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Time To Start Investing In Innovation?

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In a recession, attention naturally turns to cost cutting and risk avoidance strategies. Management turns to a defensive strategy, constantly checking for early signs of a recovery. The difficulty with this strategy is one of mindset – how big do the signs of recovery have to be before a convincing case can be made for sustained recovery over a double dip scenario?

A balanced approach is necessary, looking to the short term survival whilst taking the necessary innovation steps to ensure the company is not only well placed for recovery, but also actively taking market share from those competitors adopting a risk averse only strategy.

Global Predictions

Semiconductor shipments are taken as an early sign that any technology sectors using hardware platforms are entering an upturn. An upturn in shipments reflects ordering activity to replace inventory, and in sharp upturns this results quickly in lengthy delivery lead-times and shortages.

At the top level, it would appear that the outlook remains gloomy with IDC reporting in May a decline of 10.9% in worldwide microprocessor shipments in Q1/09 over Q4/08. This followed a 17% decline from Q3/08 to Q4/08 and an overall 13% decline Q1/08 to Q1/09. A pickup was forecast into Q2/09 due to a forced replenishment of inventories, but not a sustained recovery. This is further compounded by the publication in March by iSuppli's 2008 Semiconductors Suppliers Rankings, reporting a decline in revenue for 8 out of the top 10 suppliers.

Could the forward looking indications be missed?

An important divergence appears to exist between the trend of the major suppliers, who by nature offer products likely to be adopted by the widest possible customer base, and those suppliers who offer products targeted to specific market segments. Suppliers targeting specific vertical markets are investing already in product innovation to turn themselves around and seize market share.

Anecdotal reports in Q1 within the semiconductor industry suggested that an important trend was being missed. Analysis of the dedicated high volume manufacturing operations such as TSMC, UMC and Chartered Semiconductors provides interesting indicators. These companies have no products; they rely on innovative design only companies ("fabless") to create the product flow for manufacturing.

iSuppli reported the leading customers in 2008 for the manufacturing only suppliers as:

Rank 2008	Company	Country of Origin	Revenue US\$ (millions)
1	Qualcomm	USA	6,477
2	Broadcom	USA	4,643
3	NVIDIA	USA	3,241
4	Marvell	USA	3,059
5	MediaTek	Taiwan	2,896

iSuppli reported 2 of these suppliers (Qualcomm and Marvell) as having achieved pure organic growth in 2008, and a further 2 suppliers (Broadcom and MediaTek) as having achieved growth with a contribution having come from major acquisitions during the year.

The parameter of design starts is a critical indicator and provides a measure of the manufacturing only companies' future pipeline of products to be manufactured, and provides a source of forward looking insight. The aggregation of data accumulated from over 70,000 unique chip projects since 2005 from leading IDMS and EDA design houses has been reported on the System Level Design Community. The trend, corrected for the long term decline in design starts due to higher levels of integration reducing the need for multiple chips, shows an increase in design investigations in Q1/09. This is a 19% increase over Q1/08.

So what is the likely impact on businesses at the other end of the "food chain" if this trend continues?

- The 3 most sited market segments for design starts were:
 - Communications
 - Consumer Electronics
 - Data processing (server)
- The designs are leading edge designs with very high levels of integration, suited to compact packaging such as portable devices with high levels of functionality.
- The typical cycle to these products arriving into new platforms is 6 to 9 months, when the effect will be reflected in sector sales through initial manufacturing inventory purchases.

FirstPartner's View

The indications are that we can look forward to new hardware platforms coming in 2009 to stimulate market demand. Recent market experience, with high integration products such as Smartphones and portable media platforms, demonstrates revenue generating opportunities exist within the ecosystems created by these products. These opportunities exist for those recognising the innovation opportunity early and taking a well thought out investment risk.

Actions to take:

- **Identify the platform vendors who will provide you with the best market strength**
- **Form partnerships with those vendors**
- **Gain visibility of their new product pipeline and incorporate it in your development and marketing plans**
- **Team up for joint marketing programmes to ensure you are both included on, and fully integrated with, the launch wave**
- **Build on the partnership to input into their future development plans**

The winners in 2009 will be those that combine the early intelligence with careful and accurately targeted marketing strategies to take maximum advantage of the investments being made right now by others lower in the chain.

About FirstPartner:

FirstPartner is a research and Go To Market Agency focused on:

- **Clearly defining market opportunities**
- **Building profitable, customer centric propositions**
- **Accelerating the Go-to-Market delivery of new solutions**
- **Optimising Marketing Effectiveness and Efficiency**

FirstPartner covers both Consumer and B2B Markets, with a particular focus on Telecoms, Technology and Media sectors. Our sector knowledge, product and marketing expertise underpins the work we do.