

MEET

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IN TOMORROW'S WORLD, ALL PERVADEING NETWORKS WILL CONNECT ELECTRONIC DEVICES WHICH, TODAY, ONLY ALLOW PASSIVE VIEWING AND LISTENING. SELLING A BOX WILL IMPLY MANUFACTURER, NETWORK OPERATOR, CONTENT PROVIDER... RESEARCH INTO HOW TECHNOLOGICAL RESEARCH TO REALIZE SUCCESSFUL PRODUCTS. THIS IS THE WORK WHICH PEOPLE LIKE

"Software and services are going to transform our lives"



1

What is your background Carolyn?

I studied Japanese, music theory and composition, at Cornell University simply because I loved these subjects. There was great demand for bilingual people in the 1980s, and I quickly found work as a translator. I soon discovered that translation was more mechanical and less creative than I had expected: the people I worked for had all the fun! Although I had plenty of my own ideas about business, these did not matter. So, I switched to the business side and went to work for a Japanese high-tech consulting company in Silicon Valley. My job was to identify potential winners in computer games and license the games for Fujitsu. Also, part of my job was to accompany Japanese journalists touring in Silicon Valley. This was a fabulous opportunity because it allowed me to ask questions and share ideas of my own. This is when I fell in love with the complexities of the technology business. In 1993 I made the tough decision to quit a job I loved to get my MBA at Stanford Business School. It was incredible to be in Silicon Valley at the dawn of the Internet explosion. It cemented my belief that software and services were going to transform our lives and that this was a tremendous challenge for mature businesses. I wanted to be part of it and play a role there.

2

So how did you end up at Philips Research?

In the middle of my two years at Stanford I chose a Summer internship with Philips Research. When the time came to select a job from those on offer, I chose for a career with Philips. I had learned a great deal about life in the research lab from my older brother, a computer science professor at Harvard. I knew that only 10 to 15 per cent of research projects results in a commercial success and I wanted to contribute to bringing this percentage up to around 20%, or at least make the commercial successes happen faster.

3

Do you think Philips Research could use more people with a mission like yours?

Certainly, but not an unlimited number because not every project can be helped at every phase. Adding people to projects is important, leveraging their skills is crucial. If it were up to me, I would organize a mechanism to ensure a tight link between Research and the Product Divisions. If Philips in the US were to follow the Japanese cross-training model including job rotation –letting more high potentials spend a couple of months in a PD– huge benefits could be realized. It is only by working in a tightly linked way that we can begin to understand what drives a busy PD. Which of their 11 products keeps people

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awake at nights? Where can they use extra features? You don't get that information when you spend four hours a month exchanging information about timelines and milestones. Human behaviour is based on the day-to-day stuff of working together and trust-building, and you have to experience that to be able to use it. This is an approach for the long term and our Japanese competitors are known for doing it well.

4 When should business strategy provide input for research projects?

Right after technical breakthroughs, I would say. Strategists can be used to benchmark the project, to map the competitive landscape and thus indicate when and where big risks should be taken. We help to clarify the market impact of an invention by stressing market issues rather than technology issues. This helps the researchers to explain the value of their work.

Researchers are very passionate about their achievements. The critical part is how to make others passionate as well. That's where we can help. And when I say 'we', I mean formally trained people with a business background who can create and interpret market and financial analyses. Knowing where to go is great, but knowing how to get there takes more. When you are breaking new ground, implementation is a big challenge. Business strategists can provide powerful input in the early stages.

5 Business models for services are obviously different from those for shipping boxes.

Do you think this aspect gets the attention it deserves?

Perhaps it is beginning to, but we have a long way to go. Ironically, today's value drivers are components/semiconductors and... services –the two extreme ends of the CE value chain. Everyone in the middle is being squeezed. It looks as if the Internet may be the disruptive technology that forces radical change of business practices. Let me give you an example. In the US, Philips might sell cable set-top boxes, for \$300 to maybe 20 million households. These are likely to spend \$500 a year on video content, \$500 a year for broadband access to the Internet, and they will order goods via E-commerce for, again, \$500. So, if \$1500 per year goes through this box, times 20 million, that's a considerable amount of money. Wouldn't it be nice to get a share of that? But to do so, you need a different business model (from box shifting) with a very different risk/reward structure. You need risk/revenue-sharing arrangements with the other companies involved. This turns our business on its head. But in answer to your question, I don't think everyone that should be, is committed enough. In the final analysis, the consumers' perception about who owns or delivers the service is what really matters. This does not automatically

imply, however, that Philips must execute services itself. Rather, Philips will have to cooperate with service providers by leveraging its position in the living room to add value. For example, we can be the intermediary between consumers, who are concerned about their privacy, and marketing companies that want to know personal characteristics to be able to target advertising. This is a delicate but critical role. Private information can reside in the consumer's home, in the Philips box, protected by a secure system. Only those data that are needed, or are allowed to pass through, will find their way to these companies. Since everybody is keen to keep their privacy, this could be a real opportunity: a killer application to be provided on Philips boxes! These are incredibly exciting times ahead.

6 But service providers can choose any box maker to do that. Why should they choose Philips?

Philips is a technology innovator. I think that the image of Philips is improving nicely in the US because of WebTV, TiVo and the star products in our branding campaign. Service providers want to cooperate with Philips because of its technical advantages and strong distribution of devices for service delivery. But we must capitalize on our advantages before the market is established by our competitors. Ultimately, most or all box makers will play a role in this market. To create advantageous partnerships and become a profitable player with significant market power in the long term, Philips must establish a strong Internet strategy and make that a top priority across the company.