

Otellini takes reins at Intel

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As Paul Otellini takes the reins at the world's largest chipmaker today, industry watchers are divided about his ability to steer the company through its broad strategic and competitive challenges.

Intel's new CEO has not yet shed light on his plans for Intel, beyond his mantra of double-digit growth for the company. (Exiting CEO Craig Barrett's own growth campaign included posters with a silicon wafer and the single word "growth" being plastered around Intel campuses.)

"Otellini's really been pushing internally to achieve growth and revenue," said Linley Gwennap, president of market researcher The Linley Group. "But it's not clear to me what his strategy is going to be."

Otellini becomes the first non-technical CEO at Intel in its 36-year history. He joined the company's finance department in 1974 and worked his way up, mostly on the sales side. He holds a bachelor's degree in economics and an MBA.

Otellini's marketing pedigree will help Intel find new markets for its chips, other than its bread-and-butter business of PC processors, said Morry Marshall, a Semico Research Corp analyst.

And his finance background would be a boon for Intel's strong balance sheet, said a former business rival of Otellini, Itaq Raza, a prior president at Intel's chief competitor AMD. Raza said he has high regard for Otellini's understanding of the chip market and its challenges.

"I think Paul could put Intel in a position to be very hard to compete with," Raza said.

But at least one Wall Street analyst questions the company's choice in putting a marketing-savvy guy at the top. The analyst, whose investment-banking employer makes a market in Intel shares and asked his name not be published, said Otellini's marketing approach has already stirred mistrust.

He points to Intel's first dual-core chip release being for gamers, rather than for the larger server market as "complete spin," designed to detract from the absence of its server dual-core chips, which were not yet ready.

He also said Otellini's response a couple of years ago to questions on when it would release dual-core processors and on AMD's progress in this area were disingenuous. Otellini said there was no race between the two companies for dual core, while history suggests otherwise. Otellini was either being dishonest with himself or with audience at the Intel Developer Forum audience, where the questions were asked, said the analyst.

Mitigating the mounting threat of AMD is one of Otellini's chief challenges. The Intel-AMD rivalry grew teeth during former Barrett's reign. Today, analysts agree AMD has superior dual-core and 64-bit architectures for servers than Intel, yet Intel's manufacturing capacity is superior to AMD's.

AMD's manufacturing muscle is growing, however. This is due, in large part, to its process technology licensing deal with IBM, which flows onto to IBM's several manufacturing partners including Sony and Toshiba.

During the first half of next year, both Intel and AMD (with the help of IBM) will be ramping up next-generation 65-nanometer dual-core processors for desktop PCs and servers. It likely will be the first time Intel's going to have a very viable competitor with a lot of manufacturing capacity behind it.

"The net result is going to be a bloody processor price war next year," predicts the Wall Street analyst.

Still, Intel will remain hard to beat in the market for notebook chips. But that alone will not be enough.

Despite the company's robust balance sheet, doomsday theories concerning Intel's long-term viability persist as Otellini takes the helm.

Intel has a strategic long-term problem, which it is well aware of, in having a very large part of their sales, roughly 80%, being tied to PCs. "Otellini really has a huge task ahead of him," analyst Marshall said. "What they really need is a homerun in another area that expands them into a new market."

In 1998, the company first shifted its focus from churning out faster chips for PCs by diversifying into cell phones, gaming consoles, communications and other markets.

Barrett pushed an expansion into the communications market with limited success. Since Otellini dismantled that communications group earlier in the year, it seems he will be looking for growth elsewhere, analyst Gwennap said. "But we don't know where."

In mid-January, Intel announced a reorganization of its business into five new divisions, as part of what Otellini has called the "platformization" of Intel. The company's PC chips, for desktops and laptop computers, were divided among groups, including a mobility group and a digital enterprise unit. New, non-PC-related business units, such as its health unit and home group played into the company's diversification push, but the success of this strategy remains to be seen, analysts agree.

Otellini also has changed the way Intel markets its processors, focusing on characteristics other than its number of cores or clock speed. And he has been bullish on proposed WiMax, the long-range wireless technology that has yet to come to fruition.

Key to the success of Otellini's growth strategy will be his ability to steer the company into new business where it can command gross margins of 60% or more, as it does with its PC business, the Wall Street analyst said.

"Intel has to figure out some way to avoid becoming stagnant," Gwennap said.