

# PHILIPS

The following presentation was made by Ronald Eikelenboom, CFO, Philips do Brasil Ltd at The Hackett Group's 20<sup>th</sup> Annual Best Practices Conference at Atlanta, GA on 20<sup>th</sup> May and is being reproduced with permissions from Philips

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20th ANNUAL BEST PRACTICES CONFERENCE:

**Excelling in a Volatile Recovery**



# PHILIPS

## BPO as effective change agent



Ronald Eikelenboom

### CFO Philips Latin America

Ronald has 13 years of experience in IT, across several business units. He has worked at the Philips' Head Quarters and has been posted in the Netherlands, U.S.A., France, and Turkey. He is, at present, in São Paulo, Brazil, and is actively involved in supporting the growth strategy of Philips in his geographical and functional area. He is responsible for the financial management (Treasury, Fiscal, Control, IT, Real State, Legal), business support, management information, and business principles and controls.



# Agenda

- Overview of Philips
- Context of the Relationship with Infosys - Worldwide and in Latin America
- BPO as Change Agent
- Status and future steps

## A well-respected, blue-chip company for over 100 years

Founded in 1891

Headquartered in Amsterdam, the Netherlands

Sales over EUR 23 billion (USD 32 billion)

30% in emerging economies

116,000 employees

Sales and service outlets in over 100 countries

Globally recognized brand (world top 50)

Our brand value almost doubled to \$8.1bn since 2004

€1.6 billion investment in R&D, 7% of sales

55,000 patent rights – 33,000 registered trademarks –  
49,000 design rights



## Our focus on Health and Well-being Synergies across the portfolio

### Our mission

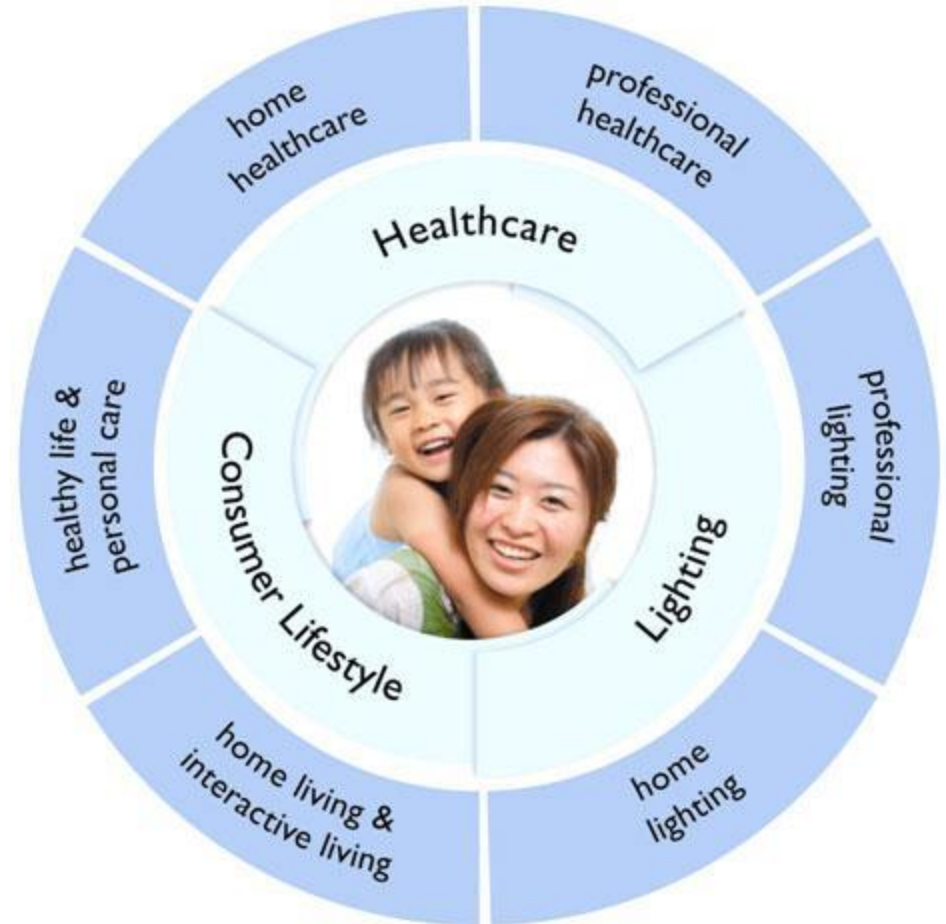
Improving people's lives

### Our promise

"sense and simplicity"

