

# PHILIPS

sense **and** simplicity

## Building a Foundation for Growth: Operational Improvement

John Haydon

EVP Global Operations and Supply Chain

## Global Operations and Supply Chain:

### A Competitive Advantage for Philips Healthcare

# of equipment shipments – 1.4M/yr.

# of service parts shipped – 1M/yr.

# of countries shipped to – 170+

#### Global Operations



Business Excellence



Information Technology



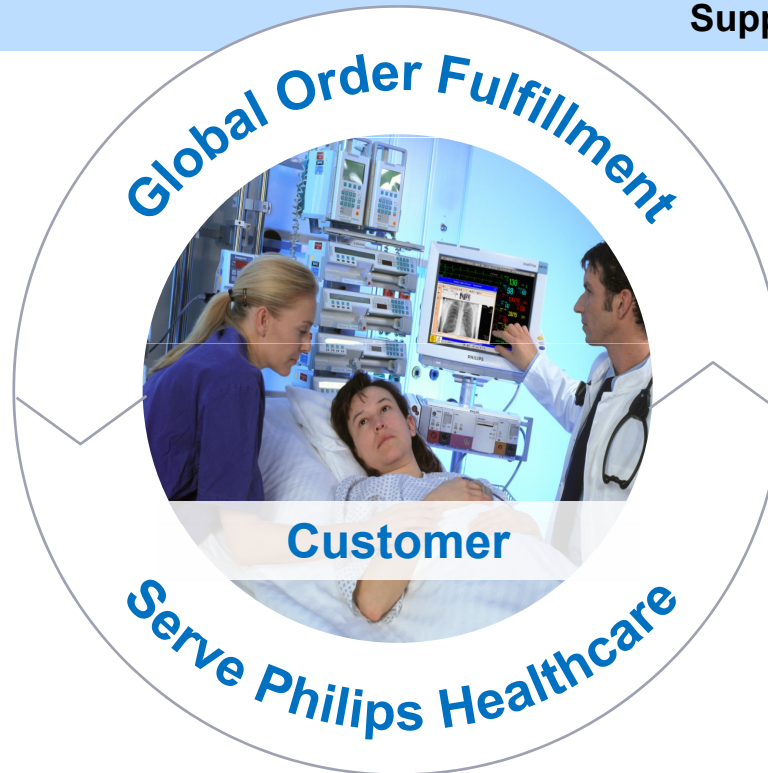
Purchasing



Quality & Regulatory



transPHorm

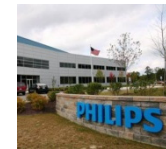


#### Supply / Customer Value Chain

Commercial Supply Chain



Industrial Supply Chain



Service Parts Supply Chain



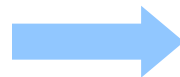
# PHILIPS

## We remain focused on three areas

### Focus Areas

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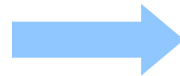
#### Accelerate Growth



### Initiatives

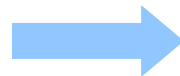
1. Increase presence in emerging markets
2. Expand mid / low-end product offering
3. Increase sales to home healthcare
4. Drive growth in healthcare informatics
5. Leverage patient/care provider brand

#### Increase Margins



1. Expand low cost country sourcing
2. Improve product reliability costs
3. Increase service productivity / effectiveness
4. Optimize market approach
5. Improve quote to cash

#### Capitalize on Acquisitions



1. Deliver value from existing acquisitions
2. Pursue new acquisitions in strategic areas

# PHILIPS

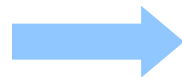
transPHorm is a significant contributor to margin improvement

*Enterprise wide program increasing cross-boundary collaboration and driving change management*

## Focus Areas

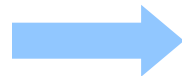
## Initiatives

Accelerate Growth



1. Increase presence in emerging markets
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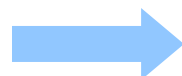
Increase Margins



