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Interview: Royal Philips' Journey From Medtech Supplier To Healthtech Partner

CEO Frans van Houten on adding informatics and building a health care solutions company

by Ashley Yeo

Health care delivery has been transformed over the past decade, and so has Royal Philips, whose CEO Frans van Houten explains why both were necessary, and the extra impetus for system-wide change following the COVID-19 pandemic.

If business were a tug-of-war, *Royal Philips*' Frans van Houten would have his team pulling in unison. "We all need to be at the same end of the rope," he said, which goes a long way to explaining how the CEO has been able to transform Philips from an industrialized holding company in 2011 to a health technology solutions company in 2021.

Van Houten marked 10 years as CEO in March, and later this year will preside over Philips' final withdrawal from non-health care businesses. That moment will come, as planned, in the third quarter, when the company's domestic appliances business will be sold. Philips' focus will be solely on delivering health technologies under the famous Quadruple Aim that guides the group's strategic decision making.

Despite the COVID-19 disruption last year, Philips secured comparable revenue growth of 3% in 2020, just 1% below the bottom end of the guidance issued by the group in late 2019. That creditable performance for the €19.5bn ($23.7bn) company was led by connected care, while other elements of the portfolio – diagnosis and treatment, and personal health—underwent significant reverses as normal hospital activity halted and consumer habits were forcibly changed.

The tables are likely to turn again in 2021, van Houten said in a recent interview. He explained

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CEO FRANS VAN HOUTEN: 'THE MOMENT YOU ARE STATIC YOU MAY LOSE YOUR EDGE'
Source: Source: Philips

that Philips' "North Star" is a combination of managing through the uncertainty of the pandemic to meet changing customer needs in short time frames, while at the same time servicing a strategy of innovation and long-term growth.

Medtech Insight: What is the ethos of Royal Philips today?

A Frans van Houten: Society's expectation now is to have transparency, and we have basically raised the expectations of ourselves by saying 'Let's be open.' Multinationals are sometimes distrusted, but as we have transformed the company, we've said we want to be impactful to the world.

You need to take people along with you, and to communicate, otherwise you are a closed box and no one understands you. I believe in transparency. In the Netherlands, the government challenged Dutch CEOs to appear in the media more, and to be interviewed. We decided to do that, unapologetically, and allowed ourselves to be questioned about what we do. I think it is important to be within society, and not on the outside.

Q Besides championing inclusivity, what have been the drivers for you at Philips?

A I had a passion to bring Philips back to relevance. I was born in Eindhoven, and I've seen Philips in the declining years. It gave me a lot of pride to get the company to grow and to increase its societal relevance. My second passion is health and health care, so I have a great job: I get to innovate in health care. It motivates me to do something that impacts the world and is useful.

Q How have you changed Philips in the 10 years since becoming CEO in March 2011?

A Philips is a special case – we were the leopard that changed its spots. Ten years ago, we were a diversified holding company with a wide range of products in the industrial

space that was losing its relevance.

In changing the portfolio towards healthtech, and engaging on that, we have seen interest in Philips increase among all stakeholders: shareholders, new talent and employees alike— they want to join the company. Ten years ago, that was difficult, but now there is a vibrancy around the brand and the technology because of what we do.

Well before COVID, we had chosen a new profile and purpose. The societal challenge of health care informed us that we did not want to be just a products company.

Today, I would characterize Philips as a solutions company, bringing together systems, products, services and informatics in order to promote better health care systems. We have complemented our traditional portfolio with informatics, and that all allows us to bring insights that aid clinical decision support.

More than one in two of our 12,000 R&D-based staff are based in informatics and data science.

There are still unmet needs in health care and concerning trends, such as the aging society, more lifestyle diseases, a society grappling with the costs of care, and staff in care centers that are overworked and near to burnout. We wanted to be part of the solution to those issues, using clinical and health economic evidence.

Our innovations are designed to meet the Quadruple Aim for health care – delivering better health outcomes, better patient experiences and better staff experiences with higher productivity/at lower cost. That resonates with people and goes hand in hand with being transparent. We don't mind people peeking into the Philips kitchen. We do a lot of co-creating with customers.

As a result, and with appreciation of us as a trusted partner rising further during COVID, we find we are able to get much deeper into the real needs that must be

solved. And that suits us because we grow faster as a consequence.

Q **Do providers, patients and other stakeholders expect different things of a healthtech solutions provider in 2021, compared with a medtech company in 2011?**

A Competitors might talk about medtech, but we have consciously chosen health technology, because our business is about health. When we talk to the wider audience and consumers, it resonates that we are there to improve health.

