

Intel's Otellini to Step Down in May



OBJECTIVE ANALYSIS SEMICONDUCTOR MARKET RESEARCH



No Clear Plan of Succession

The following analysis was written by noted processor analyst Nathan Brookwood of Insight 64

Intel's bombshell announcement on November 19, 2012, that Paul Otellini will retire as CEO after next May's shareholder meeting turned what would have otherwise been a slow news day preceding this week's Thanksgiving holiday into a day few familiar with the company's long history will soon forget. Otellini, 62, was still three years away from Intel's mandatory retirement age; indeed, at a meeting with industry analysts earlier this year, Paul stated he had no thoughts of retiring anytime soon. For the first time in Intel's history, the identity of the next executive to occupy the CEO's office (actually a large cubicle) is far from clear as the current CEO relinquishes the role. In another first for Intel, a company with an extraordinarily deep management bench, the Board indicated that it will consider both internal and external candidates in its search for a new CEO. Taken together, these aspects of the announcement suggest Intel's Board believes the company needs to undergo some shock therapy to reposition itself for high growth, and could no longer tolerate business as usual in the executive suite.

The Intel Otellini inherited from Craig Barrett in 2005 suffered from incoherent technical strategies and administrative bloat. During his time at the helm, Otellini put Intel back into fighting trim, making it run like the well-oiled machine it had been during Andy Grove's tenure. He shed most of Barrett's ill-conceived acquisitions, institutionalized the company's "tick tock cadence" for new product development, and engineered the MacAfee acquisition that greatly expanded Intel's software footprint. He grew the company's revenues from just shy of \$39 billion when he took over to \$54 billion this year, no mean feat for a company Intel's size, and strengthened its position in both the PC client and server markets. Unfortunately, consistent with the business world's attitude of "what have you done for me lately?" Otellini will be remembered as the executive who misjudged the pace at which the "mobility segment" (i.e., smartphones and tablets) would impact the growth of the PC client business. Personal computers will continue as an important market segment, accounting for hundreds of millions of units per year, but the industry's energy is now focused on mobility, an area where Intel has yet to make a serious dent. Otellini engineered Intel's Infineon Wireless acquisition after finally acknowledging the folly of its attempts to drive the industry to its WiMax technology, while the established players wanted to pursue LTE approaches. He restructured Intel's Mobile and Communications Group (MCG) to knock down internal silos that impeded product development in this key area. Over the past year about half a dozen Intel-based smartphones have hit the market, a drop in the bucket compared with the hundreds of designs using ARM-based technology, but still a half dozen more than Intel could claim last year. Intel has a long way to go in this market, but it's way too early to count a company with Intel's resources out in this area.

Intel's Board has roughly six months to sift through binders of internal and external CEO candidates and find one to lead the company in coming years. Among the internal candidates, Brian Krzanich, COO and head of worldwide manufacturing; and Stacy Smith, CFO and director of corporate strategy occupy the pole positions. Both saw

“executive vice president” added to their titles in the same press release that announced Otellini’s planned retirement. Krzanich oversees Intel’s vast network of multi-billion dollar fabs, and accounts for the vast majority of Intel’s capital expenditures. Moreover, he was named Chief Operating Officer early this year, usually a signal that he would be Intel’s CEO-in-waiting, but at the time he was named to that post, my sources inside the company suggested the old COO-succession rule no longer applied. Today’s announcement seems to support that view. Smith, who labored for years under Andy Bryant’s considerable shadow, was named CFO in 2007 and has both a wide and deep understanding of how Intel functions. Either would be a worthy successor to Otellini, although it’s hard to see how either could provide the shock therapy the Board seems to desire. The Board could turn to an outsider currently running another semiconductor company or high tech enterprise – the semiconductor industry has some unique aspects, but a capable manager can easily assimilate these differences if they possess leadership attributes and strategic sensibility. In this regard, IBM’s 1993 move to hire Lou Gerstner as its CEO, the first (and only) time it had ever gone outside to fill this senior post, serves as a powerful lesson of what an outsider can accomplish in such a setting. Gerstner is widely credited with shifting IBM’s focus from products to IT services (which today account for more than half its revenues). In Intel’s case, such a shift might entail manufacturing products for other semiconductor companies, a move Otellini has always resisted. Intel wouldn’t have to mount a full-scale assault on TSMC to implement such a strategy, but surely there are a few high-volume customers out there who would give their eye teeth to gain access to Intel’s awesome manufacturing technology..

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