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## Philips's CEO Urges Local Strategies for Emerging Markets

By [PAUL GLADER](#)

When Philips Electronics NV Chief Executive Gerard Kleisterlee retires next year from the electronics conglomerate he has led for a decade, he will leave a company that is increasingly focused on emerging markets.

Mr. Kleisterlee, 63 years old, has pushed the company to get growth from developing markets, especially China and Latin America, where health care, lighting and consumer products are gaining momentum.



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Jodi Hilton for The Wall Street Journal

CEO Gerard Kleisterlee, who is retiring next year, helped drive Philips's foray into emerging markets.

Philips's emerging-market sales rose 29% in the second quarter from a year earlier and make up 34% of the company's total sales. The company aims to boost emerging-market sales from 30% to 50% by 2015 by focusing on China, which is spending \$125 billion to build tens of thousands of hospitals and clinics during the next three years. Philips is also ramping up its staff and research divisions in China.

Elsewhere, Mr. Kleisterlee has pushed the company to shrink its work force and divest laggard businesses, such as its semiconductor unit in 2006.

Mr. Kleisterlee, who will hand the reins to former Philips executive Frans van Houten next year, has spent his entire

career at Philips.

He shared his strategy during a recent interview.

Excerpts:

**WSJ:** Is there more competition to find growth in emerging markets?

**Mr. Kleisterlee:** The rush to emerging markets is there already for the last 10 years. The crisis and the slowdown, particularly in the Western markets, further emphasizes that trend.

What you have started to see is that, in many of these emerging markets, now you get growing local [Chinese] competitors who become either regional or aspiring global competitors.

**WSJ:** What do companies have to do differently now in emerging markets?

**Mr. Kleisterlee:** It does not suffice to serve only the metropolitan areas. In India and in China you need to have good rural distribution.

Increasingly we, and also our competitors, develop products in these emerging markets for the emerging markets. So it is not a European or a U.S. concept that gets sold in China or India but things that we have designed, engineered and manufactured locally for the local market.

**WSJ:** How do your managers execute that strategy in emerging markets?

**Mr. Kleisterlee:** For the emerging markets we have even more local responsibility. In general we try to push responsibility down in the organization and have everything necessary centralized. But for emerging markets we have done that even more than for the developed markets.

**WSJ:** How are you preparing for an upturn?

**Mr. Kleisterlee:** By continuing to invest in innovation, continuing to invest in marketing and strengthening the brand. And continuing to do mergers and acquisitions. That is something that we have sustained through the crisis. We have greatly simplified, further simplified the organization and further improved our cost structure.

**WSJ:** What is your strategy now that you can see out of the recessionary tunnel?

**Mr. Kleisterlee:** We are not counting on the buoyant rebound of the economy. We know that recovery will come, but it will be slow. Certainly in the developed world, [the economy will grow] at a lower pace than economies used to grow before the crisis. And it will probably be a little bit bumpy.

**WSJ:** What kind of companies will you look at in the next year for acquisitions?

Philips Electronics NV					
Sales, in billions		Loss/Net income, in millions		Employees	
2008	2009	2008	2009	end 2008	end 2009
€26.4	€23.2	€(92)	€424	121,398	115,924

**Mr. Kleisterlee:** The lighting landscape is fairly scattered. The professional luminaires, or the fixtures market, is somewhat consolidated in the U.S., but still fairly fragmented in Europe, totally scattered in Asia. So there are consolidation opportunities in luminaires or fixtures both on the consumer and on the professional side.

**WSJ:** You once said the company was too old, too male, too

Dutch. Is it still?

**Mr. Kleisterlee:** It is still too male. We need to see that we create an environment in which it is indeed possible and desirable for women [to rise].

We are doing fairly well in the United States. If I look at my health-care team for example, we have a good mix of men and women there. But then in other parts of the company that is still a little bit lagging.

The other thing is of course with our strong presence in emerging markets, we have a large presence and Asian work force. We also need more Asian leaders.

**WSJ:** In consumer products, what's your sense on how consumer behavior is changing in coming years?

**Mr. Kleisterlee:** What this period particularly shows is consumers have a strong sense of value and value does not mean necessarily a low price point. But value consciousness almost at every price point. So you have to make clear to the consumer what the value is here that you are bringing and why it is something the consumer should be interested in.

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