People who are less involved in the health care sector should understand that health care needs to be accessible, affordable and lead to better health outcomes. We must make it a less frustrating experience. We also want Philips' 80,000 staff to talk about it. For us, it's about how to stay healthy and how to diagnose right the first time. 'Continuum of care' is our choice of words that make our purpose come to life.

Our domestic appliances business is being sold off. The fact that we are selling off non-strategic fits is a logical consequence of the strategy we have chosen. And it is working, as we have a higher growth profile, our market shares are growing, and profitability is rising. We've gone in deep, and by cleaning up the portfolio, we can reinvest in the company and acquire adjacent technologies to be better able to deliver on the idea of The Solution.

To achieve this big goal, we need to be 'all in.' A big insight we have is that health care needs to be better integrated, instead of siloed, and our technology enables that. Doing acquisitions helps us come up with more comprehensive, integrated solutions. For instance, cancer patients need a quick diagnosis and the scanner gives us the image. But it goes much further. It's about the interpretation of the image, combining information from radiology, pathology and genomics, and comparing it with data from other patients to characterize the cancer and select the best treatment option. This is how we bring the data together and facilitate the oncologist to take the right decision about the precise diagnosis for a patient.

Q **Philips has been signing long-term partnerships with hospital groups internationally. Why is this a growing trend, and what is in it for the provider partner?**

A The long-term deals are a leading theme for us. We did 25 in Q4 of 2020. Providers have to transform, but that is hard for them, as it means change management, new roles and new solutions. Often it doesn't happen, and for some, health care remains how it was 20 years ago.

To help providers change, we want to partner instead of only being a supplier to them. We want to move from the transactional, to a relationship where we are standing together shoulder to shoulder and working towards a transformation. It takes time. It cannot be done in a matter of months. Sometimes it takes a year. It's a journey, and you know you have to stay at it. I have worked for 10 years to change Philips; it will take some time to change health care. The partnership business model works at Philips because we are prepared to have skin in the game.

I tell provider chief executives that if they are successful, that is my success too. They see that I am prepared to risk part of the cost of the solution. Of course, the provider has to be willing to change, but it is a very exciting process.

As a result of COVID-19, telehealth needs to be implemented much more widely. That is a massive change for health care providers – it changes their processes, systems and ways of working, and their reimbursement. Philips is leading in this space, helping providers to face these new technologies.

Q **Philips has targeted that half of its business will be derived from this solutions-based business by 2025. How do you delineate "solutions based" in this context? Is 50% a realistic aim?**

A To change health care, we need to go across all the silos of the professions. We need to foster collaborations supported by clinical evidence. Some hospitals prefer the traditional product by product approach to procurement.

To a degree, there will always be a percentage of businesses that fall into the ad hoc, discretionary bucket. 'Solutions-based' answers cannot go to 100%. They can go above 50%, but that will take time, as this requires a different culture and attitude, and a different view of the relationship between the hospital and the vendor.

The aim is to become a partnership, rather than continuing the vendor/vendee relationship. We also want our Quadruple Aim targets to be those of the customer. Once there is a common set of aims, collaborations start, and we become more than just a supplier.

Hospitals that realize they need to change are more open to that kind of transformation. The 25 new partners we reported in Q4 2020 saw what is coming down the line in terms of productivity needs, and the need to cope with 6-7% of staff burnout. They see that it is no longer 'business as usual.' You see increasing numbers of hospitals wanting to take a different approach now – but it will take time for us to go from the 37% of business we achieved in 2020 to 50%. That is a big step up.

In 2021 to date, we were able to record several new partnerships, but they tend to be a second-half-of-year activity, given the time needed to negotiate contracts. They are not usually announced in Q1, but we are seeing continued, strong interest.

Q **What type of organizational changes do they signify for Philips internally, and geographically? Are these exclusive arrangements, or multi-vendor deals with the emphasis on interoperability?**

A This means a lot to Philips. You need to start tearing down the silos between your own business units and work on a common architecture for creating software stacks, common definitions, and approaches for using data with cybersecurity, etc.

We have created an architecture across all our businesses. They interoperate with all our competitors so that we can talk multivendor, vendor neutral and interoperable. We can also demonstrate performance in a mixed network. It is quite a

comprehensive approach.

In the initial years it was seen as a burden by our businesses, but then they realized the benefits. Once you overcome the technical debt and legacy needs, you go much faster in increasing the adoption of new products.

When we speak to hospital chief information officers, they appreciate the logical architectural approach, where we can also demonstrate how real time data can move from medical devices and be used as clinical support.

Q **What are the advantages in practice for Philips?**

A The sheer consequence of this kind of transformation is that you need to have an open system. No company can provide all the pieces. It needs to be open and interoperable – and nobody wants to be locked in.

