



Royal Philips Electronics

- making things better



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John Whybrow, Member of the Board of Management, Philips Group

A leading light

As a global leader, Philips entered the 21st century with the objective of being a ‘high-growth technology company that achieves profitable growth with a strong cash flow and sustainable market leadership positions’. A key factor in realising that objective was seen as the ability to operate in the Internet economy.

John Whybrow, Executive Vice President of Philips Group and one of the four members of its Board of Management, explains: “When this interesting but disruptive new technology came along, we knew we had to move forward with it in order to maintain our leadership role.”

Philips created an e-Board that would represent each of its business areas and would be responsible for all aspects of e-transformation both within

EXECUTIVE SUMMARY

Background

Philips is the market leader and innovator in many of its business areas. Its constant quest to maintain that position led the company to its goal of being a key player in the Internet economy.

Challenge

The sheer scale and diversity of the organisation were potential barriers to change. Philips began to look for examples of best practice among its peer technology companies.

Solution

Cisco became a role model for Philips and has provided strategic inputs as well as methodologies for adopting a web enabled business model.

The two companies have built a relationship of trust and mutual respect.

Results

Philips has driven its vast organisation a long way towards its goal of e-leadership of its industry, and thousands of e-projects are currently in progress.

Financial benefits already run into many millions of dollars, alongside enhancement of the Philips brand and significant new sales opportunities.

Philips and throughout the supply chain – signalling the company’s determination to fully integrate the web into its business operations.

Catalyst of change

Philips looked for peer companies that were pioneering Internet usage, and quickly identified Cisco Systems as an e-business leader. Philips has found Cisco’s experience – gained in its own web enablement – invaluable.

Philips has been able to use Cisco as a powerful catalyst. John Whybrow chairs the e-Board and he says: “If you want great change you must create a vision for people. Cisco sets a powerful example because it sits at the e-business leading edge.

“Our network is a strategic asset and is fundamental to our ability to act globally. In embarking upon our



KEY FACTS

Royal Philips Electronics is one of the world's biggest electronics companies and the largest in Europe. Key facts are as follows:

- Annual sales of \$34.9 billion in 2000 – up 20 per cent on the previous year
- Employs 192,000 people in more than 100 countries worldwide
- Ninth on Fortune's list of global top 30 electronics companies
- Philips produces nearly 2.5 billion incandescent lamps and 30 million picture tubes each year
- One in seven television sets worldwide contains a Philips picture tube
- 60 per cent of all telephones contain Philips products
- 30 per cent of the world's offices, 65 per cent of its top airports, 55 per cent of its soccer stadia and 30 per cent of its hospitals are lit by Philips products
- Around 2.5 million heart procedures are carried out each year on X-ray equipment that uses Philips technology

Philips is organised into six divisions: lighting, consumer electronics, domestic appliances, components, semiconductors and medical systems.

e-transformation, we had to put in place Group-wide standards and a common infrastructure, on which all divisions could build. In this area, too, Cisco has provided us with a role model.

“We are applying web technology to the ‘sell side, the buy side, and the inside’ of our business. Overall we are looking for ongoing productivity improvements, increased revenues, and enhanced customer service. E-business can bring us those things.”

The following snapshots of two Philips divisions bring the picture to life.

Creative Lighting

Philips is number one in the global lighting market with a reputation as a market innovator. The Lighting division employs 47,000 people worldwide and has manufacturing operations in 16 countries. It has been a trailblazer for e-business within Philips since the mid-1990s.

“We had a meeting to kick off our e-business push and we invited Cisco to give a presentation,” says Jim Worth, Vice President of e-Business at Philips Lighting. “This had a Big Bang impact – our managers were amazed by the speed and ease with which Cisco could operate over the Internet, in particular their 24-hour financial close. We immediately invited them back to talk again.”

Jim stresses that the Lighting division has taken advice and information from many sources when crafting its e-business strategy. “Cisco introduced us to a more holistic approach to web enabled business,” he explains. “For example, they got us looking at internal and supplier processes at a point when we were focusing mainly on customer self-serve applications.

“Cisco’s Net Readiness prioritisation matrix has been very helpful too. It assesses the impact of e-projects on the business. Whenever we have used it, it has given us good insights.”

Streaming in

Lighting has implemented an application to deliver video presentations over Philip’s intranet – inspired by Cisco’s own video on demand (VoD) solution, for which Cisco also provided the source code as a guide.

