

**KEYNOTE SPEECH RUDY PROVOOST, IFA 2006**  
**“THE CE INDUSTRY: A PLATFORM FOR NEW CONVERGENCE”**

September 2, 2006

Ladies and Gentlemen,

I am delighted to be here at IFA again and to have the opportunity to share with you, on Philips' behalf, my perspective on the many trends and subsequent implications that are likely to shape the future dynamics of our industry.

It is my firm conviction that we are about to enter a new era in Consumer Electronics, what I call “the Age of New Convergence”. New Convergence differs from the “old” convergence we have seen in our industry in the last few years. Old convergence has, fundamentally, been about a technology-driven battle for the hearts and minds of consumers among ICT players hoping to win through with prevailing technology solutions.

New Convergence is not about technologies but new experiences, centered around consumers, that will emerge from new forms of content, reaching consumers through existing and emerging CE platforms. To date, Consumer Electronics has mainly been a platform for entertainment content – TV, audio, video, interactive gaming as well as some degree of information services. But if we look carefully, we can see the emergence of a whole range of applications that extend beyond entertainment.

To be specific, New Convergence is all about the union of all types of content - both in the Lifestyle domain *and* what we call ‘Health & Wellbeing’, the consumer side of healthcare. New Convergence not only means we enable consumers’ to be entertained in an ever-more relaxing and exciting way – for example, through Philips’ Ambilight or our new amBX gaming innovation - but also enables them to access healthcare services at home, optimize their environment for the purposes of enhanced wellbeing, navigate an unknown city center, or make their home safer through electronic security.

Some of these opportunities have already started to emerge, particularly in the area of Health and Wellbeing. For example, televisions and set-top boxes are already used in distant care applications whereby caregivers can monitor patients at home. And in the future, we are increasingly likely to have portable, even wearable, electronics devices that offer feedback on consumers’ everyday well-being so that they can learn to relax more, sleep better and lead better lifestyles. Indeed, here at IFA Philips is demonstrating the latest advances in the application of electronics in textiles.

So what are the challenges for our industry?

While I firmly believe that the future of this industry is exciting, there are some realities we must face up to. There is no escaping the fact that we are competing in a high volume, low-margin business. So we have to add new value spaces and create new value partnerships through which we can deliver, exciting platforms that enrich consumers’ experiences both in our well-served areas of entertainment and beyond.

The key to this is driving ‘**relevant innovation**’. For example, 10 years ago Philips unveiled the world’s first FlatTV. This was a fantastic relevant innovation in its time – it was dubbed the ‘electronic painting on the wall’ by consumers and was in itself an entirely new lifestyle value proposition. But what has happened in the 10 years since? Panel sizes have got bigger – the ultimate proofpoint being the prototype 100-inch Ambilight FlatTV we’re showing here at IFA! Picture quality has also got better – especially with the arrival of high-definition. And more fundamentally, prices have come down and profit margins are waning.

So where does the FlatTV go from here, to create more value for consumers and for our industry? We’ve already shown one direction, by converging the TV with lighting technology to create Ambilight – as well as AmbX as mentioned earlier - and, in the process, a whole new immersive viewing experience for consumers. So now we have a TV that brings a whole new and relevant ambient lifestyle experience to the living room.

So there are three imperatives that I believe the CE industry must focus on in the context of relevant innovation when moving forward:

1. We have to get the business model right across the entire value chain – beyond the well-established boundaries of traditional CE entertainment – so we can leverage new value spaces and partnerships
2. We must innovate driven by deep consumer insight to ensure that we bring meaningful applications and solutions to market and avoid imposing prevalent technologies
3. We need to apply strategic foresight so we can be aware of the emerging trends that will shape future consumer demand throughout the different regions of the world

Up to now, the CE industry’s success has come from opportunities presented by some of the major trends of the 20<sup>th</sup> Century: mass computerization of electronics; global access to global content; always-on communications; consumer demand for a wide variety information, entertainment and services, the shift from analog to digital and the now fulfilled trend of “old” convergence. A perfect illustration of this is the influence our industry had on the World Cup: Cumulatively, 30 billion people may have watched it worldwide on TV, but – as a result of old convergence – millions more accessed World Cup data and enjoyed live action via the Internet and on mobile devices.

