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Hector Ruiz sees 'flight to value'

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SCOTTSDALE, Ariz.—Hector Ruiz, former CEO and chairman of Advanced Micro Devices Inc. (AMD), told an audience here Monday (March 9) at the Semico Summit 2009 that the electronics industry will emerge from the current downturn largely different, with end-user focus increasingly shifting to value over a fascination with the latest and greatest gadgets.

Ruiz, now chairman of AMD's joint venture spinoff, Globalfoundries, said eventually economic conditions will improve and the semiconductor industry will recover. But, he said, the electronics business will be different, and things that will be successful will not be an extrapolation of things that worked in the past. Ruiz outlined a "flight to value," in consumer behavior that he said was best illustrated by the success of the netbook or net PC, which has enabled companies like Taiwan's Acer Inc. to rise in prominence.

Ruiz said this trend is also evident in the success of digital television vendor Vizio Inc., which he said has risen to become one of the top television vendors by focusing on creating a great picture at an affordable price while foregoing many of the high-end features available in TVs from other vendors.

"When this economy recovers, consumers are going to be very aware of value," Ruiz said.

This flight to value will exacerbate pressures on the design community to create value, Ruiz said. Consumers will be less concerned with the number of transistors on a device than they are with what that device can do, he said.

Ruiz, who started his career at Texas Instruments Inc. in the 1970s, said he has never experienced anything like the current economic climate. "We are going through times in this industry that are really, truly unique," he said.

Ruiz also predicted that foundries would continue growing faster than the overall semiconductor industry because of continued consolidation. He said the rising complexity of chip making would continue, leading to more expensive equipment. Using the example of lithography systems, Ruiz said that wafer aligners that cost \$5,000 in the 1970s have evolved into scanners that in some cases cost more than \$25 million today. Five years from now, he said, these and other systems will cost considerably more.

Ruiz cautioned against the short-term business management practices that he said have gotten many companies in trouble. He said much of this originated with young, sell-side financial analysts who pressured executives to make short-term decisions that weren't in the best interest of a company in the long term. Many of these analysts, he said, are now looking for jobs.

The time-worn cliché about management serving the needs of shareholders has limitations, Ruiz warned, noting that 20 percent of AMD shareholders are people who shorted the stock.

Sixty percent of AMD shares are held by large institutional investors, Ruiz said. This [became a problem last month](#) when AMD had trouble getting the required 50 percent of shareholder proxies in order to approve the spinoff of [Globalfoundries](#) (Sunnyvale, Calif.), he said. AMD discovered that many of these institutional investors had lent the shares and did not know who currently held them.

"Know who owns your company," Ruiz said, adding that private equity investors often do not have a company's long-term best interests at heart.

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