



BY MICHAEL SANTARINI, SENIOR EDITOR

## EDA industry needs a reality check

**F**our years ago, the EDA industry appeared to be on top of the world; now, it appears to be taking desperate measures to show a recovery. In 2001, when every other industry was struggling under the weight of the worst recession in modern times, the big three EDA vendors were putting up solid but not stellar revenue gains, and EDA start-ups accounted for three of the top 10 IPOs (initial public offerings) across all industries.

EDA's seemingly brightest moment in what turned out to be a supernova of a year came at an EDAC (EDA Consortium) Chief Executive Officer forecast panel. EDAC organizers were beaming because, after a seemingly eternal absence, reporters from the business press had shown up at an EDA event. A bunch of smiling new faces, mostly bankers and venture capitalists, gathered to hear the prospects of what appeared to be a bulletproof industry. It was a standing-room-only event. The place was buzzing.

During that panel, the chief executive officers stayed away from the esoteric engineering stuff they usually offer us in the trade press and instead gave a simple, unified message: EDA is recession-proof. They espoused the view that their customers, though struggling and madly laying off employees, still needed to innovate to get out of the downturn and therefore wouldn't cut R&D budgets. EDA-industry chiefs also touted the fact that the industry would ease the lives of analysts, investors, and maybe even customers by doing away with perpetual licensing. Instead, it would offer customers one- to three-year subscriptions. Doing so, they said, would relieve their sales forces of cutting deals in the 11th hour of each quarter to meet quotas.

That moment was a high point for the EDA industry, but it didn't take long for reality to kick in. About six

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months later, the EDA industry learned the long, hard lesson that it is not recession-proof but rather a recession indicator. Since then, the EDA industry has been desperately trying to show that it is an indicator of a recovery. It hasn't yet recovered, but, sadly, it appears to be desperate to show that it has. Indeed, several reports from the field claim that EDA vendors are avidly discounting tools and even offering all-you-can-eat-buffet licensing to their biggest customers, fur-

ther delaying the industry's recovery.

But perhaps the biggest sign of desperation occurred too quietly in October 2005, when the EDAC's MSS (Market Statistics Service) quietly issued second-quarter earnings claiming that industry revenue was flat (Reference 1). For the first time, EDAC didn't offer a spokesman to comment on the quarter. That exception should have been the first indicator that something was fishy with MSS' account of the quarter. A closer look at the release shows that true EDA, which comprises tools, maintenance, and services (in a good year), is in fact *down*; roughly 20% of \$1.09 billion in EDA revenue for the quarter came from IP (intellectual-property) revenue, not traditional EDA.

It is as if EDAC had simply decided that, if traditional EDA isn't going to recover soon, it will just expand the definition of EDA. The worst part isn't that EDAC MSS is reporting the revenue traditional EDA companies also gain in their side IP businesses; it's that the organization now counts revenue from pure-play IP companies, such as MIPS Technologies, as EDA.

It's sad that EDAC has had to stoop so low as to so overtly manipulate the numbers. It is even worse that the industry press, which actively reports industry earnings, regurgitated the press release and didn't question MSS' numbers. If the EDA industry wants to turn the tide, it should stop dealing out marketing bull, take a realistic look at the state of its business, and address the weak points. The online version of this column at [www.edn.com/060119ed](http://www.edn.com/060119ed) lists seven issues that the EDA industry needs to address. I'd be happy to hear your suggestions, too, for what I deem an essential but painfully misrepresented industry. E-mail me at [michael.santarini@reedbusiness.com](mailto:michael.santarini@reedbusiness.com). **EDN**

### REFERENCE

1 [www.edac.org/downloads/press\\_releases/05-10-05\\_MSS\\_Q2\\_2005\\_Release.pdf](http://www.edac.org/downloads/press_releases/05-10-05_MSS_Q2_2005_Release.pdf).