

## Background

Royal Philips Electronics of the Netherlands (NYSE: PHG, AEX: PHI) is one of the world's biggest electronics companies and Europe's largest, with sales of US\$ 33 billion. Having activities in the three interlocking domains of healthcare, lifestyle and technology, the company has 165,600 employees in more than 60 countries. Philips has products in categories like medical diagnostic imaging and patient monitoring, colour television sets, electric shavers, lighting and silicon system solutions.

In December 2003, Philips reached the impressive milestone of 100,000 patents. Some 20,000 inventions underlie the 100,000 patents. Philips is also the owner of 22,000 brands, 11,000 model rights and 2,000 domain names. Some examples of important patented Philips inventions are the audiocassette, CD, DVD, JPEG, MPEG (digital video), Xenon car lights, UHP lights for projectors and GSM speech codification.

Philips in India started operations in 1930, with 75 employees as "Philips Electrical Co. (India) Private Ltd". Today, Philips India has grown to over 4,500 employees in 2003 with a turnover of over US\$ 333 million. Philips India is a leader in lighting, semiconductors, consumer electronics, medical systems, domestic appliances and personal care, with a wide range of internationally current products backed by superior design and technology. Philips has seven manufacturing sites at various locations in India and a world class innovation campus and research and development centre in Bangalore contributing to over 20 per cent of Philips' global resources for high-tech R&D and software development. Philips has made an investment of over US\$ 150 million in the Indian operations over the past five years.

Philips India is a market leader in almost all its product categories. Philips India has a 45.8 per cent share (revenue) of the audio market, which includes radios, hi-fi stereos, monos, CD players, DVD products and home theatre systems. 50 per cent of cardiac examinations in India are done on Philips equipment. Philips has a leading market share in lighting systems, particularly in lamps, lighting electronics and automotive lighting.

Philips has maintained a leading position in the semiconductor industry in India. Three out of five TVs in the country have Philips chips. Philips chips are present in the world's thinnest watch made in India. Philips India has a leading market share in the juicer-mixer-grinder category and dry iron category.

Philips India has several recognitions to its credit:

- Recognised as one of the best Indian employers by the Business Today (BT)-Hewitt Survey

- Rated No. 16 in the Economic Times Brand Equity – India's Most Trusted Brands 2003 survey
- Recognised by Business World magazine as "The Most Respected Company in India in the Consumer Durables Sector" in 2002
- Philips India's Philips Software Centre (PSC) was placed in the top five in the Business World-Grow Talent "Great Places To Work" survey

## India challenges

The Indian market for consumer electronics offers a lot of challenges. Several MNC consumer electronics players have entered the country leading to brand proliferation. There is immense pressure to lower price and to speedily introduce new products on the players, due to this high competition.

The Indian consumer is price and value sensitive. More than 70 per cent of the population lives in rural areas which are difficult to reach.

Philips India has leveraged some success factors to overcome these challenges.

## Factors for success

### Localisation and portfolio management

Philip has developed products for the Asian market based on consumer needs. Instead of bringing 'European' products to Asian consumer; Philips has succeeded by recognising different cultural and lifestyle needs and customising products and technologies for the people who buy them.

For example, when the audio equipment worldwide shifted to CD systems, Philips India developed a combined tape recorder and CD player since both media were prevalent in the country.





Philips has introduced televisions with improved audio facilities like external sub-woofers and Woox technology; this is based on the insight that most Indians like to “hear” television. Philips televisions have on-screen display in regional languages. Several other products are localised, including toasters, steam irons, ovens, mixer-grinders and dry irons. In semi-conductors, Philips is developing “Made in India” applications for Asia Pacific and global solutions like CORDECT and microcontroller-based solutions.

Philips has product offerings across all price and performance points for the wide Indian market. Its product portfolio includes global products that cater to “anywhere in the world” consumers, as well as high-reliability and styling products for the mass consumer base.

## Global technology support

Philips has brought global technology to Indian consumers at affordable prices. It has been instrumental in bringing latest technologies like integrated wireless FM, digital widescreen TVs, high-definition rear projection TVs with DVD, amongst several others to the Indian consumer.

## Tapping rural India

To increase its penetration in rural and semi-urban markets, Philips has specially designed products specifically targeted at the semi-urban and rural consumer in India. For example it has created a specific brand ‘Vardaan’ in its colour TV range, targeted at the rural and semi-urban markets.



To counter the power supply problem in rural India, Philips has customised its televisions to work on a voltage range of 90 volts to 270 volts, thereby eliminating the need for a voltage stabiliser. Philips also launched the world's first "Free Power Radio", which has become very popular in the rural market.

Philips has introduced innovative promotion campaigns especially for rural markets. The Consumer Electronics and Lighting divisions of Philips have launched integrated rural marketing programmes, which are spread across semi-urban towns having a population below 50,000.

Philips has also structured the pricing of products to make them affordable for the target audience in small towns and rural areas. For example, Philips introduced a portable CD system, at an affordable price of US\$ 83 for the semi-urban and rural customers.

### Enhancing distribution

Philips has one of the largest distribution networks with high penetration levels in the rural and semi-urban areas. To enhance its distribution and logistics network and increase the geographical reach of its products, Philips carried out an extensive product-wise mapping exercise over 540 districts across India. Major retailers were identified and a key account management approach was adopted to strengthen the distribution channel. Philips has plans to serve over 4,200 towns in semi-urban areas.

### Indian management

Local Indian management runs the operations of Philips India. This enables Philips to understand local customer insights and fine-tune its strategy to cater to local market dynamics.



## Leveraging the India Advantage

Philips is leveraging different advantages offered by India viz., intellectual capability, software development capability, processing capability and cost effectiveness of resources.

### Software development hub

The Philips Software Centre (PSC) in Bangalore meets the need for high-quality, cost-effective software development capacity within the Philips organisation worldwide and employs over 1200 people.

PSC is an ISO 9001 / TickIT, SEI CMM Level 5 company and has emerged as a critical partner in the development of strategic and futuristic technologies for Philips worldwide. PSC develops close to 20 per cent of the software content for Philips worldwide.

Philips is rapidly expanding the scope of its research operations - research domains are being expanded from hardware and software to plastics and molecules.

### Leveraging Indian managerial talent

Several Philips India employees are working on key regional/global Philips projects, committees and assignments. Several managers who started out as employees of Philips in India are now based in Philips organisations globally.

### Global shared services

Philips has set up a Global Shared Services Centre (GSSC) in Chennai, India. The GSSC provides Information Technology Enabled Services to Philips companies in North America.



## Future plans

Philips has assessed that the significance of the Indian market lies in its growth rates and the long-term strategic importance of the market in terms of purchasing power parity.

Philips expects to invest close to US\$ 150 million in India over the next few years. Philips has a very positive outlook on the Indian market. Philips plans to:

- Make a foray into the medical technology market by starting research work in India and by sourcing sub-components for its range in medical electronics
- Expand the operations of its shared service centre in Chennai by increasing the number of employees to 300 by end 2005



## Freedom technology in action

