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The sustainable strategy of Philips

The Silent Green Giant

In contrast to most Dutch companies, Philips has an ambitious sustainability strategy. The multinational can count on compliments from Greenpeace: 'The company has really reinvented itself'.

By Romy van der Burgh and Evert de Vos (11 July, 2018)



Wind farm Bouwdokken on the island of Neeltje Jans
© Izak van Maldegem/ Sky Pictures

Woosh...Woosh....Woosh... the rotor blades of turbine no.1 at the Bouwdokken wind farm on the Neeltje Jans production platform slowly go round and round, in spite of gale-force winds that point the flags sharply towards the prevailing wind direction. At a height of 99 meters with rotor blades spanning 127 meters, these wind turbines are among the biggest on Dutch soil. 'This is offshore while keeping your feet dry', says Rick Wasser, director of E-Connection. These wind turbines, seven of which are on Neeltje Jans, represent the latest generation. Their huge size – 'until recently, wind turbines of this size could only be found at sea' – has huge benefits. They not only generate lots of electricity, but are also low in maintenance. And because the Oosterschelde estuary is basically windy all the time, these wind turbines provide power all year long, operating roughly 8,000 hours per year.

E-Connection started developing the wind farm in 2006; the whole process from design to construction took over 10 years. 'That's the way things go in the Netherlands', says Wasser. 'There are so many stakeholders and you need to take everyone's interests into account. From animal impact to shadow

casting and noise pollution, everything needs to be assessed.’ Nothing wrong with that, in his opinion; in order to create support, you need to take everyone seriously. For instance, one nature organization requested attention for the nesting areas of the common tern. ‘We sat down with that organization to discuss matters’, says project leader Karel de Dreu, ‘and we said: “We could spend 50,000 on lawyers now, or we could build an island where these birds could nest”. We agreed on that in advance, and the local tern population is currently bigger than ever.’

Extensive studies have also been done on how many birds could be struck by the rotor blades. Results show that it could be 2 to 3 birds on average per wind turbine. Frozen and provided with a date and name tag, they end up on the researcher’s autopsy slab. ‘The majority proved to be herring gulls; they are at the top of the food chain here and are inclined to pay less attention to where they are going,’ Wasser stated knowledgeably. Noise pollution also proved to be a thorny issue. That is why plastic serrations, called ‘owl feathers’, have been attached to the rotor blades. They reduce noise to a minimum, so you can hardly hear them from 100 meters away.

The electricity generated by the Bouwdokken wind farm is purchased by a consortium consisting of Google, AkzoNobel, DSM and Philips. What is remarkable is that no power company is involved. ‘The lack of that particular overhead makes this power several percent cheaper,’ says Simon Braaksma of the sustainability department at Philips. The company did have to commit to purchasing this clean energy for 15 years. ‘It was the first time that we entered such a long-term contract for green power, that long of a period was kind of a thing,’ Braaksma remembers. Philips had been accustomed to maximizing flexibility in supplier contracts, ensuring they could keep tight control of fluctuations in production. ‘We really had to go to the Executive Board to make these types of long-term investments. However, it fits our sustainability strategy perfectly. The power was also a bit cheaper than regular green energy from a power company, so in the end everyone agreed.’

The collaboration between the four companies has the huge benefit that they can compensate for each other’s fluctuations in peak and off-peak power use. ‘Suppose we need a little less power in a few months; there’s a good chance that Google, for instance, will gladly purchase it from us,’ Braaksma says.

The Netherlands has set the target to reduce its greenhouse emissions by 49% in 2030. By 2050, the reduction target is 95%. That was determined in the climate act, which the ruling parties in the Dutch coalition government reached consensus on two weeks ago with the Labor Party, the Green Party and the Socialist Party.

However, negotiations regarding the climate accord with environmentalists and the business community have proven to be difficult. Little progress has been made at the industry table, which hosts the twelve biggest producers of CO₂ emissions. The oil companies are objecting particularly strongly; if any agreement is reached this week, people close to the process suggest that it will only contain generalities. The big question of who is going to pay for all these necessary innovations still hovers ominously above the market. According to Shell, for instance, the government will need to provide significant contributions to reduction measures such as CO₂ storage under the North Sea.

Thus far, most of the multinationals have set only modest goals regarding sustainability. For instance, Shell has stated in their 2015 annual report that a 13% CO₂ reduction in 2050 is realistic, while TATA Steel also considers a 20% reduction in 2030 more than enough. Only one huge Dutch multinational – with 74,000 employees worldwide – is the exception. In 1.5 years, Philips will be a CO₂-neutral organization.

