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Firms gauge 'survivability' of suppliers, execs say

[Dylan McGrath](#)

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SCOTTSDALE, Ariz.—With many companies struggling through the economic downturn and unable to secure capital for R&D and other investments, chip vendors and OEMs are evaluating suppliers to try to determine which may be in trouble of failing, according to executives at the Semico Summit 2009 here this week.

With the health of companies in the electronics space increasingly intertwined, customers are wary of investing with suppliers who might not make it through the recession, they said.

"Global supply management for all of our customers is looking around to try to figure out who is going to be around," said Moshe Gavriellov, president and CEO of programmable logic supplier Xilinx Inc.

Tim Lloyd, a supply chain director at Intel Corp., said the No. 1 chip vendor is very concerned about the health of its suppliers and in the process of assessing the risk. He described a situation in which an Asian company went bankrupt and locked its doors, even though it had Intel inventory and equipment inside. Intel had to go to the facility with police to physically extract its assets, he said.

Firms can't risk partnering on key technology with companies that have precarious balance sheets, according to Peter Gammel, vice president and chief technology officer at SiGe Semiconductor. "The overall health of our supply chain is incredibly important to our ability to be successful," he said.

Lloyd urged firms to evaluate their suppliers careful to mitigate risk. "Go and talk to the CEOs," Lloyd said. "Don't assume that what they reported last quarter is necessarily true today. Don't assume that what the analysts are saying about them is true."

According to Chi-Foo Chan, president and chief operating officer at EDA vendor Synopsys Inc., some firms are simply not going to make it because of balance sheet issues and the inability to secure credit. "I think it's unfortunate," he said.

Gavriellov predicted massive consolidation among silicon startups. Seventy-four companies have already failed since October, he said, citing numbers from the GSA. Mid-tier companies with revenue under \$500 million are no longer going to be able to invest in new process technology development, he said, and less money will be pumped into the industry from venture capital and other sources.

Lloyd warned about the importance of having an agile supply chain so that the industry can be prepared to react if there is a spike in demand that signifies the end of the downturn. Analysts, including Semico president Jim Feldhan, have speculated that chip demand could [rise dramatically](#) once the economy recovers because of depleted inventories.

Lloyd said the industry had better be prepared to respond quickly to a rise in demand or risk disappointing customers.

"When we get out of this downside we have to be prepared for the upside," he said.

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