

Philips Lighting

A Sustainable Supply Chain Is Key to Business Continuity

Sustainability is a top priority for Philips Lighting and our focus is very much on environmental protection and business continuity in order to achieve our strategic goals. However, we are living in a dynamic, always-changing world and continuity, in particular, depends on the relationships between Philips Lighting and other suppliers within the chain. Financial stability is another important element to secure this continuity in the long run. Next to that, the lighting industry is shifting from conventional lighting to LED lighting and to connected Lighting Systems & Services.

Supplier financing programme

We started out our supplier financing initiative in 2008 by creating individual solutions for a number of suppliers. The aim of the initiative was to collect proof points that the solution could produce the expected positive cash impact for both supplier and buyer (Philips). After the positive recognition by the board of Philips, we have developed a global platform together with one of our supporting banks. For countries with restricted treasury condition we offer local solutions.

Supplier Financing can also be applied to N-Tier supplier if this is necessary to secure continuity. However, the immediate consequence of the newly introduced buy/sell element is an extra layer of complexity added to the business model. This means that Philips Lighting will buy the components from e.g. tier-3 supplier and sell them to a tier-2 supplier. In this way, the invoice received from the tier-3 supplier is creating the legal/accounting justification for supplier financing. Taking into account that this additional complexity is coming at a cost and that the positive effect of financing is wearing off downstream to the supply chain, we need a balance to secure our continuity. Another possibility would be that our supplier builds a similar relationship with its suppliers and makes supplier financing/dynamic discounting available to them.

Conventional lighting

Conventional lighting mainly concerns in-house production by Philips Lighting, even though we have already sold some of the factories due to the market decline. However, as we have been able to remain profitable with our conventional business, we have decided to implement our last-man-standing strategy. This strategy helps us gain market share and maintain profitability in the future.

The combination of our transformative initiative and the bespoke strategy has some consequences for our supply base that can affect the continuity of the conventional lighting business. As the market for conventional lighting is continuously declining, this creates continuity problems for our suppliers in the chain.

Suppliers who have not sufficiently anticipated this transformation or have not generated a new business in time may run into financial issues. Philips Lighting's dependency on those suppliers may lead to mitigation actions in order to help them through. However, if suppliers are unable to continue to supply strategic components, Philips Lighting will need to find an alternative supplier or start producing in-house.

For this reason, Philips Lighting's procurement organisation is continuously profiling and monitoring its suppliers (even n-tier suppliers) to make sure they are strategic enough. Profiling consists of monitoring financial performance, the non-financial critical elements like dependency, strategic collaboration, IP rights, etc. and production locations concerning natural disasters. In this way our team can **create awareness to the business** regarding potential instabilities in the supply chain, **calculate the impact for the business** in case of disruption and can **suggest certain mitigation actions** as part of a contingency plan or can **lead crisis management** if necessary. →



Fred de Brabander

Global Supplier Risk Manager
Philips Lighting

About Fred de Brabander: Fred de Brabander is Global Supplier Risk Manager. He introduced supplier financing in Royal Philips in 2008 and, after creating a Philips platform, he linked Supplier Risk Management to the onboarding process.

About Philips Lighting: Philips Lighting is the world leader in lighting products, systems and services. It delivers innovations that unlock business value, providing rich user experiences that help improve lives. The company leads the industry in leveraging the IoT to transform homes, buildings and urban spaces.

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We have several options in order to secure the continuity of our supply chain. We can create financial stability by introducing supplier financing, with the condition that the additional cash for the supplier is used for that purpose. However, we have to realise that supplier financing is a triangular relationship in which Philips Lighting is running the highest risk. Taking over assets that are dedicated to Philips Lighting's production can also generate cash. Another option is to enter into a supply agreement with declining quantities so that a supplier can adapt its financial situation with the obligation not to cease production before the end of the agreement. In the most cases, the financial instability of our suppliers is not at stake, which means that supplier financing can be used both to support strategic directions in cash and/or profitability.

LED lighting

LED lighting is different from the conventional lighting because the production is mainly outsourced in an OEM business model, with different suppliers. Philips Lighting is focusing more on Research and Development; Design/Application activities and Lighting System & Services are project-oriented activities in which we introduced a new business model by renting out light to generate recurring income.

The basic raw materials for making LED's are coming from a few suppliers located in hazardous areas and the production of LED's is concentrated with some suppliers in Asia. This makes it more difficult to secure the continuity as Philips Lighting is less in control over the supply chain. Philips Lighting is less of an influencer in the supply chain. Possible solutions when continuity is in jeopardy could be buying an interest in a supplier. Supplier financing is becoming less of an option in these cases.