In the Netherlands for instance the company runs entirely on clean energy, supplied e.g. by the Bouwdokken and Krammer wind farms. Philips will also achieve CO2 neutrality soon in the USA and India, due to large-scale power generation using solar panels. While companies such as Unilever and power company NUON constantly sing their own praises with their green programs, Philips has been silently working for a decade on its own sustainability strategy. Now that their goals are very close to completion, the silent green giant is announcing its efforts more publicly. The company is internationally acclaimed for its achievements: over the past three years, the company has been chosen as 'industry leader' and 'best in class' on the Dow Jones Sustainability Index (the green Oscars for listed companies).

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'It is truly spectacular to see what Philips has done,' says Joris Wijnhoven, who has been involved in the negotiations about the climate accord as a campaign leader on climate and energy on behalf of Greenpeace. 'The company has truly reinvented itself. From a production company making electronic devices and light bulbs, it has become an innovative medical technology company that has integrated social targets and green targets into its business strategy. Hats off to them.' Other big Dutch companies should take a page out of Philips' book, Wijnhoven says. 'Take Shell, for instance, desperately clinging to a business case that was established a long time ago, back in the previous century. That obsession with pumping petroleum is so obsolete. Companies that do not invest in sustainability now will be the losers of tomorrow.'

'I am very proud of what the company has become.' Ten years ago, Philips recruited Robert Metzke (45) to develop the sustainability program. A billion euros were invested in a study on a sustainability strategy that would be fully integrated into the entire company. In addition, within five years, thirty percent of revenue had to originate from 'green' products. 'In those days, Philips was a highly complex organization,' Metzke recalls. 'The company consisted of countless islands, each with its own strategy. It took a few years before I was actually convinced that things were heading the right way.'

Metzke grew up in East Berlin; he was 16 years old when the wall came down. He studied applied physics at Humboldt University in Berlin and later ended up in journalism, even though he had resolved he would never follow his parents into that profession. For a long time, he wrote for the prestigious Science magazine. In order to 'gain a better understanding of the business world', he applied to a leading international consultancy business group, McKinsey & Company; to his utter surprise, he was hired. During his time with McKinsey, he worked with Queen Máxima of the Netherlands on a project regarding microcredit, and was also involved in the innovation platform launched by Jan Peter Balkenende, the Dutch prime minister at the time. 'We had good discussions at that time which were followed by policy.'

In 2016, Philips presented its follow-up plan entitled 'Healthy People, Sustainable Planet', which stated that the company would be CO2-neutral in 2020, as well as that fifteen percent of its revenue would originate from circular products. Social targets were also added to the project. The company is investing millions of euros in 'making healthcare accessible for 300 million people in disadvantaged areas'. Targets were added for 2016-2020 to derive seventy percent of the company's revenue from green products and to stop relaying waste to disposal sites. 'And all these goals are measurable and are checked by external auditors,' Metzke emphasizes. 'We publish our goals and show our advancements. More companies should do that,' he says with a smile. 'But we want to gain insight into the impact of

each toothbrush, electric kettle and MRI scanner. We also have separate targets for consumer emissions and company emissions.

As a company, Philips emitted 812 kilotons CO₂ in 2013; in 2017 that had been reduced to a net 627 kilotons. That includes everything: production, transportation, managers' business trips, and the heating and lighting at offices across the globe. In 18 months, Philips will have succeeded in reducing its net emissions to zero worldwide, Metzke emphasizes time and again. 'Currently, nearly all of our energy is generated by wind and solar.' In addition, the company has disposed of energy-guzzling production units, such as lighting and audio devices. 'Streamlining the company has created many possibilities,' he acknowledges. 'There were strategic reasons for slimming down the company, and it enabled us to integrate sustainability into our strategy. That has been a huge breakthrough.'

Former Philips top executive Jan Timmer regrets the downsizing of his Eindhoven-based baby. 'The pride of the Netherlands has lost its credibility,' he writes in his autobiography. He believes that the multinational – which had 400,000 employees back in his day – should not have focused on a limited number of production lines. 'Today's Philips is much less than what it could have been.' 'An interesting vision,' Metzke responds with a smile. 'Timmer had his chance thirty years ago and society has changed dramatically since then; in my opinion, excellent and necessary choices are being made today.'