The division first used this VoD capability to distribute a 20-minute message from the new CEO, David Hamill, to around 1,000 employees worldwide. Jim Worth says the application has allowed the division to directly address more people faster than ever before, complete with accompanying PowerPoint slides. Satisfaction rates are very high at around 90 per cent. The video is streamed, there are no transmission delays and high-speed connections are not required.

“It’s a concise and effective communications tool that greatly extends our reach,” Jim Worth confirms. “It allows us to positively leverage the network we have in place, irrespective of bandwidth. And it will significantly reduce travel costs as we introduce it more widely.”

The Lighting division is using the VoD application for employee training and, potentially, product education for customers. Classroom training has already been packaged up and delivered using combined video and PowerPoint presentations.

Jim Worth says: “We have plans to be able to reach many more people with a much more comprehensive curriculum. It’s very obvious that you save a lot of money when you train someone right at their desktop.”



Realising substantial value

Philips' lighting products are sold through three main channels: distributors and wholesalers; retail chains; and original equipment manufacturers (OEMs). Traditional communications with these channels used Electronic Document Interchange (EDI), fax or telephone. OEM orders, in particular, required intensive telephone calls and paper trails.

Having optimised these existing processes, the division started to evaluate the possibilities of web-based supply chain management. Jim Worth says: "Our vision is to totally link from suppliers through the manufacturing process to distributors and so on. We've already developed extranet services linking our distributors with our ordering systems. Such things as self-service order entry and order status enquiries are now available around the clock."

The intention is to bring all major markets online as soon as possible with a goal of near 100 per cent electronic ordering and enquiry – eliminating errors, reducing order processing costs, and improving customer satisfaction.

Jim Worth: "Some markets are already processing 40 per cent of orders online and we are starting to realise substantial value from our extranets. By introducing Internet solutions we were able to get very quick buy-in from our customers.

"Through those extranet solutions we're aggressively building profiles of our customers and their behaviour. That customer relationship management dimension is conferring real competitive advantage to us."

Full potential

Philips Medical Systems (PMS) is another division that has pioneered the use of web technologies. PMS is the world's second largest manufacturer of medical diagnostic imaging equipment. The division is active in more than 100 countries and – in 2000 – sales of its diagnostic and other products amounted to \$4.4 billion.

PMS built an e-Business Group. Lidia Fonseca, General Manager of e-Business for PMS, explains: "As well as creating a strong internal team we brought in external help from market leaders to work with us." Cisco presented to a meeting of senior PMS managers. "Before that meeting many of our managers were unfamiliar with

the full potential of web enablement," Lidia recalls. "Cisco made it very real."

Outside in

Cisco was invited to co-ordinate two Net Readiness workshops to help:

- set e-business priorities
- identify and evaluate 'quick wins'
- ensure that business and IT needs were aligned
- provide a practical framework within which to implement e-initiatives.

PMS defined its immediate priorities as customer relationship management (CRM), web presence, knowledge management and supply chain management (SCM). "We decided to focus on the three target audiences of customers, dealers and employees, and to take an 'outside in' approach starting with our customers," says Lidia Fonseca.

Solid CRM benefits

PMS has surged forward with a range of high priority e-projects. CRM came early, as the division urgently needed a common platform and processes that would provide it with a single, end-to-end view of its customers.

Within three months, the e-Business Group had selected the Siebel platform. Just six months later, the first module – Opportunity Management – was deployed in North America while the second module – Quotation and Configuration – went live in February 2002.

Lidia Fonseca says: "We had a really fragmented process before and this CRM programme is focused on building customer intimacy. As a significant by product, just by switching off legacy systems, we're seeing an immediate return on the investment. Our analysis showed that two of our legacy systems were costing us \$2 million a year to maintain. Siebel will cost us about \$600,000. So the implementation has paid for itself inside two years without taking into consideration any of the wider benefits."

The Siebel platform is scheduled to be fully in place throughout the division by 2003. Meanwhile, one example from North America of the wider benefits is a dramatic reduction in turnaround times for issuing quotations to customers, from around 14 days to just one day.



Holistic web approach

PMS's web presence is one of the key points of contact between Philips Medical Systems and its customers. Lidia Fonseca says: "In designing our web presence we adopted three guiding principles. The first is to support the sales process and our sales force. The second is to build customer intimacy and the third is to achieve competitive advantage through differentiation."

Moving away from a traditional product focus, the new web presence offers a holistic mix of products, services, and medical applications – as well as serving as a meeting point for specialists and an information source for all PMS audiences.