However, New Convergence is underpinned by a number of new global trends that are dramatically changing the behavior, needs and demands of consumers all over the world.

So, what are they?

### **Consumer empowerment and personalization**

First of all, what’s happening to the consumer? The “passive” consumer who once simply accepted what was broadcast or pre-packaged has now become an empowered, individual and interactive consumer able to download, select and personalize content on demand.

Through social change and technological progress, consumers want to make personal choices and demand their own, personalized solutions. They want to live without boundaries, and access content anytime, anywhere, and on any device. This trend of empowerment is still deepening, year after year. One-size-fits-all products and services that were good enough for your parents and maybe for you, won't be good enough for your children. As a value-strategy, one-size-fits-all is dead.

Not only are consumers becoming more and more empowered, they are also changing their focus. It is no longer just about having new, better and more gadgets *per se*; it is also about experiences that make consumers feel good, both mentally and physically. Feeling good means feeling healthy, feeling fit, feeling safe, feeling comfortable and feeling immersed in gratifying entertainment experiences. Feeling good also means being active, valued, in control and motivated. That, ladies and gentlemen, is the 21<sup>st</sup> century consumer.

### **Graying baby boomers**

A large proportion of the population in their sixties today are products of a youth culture that was amongst the first to experience packaged mass media such as music content, who witnessed the proliferation of the TV and home video in the living room, and who are among those able to enjoy modern medical miracles such as heart-surgery, continuing to live normal lives with little medical intervention..

Globally, the population of people 60 and older is growing by 2% per year - faster than the population as a whole, according to a 2002 United Nations report.. The most developed nations already have a higher proportion of 60+ citizens than children up to the age of 15. According to a report last year by the Vienna Institute of Demography, 'middle age' is getting older: by 2050 the average German would be 51.9 years old, and could expect to live for another 37.1 years, meaning that middle age wouldn't strike until they were 52. Similarly, the average American would be 41.7 years old by 2050, and could expect to live a further 45.8 years.

An interesting insight is that these baby-boomers are enjoying life longer and in a more fulfilling way than say a generation before them. They are exercising greater economic freedom, taking more holidays, buying more consumer goods and, being part of the generation that created the technology revolution, are also more tech savvy. Those born after the war are far more likely to have embraced digital technology, the internet, e-mail, etc than those born before. So, these consumers are a growing socio-economic group familiar with the CE platform and are likely to be comfortable with emerging future lifestyle applications as well as benefiting from developing health and wellbeing applications such as remote patient monitoring or home health solutions

### **Lifestyle balance**

Coupled with the baby-boomer trend, as awareness grows about the impact that lifestyle can have on wellness - with the proliferation of lifestyle-related conditions such as obesity, diabetes, cancer and heart disease, lifestyle and wellness is increasingly front of mind for a large majority of consumers. So, as the dynamics of personal and business life change, people are taking more responsibility for their well-being. Many studies show that in growing economies around the world, particularly in the last ten years, there has been a shift to two breadwinners in the

family; globalization trends also mean that time-consuming travel is an increasing common part of everyday business life.

The costs of the work-life imbalance touch both employees and employers. For employees, it is the strain of trying to fulfill multiple responsibilities at home, work and in the community. From the employers' perspective, the side-effects of increased "employee strain" may include lower productivity, higher absenteeism, and higher workers' compensation claims. The net result is that, increasingly, consumers are looking for easier ways to develop a healthier lifestyle balance whilst juggling the demands of family and career.

### **Emerging markets**

The rise of emerging markets in Brazil, Russia, India, China and countries in the ASEAN cluster has led to predictions that within five years their annual increases in dollar spending could be greater than the current six top economies in the world. In the longer term, the scale of emerging market economies is going to grow significantly compared to established economies:

- The Chinese economy is projected to be of similar size to the US by 2050 at market exchange rates
- the Indian economy is projected to be around 60% of the size of the US economy by 2050 at market exchange rates
- by 2050, the Japanese economy is projected to be of comparable size to those of Brazil and Indonesia, having been overtaken much earlier by China and India;
- the German, UK and French economies are projected by 2050 to be somewhat smaller than the Mexican economy and similar in size to the Russian economy

Consumers in these emerging markets are consequently living in fast growing economies where the latest ideas and value propositions are important. Global communications – and of course, the Internet – means that there are no longer borders to knowledge - many consumers in emerging markets are perfectly knowledgeable about what exists and have aspirations to match the rest of the world. What an opportunity!