### transPHorm

1. **Expand low cost country sourcing (SBO)**
2. **Improve product reliability costs (ICS)**
3. **Increase service productivity / effectiveness (ICS)**
4. **Optimize market approach (OMA)**
5. **Improve quote to cash (Q2C)**

Capitalize on Acquisitions



1. **Deliver value from existing acquisitions (PMI)**
2. Pursue new acquisitions in strategic areas

# transPHorm 2010 accomplishments and progress

<b>Quote to Cash</b>	<b>Ahead of Plan</b>
<b>Simplifying and standardizing business processes</b> <b>Rationalizing commercial business centers</b>	

<b>Supply Base Optimization</b>	<b>Work In Progress</b>
<b>Consolidating industrial footprint &amp; systems (ERP)</b> <b>Improving Bill of Material savings – Nego &amp; LCC</b>	

<b>Optimize Market Approach</b>	<b>On Plan</b>
<b>Creating value-based price competency</b> <b>Decreasing margin leakage via Price Lab</b>	

<b>Integrated Customer Services</b>	<b>On Plan</b>
<b>Realizing service parts material cost-savings</b> <b>Driving delivery of standard processes and tools</b>	

<b>Post Merger Integration</b>	<b>Work In Progress</b>
<b>Managing all acquisitions to RFA commitments</b> <b>Establishing best practice sharing among acquisitions</b>	



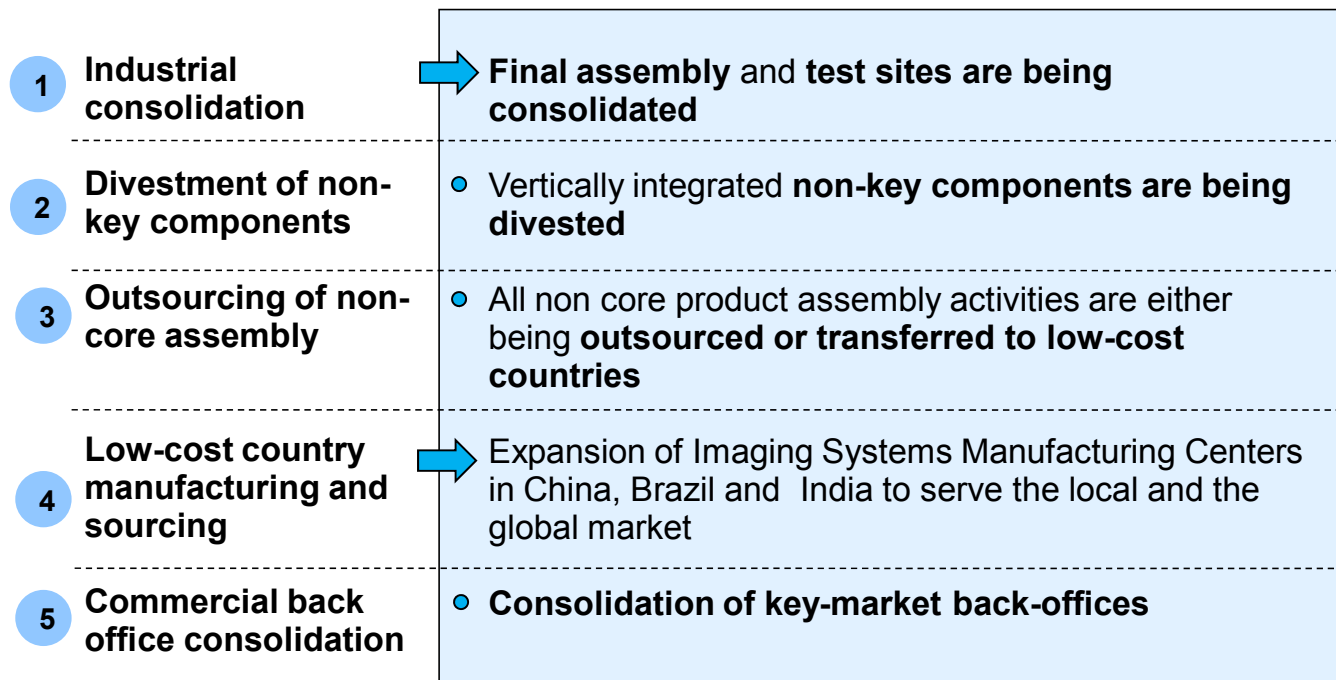
<b>Customer Satisfaction</b>	<b>Increase Margins</b>	<b>Employee Engagement</b>
<ul style="list-style-type: none"> <li>◦ Make it easy for our customers to do business with us</li> </ul>	<ul style="list-style-type: none"> <li>◦ Driving Shareholder Value</li> </ul>	<ul style="list-style-type: none"> <li>◦ Enhance the capabilities and careers of employees</li> </ul>

