

PHILIPS

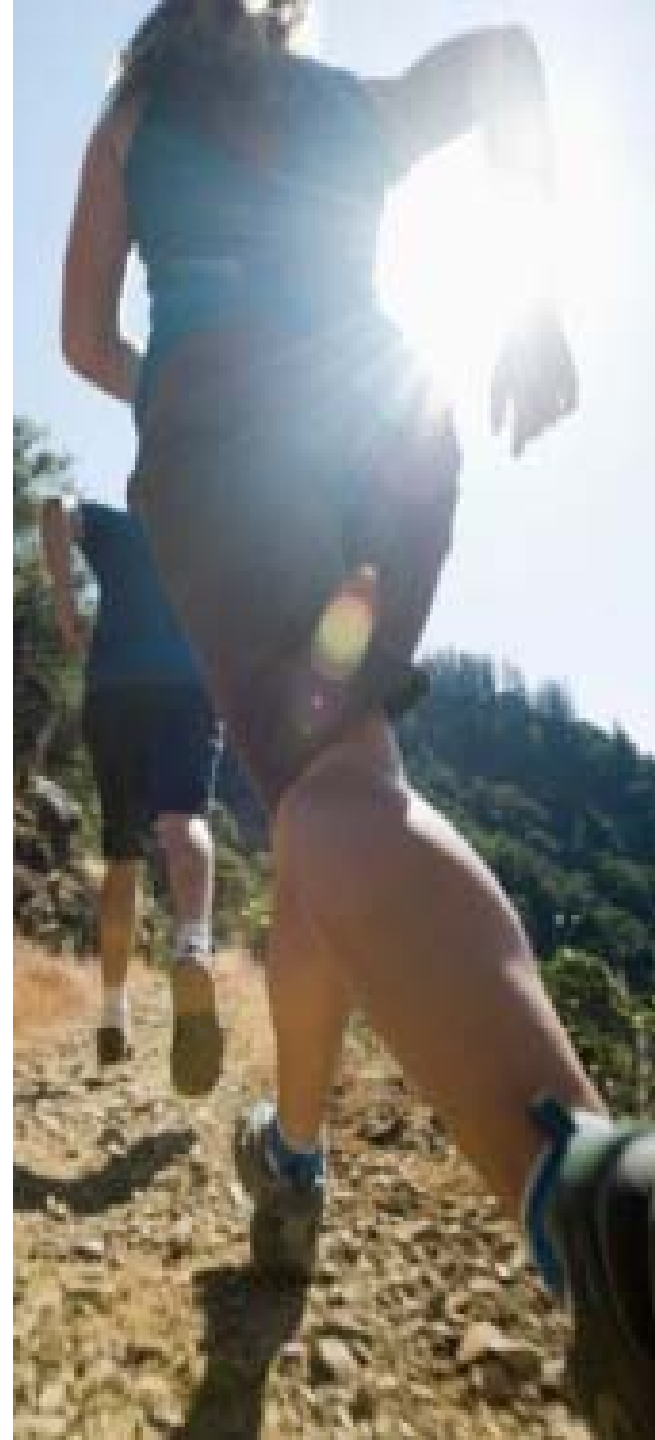
sense and simplicity

Supply Chain as a Growth Accelerator

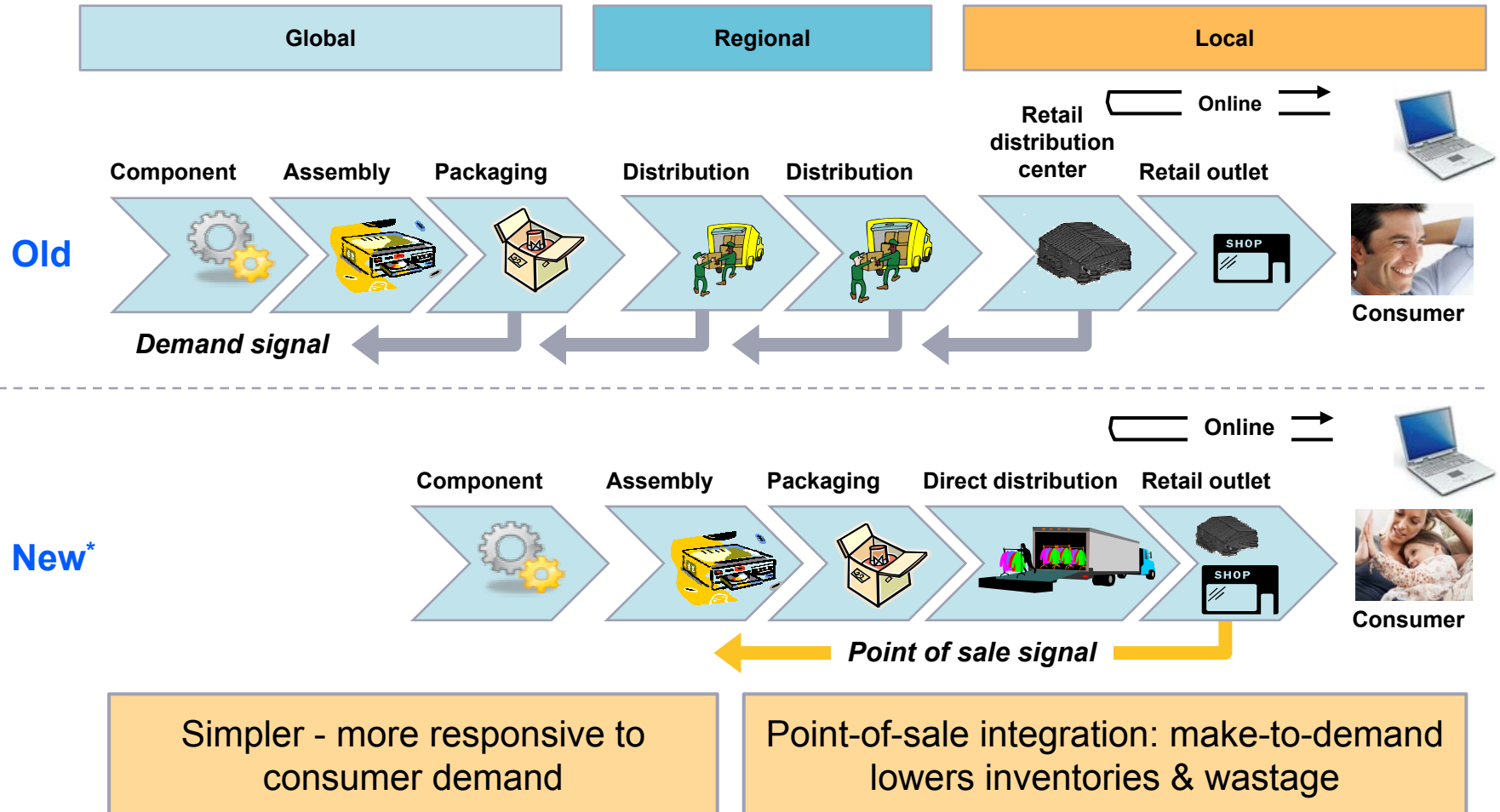
Lee Bennett
Chief Supply Officer

Key takeaways

- We are fundamentally changing our supply model to move **closer to our customers and consumers**, delivering near **100% availability** in store
- At the same time we are **realizing cost savings**, freeing up cash through **inventory management, payment terms** and **productivity**
- We will execute on our **strategic and financial** commitments through a new way of working called *Simply Philips*



