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TI analog boss says unit will drive company growth

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The soft global economy threw Gregg Lowe an unexpected curveball.

The Texas Instruments Inc. senior vice president and head of analog IC division was on track to push his division's contribution to total company revenue above 50 percent from 40 percent currently when the economy soured, leaving him scrambling to boost sales.

TI's analog revenue grew 4 percent in 2007 to \$4.93 billion but sagged in 2008 to \$4.86 billion as demand wilted. The unit had contributed \$1.55 billion to TI's operating profit in 2007 only to see this lopped down to \$1.1 billion for 2008.

Still, Lowe believes the company's future growth will come from the analog business and many industry analysts agree TI will eventually be better known as an analog IC supplier than a DSP company especially if it continues to pour investment into the division.

In order to ensure growth in this segment, however, Lowe has been spending more time on the road lately, scouring the globe for new design wins not only in the traditional North American and European centers but also in cities across China and in India.

During recent trips to several cities in India, Lowe said he discovered many companies continue to rely on TI's extensive sales force to help support their design operation at a time of intense cost-cutting. TI, he said, is also exploring opportunities in solar and power-management even as the management is moving to reduce operating costs in response to slowing demand.

Among the greatest challenges facing TI and other analog competitors are helping customers through the difficult economic environment and designing products for the growing energy management and solar industries.

TI's continuing dominance of its market sector will require that the company continue to make acquisitions in the analog area although it is focusing on smaller "tuck-in" transactions rather than the large purchases that helped it establish a strong presence in the market.

Lowe spoke with *EE Times* business editor Bolaji Ojo. The transcript of the interview follows:

EE Times: What is the overall strategy that TI has for the analog market?

Lowe: At the highest level, TI has a very comprehensive strategy as it relates to the analog business. Our business is categorized into three major sub-businesses. The first is high performance, which includes things like data converters, amplifiers and interface devices that are used as standard products in a number of different applications.

The second is power management, which as the name implies includes power management, DC-DC converters, controllers and so forth and the third unit is our high volume analog parts, which focus on relatively concentrated applications that tend to drive high-volume.

Those three different businesses make up TI's overall analog business. We approach the market in a very comprehensive way. What we are attempting to do is solve many of our customers' problems and not just one specific thing.

TI has the ability to solve customers' problems across the spectrum of high-performance analog standard chips, power management chips, which are used in a broad range of applications. These really help our customers solve the entire spectrum of their challenges.

EE Times: Being a supplier with a wide range of products in the analog market has numerous advantages but it also means TI has to devote more resources to R&D, sales and marketing activities to support this?

Lowe: You are absolutely right. We have to do a great job in those sub categories and we actually do a pretty decent job. According to various market analysts, TI is No. 1 or No. 2 in power management, amplifiers, interface and data converters, meaning we've got a pretty decent portfolio in each of those sub categories. We spend a lot of time and energy making sure that our individual components can be competitive with the best in the industry.

When you offer a complete solution it allows the customer to the market faster than when dealing with a single supplier. It also enables TI to basically go deeper into the customer base, in other words, call on more customers and especially smaller customers.

We are able to do this because our broad portfolio makes it economically viable for us to approach small customers earlier in their own development as a company where their semiconductor purchases might be relatively small as an early start up. TI can afford to call on customers like that because we can get a higher percentage of their relatively small semiconductor spend.

The second part of your question is about the cost disadvantage relative to size. I don't see that at all. In fact, we might argue that we

have the cost advantage because we can leverage our sales force across a much broader array of products. In terms of developing the products themselves we are very competitive and TI has a long history of manufacturing expertise and improving yields.

EE Times: At the corporate level, TI's CEO has talked often about the importance of analog to the company's future. What exactly does TI expect to do in the analog area and how does the company hope to get there? In other words, are you planning growth through acquisitions or through internal expansion?

Lowe: We've been working on our analog strategy now for the last 9 or 10 years and what we've been able to do over that time period is carve out a relatively solid position. TI, I believe by most measures, is the number one player in the analog business and we also have a solid position in categories like converters, amplifiers, interface and power management.

But while TI is the No. 1 player in analog, we still have only a market share of 13 percent. So you have a very large market that is on the order of \$35 billion to \$36 billion where the leading supplier has a relatively small market share. What that means to us is that there is a tremendous growth opportunity for TI.