## Presented during Analyst's day May 2009

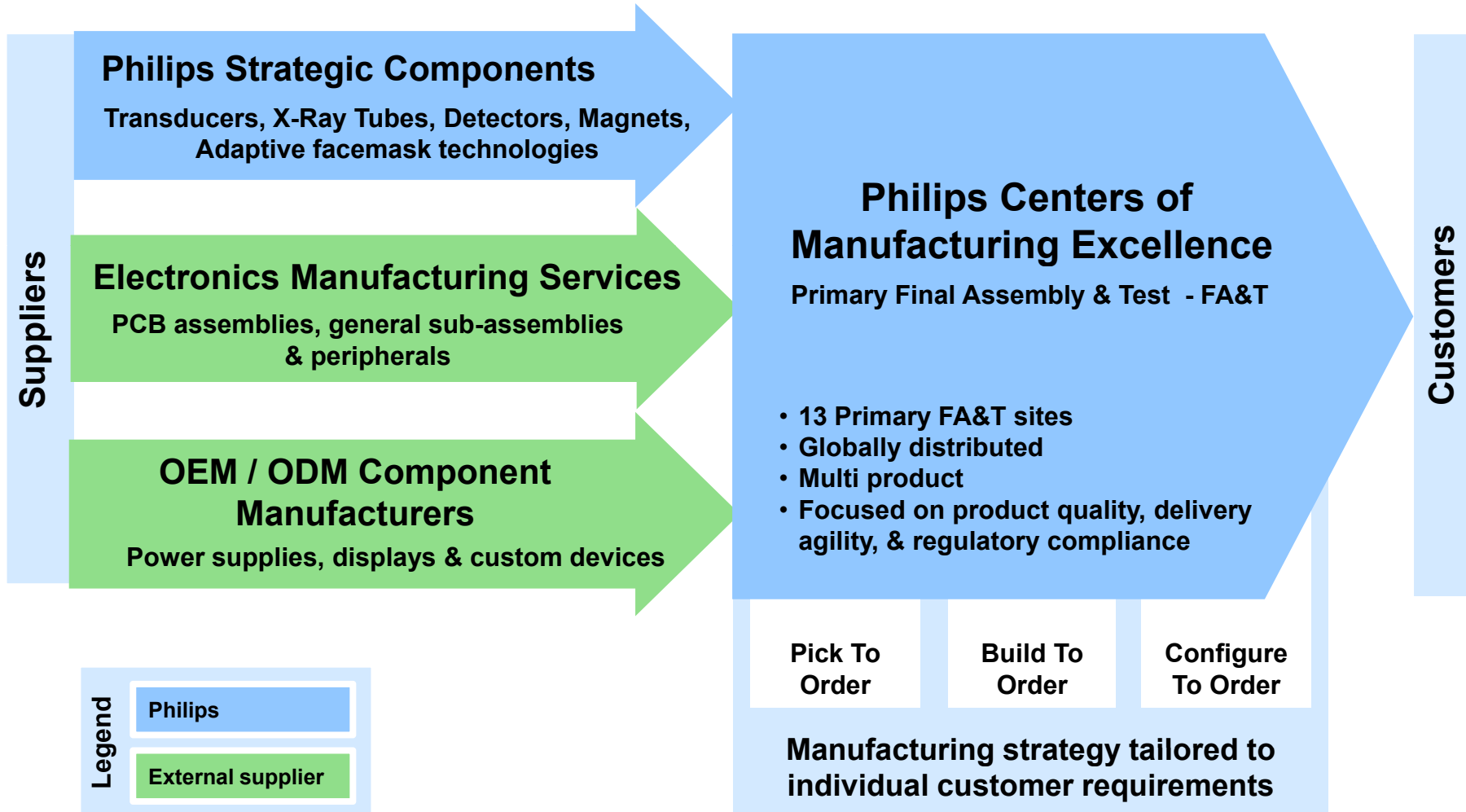
*Supply Base Optimization key contributor to margin expansion*