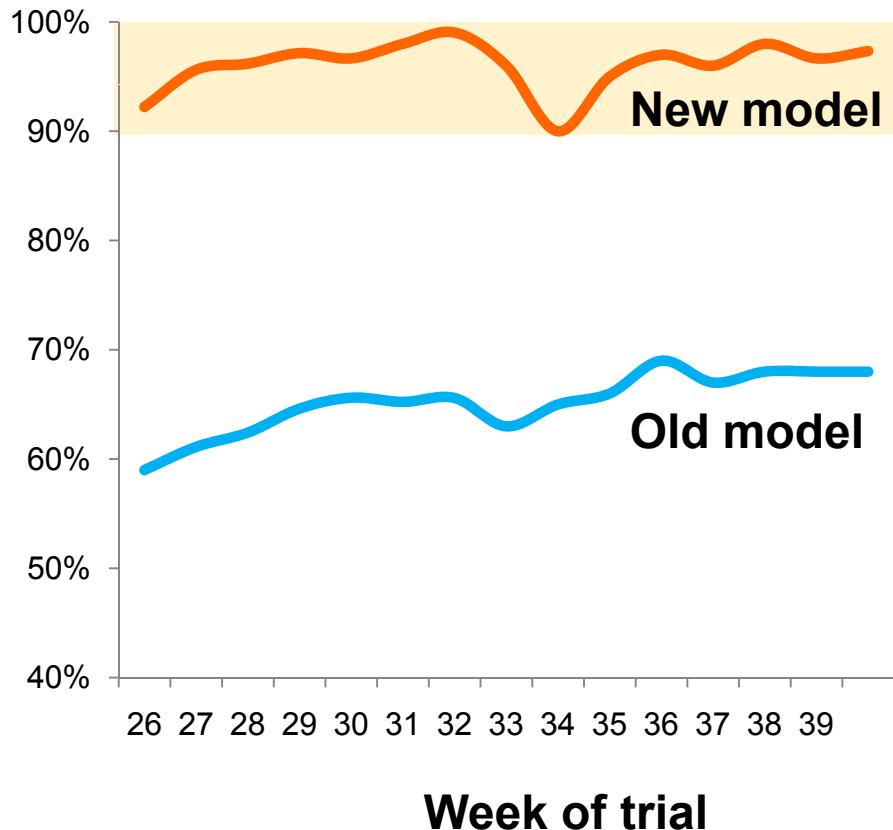
We are fundamentally changing the supply model, moving closer to the consumer



Note: * Schematic representation

The new model increases responsiveness – good for consumers, retailers and Philips