### Our company

- Common, end-user driven innovation process
- Strong global brand
- Channel access and global presence
- Engaged workforce
- Technology, know-how and strong IP positions
- Economies of scale, e.g., shared service centers



## We are leaders in many markets Examples of key leadership positions

### Healthcare



#### Cardiovascular Market

#1 Global,  
Cath Labs



#### Patient Monitoring

#1 Global,  
Critical Care



#### Care and Resuscitation

#1 Global,  
AEDs (Automated  
External Defibrillators)

### Consumer Lifestyle



#### Male shaving

#1 Global,  
Arcitec and  
Nivea for men



#### Coffee makers

#1 Western  
Europe,  
Senseo



#### Rechargeable toothbrushes

#1 US  
# 2 Global,  
Flexcare

### Lighting



#### Professional Lighting

#1 Global, city  
beautification;  
sports lighting



#### Consumer Lighting

#1 Global,  
LED-based  
luminaires



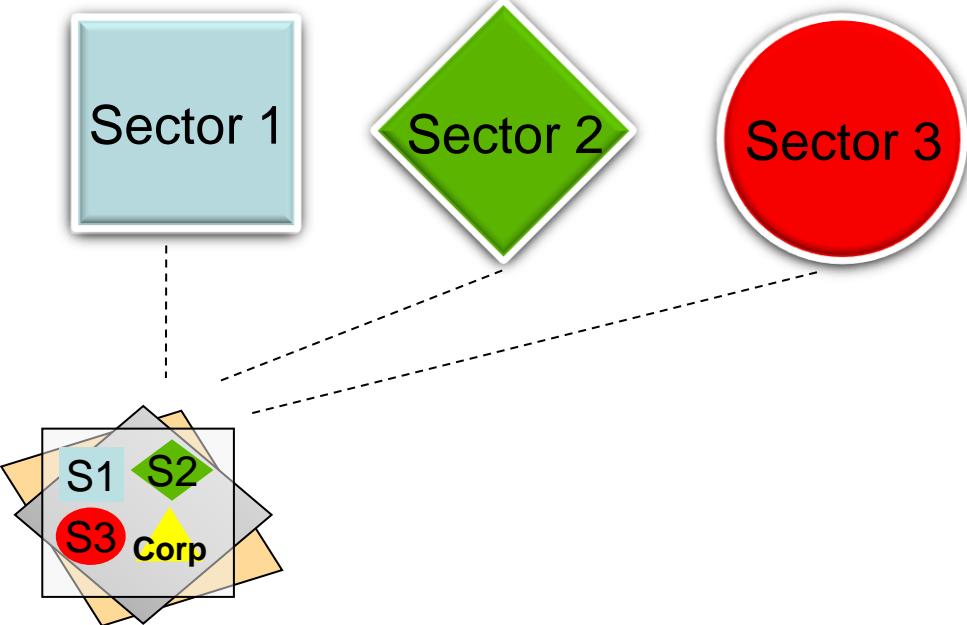
#### Lamps

#1 Global,  
energy-efficient  
lighting

# Philips' Transition in Finance



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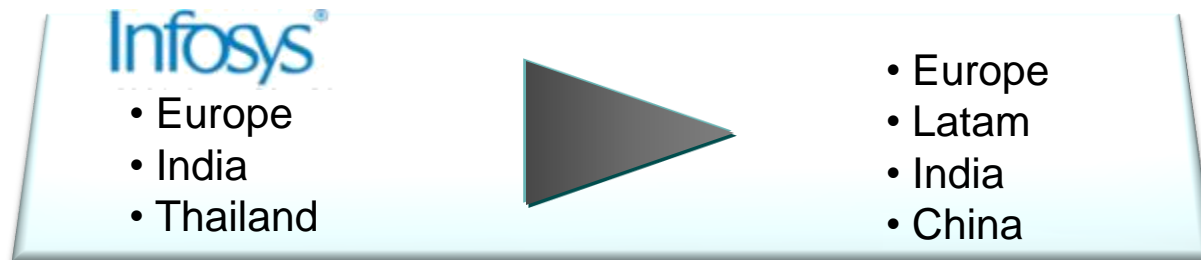
# Philips' Transition in Finance