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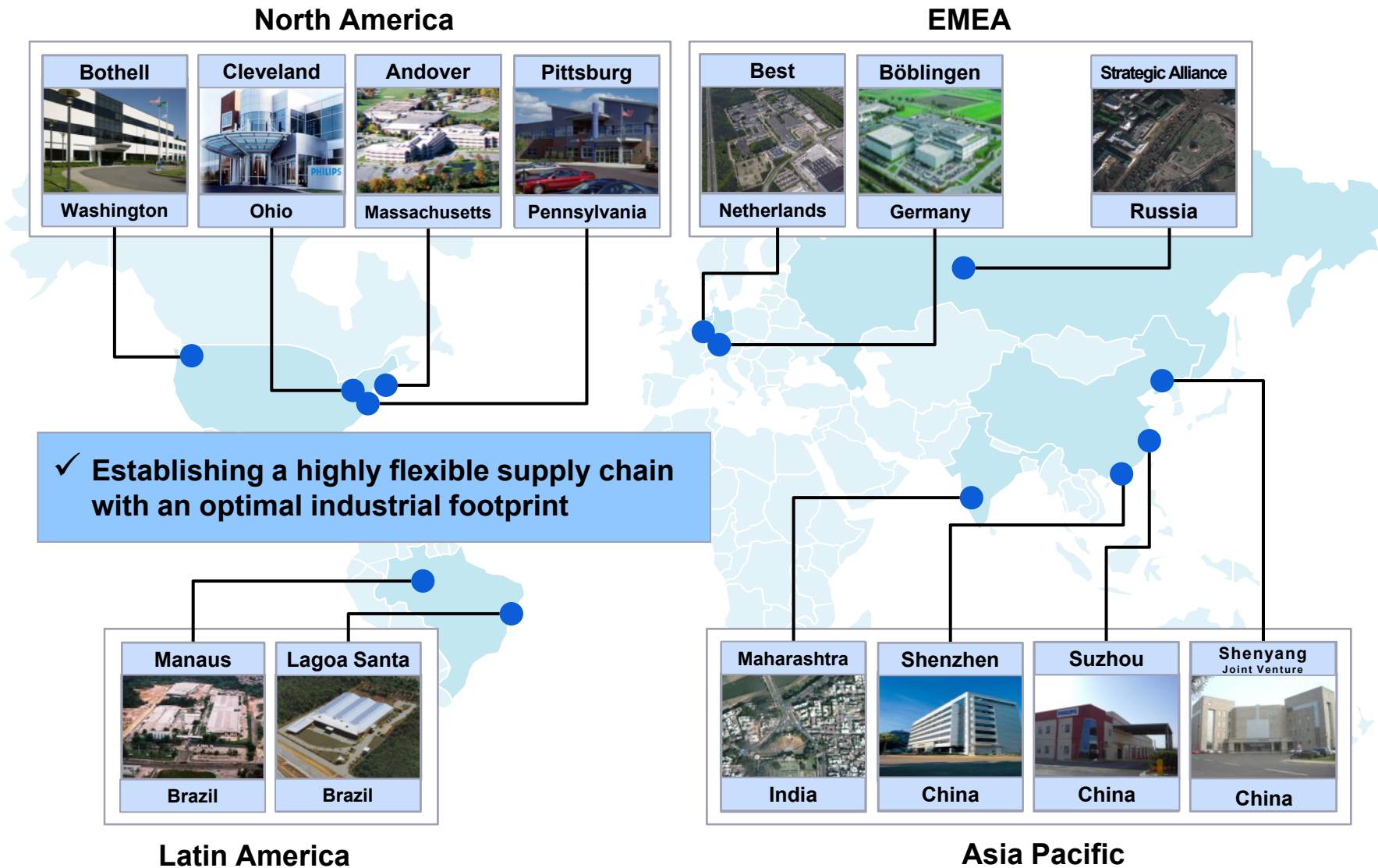
**Increase Margins SBO:** Establish a highly flexible supply chain with an optimal industrial footprint.



