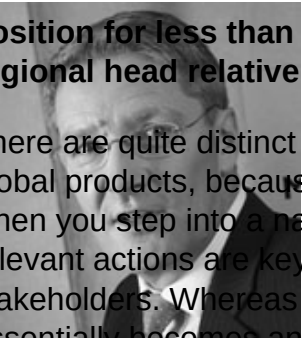


Interview with Arjan de Jongste, Senior VP & Marketing Manager, Philips Russia

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 Philips, this is your first tenure as a regional CEO. Having been at this position for less than a year, what are your impressions of the differing challenges for a regional head relative to a business unit manager?

There are quite distinct challenges. As someone involved in business creation, you attempt to create global products, because that will give you the best return on investment. What you immediately see when you step into a national market, however, is that products are only half of the story. Locally relevant actions are key, and you must understand what drives the local market and local stakeholders. Whereas in a creation unit, your product is king, as a regional executive, the product essentially becomes an instrument to create necessary solutions. This fosters a different kind of attitude.

We believe in intimacy with the customer, and if you can link that with the power of product creation—and I have had the luxury of working in both areas—then you have an unbeatable team in a market. That very much excites me.

What do you feel makes the Russian market unique, and what is the image of the Philips brand in this territory?

Allow me to start with the Philips image. Philips has long roots in this market. In 1898, Anton Philips went to St. Petersburg and sold Philips light bulbs directly to the Tsar. This is a true story of entrepreneurship, history, and innovation.

Over the years, the story of Russia has been, let us say, quite dynamic. There have certainly been extremes. Philips has always had a presence here, but the extent of this presence has varied. Nonetheless, Philips has always been a strong name brand in Russia, associated chiefly with consumer products.

Consumer electronics continue to drive the recognition of the brand here today, and it remains our largest market in Russia. Over the years, Russians have come to consume more and more. They enjoy luxury goods, they enjoy the latest in innovation; and they have entered into a period now where many can increasingly afford such goods. I see that as a real measure of the Russian populace's wellbeing. There is hardly any brand that you cannot find in Russia, and in Moscow, the density of these brands is likely higher than in many other major cities.

The Philips brand is linked to history, it is trusted, and it is, of course, Western. Western brands represent a certain level of perceived quality and innovation to the Russian people.

The challenge for us is to broaden the perception of our company. We want to be seen not only as a consumer lifestyle goods organization, but also as a company that has significant innovative capacity in lighting solutions, energy-saving, city-level development, and, of course, that we have great solutions in healthcare. Healthcare is a core element of a company that is in the business of health and wellbeing. As a leading global enterprise, I believe it is worthwhile for us to focus our energies to this effect, and to communicate this brand promise in Russia.

Continuing to speak about the uniqueness of the Russian market, I believe that in addition to the growth of its middle class, we are living in quite exceptional times. This is a post-crisis period, and it is a period of modernization. We began to mention challenges. When I joined this affiliate, Russia had very recently come out of a steep financial crisis. The crisis affected business across the board, but it especially affected those operating in certain B2B markets. Spend for the medical equipment industry is largely determined by the government—and the link between the economic environment and government budgeting is of course quite significant. In healthcare, we consequently came across a halving of the market during the time of the crisis. This is a major, major impact. I believe that this is the first year that the market returned to pre-crisis levels of medical equipment spending.

As we exit the crisis, we find that the government is willing to invest in the healthcare system. They have themselves observed that they are lagging behind in quality, and especially in density and accessibility of suitable treatment. The Ministry of Industry and Trade has published numbers where they compare, for instance, the number of modalities per million citizens relative to countries like Germany. The results are quite troubling. Furthermore, commonly used equipment is two or three generations behind. If we look at very specialized areas, we are talking about ten or 15 generations of difference. This public report by the Ministry delineates a massive task not only to invest in equipment, but also to educate specialists to work with innovative technology.

The authorities are determined to do just that. They have announced a stimulus program under the label of modernization, of which healthcare is a part. However—and I believe this was done with much common sense—the government also stated that they do not want all of this money to go to foreign companies. Approximately 90% of all medical equipment is imported. The government aims to facilitate the creation of a local medical equipment industry, and have local companies benefit from the stimulus program.

You have a track record of coordinating large-scale technological transitions within the Philips Company, as well as introducing technological and managerial innovations in major markets. As Russia takes active steps toward modernization and economic diversification, from a business perspective, what strategy should it take and what conditions must it fulfill to succeed?

It is always very difficult for a company to advise government, because for the latter, the context is far broader, and considerably more long-term. Whereas I can speak from a relatively simple starting point, which is healthcare equipment, the government has to analyze the entire system, the comprehensive transition, and the question of funding. How do you do reimbursement? How do you foster accessibility?