### **Sustainability**

Finally, global demographic and economic growth means that we have to ensure – now more than ever – that our way of life and our economies are sustainable. So we need to find solid, long-term solutions to avoid an energy crunch and an environmental meltdown.

Obviously, business should focus on capturing value from these trends and that certainly holds true for the Consumer Electronics industry, too. And it is within this context that New Convergence holds such potential opportunities.

So let me give you some insight into what Philips is doing to capture the opportunities presented by some of these emerging trends.

Firstly, in the area of **consumer empowerment and personalization**, our consumer insight studies show that different consumers will continue to choose their own priorities for

entertainment solutions. At Philips we are running a project called Lifestyle Home that presents a vision of the future of connected living that embraces a diversity of tastes, habits and needs.

Lifestyle Home bridges 'Old' and 'New' Convergence: I mentioned earlier that the CE industry was traditionally built around home entertainment products, and that the era of New Convergence would apply traditional CE platforms in new areas of lifestyle.

Lifestyle Home, therefore, takes as its basis the fact that consumers - when choosing a device or entertainment system - want to use and navigate their content as easily and as conveniently as possible to ensure maximum enjoyment of that content..

Lifestyle Home is a television-centric application which uses an on-screen menu as a personalized window of local, online and broadcast content. The home menu also allows easy management of peripheral lifestyle devices ranging from ambient lighting to portable 'media tablets'. By combining new technologies with innovative design and current CE platforms, the Philips Lifestyle Home project creates a powerful insight into how people could experience the connected home or connected planet of the near future.

The Lifestyle Home makes use of a host of current and future converging technologies and is a clear example of New Convergence. It includes diverse technologies, all unified as part of a CE platform, such as electronic paper, gesture sensitive smart skins, algorithms that create ambient mood lighting, pointing remote controls, algorithms for finding musically similar tracks, personal identification technology and contact less purchase systems for secure in-home payment.

In the following video clip we meet a consumer called Alexandra and see some scenes from what a Lifestyle Home living room might like in the future:

In addressing **graying baby-boomers and lifestyle balance**, we are running a project called Connected Care which presents a vision for the future of personal healthcare and addresses how CE platforms can be used in preventative care, the adoption of healthier lifestyles and chronic disease management.

Connected Care revolves around two scenarios – 'Take Care' and 'Heart Failure Management' and illustrates how various CE-like body-driven devices and services can interrelate and, in doing so, empower consumers to overcome obstacles to lifestyle change and positively influence their health and well-being

In this video clip we meet Lizzie in the context of Take Care and the solutions she is using in the pursuit of a healthier, less stressful and more balanced lifestyle:

Staying with Health and Wellbeing for a moment let me also touch on what Philips is doing in relation to **emerging markets and sustainability**. In some emerging markets there is a huge Healthcare challenge, but in countries such as China and India, 'affordability of Healthcare' and 'distant care' has a totally different meaning than in Germany or the US. In low-income countries, distant care is often the only feasible care, because the consumer-patient simply cannot visit a hospital due to physical or financial impediments. The hospital is often so far away that a visit would cost a month's wages in travel costs alone. The only feasible strategy for many

remote areas is to bring Healthcare to the people, for example via mobile teleclinics. Philips leads a pilot-project in India called DISHA (Distance Healthcare Advancement) to do just that. There are no easy answers or solutions, but the ultimate goal is to develop business models that allow us to provide essential Healthcare services to the poor in a commercially viable and sustainable way.

We also have to take into account the differences between developed and developing countries if we want to put our world on a more sustainable footing. In Europe, Philips offers dramatically more energy-efficient lighting solutions for offices, cars, homes, streets and shops. We are also concentrating on lighting solutions that do not depend on the local power grid.