## Supply Base Optimization Manufacturing Strategy



## Primary Centers of Manufacturing Excellence (CME)





## Supply base simplification and optimization

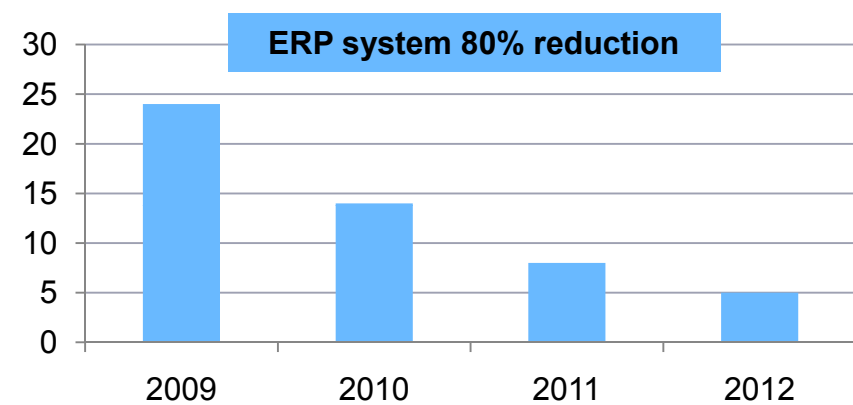
*Centers of Manufacturing Excellence – Primary Final Assembly and Test*

### Strategic priorities – Improving MOH \*

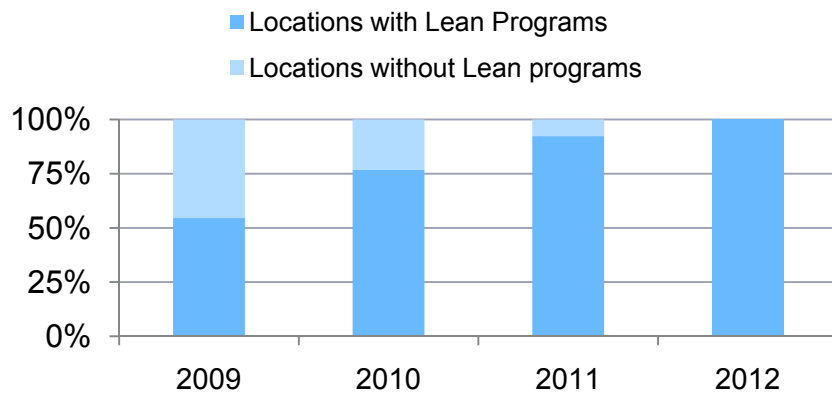
- Consolidation footprint to 13 Primary CME's
- Expanding mfg. volumes in emerging markets
- IT Simplification
- Further EMS outsourcing
- Continuing investment in Lean / Six Sigma