600 kilotons of CO₂ will be left in 2020; Philips will compensate by purchasing eco certificates and by working on their own projects in Africa. 'In many locations, we provide clean drinking water that no longer has to be boiled on wood fires. That considerably reduces CO₂ emissions, and it is much healthier, since inhaling wood fire smoke causes significant damage to health.'

'From all across the globe, we receive used medical devices here.' Maarten Hovers, director of *Refurbished Systems* at Philips Health Systems in the Noord Brabant town of Best, walks through an Ikea-style warehouse full with plastic-wrapped and returned CT and MRI scanners. 'Look, the States,' he points at the packing slip on the side of the crate. 'And here's India and Russia.' Two football fields worth of medical equipment handed in for exchange. The flow of secondhand devices keeps on increasing. 'Sales reps that sell a new device immediately make an offer for the old one. That is just part of the negotiations. And customers get the guarantee that we will take their devices back again in a few years.'

Woosh.....woosh...woosh.. Technicians stand behind protective screens to block out the X-rays when a CT scanner installed with new software starts spinning faster and faster, just like a centrifuge. The circular economy is embodied in the town of Best. At the same time, it is also good business. Philips buys 300 to 350 cast-offs every year, once worth between half a million and a million, refurbishes them, and sells them back to the market for 60 to 85 percent of the original price. 'We prefer devices that are about six to nine years old,' Hovers explains, as he walks past the washing room where the devices are completely decontaminated. 'We can pay a good price for these relatively young devices, and when they leave this factory they are better than they were before.'

Clean as a whistle, repainted, all vulnerable parts replaced and – most important of all – equipped with a software update, these devices will end up at private hospitals in Western Europe and America. 'Government hospitals are usually not allowed to buy secondhand equipment and the private institutions usually won't let such a huge discount on a device that's good as new slip through their fingers.'

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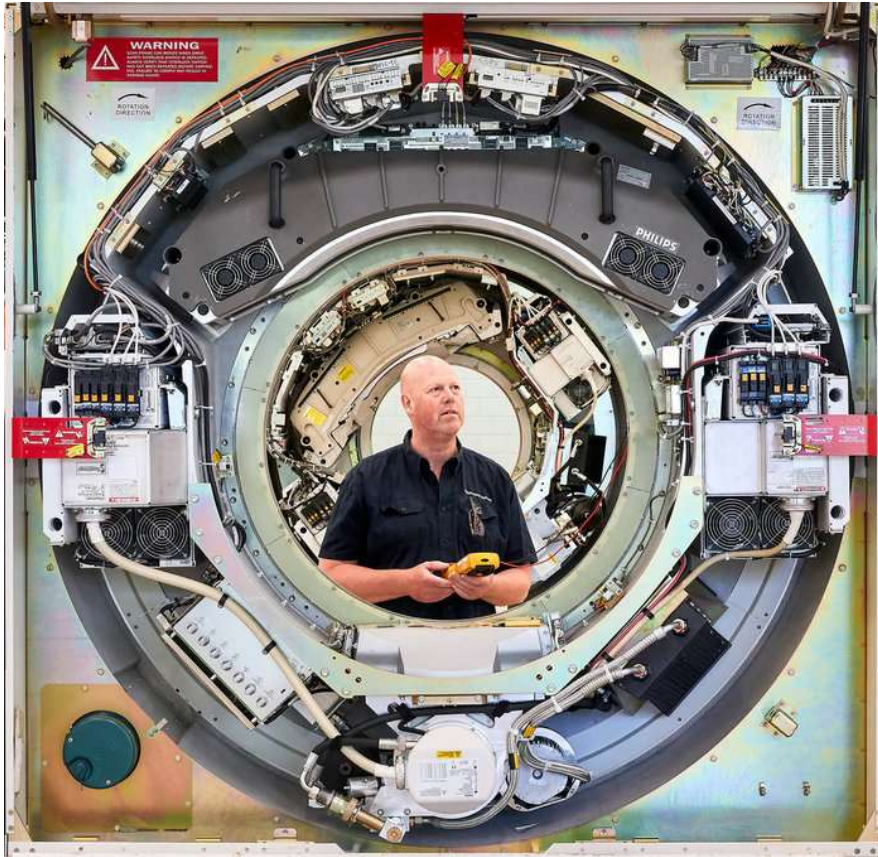
‘Would you lease a vacuum cleaner?’ Metzke enquires. Possibly, yes. ‘But probably not a razor, right?’ The head of sustainability, strategy, and innovation is trying to pinpoint the boundaries of the circular economy. It is a concept that was developed e.g. by Thomas Rau, a German architect based in the Netherlands. The way Rau sees it, consumers will no longer buy products but services. You no longer buy lamps but light, not cars but transportation, not a washing machine but clean laundry. According to Rau, that might lead to people leasing many devices or sharing them with more people. This will lead to more reuse and a huge saving on natural resources.