For example, Philips has also developed two innovative lighting solutions, specifically for people with no access to electricity: [SMILE](#) (Sustainable Model in Lighting Everywhere) technology is currently being piloted in India. One of the SMILE products is the 'Uday', a rechargeable, weatherproof, portable lamp for general illumination. The second is the 'Kiran', a hand-held, hand-cranked light-emitting diodes (LED) flashlight that offers 30 minutes of light for every minute of cranking. By developing quality lighting solutions like these, Philips is not only improving the quality of life for these people, but, by providing lighting beyond sunset, we are also offering improved safety and extended productive working hours.

If the Consumer Electronics industry wants to benefit from the transformation of the consumer, from the dawning age of New Convergence, our solutions should be reliable and intuitive. They should have Simplicity at the center of their development. Consumers don't really care how complicated the technology behind a product is. What they do care about is the interface: it should be simple to understand and operate, without the need to read and memorize 150 page manuals. Consumers want technology to make their lives simpler, not more complex.

At Philips we have made Sense & Simplicity our brand promise which in turn is core to what we offer all our customers today. On the stand here at IFA we are showing a number of simplicity concepts that we also expect to be very much a part of the Lifestyle Home of the future such as our 'Chameleon' lampshades that can change colour according to your living environment. If you think this sounds eccentric, its heritage lies in Philips' own Ambilight TV technology – lighting which can intelligently adapt to content. Ambilight took the FlatTV to a new domain, what's to say that our Chameleon technology won't do the same for home interior lighting?

So if the Consumer Electronics industry wants to succeed in the Age of New Convergence, we have to develop technology that fits with what people want and need. Relevant innovation is not just about inventing and developing a new technology, however smart. Relevant innovation, real success in the market is about offering new solutions that people need, want and welcome. To achieve this we have to focus on three core areas.

Firstly, we need **open innovation and partnerships**. No one company should try and just go it alone. To the contrary. 'Old' convergence of IT, telecoms and consumer electronics industries bore testimony to the increasing importance and necessity of working together. Now, more than ever, our efforts in research, development, design and marketing of new solutions should be inspired by the philosophy of Open Innovation.

Open Innovation means combining our knowledge, efforts and money with those of our partners - other companies, universities and research institutes. If CE platforms are to be applied across an ever-broader cross-section of industries, we need to share our expertise and build upon our respective strengths. The consumer electronics industry has always had a strong and unique understanding of the wants and needs of consumers, and this knowledge can be leveraged by other industries too. Open Innovation is the only way to ensure that we can deliver the solutions that consumers want and that we can get them to market fast; it is the only right way forward in a time where knowledge is spread across the globe among ever more players. 'Go-it-alone' is often not the most productive attitude. In the twenty-first century, in the age of the Networked Knowledge Economy, however, it is outright suicidal. This is as true in Healthcare as it is in Lifestyle.

That's why I am very encouraged by the Continua Health Alliance, a recent initiative to ensure interoperability of devices and services in the area of Healthcare electronics. The membership of Continua is formed by a large selection of companies from Consumer Electronics, Information Technology and Healthcare. The presence of various CE companies proves that New Convergence has traction. As a founding member, Philips supports Continua wholeheartedly. Continua has given itself 18 months to define its open interoperability standards based on a selection from existing connectivity standards. I sincerely hope that all members of Continua will show a constructive attitude, an attitude that will allow us to get the standards job done in 18 months.

**The second core area is to have an active policy framework.** I have just mentioned many areas where we as the Consumer Electronics industry, have got to get it right to make the most of New Convergence. However, the responsibility for making New Convergence a reality is not only that of this industry: public authorities must and should show an entrepreneurial, creative attitude. As the President of EICTA I passionately believe in this. EICTA engages in productive dialogue with policymakers and legislators in the European Union, both at the Brussels level and in the Member States, and with other associations representing either other industries in the value chain or the same industries in other regions. You are probably familiar with some of our suggestions. For example, we urge EU authorities and national European governments to foster the transition to the coming era of digital, HDTV.

We ask governments to support and not be afraid of the deployment of digital rights management which provide unprecedented opportunities for European artists to have their works made available beyond national borders and be directly rewarded instead of the obsolete levy systems that are used indiscriminately and unfairly. We our request to governments is to now quickly phase out obsolete copyright levies that have proven to be one of the causes why Europe is so far behind the USA in using such modern consumer friendly systems that fit new consumer demands of **consumer empowerment and personalization**.

