

Path to Operational Excellence

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Chief of Operations

The Philips Business System, our repeatable system to drive value

- Active portfolio management
- Improving customer centricity
- Relentless focus on operational excellence
 - Ensure Quality and Compliance
 - Drive operational excellence and speed
 - Reduce costs and eliminate waste
- Building our growth and performance culture



Operational excellence

Focuses on 3 main areas:

1 Ensure Quality & Compliance

to better serve our customers

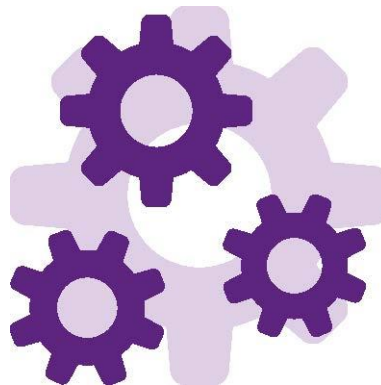
- One central quality organization
- Quality management system
- Quality training



2 Drive operational excellence and speed, apply PBS

to support growth

- Standardized End2End processes
- Right skills at the right level
- Enhanced Lean in Factories



3 Reduce costs and eliminate waste

to improve performance

- End2End integrated approach from design to delivery
- Design for eXcellence and quality
- Simpler organization structure



1 Quality & Compliance

We are becoming a Quality organization



Building Foundation

- Tight governance with one **central quality organization**
- **Quality management system** with real-time data and corrective actions
- **13 metrics** and **14 standardized processes** defined globally

Strengthening capabilities

- **Injected new talent** – 40% new team, 70% new leadership
- Leadership led **Quality training** across the organization
- **Centers of excellence** around key capabilities to ensure consistency

Sustainable Quality

- Preventive **internal quality audits** focused on risk reduction
- **Leadership driving the Quality agenda** with rigor and discipline
- **Continuous improvement** with actions tracked and best practice sharing

1 Quality & Compliance

Cleveland – from remediation to operationalization



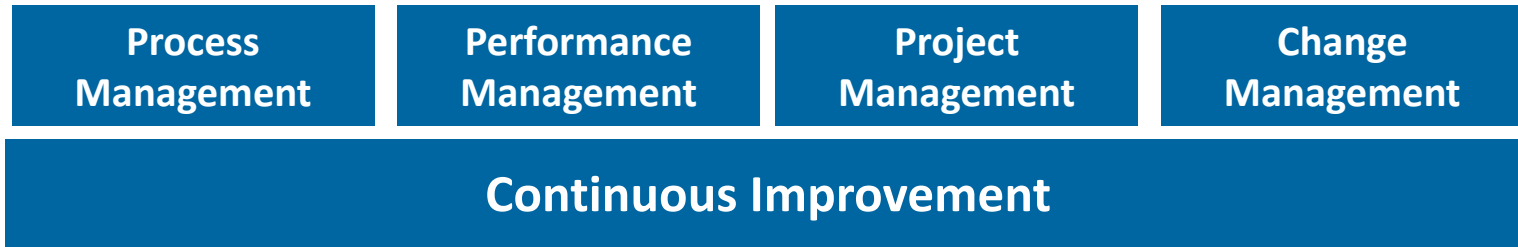
Key areas	Action	Impact
New production and process controls architecture	<ul style="list-style-type: none"> Over 250 quality system procedures, work instructions, forms and templates 	<ul style="list-style-type: none"> Quality Management System (QMS) certified January 2015
Product development and launch	<ul style="list-style-type: none"> Revised design validation Improved supplier controls 	<ul style="list-style-type: none"> 35% improved warranty costs 100% suppliers recertified Tighter processes to identify issues
Transparency, visibility, and culture change	<ul style="list-style-type: none"> Launched culture / training program New structure, cross functional organization 	<ul style="list-style-type: none"> All 750 employees trained on Quality and Compliance 65 roles filled, 55 Quality-related, 40% new leadership
Single-piece flow and LEAN factory processes	<ul style="list-style-type: none"> Redesigned factory Predictable production processes 	<ul style="list-style-type: none"> >80% of iCT backlog shipped Line capacity increase by 60%



2 Operational Excellence

Right skills at the right level

Philips **Excellence**
Practices



400	500	800
6K	14K	20K
12K	30K	40K



External Benchmark

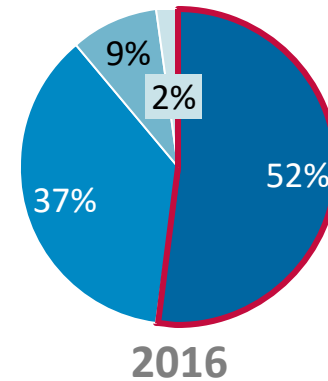
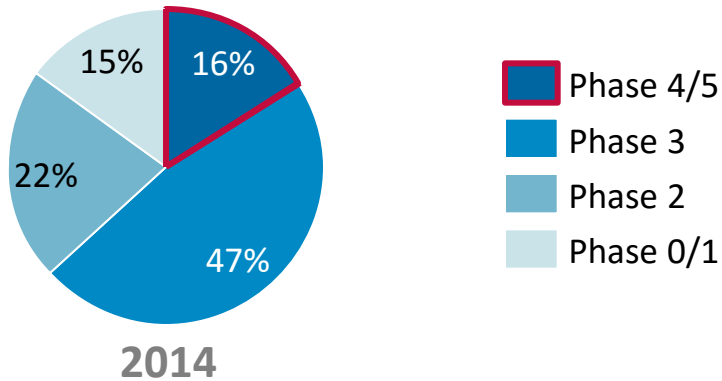
1.0K
25K



