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Despite US Slowdown, Philips Profits Nearly Double

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Much of Philips' fiscal strategy in 2007 focused on offsetting the economic slowdown in the United States. During a December analyst presentation, Philips outlined the changes in its U.S. operations, which reported a 10 percent decline in sales this quarter. The new strategy involves pushing Apple-like design innovations with its products, creating a lifestyle purchase, something that it so far hasn't achieved.

Royal Philips Electronics strengthened its lighting and energy business while tapping into emerging world markets to offset big losses in the United States, according to its fourth-quarter earnings report released on Monday.

Philips' net profits grew quarter-over-quarter from 680 million euros (US$982 million) to 1.39 billion euros ($2.01 billion) even as its sales numbers remained relatively constant. The growth came as Philips scaled back its consumer electronics reach in North America and bolstered its European lighting divisions by acquiring Partners in Lighting and Color Kinetics, which helped the company post a 14 percent growth in that division.

However, it was the company's foray into the emerging Latin America and Asia Pacific markets that signaled the most significant change in where the company expects its future growth.

"We also continued to invest in strengthening our position in important emerging markets in Asia, Easter Europe and Latin America," said Philips CEO Gerard Kleisterlee. "Throughout our business, growth in these markets was strong in 2007, with both China and India growing in excess of 20 percent in the fourth quarter."

North American Slowdown

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The switch was predicated on the fact that competition in the LCD and plasma television markets was often more about price point than brand recognition, said CEO Rudy Provoost. That volatility makes it difficult to compete in a saturated market.

Emerging Markets

As Philips re-evaluates its U.S. strategy, the company has turned its attention to three emerging markets: Latin America, China and India. Sales in those three markets are slightly off the United States figures, but Latin American sales increased 10 percent and Asia Pacific increased four percent.

As Philips looks to insulate itself from a potential slowdown, it's likely these markets will continue to receive much attention, said Alan Lancz, director of LanczGlobal, a technology research firm based in Toledo, Ohio.

"When you look at their growth in sales, that's impressive," said Lancz. "There expansion will be in these middle markets such as China and India. There are times when luxury retailers aren't fazed by downturns, but that isn't the case. We're looking at a global slowdown."