\* Manufacturing Overhead

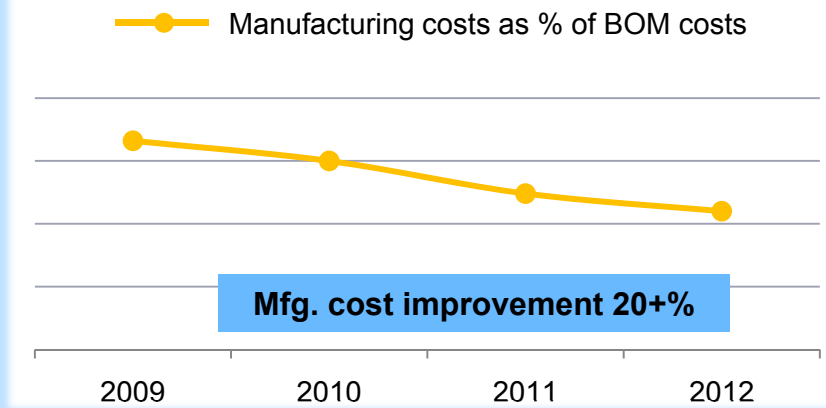
### Driving IT simplification – aligning due to M&A



### Implementing Lean Manufacturing – 13 CME's



### Improving productivity



## Supply base optimization

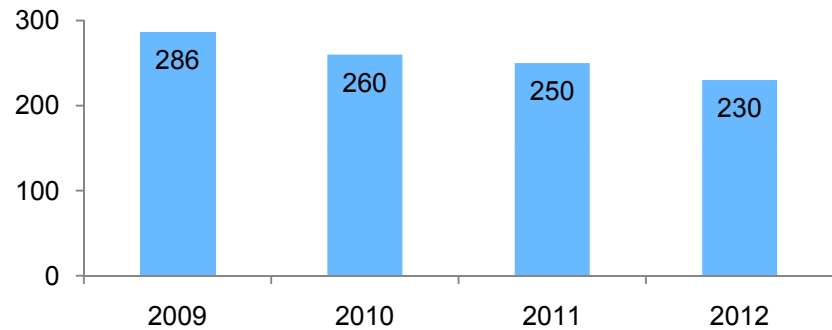
*Purchasing Excellence – Bill of Material (BOM) improvements*

### Strategic Priorities – Driving Cost Improvement

- Strategic Supplier Consolidation
- Enhancing Innovation From Suppliers
- Increasing LCC Sourcing and Staffing
- Enhancing Negotiation Skills & Processes
- Value Engineering / Cost Engineering

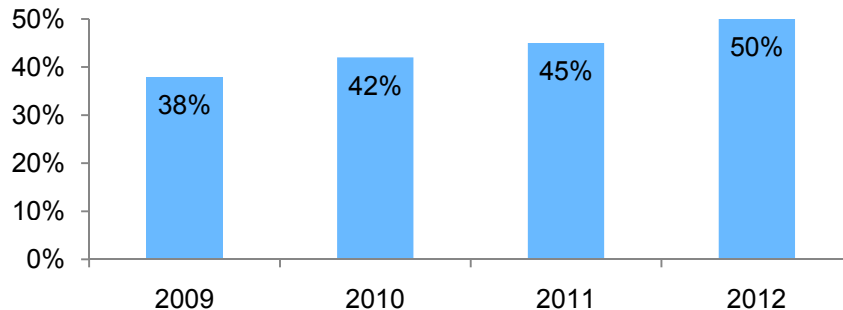
### Driving supplier consolidation

# Suppliers representing 80% of purchasing spend



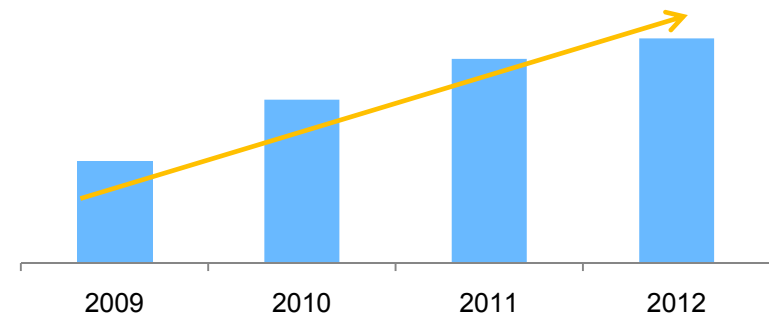
### Increasing low cost country sourcing