At the same, there are not that many companies and competitors that do the same as we do. We have a comprehensive portfolio; the more we partner with providers, the deeper our clinical knowledge becomes, and as a consequence, our competitive advantage goes up. We are learning very fast how to be the partner. There are a couple of others who can do this, but not that many.

For instance, we pivoted in the interventional space to innovate the procedure. In IGT, which is minimally invasive operations, we have shifted from being a hardware supplier to being an innovator of the clinical procedure. We innovate in these procedures together with the doctors and the thought leaders, and consequently we can advise other hospitals who are not so experienced in how to get better at minimally invasive surgery, in replacing heart valves and in spinal surgery, for example.

Not only are we now becoming the teacher of hospitals around the world on minimally invasive procedures, but we can handle more patients in a day, at less cost, and better outcomes.

Q **To what extent should organizations like Philips become involved in deeper health care policy and delivery planning, on a local or regional basis?**

A This is evolving. The role of aiding and supporting best practice is a very compelling direction to go. I'd love to be able to show health systems globally how to raise their game and become 'best practice.' But as that will ever be evolving, the moment you are static, you may lose your edge.

The adoption of this concept differs all over the world. Some systems are very forward thinking; and other are not so progressive. Within a single country even there are early adopters and laggards. Like in any other industry, there are some still very transactional customers, and others who want to partner. I see the whole spectrum that we need to deal with. That is to be expected.

Q **So this really changes the way Philips does business?**

A It's more consultative, but as the consequence of a relationship, it is an investment. To land a large partnership can take 18 months, and a lot of work to get the order.

To get the partnership going, you need to build deep intimacy with the provider – which is another investment. Before you get into a flow – when the rewards start to come—you are partly at risk. The impact needs to be achieved before you get the full benefit; and that applies to the provider as well as us. It is a learning curve.

It is a complex, but more rewarding path to go down. Once we have that trusted relationship and are performing well, our market share or that of the customer typically goes up. We have seen that, if we are in a transactional mode, we need to share the cake. If we are the lead partner, our share may go up to 80%—but not reach 100%, as we may not have everything and still need to work with third parties to get to the full solution.

Population health is the ultimate goal, and we have learned that takes time. In the meantime, we have numerous customers with whom we have helped drive 30% more

productivity out of their fleet. It could mean we sell less; if we boost productivity, it means the client may not need a new scanner, as they have been able to optimize their installed base. By adding a software solution for better planning, we can improve utilization and avoid the hospital having to invest more.

With minimally invasive treatments, patients can go home faster, and the cost to society is less. Ensuring the intervention is done right first time means the patient does not need to return for another session.

The 'holy grail' is population health, but I feel we are collectively in society too optimistic about how easy it is to impact population health. If we look at the social determinants of health, it is clear that we need to connect with people about their behavior, exercise, food and health habits, and their needs on disease screening, etc. That type of change that is much harder to accomplish, but we should still strive for it as an end goal. In the meantime, so much improvement is possible in the way care is provided.

Q **Of the three divisions, connected care was a very strong performer during the first wave of COVID-19 in 2020, but you have predicted a post-pandemic sales correction in 2021.**

A 2020 was an unusual year. In mid-March we decided to invest €100m to set up more factory capacity in connected care. We were able to do a many-fold increase in ventilator and monitor production, and at the end of the year, it resulted in around €1bn more revenue in connected care. Because of the postponement of elective procedures and consumer health purchases, we had approximately €1bn less sales in the other divisions, but it added up to 3% comparable growth, which was quite satisfactory.

This year, we will see a decline in connected care – that more than 20% growth we saw in 2020 will make for a very difficult comparison in 2021, while the other divisions will grow very strongly. We have conservatively forecast for 2021 that we will see low-single-digit growth, because of the comparative shifts.

The year has started strongly, after we were concerned about the ability of hospitals to invest – a lot of them lost money because of the postponement of elective procedures. But there is interest from hospitals to further upgrade, adopt telehealth, and improve their diagnostic and treatment systems. We will see where we land in 2021 – a year when COVID is still bringing uncertainties. But it is our ambition to get to 5-6% growth in 2022, which we will definitely achieve.

Q **Philips has made three M&A forays recently, a relatively low number, but it has been an unusual year. Are you able give some insight into the next stages in the broadening of the Philips offering?**

A For a solution to actually materialize within the solutions strategy, and with reference to at M&A activity, you need a lot of building blocks. There are so many areas in our portfolio that we want to strengthen. One is our informatics base. In *BioTelemetry, Inc.*, we acquired ambulatory diagnosis services and wearables. We have a shortlist of targets of interest, but within our solutions approach, strengthening diagnosis and the IGT device

Growth Continues In Q1 2021

Philips' Q1 sales of €3.83bn were 4% up as reported, and up 9% in comparable terms, despite the ongoing impact of COVID-19. Order intake levels contrasted among the divisions: up 11% for diagnosis & treatment; and down 27% for connected care, as anticipated.

