



Market Analysis for Health & Well-being for Koninklijke Philips N.V.

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Summary:

Our task was to find out if Philips has the capabilities to compete in Health & Wellbeing market and how they could win in this market. We have analysed what strengths and weaknesses Philips has in this area, what trends are strong in the market, and what the competitors are doing.

Combining all this information, we were looking for a strategic vision Philips could follow. We found that Philips should build a health platform, where they could gather all the information from all their products. Of course, not many of their products have the capabilities to gather information, so there has to be a new range of products that have an array of sensors built in.

Companies like Apple and Samsung are already building their health platform, by utilizing their strong presence in the Smartphone market. While Philips hasn't got such capabilities, they have products that are found in almost every single home, which is a very important capability in the platform game. Philips also has a very strong presence in medical equipment, and have a reliable and trusted brand. This makes the company perfect for building the health platform that could be the winner.

This solution provides a great value to the customer by making it possible for them to find out more about their health and how they could live a healthier life. The health platforms brings Philips great benefits too. Devices could provide accurate consumer data, at a low price, which would save large amounts of money in consumer research. It would be also possible not just to use the platform to lock-in

customers to keep buying Philips products, but also cross sell other Philips products.

We hope that Philips will be able to utilize our insights which are described in detail in later chapters.

Introduction:

We received a case from Philips, which was different from the cases other teams received. The other cases were mainly focused on existing products, like a pollen detector or a sweat sensor. The task there was to come up with a problem these products could solve. Our case, however was to find out whether Philips has the right to compete in the health and wellbeing market, and what it takes to be successful. Because of this, we had to think on a strategic level. This required us to come up with a vision for the future of Philips and propose products which fit into this vision.

The case was challenging because first we had to look into what capabilities Philips currently has. We have found that Philips has a very strong presence in consumer electronics. However, last year the company started to cutting corners by outsourcing most of their consumer electronics division to an external company. For example, current Philips TVs are still under the Philips brand, they are not manufactured by Philips, thus we could not depend on such products. We found that under the “Consumer Lifestyle” division, Philips is still manufacturing many smaller products, like toothbrushes, shavers, watches and step counters. Philips also has many interesting products we have never heard about, like Lifeline and Avent. In the end, we found that the main capability of Philips is that their products can be found in almost every single home.

After this, we had to look at the macro trends in the health and wellbeing market. We have found that the ones the team was personally most interested in was the quantified self and the internet of things. We decided to combine these two by utilizing the existing Philips products in people’s homes.

Finally we had to find out how Philips could shift from it's current strategy into one that has the potential to win in the health and wellbeing market. This paper aims to present our findings.

Analysis:

1. SWOT analysis of Philips

Strengths	Weakness
<ul style="list-style-type: none">1. Strong medical research background2. Recognized and trusted as a professional medical company3. Wide range of healthcare products	<ul style="list-style-type: none">1. Not having its own smart phones2. Philips wearable products not popular/ well-known
Opportunities	Threats
<ul style="list-style-type: none">1. A dominant healthcare platform does not exist yet2. Building an ecosystem with its own various healthcare products	<ul style="list-style-type: none">1. Saturated smart device market2. Rapid technological change

Business Idea:

There are two main aspects in our business idea. First, we recommend philips to make existing products smarter and re-brand them as smart products. Second, we believe that Philips should build a medical platform that would gather the information from the smart devices.

We believe that this is a great opportunity for Philips because they have a wide range of products, but they are used independently and just a few of them can be connected to the internet, or a phone. We see the potential to make these products smart and connected to a health platform, so that customers can see data reflecting their health condition. For example, Philips has very good electric toothbrushes.

But so far, customers have only cumbersome ways to find out how much time they - or their children - have spent brushing their teeth. Additional insights could be provided to the user by monitoring the pressure applied with the toothbrush. By adding some sensors and making it possible to connect the device to a smartphone, this normal toothbrush can be turned into a smart toothbrush. When customers open the Philips medical app, they will be able to see the time they spent toothbrushing and if they applied the right pressure.