**Infosys**

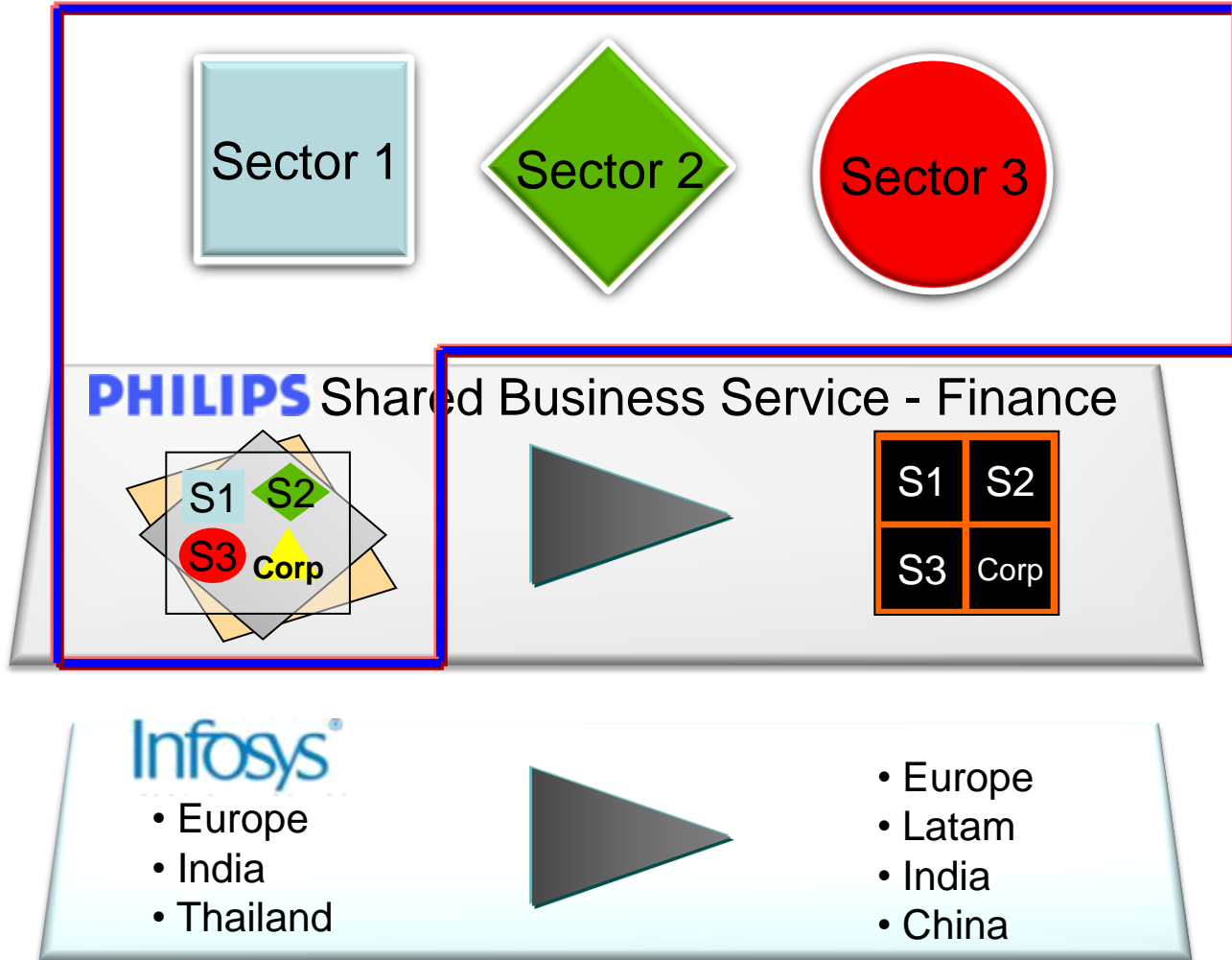
- Europe
- India
- Thailand

# Philips' Transition in Finance



# Philips' Transition in Finance

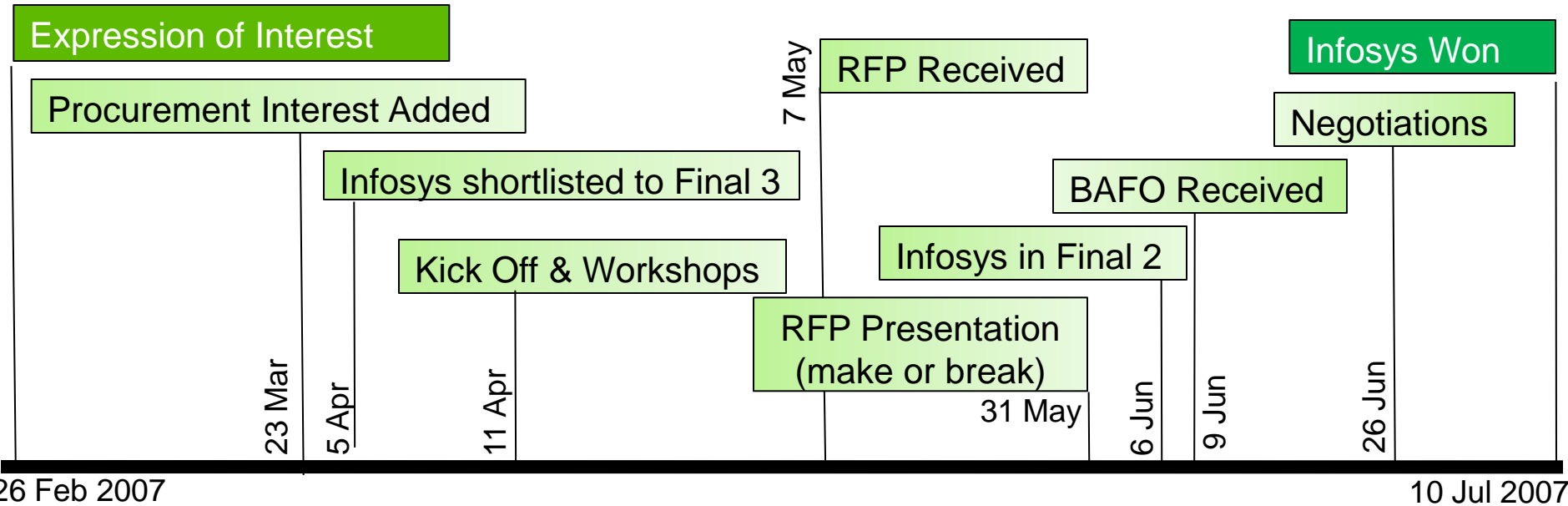
## **PHILIPS** Latam



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# The Infosys Philips Deal



## 27-Jul-07

Philips Board of Management announced to enter into a strategic partnership with Infosys as one of the leading BPO companies in the world