In-Store Availability pilot, Germany



Increase in-store availability

- New simpler model capable of delivering **near 100% in-store availability**

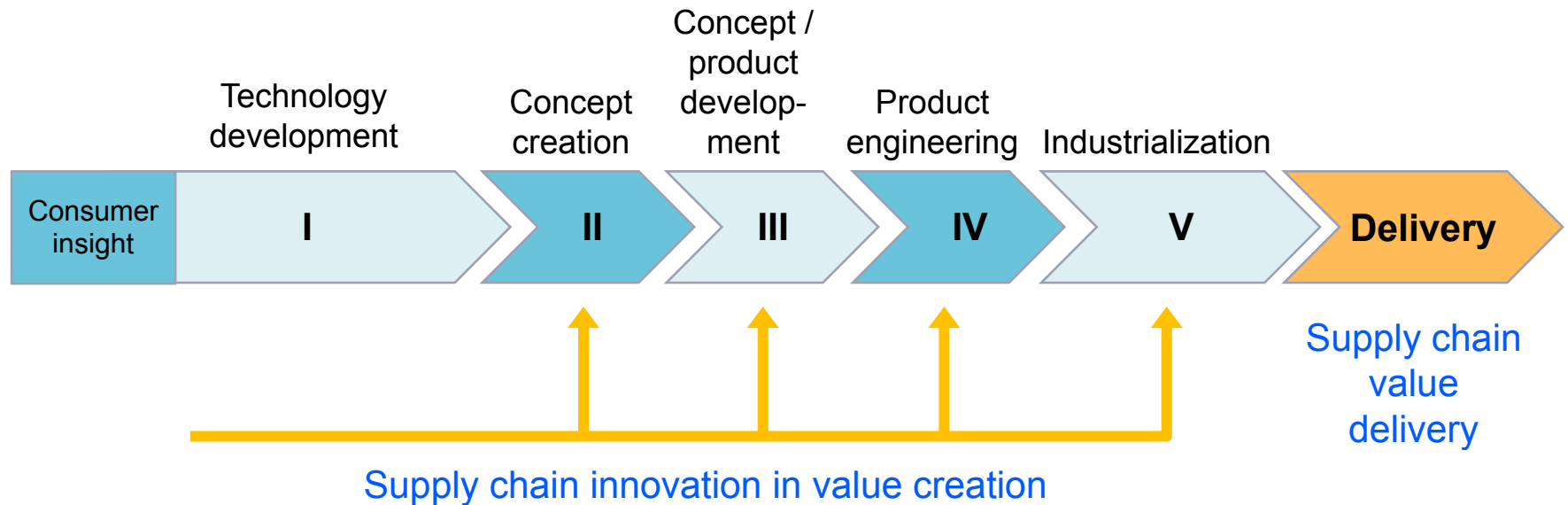
Improve retailer preference

- Retailers prefer the simpler model (**increase in Net Promoter Score**)

Grow sales

- In-store excellence **drives sales growth**

We are increasingly making supply chain engineering part of the value creation phase



Leverage Open Innovation in supply

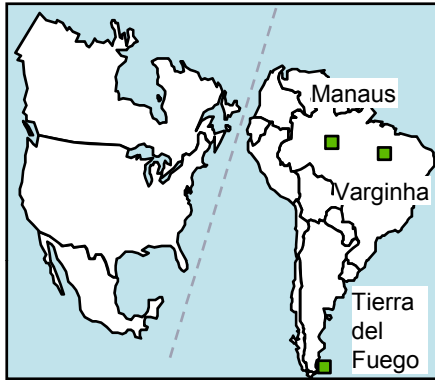
Select strategic suppliers

Optimize supply chain for market, product, channel combinations

To succeed we are simplifying our operations

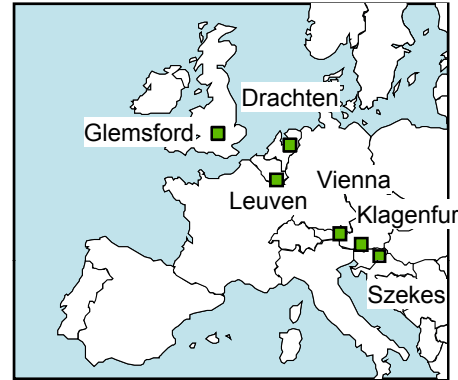
We have moved from 19 to 11 in-house operating sites