Since the new web site was launched, traffic has more than doubled – the first sure sign that the approach is delivering results. Financial savings have followed, with PMS's printing and mailing costs dropping by 40 per cent. In its advisory role, Cisco helped to develop the methodology for this project.

PMS also achieved a common 'look and feel', including integration with the sites of newly acquired companies such as ATL Ultrasound and Agilent Healthcare Solutions Group (HSG). Impressively, PMS was able to go live with a Philips-branded HSG site on the day the acquisition was completed.

Learning through self-help

For PMS, its knowledge management activities cover the areas of e-learning and community-oriented extranets and portals. The key objective is – through self-help – to put knowledge in the hand of employees, partners and customers.

For example, it launched an Online Learning Centre to deliver a wide range of accredited courses.

"Radiologists from hospitals and clinics around the world are required to undertake continuous learning," explains Lidia Fonseca. "We have a great deal of medical expertise in-house and we know many of the specialists who provide the content for educational courses. We were able to combine these skills and develop a set of authoring tools. Medical foundations now use these to create digital course materials, which we deliver online."

By the end of 2001, the Online Learning Centre had 9,000 registered users. In delivering genuine value to medical professionals, the service also helps to build

closer links between Philips and the healthcare community. "No less than 5,000 hospitals have registered for the online learning programme, many of which do not currently have PMS products. So we're in touch with lots of new potential customers," Lidia Fonseca comments.

Truly significant benefits

PMS products tend to be high-value, complex solutions with long sales cycles and ongoing service and upgrade requirements. Training is therefore essential, particularly for maintenance engineers, and PMS has started to deliver engineering courses over the web through the Online Learning Centre.

The benefits are twofold. First the time taken for getting and keeping engineers up to speed has reduced significantly, which equates to more productive time in the field. Second PMS is saving huge amounts in costs for travel and subsistence, and for print and production of training materials.

"For the first few courses alone we are saving \$500,000 per year. As we add such things as three-dimensional rendering we'll be saving millions of dollars against 'hands on' training," Lidia Fonseca reports.

In 2002, demands for training in PMS rose by 50 per cent virtually overnight as a result of its acquisitions of ATL Ultrasound and Agilent's Healthcare Solutions Group. PMS was able to handle that easily over the web, without recruiting extra instructors or increasing its training real estate. "Truly significant benefits," says Lidia Fonseca.

The supply chain prognosis

In addressing the supply chain, the division launched a scheme to create individual extranets for dealers. Offering faster and more effective communications with Philips, this global solution is targeted at 55 dealers.

Lidia Fonseca again: "We have reduced the cost of document distribution by 70 per cent – that saved around \$3.5 million in 2001. We have also cut the time it takes to deliver critical information from 20 days to one day."

Current supply chain activity is focused upon developing integrated forecasting and planning applications. Initially centred upon internal processes this will rapidly be extended to suppliers. PMS is looking to achieve 50 per cent reductions in cycle time and 'multi-million dollar savings' in inventory costs.



Increasing productivity

A main focus for Philips during 2002 will be on delivering portals that automate a wide range of HR, administrative and financial functions. These intranet-delivered portals will consist of self-service applications for tasks such as processing job applications, claiming expenses, changing personal details, and making travel reservations. They are designed to cut costs, enhance job satisfaction and increase productivity.

Lidia Fonseca says: "Philips is rapidly building a paperless environment where employees can find everything that they need to do their job, at the first place that they visit when they come into work in the morning. This approach will drive huge increases in productivity.

"As just one example we can get new employees up to speed much more quickly because they don't have to wait for the next available training course."

Philips is also looking towards its intranet to enable it to become a 'zero latency enterprise' where communication with employees is precise and immediate. Jim Worth says: "Philips is going through a period of enormous change. Communication to the workforce is very, very important and the intranet is a key enabler of that."

A better world

Jim Worth sums up: "It's really important to see strong, established companies doing strong, established and productive things with the Internet. Our Internet activities enhance the Philips brand by demonstrating that we are a high tech, high growth company that's taking advantage of the Internet to do business more efficiently.

"Even during these tough economic times we find that it is still important to continue to invest in information technology, particularly e-business activities and Internet solutions."

John Whybrow adds: "There is no shortage of opportunities and Philips has only touched the tip of the iceberg. We're number one in many of our markets and it's tempting to question whether we need to change. The answer is, of course, that there is a better world. If we don't find it, our competitors certainly will.

"Cisco was willing to share its experiences with us on a 'take it or leave it' basis. We chose to take it and found it an interesting challenge," he concludes. "As we go forward, we will continue the relationship of trust that we have developed with Cisco."



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