% BOM spend in low cost countries



### Increasing cost reduction

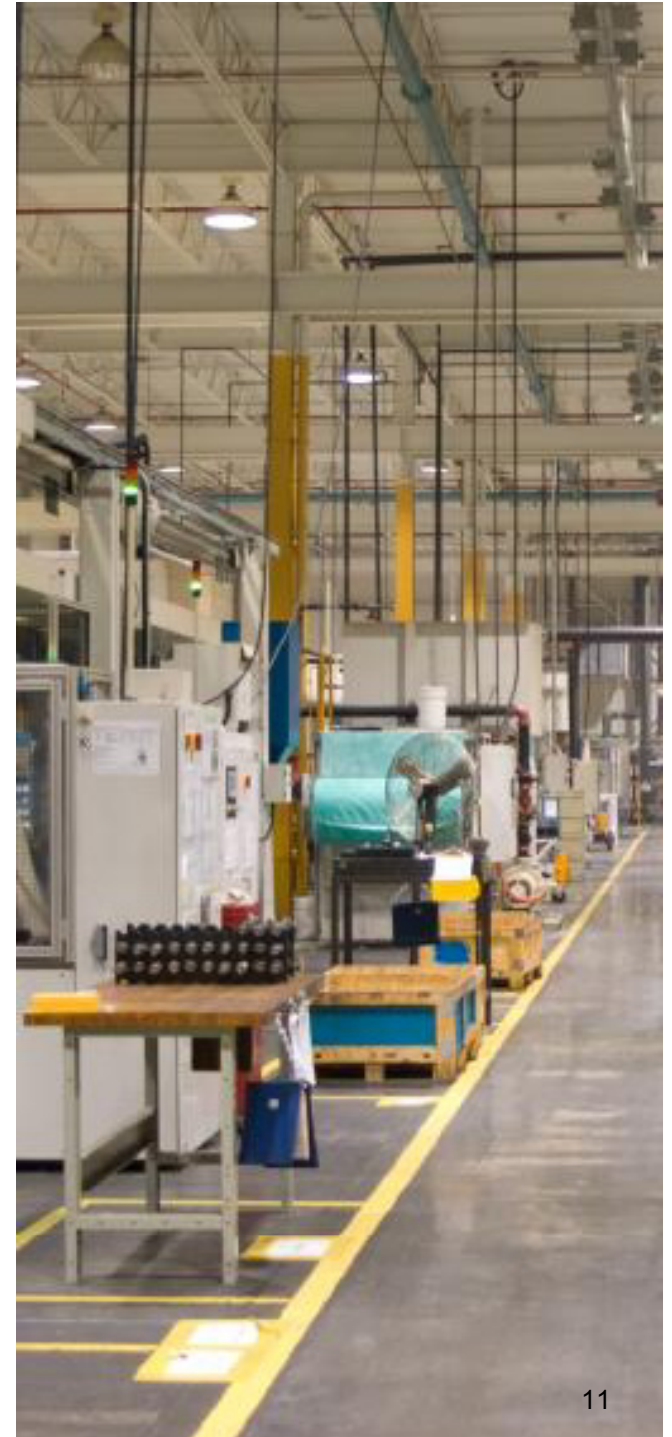
% of BOM Savings



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## Key takeaways

- Delivering margin improvements through transPHorm programs
- Improve manufacturing overhead by 20% over 4 years through the creation of CMEs
- Drive BOM savings in 2010 through purchasing excellence



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# Q&A

John Haydon

