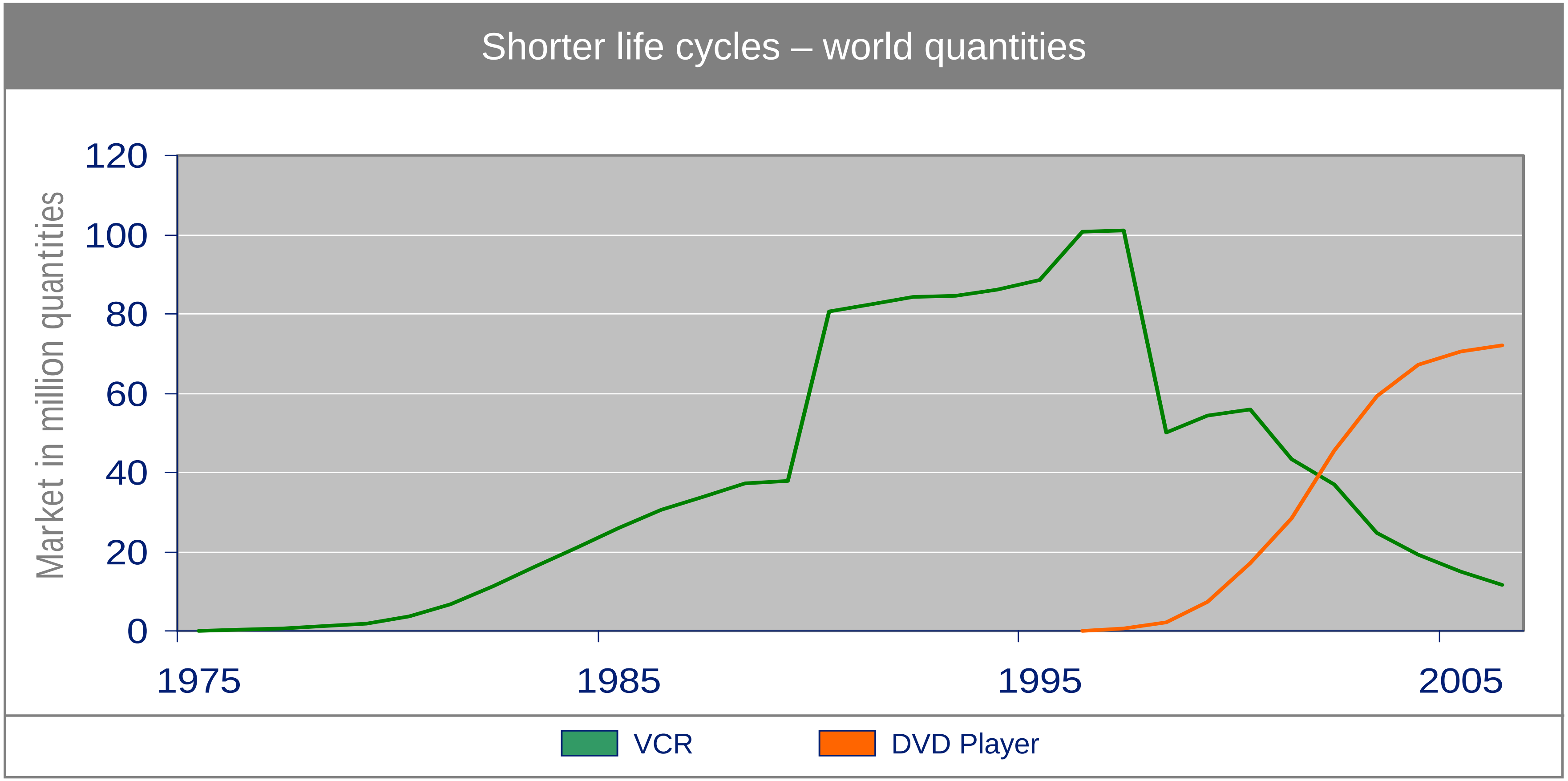


The pace of new product adoption is increasing…



Source: Philips CE World Market Forecast 2003 and Philips Semiconductor DVD Recorder Market Forecast

… while lifecycles are shortening significantly



Source: Philips CE World Market Forecast 2003

Changing industry dynamics

- Trends
- Threats
- Opportunities
  - Growth markets
  - Value added partnerships
  - lifecycle management

