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Intel Names New CEO – And Points to New Course

We've all been waiting for the announcement of Intel's replacement CEO for the retiring Paul Otellini. The pundits have debated whether they should promote from within or go outside for new blood. Well, this morning the anticipation ended when Intel named its new CEO and I see some interesting ramifications in this choice.

Brian Krzanich is currently Intel's COO. Elevating him to the CEO means increased focus on operations excellence, and not just engineering excellence (although engineering excellence will certainly remain a key strength for the company). This is important as Intel needs to optimize its huge investments in its production Fabs. This includes filling idle or underutilized fabs by selectively bringing in outside work that gets them to higher levels and compliments production of Intel's core products. The strategy should include offering leading edge manufacturing capacity to other chip vendors (which Intel currently does only in a limited way), and perhaps even to longer term competitors (e.g., Qualcomm, Apple). This is being done successfully by others (e.g., Samsung fabbing Apple chips while also competing with their own processors). This could be done by Intel as well, even if it's on "one generation behind" technology (on which Intel is still ahead of most of the rest of the industry). But Intel will focus on "strategic" partnerships and not become another commodity vendor (e.g., TSMC) just to fill the factory.

Putting an "ops guy" in charge also reinforces Intel's move to be more competitive and decrease its overhead, which it has been doing over the past couple of years. A leaner company is what the board has been looking for (as well as the financial markets), and this promotion sends the message it will continue to emphasize a "lean and mean" approach to business. With increasing threats from low cost producers, primarily in China, this approach will pay long term dividends.

Intel is facing some difficult challenges as the overall market realigns. They don't face much competitive pressure from traditional x86 sources like AMD. Rather, it's coming from the ARM-enabled camp. Currently the primary competitive pressure is in the mobile space. But in the near term it will also come at the expense of Intel's server and embedded processor business (e.g., cloud and micro-servers like Calxeda). Intel must re-focus on the technologies its needs to compete in this arena, as the eventual numbers of chips sold into this space could be massive. An operational, rather than a more parochial approach (e.g., Core vs. Atom vs. Xeon) will help the company longer term. Hopefully an operations focus at the top will limit the amount of infighting in the various business units that caused Intel in the past to move less aggressively in certain areas than it should have (e.g., Atom in mobile).

In addition to the CEO, Intel announced another major promotion, elevating Renee James to President. This puts more emphasis on the many businesses Intel is in beyond just chips. This is an important promotion, and it clearly signals the board wants to make Intel a much broader company, with increased emphasis/reliance on software and services. It also allows more of a balance between the core chip engineering businesses and the acquired SW and services businesses (e.g. WindRiver, McAfee). The synergies with these businesses have not been as great or rapid as they should be, and this move should give them increased exposure and emphasis in the overall Intel ecosystem. Expect to see increased cooperation and a bigger portion of the revenue come from this refocus, as well as more of the key technologies making their way into the base silicon (e.g., security).

Finally, there was a lot of speculation whether Intel would look outside for a new CEO. They promoted from within, which has always been Intel's preference. Having an insider assume command allows someone who is intimately familiar with the pluses and minuses (and all the ensuing challenges), and enables him to hit the ground running. This is a big positive, as Intel has short term challenges it must face now, rather than waiting for the training period of an outsider to be completed.

Bottom Line: While it ultimately depends on how well Brian Krzanich handles his new role, I see the promotion from within and his background as encouraging. It's a realization by the board that Intel does have some significant challenges and it must realign some of its businesses and focus. Longer term, both Krzanich and James should bring a new reality into clearer focus for Intel and make Intel more competitive in a rapidly changing market.

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