Adding sensors and connecting each device to an application is the only the first step many other companies are making. However, by connecting all the devices together to a single platform, it becomes possible to get additional benefits from having all the information from all the devices. Philips has an activity monitor (Direct Life) and a food scale under development. The activity monitor calculates the amount of calories the user has burned, and the food scale will use this data to give suggestion on how much calories the user should take. Similarly, the sleep monitor and lightening system of Philips can also be connected-- when the sleep monitor detects the user is going to wake up, the lightening system will gradually change its intensity and color. So that the user can wake up in a comfortable and easy way.

To differentiate the new smart products from the old, non-smart ones, we will propose a new brand name for this series of smart products, so that they will be better recognized.

As shown in Figure 1, The health platform receives data from all Philips products and display them all together, to give the user a whole image of his health condition.

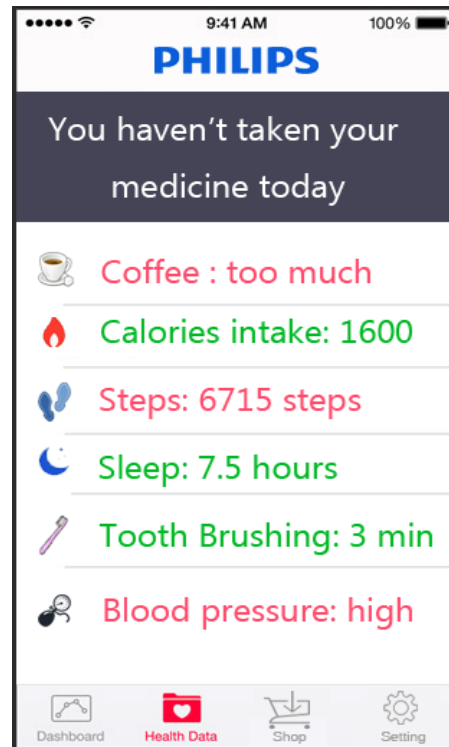
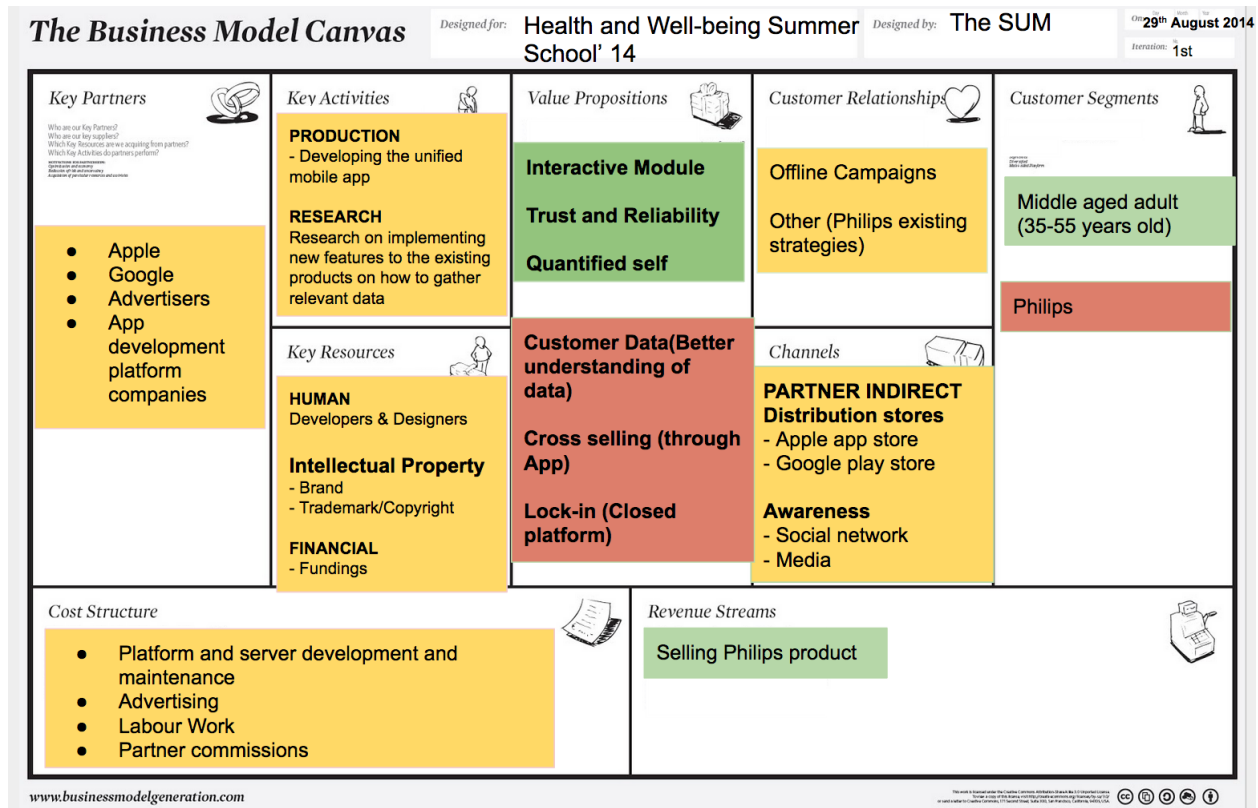