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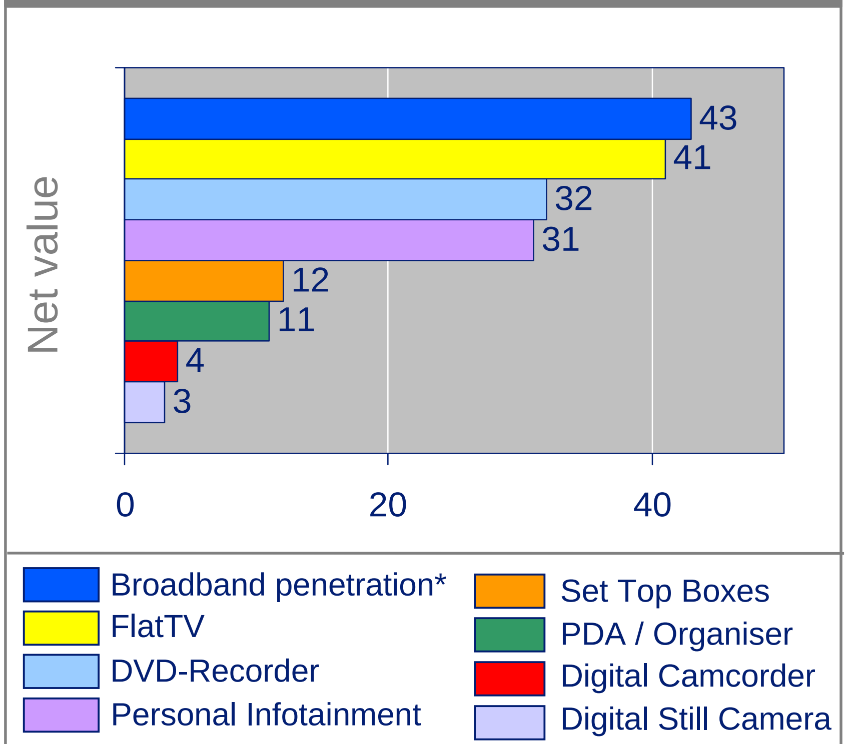
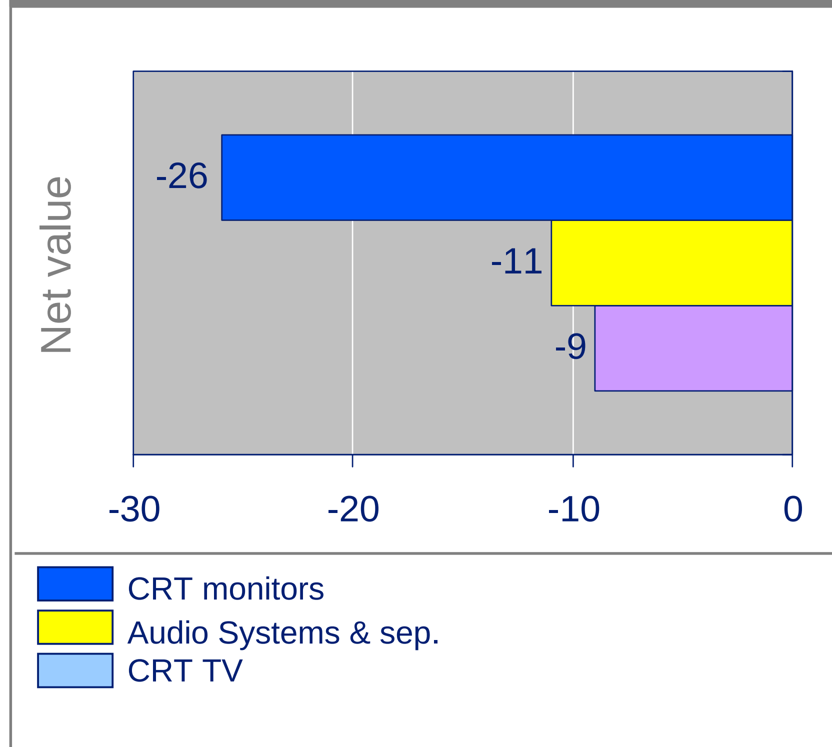
Focus on growth markets

Worldwide growth segments in net value
(CAGR: 2003-2006)