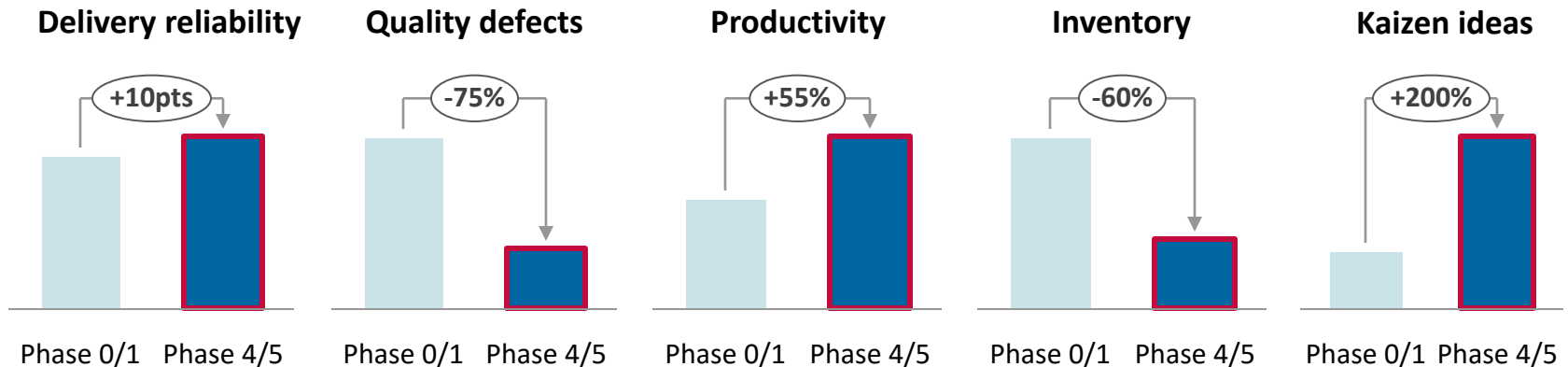
2 Operational Excellence

Driving impact via factory Lean deployments

Factory maturity



Improvements delivered in the mature sites





3 Reduce cost and eliminate waste

On track to achieve procurement transformation targets

Design for eXcellence

Cross functional teams looking over the value chain to achieve cost breakthroughs on top of historical run-rate savings

Supplier development

A structured approach to help suppliers improve the efficiency and effectiveness of their operations

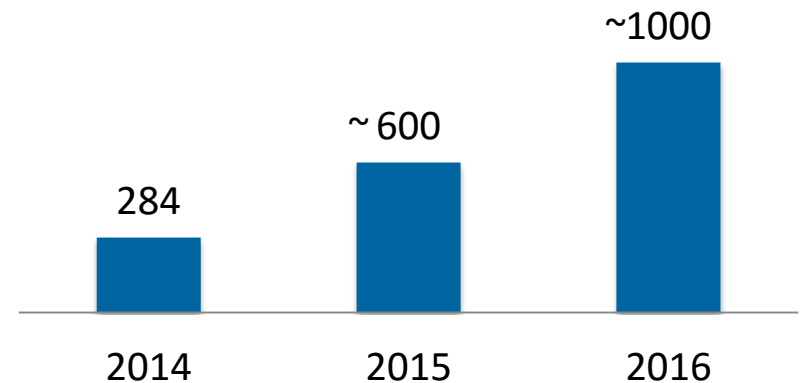
Negotiation factory

Best-in-class processes and tools to maximize supplier negotiations

E-sourcing platform

Competitive auction platform to facilitate tenders and reduce costs

Cumulative procurement gross savings – total Philips (EUR million)





3 Reduce cost and eliminate waste

Additional activities

- Implementing a **simpler organization structure** to increase transparency and reduce duplications – moved from 13 to 10 layers, going towards 8
- Driving enabling functions towards **benchmark cost levels** (EUR 100 million savings per year)
- Deploying standardized **End2End processes** to increase speed and agility
- Optimizing **global footprint** to gain scale, increase flexibility and lower transportation costs
- Creating a centralized **global business service**, integrating back-office functions to increase efficiency, quality and operating leverage

Implementing the Philips Business System

- We execute on an **Operational Excellence** agenda and a clear roadmap
- Our **central approach to Quality** ensures consistent and structural improvements
- We are **injecting talent and building capabilities** at all levels of the organization
- **The Lean factory deployments** are raising our sites to higher standards with evidence of strong results
- The **Procurement transformation** is on track to deliver
- Our **simpler structure** built around **End2End** processes will further improve efficiencies

A lot more to come