Thirdly, we need a **vibrant business eco-system**. As we are all seeing here in abundance at IFA, high definition content is a major driving force in today's consumer electronics market. This year – with new HDTV services and the launch of Blu-ray Disc – we are only seeing start of the HD revolution. More can and will be done to drive it. We need to see more public and free-to-air broadcasters offering HD services, so this remarkable TV viewing experience

doesn't become the sole preserve of premium operators and those consumers who can afford it. The BBC's legendary first chairman Lord John Reith famously described television as "a window on the world". HD quality opens that window up in a manner never before experienced. Governments, regulators, the retail industry, manufacturers and even the media all need to do more to help bring HD and the benefits of HD to everyone.

At IFA this year, on the Philips stand in Hall 22, we have been showing a number of applications in our 'Future Zone' which provide an insight into how New Convergence will manifest itself in the years to come. For example, here are some images shot a couple of days ago on the stand of an exciting new concept called Entertaible, a multi-purpose lifestyle platform that combines the excitement of electronic games with the fun and social interaction of board games.

Entertaible is essentially a 32-inch horizontal LCD that incorporates multi-touch and shape recognition technology that is housed in a robust table-top unit only ten centimeters in height. This allows the Entertaible to be used in a wide range of settings and lighting conditions, and the hardware to be custom fitted in furniture. We are testing this technology now for use in social gaming as well as educational and well-being applications in both the professional as well as the consumer domain. We will pilot the Entertaible in several selected partner location in Q4 2006 such as pubs, bars, hotels and restaurants.

Also at IFA this year we have been demonstrating Lumalive fabrics. Lumalive is an example of New Convergence in the Lifestyle/fashion domain and uses lighting technology that makes it possible to create materials that can display dynamic graphics or multicolored surfaces. On the screen now you can see footage taken during the show of some of our stand hosts literally 'wearing' this new high-impact lifestyle medium.

So, as you have seen, Philips is very enthusiastic about the potential development of New Convergence. Let me dedicate the last part of my speech to a brief description of Philips' transformation in the era of New Convergence so you will understand our enthusiasm.

At the end of the twentieth century, our CE business was still very much a high-volume electronics company with a lot of traditional vertical integration. Six years ago we realized that this was not the right focus going forward. We made three major decisions. First, we de-verticalized our business, concentrating on the parts of the product chain where value is created. Second, we optimized our portfolio to strengthen our presence in less volatile businesses, with higher margins and stable cash-flow generation,. And third, more recently, we have begun to explore the opportunities in the domains of Healthcare and Lifestyle – beyond the traditional boundaries of CE..

So now we are ready for the future. We have created a whole new structure for our business, one that is focused on the front end of the business, focused on the consumer and on the retailers, eliminating unnecessary complexities. With the consumer in mind, we have differentiated our business models, not according to technology, but according to the type of customer, the type of market, the type of product. We have worked with major retailers, those that have a global presence, to make sure our solutions and offerings are tailored to meet their local market needs.

Recognizing that New Convergence is a reality, we have started to break down the internal barriers within the Philips organization in order to meet the converging opportunities in Lifestyle, Healthcare and Wellbeing. Last month we announced the divestment of our high-volume electronics semiconductors group and made changes to make Philips a different, much simpler company, but still totally committed to improving the quality of peoples' lives through meaningful innovation. Our aim is to focus our resources on capturing value from some of the most important global economic, social and demographic trends: the need for better healthcare and improved well-being, the need to provide energy efficient solutions, for example, in lighting and the desire for consumer lifestyle experiences.

So let me conclude.

There is a need to shift from the ideology of old convergence, where there remains little residual value, to the new value spaces offered by New Convergence. Philips has started on that journey: in the new converging domains of Lifestyle, Health and Wellbeing, I believe that Philips can have a direct and dramatic positive impact on the quality of life of consumers. We are a business, we want to make profits, we want to grow; but we also want to achieve our mission of providing people with meaningful, innovative solutions, improving their lives. But this is a journey that Philips cannot make alone. New value spaces need new value chain partnerships, new policies and new frameworks. But I am confident that New Convergence, and the application of Consumer Electronics platforms, can become an integral part of this collective industry endeavor.

Thank you very much for your attention.