Worldwide mature segments in net value
(CAGR: 2003-2006)



Source: Philips CE World Market Forecast 2003

* Broadband household penetration excluding Latin America and Africa

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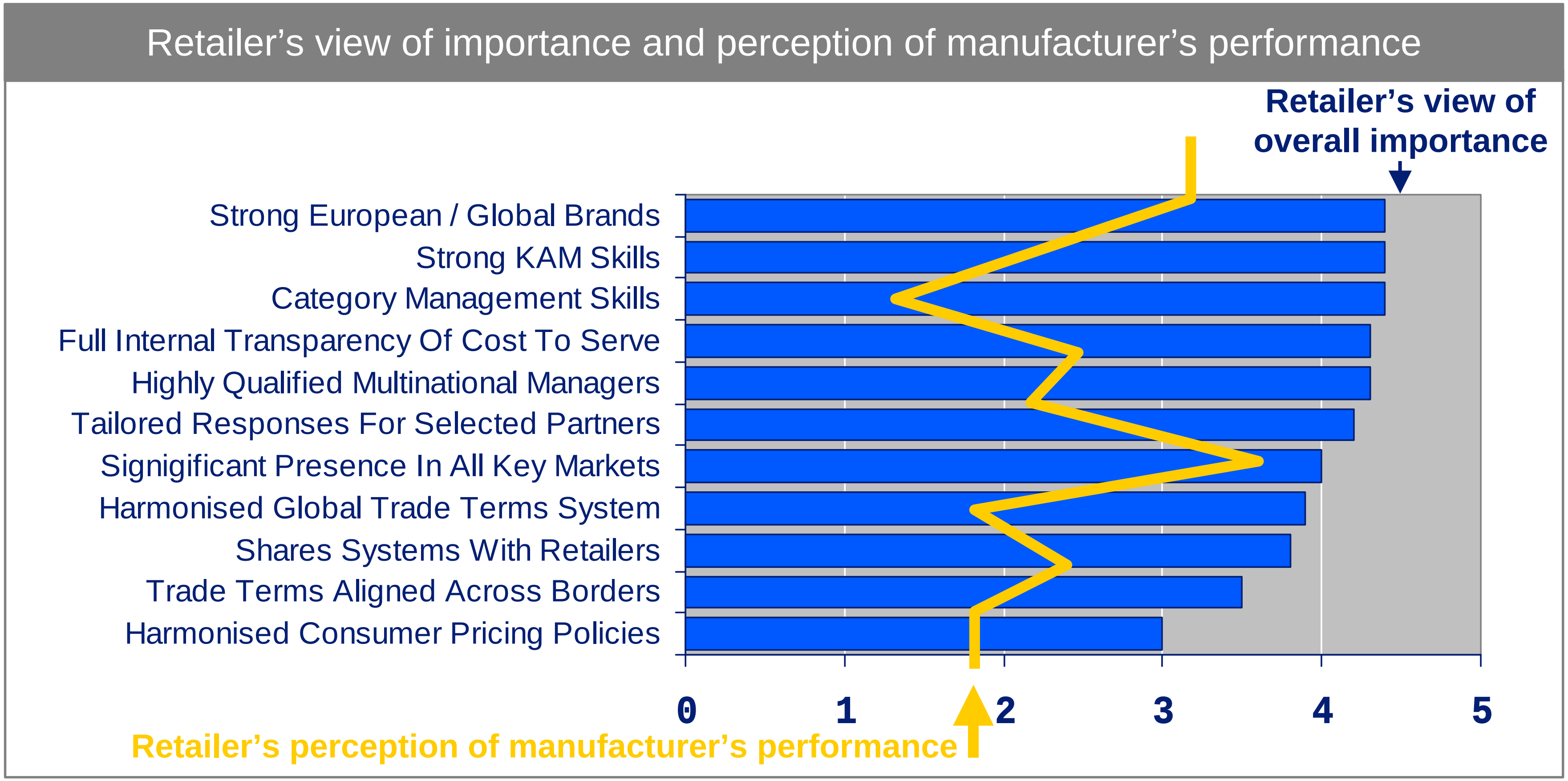
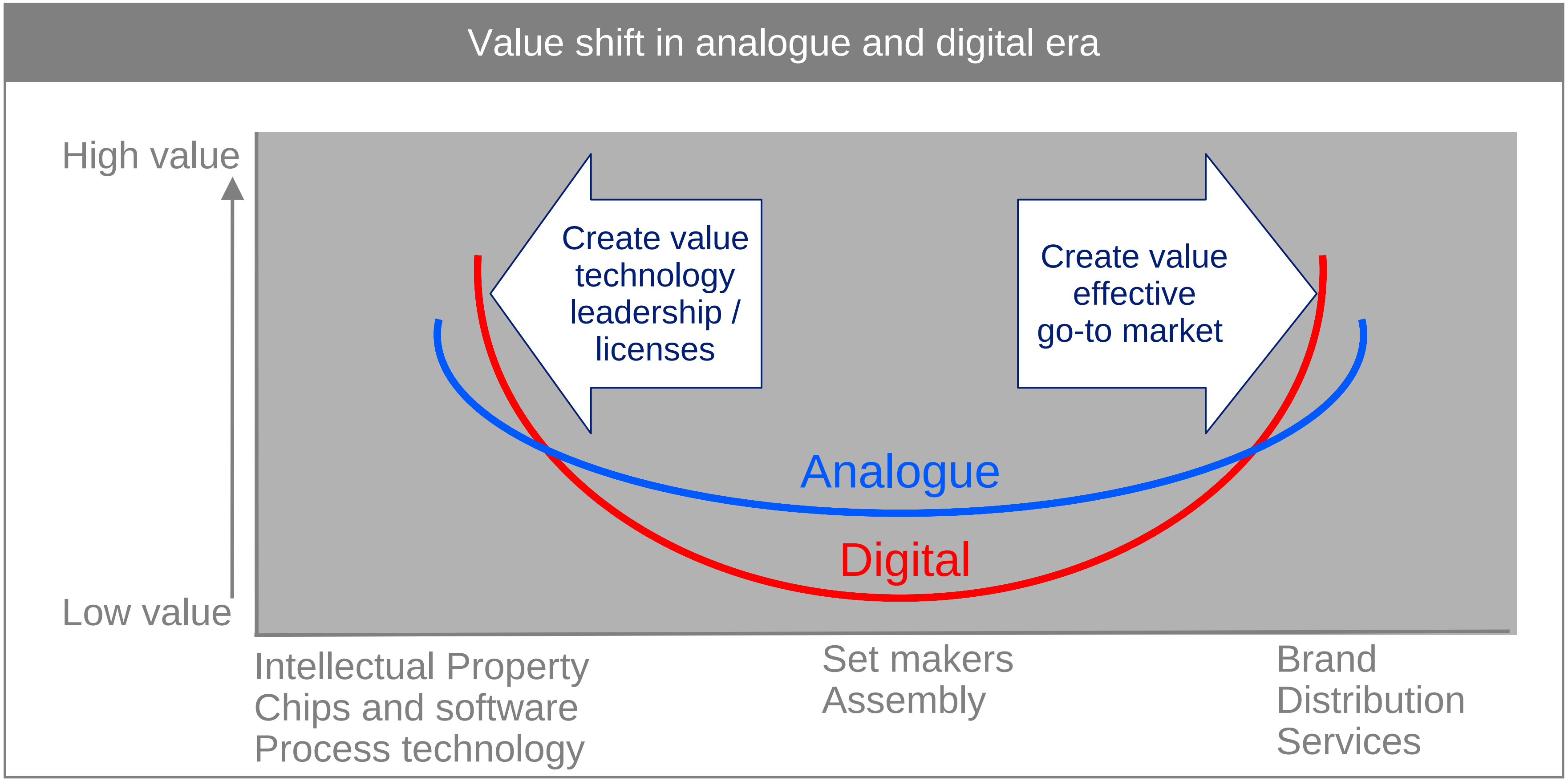
Differentiate through value-added partnerships



Source: McKinsey survey of leading FMCG suppliers

Create value through IP and market positions



Conclusions

- The CE environment is very dynamic:
  - converging industries, a content revolution and globalisation
- Threats:
  - Increasing retail power, a changing competitive landscape, shortening product lifecycles and commoditisation
- Opportunities
  - Focus on growth markets, differentiation through value-added partnerships and appropriately phased lifecycle management

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