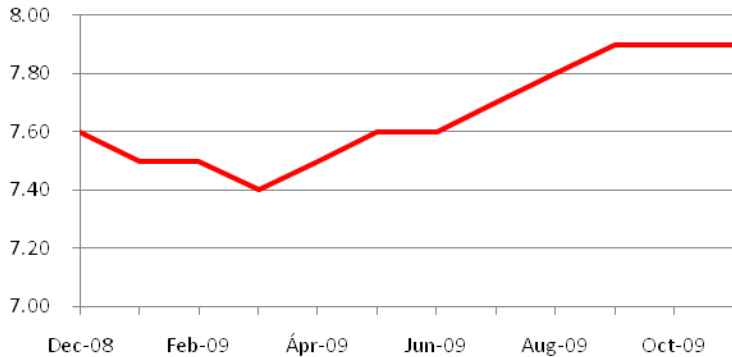
## 1-Oct-07

Go Live. The 3 service centers are managed by Infosys



# Partnership with Infosys is stable and working well; accounting scope nearly finished

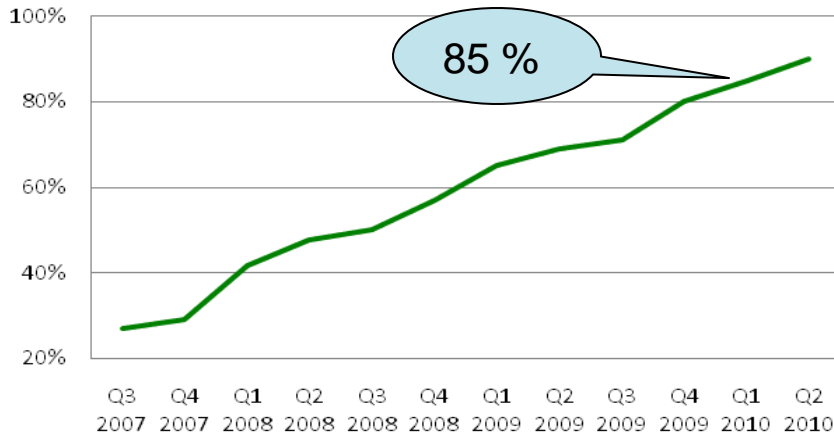
## Internal customer satisfaction is high



## 1700 Infosys FTEs in 5 locations



## 85% of Philips accounting staff in SBS Finance



## Infosys deal objectives mostly met:

- ✓ Lower cost
- ✓ Flexibility and cost variability
- ✓ Capacity for outsourcing scope expansion
- ✓ Improved service
- ✓ Improved BPO relationship management skills
- ❖ *Leveraging technology*
- ❖ *Better staff retention and motivation*

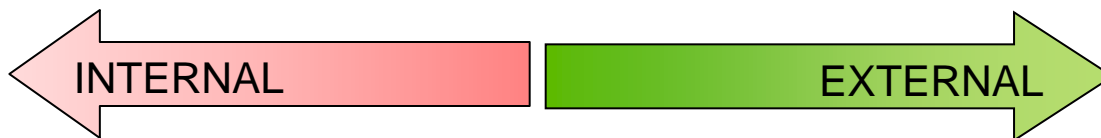


## Context Philips Latin America

- Philips adopted a BRIC-strategy for its key Emerging Markets
  - Governance structure for BRIC-countries to allow local decision making
  - Allocation of resources: Talent, marketing funds, R&D programs
  - Prepare for growth: Emerging markets to be 50% of sales in 2015
- Brazil and Latin America relatively under-performing
  - Delays in product and process innovation
  - Legacy systems landscape (ERP and peripheral systems)
  - Uncompetitive (fixed) cost structure
- Series of management changes coinciding with global crisis in 2008
  - Need to become competitive in cost and cash generation before growth
  - Employees: perception of instability and low recognition
  - Board: Perception of volatility and “remoteness”, complex legislation



# Philips LATAM was behind in Finance transition



- Multiple legacy systems (non-SAP)
  - Accounting
  - Planning
- Maturity of business environment
  - Restructurings and re-organizations
  - Management changes
- Closed organization
  - “Island” mentality, remote



- Infosys not present in Brazil; a key country in the region
- Tax issues can make or break a BPO deal in LATAM
- The BPO industry in its very early stages
  - Five BPO deals so far
- The economy grew strongly during 2001 - 2008; no need for “radical” measures