2010



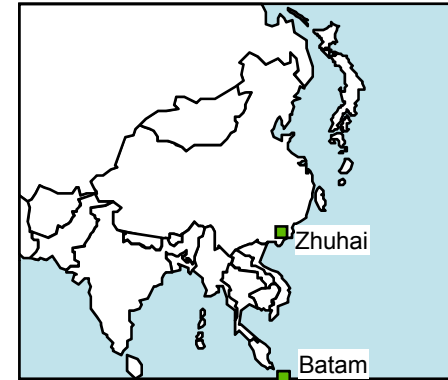
3 sites

North & Latin America



6 sites

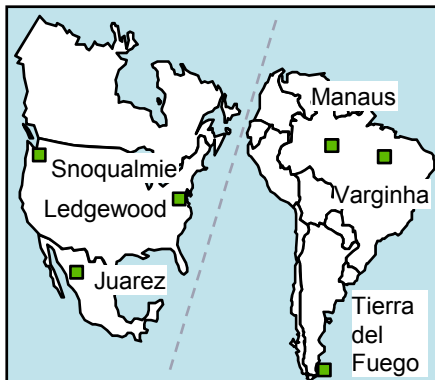
Europe



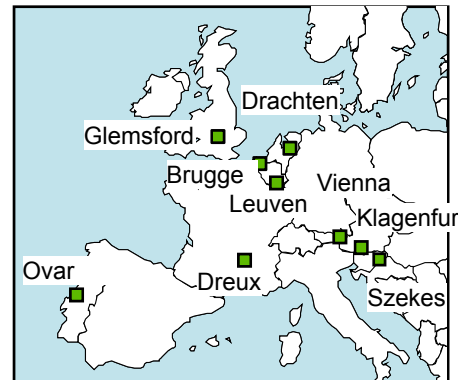
2 sites

Asia

2008



6 sites



9 sites

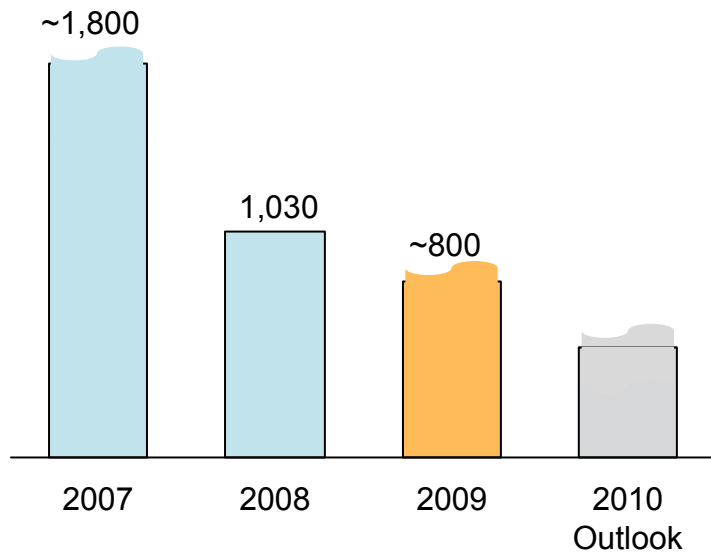


4 sites

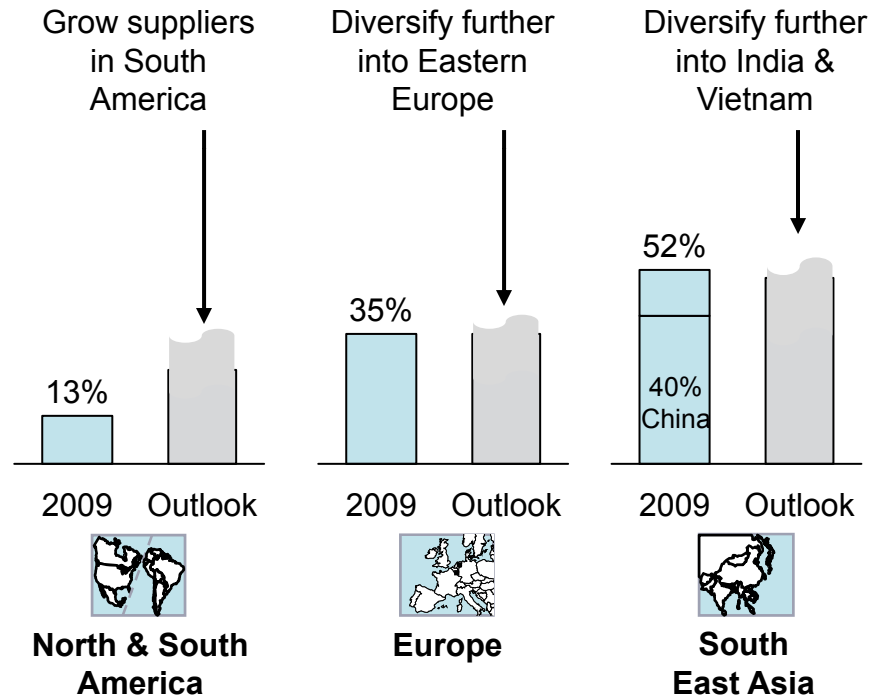
Note: Does not include Saeco acquisition