Personal health segment figures are now presented without the results of the domestic appliances business, classified as a discontinued operation as of Q1 2021 following the agreement to divest it in Q3 to global investment firm Hillhouse Capital. This activity accounted for 41% (some €2.2bn) of personal health segment sales in 2020. Comparable group sales for 2020 have been restated as €17,313m.

The outlook for the year is low to mid-single-digit comparable sales growth in 2021, compared to an earlier projection of low single-digit growth, in spite of continued uncertainty related to the impact of COVID-19.

business, connected care and informatics are the obvious directions of travel.

We pioneered the strategy of being more horizontal and integrated, and I see the move of *Siemens Healthineers AG* [for Varian Medical Systems] as following a similar strategy, not as a different strategy. Philips already has a partnership with *Elekta AB*, and we are also working together to bring radiotherapy and diagnostics closer together.

Philips has invested much in oncology informatics. We see data plays in oncology as even more important than, say, a hardware play.

Q What new fields of medtech and healthtech is Philips attracted to invest in, including those at Philips Ventures?

A We have made a change at Philips regarding innovations, going away from 'inside out' and towards to 'outside in.' This involves co-creation with leading customers. Given that you can never have enough R&D money yourself, it is important to participate in innovation ecosystems coming from the outside.

Venturing and participating in start-ups and scale-ups is a great way to learn about new approaches and innovations. And we can help them too, within our ecosystem, by buying them or partnering with them. We have hundreds of venture stakes.

The HealthSuite is another important tool. Within solutions and the end to end continuum of health care, you need an architecture – a platform approach – that is open and interoperable. This goes beyond the four walls of the hospital, and ties in primary care doctors and care teams. It should be cloud-based, and we have chosen that route with the HeathSuite platform of engagement. Ventures and third parties can plug into it too. We have architected our platform and software stacks onto HealthSuite so that we also can have the flexibility to configure solutions in a better way. HealthSuite is a bedrock but is also a philosophy of innovation.

Q What are the qualities needed to lead a competitive global top five medtech

player in 2021 and into the future? How do you balance the needs of shareholders and health care systems?

A You need a lot of courage. For me, going back a few years, I needed to set a North Star several years out, and a strategic plan that needed time before it materialized. In the early years, there were a lot of sceptics questioning the route I was taking Philips on. But over time, you get more success.

And the shareholder base changed too. We were an industrial holding company, and we had shareholders who knew nothing about health care. As we progressed, more and more medtech investors came on board. They have a different attitude towards investment; the average medtech investor loves innovation. Tell them you invest in R&D, and they will applaud. But back in 2011, the shareholders might have complained that their investment was not seeing returns. The narrative has changed since then.

And as a leader you need to have the ability to rally the team. A leader on his own is nobody, you need to become a pack. One of my metaphors in the company is that we need to all pull on the same side of the rope, because that is how you gain momentum. These are classical leadership qualities to get people behind the purpose and the strategy.

I find that very rewarding, and get a lot of energy out of it. These are long hauls. Nothing in health care happens overnight. You need persistence to drive towards the vision.

Q **What are your thoughts and concerns about the global business continuum in the current era, where local protectionism is a factor and trade issues are resurfacing?**

A Geopolitical events are having potential effects on markets and business in 2021. There are issues – in China, they say it's an open market, but they sometimes buy local. In the US, President Biden introduced the Buy America Act. But at the same

time, people speak about multilateralism, open borders and adherence to the World Trade Organization.

As a company, it's difficult to navigate these complexities. What it means practically is that we must be local in all the big geographies. Philips employs over 20,000 people in the US, for instance, so we can call ourselves local—to all intents and purposes, we can be American in the US. And then we must be Chinese in China.

But it must be realized that the medical supply chain is global, that we are interdependent, and we need to keep borders open. Those are some of my concerns. Not everyone realizes that when they talk about geographical sovereignty. It sounds impressive from a political point of view, but practically, it is not desirable or realizable, as the COVID-19 pandemic has demonstrated.

The reality is that, using learnings from the pandemic, we need to collaborate better to make health systems work between countries, between hospitals, and between hospitals and primary care. We will need a data architecture across every country's data, effectively a repository that can serve to improve collaboration and care. That is an opportunity that COVID has clearly shown should happen. Happily, there is growing momentum for that in many countries. Philips will be at the forefront of helping to drive that as we transform the health care system.

But if we want change, we need to engage with policy makers, with the chief executives of health care systems and with IDNs. Otherwise it won't happen. In my view, it needs to be driven by public-private engagement.

This interview first appeared in In Vivo.