Figure 1

By building the platform we are actually building an ecosystem. Only Philips products can connect to this platform. So if the user wants to see his own health data in this app, he has to buy a Philips app. In such way, Philips products will have a better sale.

In addition, in this app, users can easily view Philips products which can be connected to this platform and order them from the app.

Business model canvas:



Value proposition:

We had a two way strategy to capture value both for Philips and the end users. First, we plan to reduce the R&D costs of Philips by making it possible to collect usage data from their smart devices. Philips spent over 40 Million Euro in 2011 for healthcare R&D and its increasing over the years [1]. Like any other company a substantial amount of this money goes in improving the existing products through an extensive user research. This means Philips needs a large amount of data. Our idea is to enable data gathering in existing personal appliances such as toothbrushes, coffee machines, shavers, etc. This was we would be able to collect data at a low cost, with very high accuracy.

Second, we believe that Philips can bring value to the customers by giving them an easy way to find out more information about their health. With a long history in medical care Philips brings trust and reliability to its customers. The quantified self

movement has increased dramatically with individuals interested to know as much information about their body data as possible [2]. Finally, added benefits of interactive smart appliances and healthcare products would eventually help people to live healthy.

Go-to-market strategy:

Philips' presence in the global healthcare market is marked by its personal healthcare products rather than its presence in wearable and mobile devices. So, we tried to focus mainly on existing Philips healthcare product that are used by individuals every day. Targeting a niche market segment we are focused on healthy adults between the age of 35-50 years. We plan to use a bowling pin strategy focusing on the Netherlands market because of Philips strong presence in this community, the spending power of end users and an easy market entry point. We plan to enter the market by implementing smart sensors in two or three Philips product which have the highest sales along with a unified app. This will give us a easy way of penetrating the market. As Philips have a large network of distribution channel we also propose to emphasize on offline campaigns focused on healthy living for public awareness.

Through our Unified app approach we will try to Lock-in customers for Philips product adding a network effect (more product more importance). Eventually practicing cross-selling.

Value Chain

As a technology giant, Philips comprises mainly four divisions, namely Healthcare, Consumer Lifestyle, Lighting, and Innovation, Group & Services. These four divisions cover a portfolio of some 40 businesses across various strategic domains [3]. In order to win the health and wellbeing market, our suggestion to Philips is to build an ecosystem based on existing products. To be specific, this ecosystem is a smart platform which enables 1, interconnection between products across all Philips business domains. 2, collecting data relate to health and wellbeing for both customer and Philips. 3, turning data into information (which are valuable both to

customers and Philips) through the company's medical expertise and deep understanding of the health and wellbeing market.

With the aim of building such a platform, we have several suggestions for Philips to cut down costs in its own value chain. First, we suggest Philips to flatten the management hierarchy. With a flattened management hierarchy, Philips has better chances to reduce internal bureaucracy and runs more efficiently. The company could elevate the level of responsibility of baseline employees and eliminate layers of middle management. So comments and feedback could reach all personnel involved in decisions more quickly. Expected response to customer feedback also becomes more rapid. With a flattened management hierarchy, Philips would reduce its internal management cost.

