

Analog Devices leadership rethinks priorities

After a tough couple of years, Analog Devices drops back and regroup.

By Tam Harbert

The last two years haven't exactly been the best of times for Analog Devices Inc. Growth in its core industry, analog, slowed from a rate of 20 to 30% in 2004 to 10 to 15% today. And the company's plans for increasing its DSP business failed, primarily because its play for the wireless-handset business in China stalled. As a result, revenues fell from \$2.63 billion in fiscal year 2004 to \$2.38 billion in 2005. Revenues rose last year, to \$2.57 billion, but still aren't back to previous levels.

Jerry Fishman, president and chief executive officer of the company, is no stranger to slowdowns, having guided the company through rough seas during the crisis of 2000 to 2001. Analysts give him credit for reading the tea leaves early and steering the company for a rough ride. "They recognized the slowing opportunity before others in the industry" and have done a good job of cutting back on expenses, says Doug Freedman, principal and senior analyst at American Technology Research. Although he trimmed expenses in some areas, Fishman relied on the financial strength of the company—\$2 billion in cash—to continue spending in several key areas. "A lot of what happens in the future is based on what you do during the downturns," says Fishman. He continued spending on R&D, which he considers the lifeblood of the company. He has also continued to beef up the company's sales channels, particularly in Asia, and to hire applications engineers.

But Fishman and his management team also have re-evaluated some parts of ADI's strategy, including its DSP and power-management businesses.

In application-specific DSPs, the company had positioned itself to sell to second- and third-tier Chinese handset manufacturers, but that market never materialized. Instead, Tier 1 vendors, such as Nokia and Motorola, moved in to dominate handsets in China.

"Analog Devices' cellular operations took a hit because some of their Chinese customers didn't do well," notes Will Strauss, president of Forward Concepts. "He's regrouping on the DSP front but hasn't defined

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an exact strategy yet. He sold the company's DSL-ASIC business because "the R&D costs were extremely high, there were a lot of competitors, and we had better places to spend the R&D." As for the rest of its DSP portfolio, "we're trying to resource the ones we're sure about and not resource the ones we're not, and that's still an ongoing process."

Yet, China could still become a good revenue source for the company if the Chinese government approves TD-SCDMA (time-division synchronous-code-division multiple access) as one of its 3G standards. "ADI seems to be in front of the crowd as far as the cell-phone chips for TD-SCDMA," notes Strauss.



Jerry Fishman
President/
Chief Executive Officer
Analog Devices Inc

Another troublesome segment is power-management products for computers. Specifically, the company focused too heavily on desktop systems rather than the laptop units, and it lacked engineering expertise in this segment, Fishman says. ADI remains committed to this area, however. In surveys, its customers say they want to buy power-management devices from the company, says Fishman. "We just have to put the right products out there."

One bright spot for the company is in the consumer-electronics market, sales of which have risen from 13% of revenue in 2004 to 17% in 2006. The company supplies the MEMS (microelectromechanical-systems) device that provides three-axis motion sensing in Nintendo's Wii game controllers. For Fishman, the Wii is a prime example of the ongoing strength of ADI: its focus on inventing core technology and then quickly developing it for new market opportunities as they evolve. "We invent core technology, and, very often, we're not quite sure where it's going to go," he says.

MEMS devices could find a substantial opportunity in gaming, says Freedman. "I think we'll see a similar technology transition, not just at Nintendo, but at Sony and at Microsoft," he predicts. "I think it's just a matter of time before all three of the game manufacturers adopt a similar technology."

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