If we were sitting there with 90 percent market share, it's difficult to think about gaining the remaining 10 percent. The analog market is probably going to consolidate around a couple of strong providers in that space and that is obviously what we intend to do.

Analog is going to become the primary growth engine of the company. You mentioned earlier that TI's analog business represents 40 percent of our total revenue. It's clearly in our sight to drive analog as a percentage of TI's sales up higher simply because we believe it's a higher growth opportunity for us.

EE Times: How does TI plan to get there, through acquisitions or internal growth and if it is through acquisitions, which product areas are you going to be looking at?

Lowe: Acquisitions have clearly been a key part of our strategy and were the foundation for our analog business with the purchase of Unitrode and Burr Brown back in the early 2000 time period. We also have a strategy of organic growth.

From an acquisition standpoint, most of our recent acquisitions have been what I would call 'tuck ins', filling in relatively small gaps in our portfolio as opposed to major acquisitions, which Unitrode and Burr-Brown were.

Most of the recent acquisitions that we have done were relatively small deals to get us into the high efficiency tech market, into the multi-cell battery management market (TI has been a strong player in the power management area but more in the single-cell area.) The acquisition of PowerPrecise gave us capability in multi-cell and larger batteries for things like electric vehicles.

EE Times: TI is known for a conservative financial management strategy. In fact, some of your top executives have said previously they don't believe in large acquisitions. Is TI ruling this out to build out its analog market share?

Lowe: I am not sure about that. I think the Burr-Brown acquisition remains the largest acquisition in the semiconductor business. Certainly, when we did the acquisition in 2000, it was the largest acquisition in the entire history of the semiconductor business. That was an \$8 billion acquisition and it involved thousands of people with high risk and rewards.

Nine years later, I think we can clearly state that acquisition was transformational for the company and the integration of Burr-Brown was done so successfully that it has become the basis of what's driving the entire company.

EE Times: If TI wants to do what you are saying, that is build market share aggressively, it will have to make another major acquisition. Is the company looking to do this? The landscape is certainly ripe for consolidation.

Lowe: We've done now four acquisitions in the last year or so. We continue to make acquisitions but smaller pieces to fill in gaps in the portfolio. Our view right now is that the portfolio we have is extensive and we don't have large gaps. While we don't rule out doing a big acquisition the concentration really as demonstrated by our actions is really more in the smaller space.

EE Times: What industry trends are you looking at? **Lowe:** We are working very closely with our DSP business to develop solutions that look across both the analog and the embedded processing space.

Also, when you look at trends in the industry there are two strong ones right now. One of them is everything about low power and energy savings. We have a very broad and comprehensive set of products in areas like the sources of energy, the transmission of energy and the consumption of energy. We are trying to figure out how TI technology can improve the three.

EE Times: What is your current reading of the market situation and is TI doing anything special to counter demand weakness?

Lowe: The analog market is the most fragmented segment of all the semiconductor markets. We are in all high-tech equipment, which then implies that analog is dependent upon an economy that is strong in order to grow. Obviously, the economy is not strong right now so the analog market is down

All of our customers are having economic issues themselves. Many of them have reduced their engineering work staff, etc. The fact that TI has a broad analog portfolio, combined with the fact that our sales force is deployed throughout the world, allow us to help our customers solve their application problems faster.

The fact that we have application teams in Mumbai, Delhi, Hyderabad, Calcutta and 13 different cities located throughout China, for instance, allows us to help them through this difficult economic time to continue developing great new products that would help them grow.

I've had quite an experience with this myself. I was in China last week and I was in India earlier in the year in non-traditional areas of these countries. We visited 21 companies when I was in India and I think two-thirds of the time we walked out of the meeting with new products designed into our customers' systems because we had application teams there working with the customers.

These customers didn't have time to go and figure out who to call at which company. They simply call the local extension of their applications and design teams. That's a very powerful thing in this economic downturn. The companies that are strong, that are engaged with customers and that have the financial capability to continue to invest are definitely going to get stronger.

EE Times: A lot of people tend to see TI primarily as a DSP company despite the large analog portfolio. Do you envisage a time when

this image might change?

Lowe: Obviously, we are attempting to grow our analog business very quickly and faster than the overall market and quite possibly faster than the rest of TI simply because the opportunity is there. As we continue to be successful in the analog business that will be a natural transition.

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