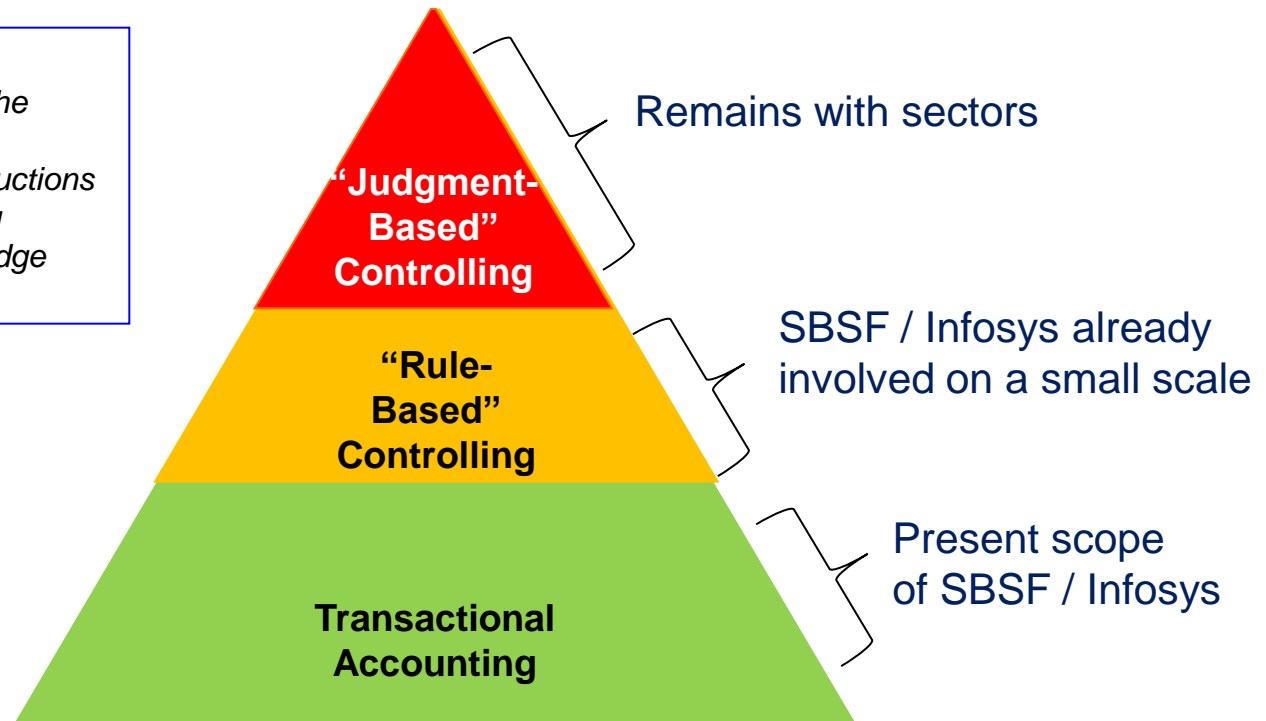
# Finance ambition to take the lead in change program for LATAM, with Infosys

- Infosys contracted as partner for Finance transition in LATAM
  - Successful setup of in-house shared service centers in Philips
  - First-hand experience in Europe, as CFO Turkey / Middle East
    - People focus and quality driven
    - Complicated countries (language, legislation, local requirements)
    - Flawless migration, leaving the marks of true partnership
  - Harmonization drive perfect to “re-connect LATAM”
- Philips seen as “reliable partner” for strategic expansion into LATAM
  - Develop a regional deal under the global contract
    - Respecting the cost structure and legal and tax issues
    - Developing a regional delivery center
- Decision to implement SBSF (front-office, building on SSC) and Infosys (back-office, greenfield) at the same time

# Leveraging the maturity of global BPO relation

**Definition RBC**

- No face-to-face contact with the business functions needed
- Can be captured in work instructions
- Are of routine nature requiring relatively little business knowledge



**Allows Controller to focus on core business activities and support business functions, e.g., value creation, sales, production rather than transactional activities**

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# BPO as Change Agent



**Central project in the transformation:  
*Management determined to change***

- Tangible and visible: Show it's serious
- Partnership: Not all solutions in-house

**BPO aligned with Philips values**

- Transparency: Open up
- Values: People-focused, quality standards, team work

**Breaking the paradigm**

- Show the impossible is possible
- Demonstration of value creation and strategy alignment

## The partnership with Philips led Infosys to open a new Delivery Center in Belo Horizonte, Brazil



### F&A

- Accounts Payable, Accounts Receivable, Foreign Exchange, ICA, T&E, Local Payments, GL accounting & reporting, Inventory & Fixed Assets, Manual Journal Entries, Vendor Queries
- Serving Brazil and Argentina



### Procurement

- Requisition Review, Sourcing, Purchase Requisition to Purchase Order Processing, PO Acknowledge and Supplier Expediting, and PO Management
- Currently serving Sao Paulo, other locations in Brasil will go live shortly.