I have had conversations with specialists in other countries, to learn how they set up their healthcare systems. I do not believe there is any country that found it easy. Many would say that yes, it worked, but it took them 20 years. It is an amalgamation of a number of effects and it is continuous work to keep the parties together.

The complexity of the context government works in is further encumbered by the fact that it is transitioning from a very centralized economy, to a market economy. We cannot advise the government in such a monumental task!

What we can address is where we can help. That is not only in delivering products. It is also in working with the authorities in a number of other aspects, like education. Internally, we call this concept “care-cycles.” We are not just bringing you the product; we are not just bringing you the training; we want to work with you to see what needs to be done holistically. This includes preventative care, proactive early-phase disease diagnosis, treatment of course, and even after-care, out-of-hospital solutions. We do this in other countries, and are trying to offer it in Russia. This kind of approach begins to create traction with key opinion leaders.

Education in general, as I mentioned already, is a massive undertaking. If we bring more equipment into the system, we need to have educated doctors and nurses to operate it efficiently. Education is an important offering that international companies—or companies in general—can bring.

Do you find this to be a gap in what the government itself is offering?

They have education of course, but it is basic. But if you want to make a clinician more efficient, you may need a forum where, for example, he can effectively exchange knowledge with colleagues. There is a gradient from knowing the basics to master classes of leading specialists. So far, the higher spectra of the gradient are only offered by private companies.

Can you more specifically delve into how Philips contributes in this respect?

First of all, we often have regional events. We organize, with multiple partners, key programs—in Russia, our main focus is in cardiovascular and oncology, as these are the main causes of death and therefore the main issues that must be dealt with. We work with our partners to ensure that the event is satisfactory both for government and the hospitals.

I mentioned master classes—we also invite prominent specialists to conduct master classes on the use of our equipment.

We opened portals for online education. These do not pertain only to the technical use equipment—that I would call training education. The courses are broader, and examine the medical application and effect of the equipment on patients.

We set up reference sites that serve both commercial needs and act as forums for doctors to exchange information and learn.

I believe in this way, we contribute to spreading knowledge in the professional sphere of healthcare.

The next step is to cooperate in a global network with clinical research. At this moment, we are implementing this stage. We would like to integrate Russian specialists and Russian institutions into our global network. In turn, this is another way to help the advancement of Russian capabilities.

We touched briefly on the fact that about 90% of medical devices in Russia are imported. By 2020, the government aims to significantly shift this statistic toward local industry. Philips is partnering to this effect with the Electron Company, and with the Russian State Atomic Energy Corporation. Due to your collaboration with Electron, for example, Russia installed its first domestically made CT scanner at the Hospital of War Veterans in St. Petersburg. Why was it important to Philips to forge these agreements?

We have always had the experience, and the vision, that you need to work with local partners one way or another. We have seen the necessity in China, India, and Brazil. So our collaboration with Electron was actually a commitment we made well before the government began to announce its localization initiatives. In order to achieve local relevance, and understand the local market, we secure local partnerships. Of course, this partnership became further relevant over time because it was picked up by proponents of localization as a strong example. Localization and international-local collaboration is a very logical initiative altogether. It is happening, or has happened, across emerging markets around the world. Joint ventures in China, for example, with a 50-50 split between a multinational and a domestic player, have proven an excellent way to progress domestic industry. Then, the landscape changes again if local companies can stand on their own. But I believe every country goes through this kind of development phase.

These partnerships fit our idea of how to get closer to the market, and how to retain access to it as it grows. However, what I want to stress is that it is not just a matter of a multinational company bringing additional knowledge to the industry. The greater benefit is that if a local company begins to operate within an optimized frame, we also expand the local supply base. This supply can be in key components, in certain materials, etc. This facilitates the advancement of the industry and the ecosystem to a much greater extent than perhaps ten partnerships as such. We must really take a broader view, and this is also the vision of the Ministry in the context of a strong supply chain ecology. Then, it becomes a self-supporting industry at a certain point in time.

At Philips, this is why we always call it a “full-cycle innovation partnership”—it is more than just assembly. We sincerely want local companies to create their own local content. That involves a certain transfer of knowledge, but more so it involves the active use of knowledge. If you extend that to working together in marketing and sales, and education, and after-sales, then you put domestic industry on the right path to grow further. Then momentum really takes effect.

What is the importance of Russia for the global Philips Corporation?