Second, we suggest Philips to weaken the boundaries between different divisions and business units, integrate resources within the company. In order to build a platform, the company should act like a platform. Expertise should not serve only for a single business unit. The company should encourage people from different groups, different offices share their ideas to each other. Thus further stimulates innovation. Philips should also integrate resources within the company. For instance, the company could benefit from a single, unified supply chain management system.

Last but not least, we suggest Philips to put more attention on the open innovation approach in the R&D process of this smart platform. Open innovation is the process of companies reaching out for innovative knowledge. As innovation becomes more democratic, many of the best ideas for new products and services no longer originate in well-financed corporate and government laboratories. Instead, they come from almost anywhere and anyone [4]. This requires Philips to open up its business model to let more external ideas and technologies flow in from the outside and let more internal knowledge flow to the outside [5]. With the adoption of the open innovation model, Philips could reduce its R&D cost and gain more competitive advantage over its competitors.

Competitors

More than one fifth of the world's population will be aged 60 years and older after the year 2050. Philips is not the only one who can see the great opportunities in the health and wellbeing market. There are several big players in this field. Apple has recently announced its fitness product Health Kit, the SDK for health applications on iOS 8, and its partnership with the Mayo Clinic. This is a clear sign of Apple entering the health and wellbeing market. Samsung is another company like Philips which already had its health business. They went public with their SAMI platform which according to Samsung will be a common platform that will be able to bring data from different devices together. We take Apple and Samsung as Philips's main competitors in the health and wellbeing market. Then we conduct SWOT analysis of both of these two companies.

1. SWOT analysis of Apple

Strengths	Weakness
<ol style="list-style-type: none"> 1. Brand awareness and product reputation 2. Marketing capabilities 3. Product integration 4. Financial performance 5. Supply chain management 	<ol style="list-style-type: none"> 1. No medical background 2. Simple product line. depend on iphone and ipad sales 3. Lack of innovation 4. Closed ecosystem
Opportunities	Threats
<ol style="list-style-type: none"> 1. Growth of tablet and smartphone markets 2. Wearable devices 3. Acquisition of innovative companies 4. Enterprise solutions market 	<ol style="list-style-type: none"> 1. Competition 2. Lack of choice for consumers 3. Android OS

2. SWOT analysis of Samsung

Strengths	Weakness
<ol style="list-style-type: none"> 1. Brand awareness and product reputation 2. Widest range of product portfolio 3. Medical equipment provider 4. Better understanding of Asian market 	<ol style="list-style-type: none"> 1. Low profit margin 2. Apple being both its buyer and competitor 3. No software platform 4. Focus on too many products
Opportunities	Threats
<ol style="list-style-type: none"> 1. Health and wellbeing market 2. Asian market. India and China 3. Own software platform 4. Obtaining patents through acquisitions 	<ol style="list-style-type: none"> 1. Competition, price wars 2. Rapid technological change 3. Saturated smartphone market in developed countries

Financial perspective:

Wearable market is growing huge and is getting crowded with many big corporations and startups both into the healthcare business. We have a customer base of 28 million people alone in US with an estimation of 650 million US dollar market.

The app will be completely free and we plan to generate revenue through selling of the devices. Further we proposed to use lock-in and cross-selling strategy. Also increasing the products features based on premium versions and raising the price through small margin is something we would like to consider if we have a successful start.

Conclusions:

Our case by Philips included a general question, “How philips can win in the Health and Wellbeing market?”. It made us think if we should provide a strategic

or a product-level solution. Our approach was more towards combining both, considering Philips is already a global leader in healthcare. So we came out with the idea of implementing an interactive solution by connecting the existing Philips healthcare products such as toothbrush, shaver etc. through a unified app. The value proposition was in the data, both for Philips and the user.

We analysed the market and customer segment, and found out that our unique solution perfectly fits the mid-aged adult in the age of 35-55 years old with Netherlands as our starting point.

Mistakes/learning outcome:

Summer school on health and well-being was more about business. In a short period we received a lot of important information and coaching sessions and expert talks were indeed useful to understand various aspect of business. After the final presentation we got a extensive feedback from the jury and our coach. From the feedback we received, we now realise that we should have focused on a single product making it more appealing to be realistic. As Steve Blank says getting out of the building was necessary to understand the real needs of customer for that single product and how it could have been improved and transformed into wearable trend.

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