

MIDYEAR FORECAST

INTRODUCTION



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Call it what you want: the perfect storm, nuclear winter or a tsunami wave. Whatever the nomenclature, one thing is sure: The electronics industry is riding out the worst economic weather in five years. And industry observers expect more of the same till at least the end of the year, a fact that is spurring much reflection, retrenchment and reorganization.

EE Times' annual Midyear Forecast this year is chock full of guidance from executive captains of the industry. Still, one semiconductor CEO exclaims, "While we have done our best, the 'perfect storm' cannot be navigated perfectly. . . . we have endured the most severe downturn in the history of the semiconductor industry."

And so, the winds accelerate and intensify the need to make changes. That same executive ponders: "Every aspect of a business is under cost scrutiny—from R&D to manufacturing to market channels."

Among the 33 industry executives polled, not one ventures to attach a date to the recovery. Some feel it's on its way, some sense that it won't happen until early next year. When the relief of the upswing does come, it will be the innovators who will reshape the industry. As another CEO puts it: "Who? How? Where? The thing that's so nice about innovation is that you don't know where it will come from until it surfaces."

What is certain is that the next positive economic cycle will depend more than ever on new silicon chips. Without them there will be fewer exciting new consumer products to buy, but without new design-automation tools, there will be no new superchips. So the message is clear: Keep innovating.

A third executive lays out the uncertain playing field: "We know the storm will end, and the weather will improve. But no one knows exactly when, or what form, the improvement will take."

To set the proper direction, anyone involved in the business of electronics needs to keep a weather eye on the environment. This Midyear Forecast—with its CEO Perspectives, regional reports from the United States, Europe, Asia, China and Japan, and six Analysts' Outlooks—should offer enough data to help push the oars that will get this boat into calmer waters.

INSIDE

CEO PERSPECTIVES

The captains of the industry share their thoughts on the state of their sectors and their companies, as well as the economy. The 33 executives reveal how they cope with the downturn and what they plan for the upturn.



PASQUALE PISTORIO
President and
Chief Executive Officer
STMicroelectronics
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LESSONS IN SOCIAL STUDIES

Over the years of guiding STMicroelectronics through good times and bad, I have made several observations. They include convergence as an engine for growth, the need to protect the environment, the implications of globalization and cultural differences, and the importance of bridging what I call the digital divide.

A new step forward in evolution is being made, and the long-awaited convergence of applications into consumer-oriented computing, communicating and multimedia appliances is beginning to materialize and will rapidly become the most powerful growth engine for the industry. The winning combination for this decade will be in the hands of the companies that lead in these developments.

Caring for the environment is not only compatible with our business scope, but also gives us a competitive advantage. Our seven years of experience in what we believe is the most advanced environmental-care program of the industry shows that on average our investments for ecology have a payback time of 2 1/2 years.

Concerning globalization and the need to safeguard cultural independence, the challenge of grasping and managing cultural diversity is at the root of the success or failure of any international enterprise. In accepting the inescapable nature of globalization and identifying the opportunities it brings we must at the same time exploit the full value of the differences among the various cultures within the enterprise and the various geographical markets where it operates. Elements that might put the brakes on development must be turned instead into elements of competitive edge.

Lastly, the difference between those who have high-quality access to information and know-how and those who don't is becoming even more important than gaps in material wealth. If we do nothing about it, today's elites will reach even higher peaks of wealth and power, and the widening of the digital divide will create new areas of poverty and despair.

As a member of a United Nations Information and Communication Technologies task force, I have proposed getting corporations involved in bridging the digital divide. I am convinced that companies committed to promoting the well-being of the communities in which they work generate more value, not only for all stakeholders but also for their shareholders. And to me, employee motivation provides an even greater return on the sponsorship of charitable initiatives than a good corporate image.

In the long run, more-advanced economies will benefit if, by bridging the digital divide and contributing to development of poorer parts of the world, new markets and new opportunities for trade and production are created.