We are simplifying our supplier base and will next further regionalize supply

Simplified number of suppliers



Geographic distribution of number of suppliers

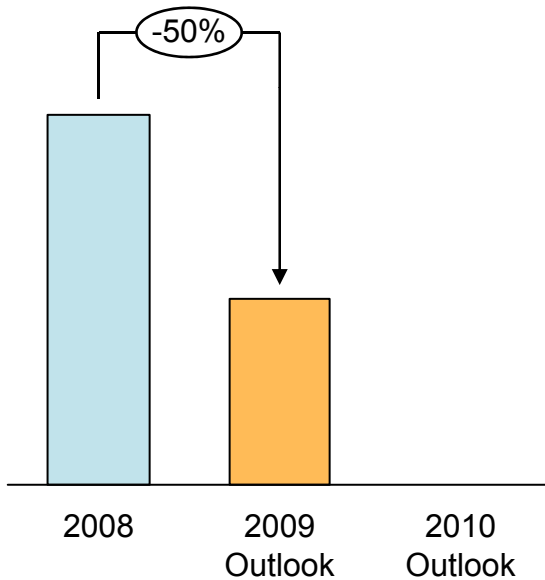


Fewer, strategic suppliers reduces cost and increases performance

Regionalization increases responsiveness and reduces currency risk

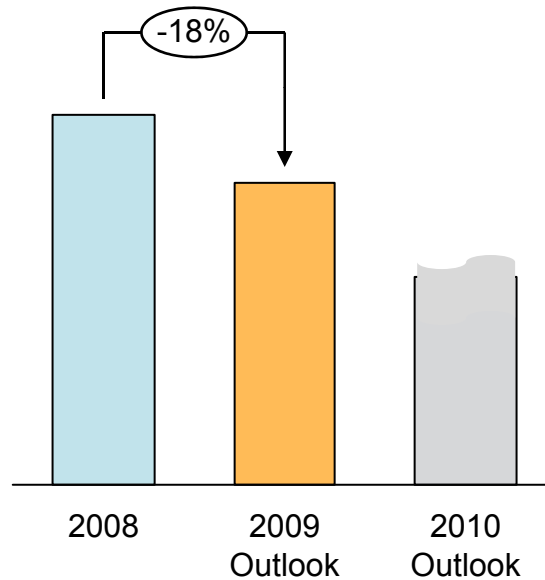
Simplifying enables us to negotiate better payment terms and reduce stock held

Slowing moving stock



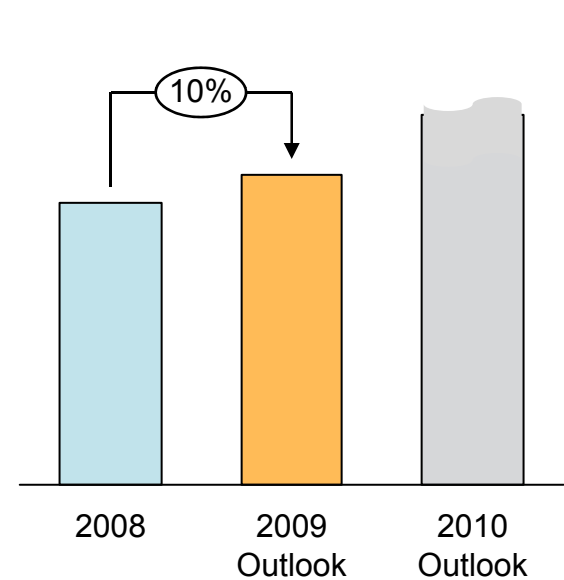
Step change in quality of inventory...

Inventory outstanding (days)



... enables significant decreases in inventory outstanding...