### Fiscal

- In transition: Activities include Fiscal Accounting & Fiscal Receipt Entry

# The project: approach and achievements

## Time & Deliverable fit Philips transformation program

1	<b>Sept 08:</b> new CFO – Focus: leverage global Philips organization (re-connect)
2	<b>Feb 09:</b> clearance from Board of Management for Change Program
3	<b>Mar 09:</b> change of SBS-F leadership – approve business case
4	<b>Jun 09:</b> arrival dedicated Migration Manager from global SBS-F team
5	 <b>Aug 09:</b> transition starts for Brazil, Argentina and Chile
6	<b>Oct 09:</b> inauguration of the Infosys DC in Belo Horizonte
7	<b>Feb 10:</b> Fiscal transition starts Scope expanded – Acquisitions, Procurement, new countries
8	 <b>May 10:</b> Panama hand-over



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## Status and future steps

### Where are we?



#### Accounting

- Infosys runs Brazil mainstream, Argentina, Chile (MEC, P2P/R2R/O2C, scope...)
- Migrating Panama, and Healthcare acquisitions in Brazil
- Preparing Colombia, Peru

#### Procurement

- The first transition is completed; the transformation lead by this outsourcing initiative is already impacting the metrics

#### Fiscal

- DD, migrating Fiscal transaction Brazil

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### Where are we going?



**As SBSF-LATAM**  
Up in the Pyramid



**As Business Partner**  
Support to Management  
Agenda – priority processes:  
Process integration and  
harmonization (CCC, ERP4M,  
reduce break-even point)

## Lessons learnt

### TO KEEP

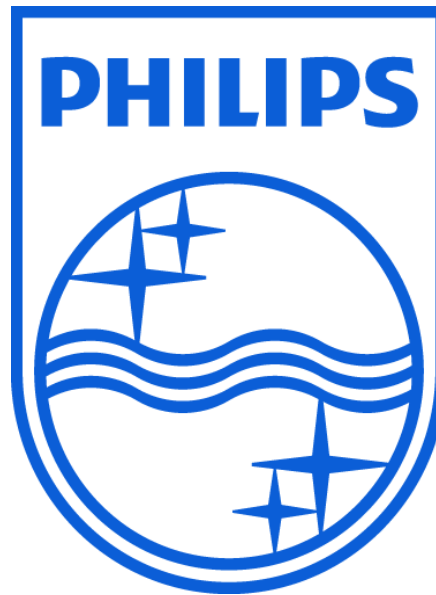


- Leadership commitment
- People focus
- Teamwork and transparency between the two organizations
- Governance model
  - Weekly Operations Review
  - Monthly Executive Steering Committee meetings
- Full Exec commitment
  - Removing internal barriers

### TO CHANGE



- Initial business case preparation
- Maybe not the right time to transition to new technology - VDI
- The need for a local expert/transition manager



**PHILIPS**  
sense and simplicity



**Infosys**<sup>®</sup>  
POWERED BY INTELLECT  
DRIVEN BY VALUES

## Outline

- To mark the change of management, a dramatically changing macro-economic environment as well as a required change of internal mindset of its organization, Philips Latin America management engaged with Infosys to implement a BPO along the global partnership between the two companies.
- A first of a kind - greenfield - partnership was developed over a period of just a few weeks, after which both parties committed to make the change a success.
- The need for BPO to improve effectiveness, variabilise and reduce costs became even more urgent in view of the developing global crisis that also affected Latin America. Despite this economic setback, and growing unrest in most companies, the two partners decided to use this BPO as a "change agent" in turbulent times.
- The BPO project should demonstrate management's determination to turn the company around, mark a landmark change in the closed mentality, and fully leverage the potential of the existing global contract. Only 6 (?) months after the official business case approval, migration process was completed and Infosys was leading the accounting processes to close the month, not only for Brazil but also for Argentina and Chile, all out of a new greenfield operation in Belo Horizonte, supported by Pune, India.