However, the hardest challenge for Metzke is meeting his targets for the circular economy. ‘The circular economy is a fundamental transformation; the consumer will need to look differently at a product.’ As far as medical devices are concerned, the benefits are clear. ‘It cuts both ways, so that makes our story credible.’ Exchanging CT scanners and X-ray equipment will ensure that hospitals remain connected to Philips and often enter into long-term contracts for maintenance and replacement of equipment. Hospitals save on costs because they get a good price for their older devices.

But what about a SENSEO coffee maker? Do people on the private market want a coffee subscription, in which the supplier guarantees that both coffee and the coffee maker will be present in their home? And are we okay with the hairdryer independently informing Philips via blockchain that it’s starting to use more and more energy and that a new one should be sent? For Metzke, that is still far into the future. But Philips Lighting (now: Signify) did for instance start working with housing associations to install long-lasting, cost-efficient LED lamps in new-build houses right off the bat. ‘Residents will often choose short-term profit and therefore buy a cheaper light bulb, whereas the LED lamp is not only much cheaper in the long term, but also provides huge environmental benefits.’

Philips also faces huge challenges in different areas. For instance, the company is part of a production chain which is not completely CO2-neutral overall. The factories operated by its suppliers are still generating significant emissions, and consumers are also consuming to their heart’s content. ‘We are very occupied with these suppliers,’ Metzke says. ‘For instance, we are increasingly working with companies that respect people and the planet, and for instance use recycled plastic. That’s harder than it might look at first glance, though. Much of the reused plastic still does not meet the standards of quality we demand from our products.’

A separate Philips team is focused on making suppliers more green. Agreements are made in contracts regarding sustainability, employees’ rights and payment practices. Partnerships are terminated, under a zero tolerance policy, in cases of child labor, large-scale environmental pollution, hazards to employee health, and underpayment. Philips has already drafted improvement plans with dozens of suppliers.



*A Philips test engineer is working on the reconstruction of a refurbished CT scanner.
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The annual report meticulously maps out all the results. For instance, the production chain had a total environmental impact of 7.2 billion euros in 2017. Just 215 million euros of that impact was caused by Philips itself. 785 million can be attributed to the suppliers and a whopping 6.2 billion euros are caused by consumer consumption.

‘That is going to be the biggest challenge,’ Metzke is well aware. ‘And that is not just about the efficiency of the devices, but also how they are used. Can we for instance prevent people from drying their hair every day for ten minutes? Will they stop after five minutes if we incorporate a warning beep?’ The company will have to educate the user. ‘The consumer needs to think about their use and consumption; how much water do you actually need for a cup of tea? Not a full electric kettle. And we also have to make clear that a high-powered vacuum cleaner is not always a better vacuum cleaner.’

Philips makes the devices themselves three percent more efficient every year. ‘The company is an ally of the environmental movement on this point,’ says Joris Wijnhoven at Greenpeace. ‘Many environmental standards are set in Europe, and Philips pushes for the strictest criteria, just like we do. They are really trailblazing in Europe.’

Sustainable devices are often more expensive. The development process of an energy-friendly product comes with a price tag. When are greening and making profit at odds at Philips? Does an environment-friendly supplier sometimes miss the boat because the price is too high? Or will the production of an ecological beard trimmer fail to see the light of day because the price gets too high? Metzke believes that the contradiction between green and revenue is obsolete, however. ‘I don’t see that as a dilemma;

those concepts are on entirely different axes. It is not either–or but and–and. We make profit because sustainability has become part of our company’s DNA by now. It is an integral part of our strategy.’

Precisely because profit is made, sustainability is credible, Metzke believes. ‘There is no greenwashing here. As a commercial company, we have wholeheartedly embraced this strategy. People, planet and profit can be combined. We are innovative and profitable precisely because we are sustainable.’

The green business strategy even sometimes results in unexpected benefits, as Simon Braaksma indicates. In a previous life, he used to be a banker. Now he is in charge of maintaining contact with investors from the perspective of the sustainability department at Philips. ‘I have noticed that the sustainability of a company actually plays an increasingly bigger role, also with financiers. And this is not just the big pension funds, but other parties as well. In the end, our strategy also provides better access to the capital market.’

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