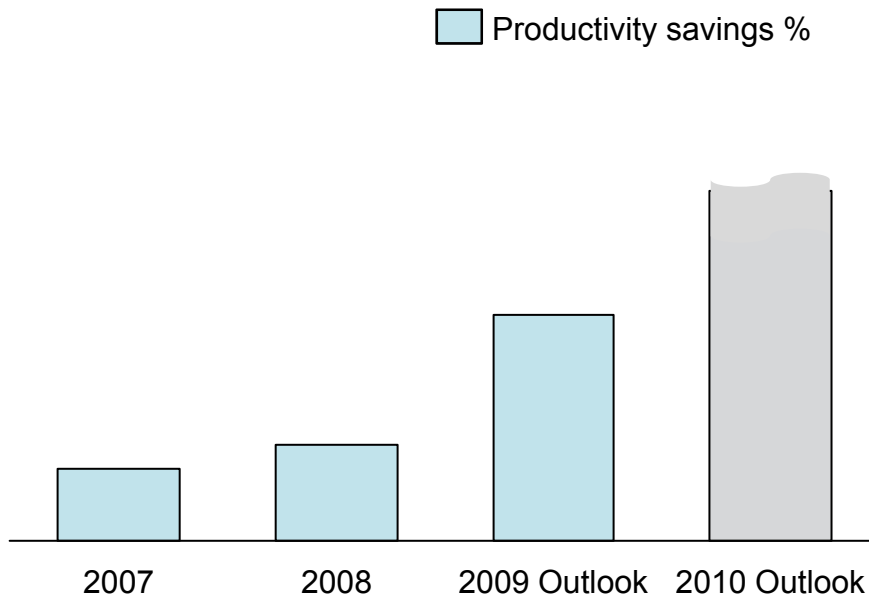
Payment terms (days credit)



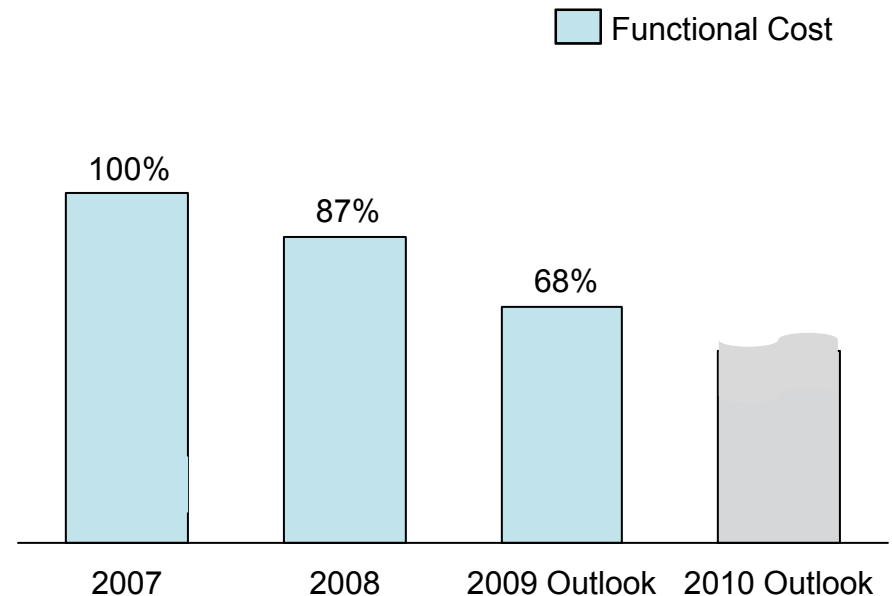
... which we have combined with a focus on payment terms

Productivity gains and functional cost reductions contribute to investments in growth

Productivity savings



Functional cost (index 2007)



Double-digit productivity savings in operations

Total 32% reduction in functional cost

Simply Philips embeds a new way of working that delivers significant strategic and financial results

Simply Philips...

- ▶ Utilizes external benchmarks to define vision of excellence
- ▶ Engages everyone's intellectual capacity in rapid problem solving
- ▶ Drives a positive and permanent change in our supply chain culture
- ▶ Breaks down traditional paradigms

Simple systems, smart behaviours



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