Russia is one of the top ten potential markets in the world. It has a very large consumer base—the middle class is relatively well represented, and has strong spending power. Russia’s current situation is readily comparable to countries like India, and, to a certain extent, Brazil. It is further a vast country with 140 million inhabitants. If you add neighboring countries like Ukraine, Kazakhstan, and etc., you easily approach 200-210 million. This is therefore a massive market, with significant potential for continued growth.

There are enough commodities and resources in Russia—for the time being—to ensure funding. And if you look at the key elements of the agenda, you see a nice overlap with Philips: healthcare in the modernization agenda, for example. There is also much going on in energy saving—which, in our lighting business, is one of the core drivers in the transition from transitional lighting to LED.

These factors make Russia quite important to Philips.

We have spoken of Philips’s history in Russia. It is quite idyllic, of course, that the founder of this company managed to convince the Russian Tsar to light the Winter Palace with Philips bulbs—no less, it was Anton Philips’s first foreign sales trip. With the perspective of these 113 years, what are your future development targets for this affiliate?

When we came out of the crisis, we understood that we must become locally relevant to have a right to play, and to participate in Russia’s growth. Hence, we actively invested in partnerships.

So far, these partnerships have been a bit opportunistic. However, going forward, we will purposefully look for ways to deepen our footprint. This is our strategy. We believe that if you do not

partner locally, you cannot have leadership aspirations.

This is clear, and this is our investment route. We are not looking for big production. Globally, there is a wealth of production capacity, in very efficient areas. However, if manufacturing certain products will help unlock specific market segments, we can partner and transfer capabilities.

Looking beyond matters like production, the key to our investment is much more to utilize the knowledge of Russian specialists. If we look at areas like material science, Russia has always been a power in that field—and its strength has been well maintained. Perhaps not always used, but always maintained.

We have heard many times that private industry needs to step in to help bring ideas to a commercialization stage.

Precisely. There are certain pockets of competence that we are quite keen to explore, and to determine how we can link them into our global network. The same is true of the supply base: there are again certain specifics that globally, we desperately need as alternative sources. With the increasing openness of Russia, and with our enhanced understanding of this environment, there are many more ways for us to integrate the Russian territory and Russian activities into Philips.

Philips operates in quite diverse segments. What is your final message about the whole Philips offer, and what you bring to Russia?

Philips's scope is in health and wellbeing. We operate as such in the consumer areas, and in our B2B areas. We have chosen healthcare and lighting to be the businesses that will realize this drive in B2B, and we have chosen consumer lifestyle to do that in our business to consumers.

The central tenet is that we strive for meaningful innovation that can, in those distinct areas, really make a difference. The difference must first of all be a difference to people—we are a consumer-centric organization. In the consumer lifestyle division, we make a difference to the consumer; in healthcare, we are patient-focused. It is not just about selling a piece of equipment. It is about finding a solution, and innovating ways to be patient-friendly.

When I speak of patient friendliness, I mean, for example, finding minimum exposure doses for efficient diagnosis. I mean meaningful innovation that is good for the clinician and good for the patient. Of course, it should also be economical for the hospital.

In lighting, we have a similar goal. I have mentioned LED—it is technology for sustainable energy saving. Furthermore, LED can make cities safer, and more comfortable. You can bring LED into a greater number of design propositions, outdoor or indoor. We also offer lighting to consumers, and in that sense the "enjoy" element is quite important.

We do projects in schools, and it is clinically proven that light has an effect on kids' performance. We are able to change the intensity and the color of the lighting to positively influence the work of students. For example: after lunch, more light! Someone in intensive care once asked me if Philips has an innovation that can help them; they always put their most difficult patients closest to the window, so the patients could get more light. Light has an immense impact in healthcare. We see that in ambient experience; a good illustration is our combination of diagnosis technology and ambient lighting.

We work with a children's oncology center in Russia. Children are quite challenging to work with because of their uneasiness during interaction with medical professionals and medical equipment. You certainly do not want to have to run a diagnosis twice or three times, especially if there is a

radiation dose involved. To help child patients, Philips has developed a holistic ambient experience, with two elements. The first is a piece of equipment called the Kitten Scanner. It looks like a toy, and in a comic way, we explain to a child what will happen when they will undergo a scan. The explanation involves a funny story, where the child can choose one of the characters—for example, a crocodile—and then there is a small movie that shows what will happen. At least, then, the child knows the procedure. When the procedure itself is underway, we project a calming light and certain pictures. This kind of ambience has really proven to help treat kids.

These are examples of patient-focused innovations where we use our strengths in lighting and healthcare, combined with our knowledge of consumers and patients. We have diverse businesses, but we dynamically create synergies. We try to benefit our end-user as much as we can. That is our mantra of “sense and simplicity” in a nutshell.

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