

About the Company

Azienda Royal Philips.

Company description **Royal Philips** is a Dutch company that helps improve people’s health through significant innovations: from healthy living and prevention, to diagnosis, treatment and home care.

Business Line/ Department/Field of Application The company is a leader in diagnostic imaging, image-guided therapy, patient monitoring and health informatics, as well as in products to support consumer health and home care.

Website [Philips’ transition towards a circular economy.](#)

Case Study

1. PARTNERSHIP BUSINESS MODEL FOR HOSPITALS

Situation Global resource constraints on health systems are driving a shift to value-based healthcare to reduce cost, increase access to care and improve patient outcomes.

Worldwide, technological advancements are providing patients and health care providers with greater access to information; as a result, the demand for personalized, data-driven and innovative treatments is growing substantially. Pursuing higher performance standards in the presence of budget contractions calls for the adoption of smart solutions that optimise resources and usage practices.

Research and technical improvements also require a systemic renovation of equipment and facilities and this results in increases in costs.

Overall, there is an urgent and widespread need for high-profile value-added solutions, necessary to ensure widely available, cost-effective quality health care.

Company's position

Philips is working to address this shift in three ways:

Industrialisation of care: standardising and optimising the building blocks of healthcare to enable health systems to deliver better outcomes at a lower cost.

Personalisation of care: the convergence of professional healthcare and consumer health, enabled by data and digitalisation, leading to increasing self-management and individualised treatment pathways.

Inclusive care: opportunity to enable access to affordable and more inclusive care. For instance, by employing technology to provide cost-effective care in remote communities, or even leapfrogging existing systems, methods and procedures entirely with the application of new devices and allied services.

Challenge

The rapid pace of technological development results also in the replacement of equipment with significant residual value and high disposal costs for hospitals.



Solution

In order to provide value-based healthcare Philips is transforming its business model, shifting away from merely selling equipment and moving towards the development of long-term solutions and risk-sharing with customers through a business model based on partnerships.

The partnership business model is based on an assessment of a customer's current state vs. its ideal state in terms of quality, cost, and output.

Philips is rewarded for continuous improvement in clinical, operational and financial outcomes.

Upgradable equipment, system refurbishment and the re-use of parts reduces the total life cycle costs of equipment and extends equipment lifetimes.

Key benefits

The partnership model enables care providers to reduce costs, share risks, and access state-of-the-art solutions and services at a foreseeable cost.

Extensive clinical collaborations with hospitals allow Philips to deliver better customer value and to shift its innovation focus much closer to customers.

By moving away from a purely transactional sales approach, Philips has achieved a rate of 50-90% material reuse (depending on the product) through its refurbishing activities, including its reuse of 940 tonnes of refurbished medical imaging equipment in 2016.

Circular Economy Results

Philips measures its progress in terms of the circular economy by quantifying the percentage of company revenues that comply with its definition of circular revenues.

- a) All revenues linked with performance and access-based models, such as the hospital partnership model, are classified as circular revenues, in addition to the revenues from upgrades, refurbished equipment/ components and products with a recycled plastics content of >25% by total weight of eligible plastics.

Currently, 9% of total revenues are categorised as circular (for 2016), and the company aims to double this rate and to reach 15% in 2020.

1,700 tonnes of spare parts were reclaimed and recycled in 2016.

Related internal achievements

Significant engagement with stakeholders outside Philips.

Internal employee engagement.

Re-use and recycling of materials in product design.

Positive sentiment: Philips is perceived as an innovative company applying highly sustainable models.



2. CIRCULAR REVENUES

Scenario In 2016, Royal Philips introduced and deployed a new internal KPI: Circular Revenues. The Circular Revenues percentage includes our revenues from validated circular products, services, and solutions as a percentage of Philips total revenues. The validation is based on the following Philips circularity requirements, which could be further refined in the future:

- **Performance and Access-based models**
Revenues from contracts that include Philips' responsibility for the product at the end of its working life.
- **Refurbished, Reconditioned & Remanufactured products/systems**
Revenues from selling refurbished, reconditioned or remanufactured products/systems with re-used components >30% of the total weight of the product/ system.
- **Refurbished, Reconditioned & Remanufactured components**
Revenue from purchased components that have either been refurbished, reconditioned or remanufactured. The purchased component must contain >30% re-used parts or materials by total component weight. The component can either be a standalone component or part of a new product/system. The commercial value of the components is considered irrespective of whether it is part of a service, warranty or a sale.
- **Upgrades/refurbishment on site or remote**
Revenue from upgrades of existing hardware and software either on or off-site.
- **Products with recycled plastics content**
Revenues from products with a recycled plastics content of >25% by total weight of eligible plastics.

Company's position

We have set* the ambitious target that by 2020 a total of 15% of our revenues will come from circular activities. This is double the baseline rate of 7% achieved in 2015. The result for 2016 is 9%. The main contributing revenue streams are for:

- **Personal Health business activities**

Revenues from our B2C products that contain large quantities of recycled plastics, such as our businesses in coffee and domestic appliances.

- **Diagnosis & Treatment business activities**

Our Diamond Select range of refurbished imaging systems, upgrading of systems at customers' premises to enhance performance and extend their useful life, repair and reuse of spare parts.

- **Business activities related to care and health informatics**

A number of Philips business activities based on subscription models, such as the Philips Lifeline.

*From "Circular Revenues Annual Results 2016"