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The high-volume consumer product needle

Its tempting to after high-volume business, but it might be a long-term mistake.



Consumer electronics shipments have fallen thought the floor. It happens every 5 years or so but this time it is a real doozy of a downturn. Many analog semiconductor vendors are talking about downplaying their consumer and big-volume business so they can concentrate on industrial scientific and medical (ISM). They also talk about the value of distributors like Digi-Key and Arrow. But the high-volume consumer business is like heroin to semiconductor companies.

Despite some product groups trying to cater to ISM markets, sales and marketing often concentrates their efforts around a handful of key customer rather than that long-tail of customers that provides 40% of their businesses.

It is easy to fall for the high-volume consumer-electronics heroin needle. First off, you don't really need any marketing. You need salespeople. Maybe you call them marketing

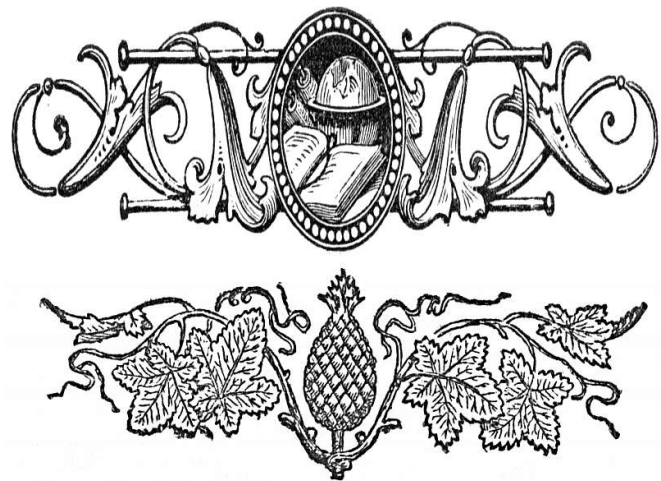
managers, but they are not thinking in terms of long-term markets or trends. They are looking for that 10-million-chip-a-month order. They are talkers, not listeners. You don't really need any good applications people, for these big consumer electronic markets, the customer just hands you a preliminary data sheet and the sales guy just tosses that to an IC designer. It costs a few hundred grand to design the chip and the best thing is that you get high-volume revenue immediately. A company that has the talent and foresight to just design a good general-purpose part, well they have to compete against all the other general-purpose parts and the sales team has to endure the slow ramp up of volume.

With that high-volume needle things are so much more satisfying. All the sales and marketing managers get a big bonus because their pet project is moving 10 million parts a month. The product groups get a pat on the forehead and a cookie as well, since they did not spend anything on applications or system expertise, the customer told them just what the chip had to do. To top things off, the part will go on the website so if anyone else wants to use it, well, that is just pure cream.

That high-volume needle in the arm has some problems. When things get bad, you lose 10 million parts a month from all those high-volume customers across all those high-volume projects. And you lose that business all at once. All the semiconductor companies have talked about how Asian manufacturers are becoming their largest market. But executives need to get down in the dirt to see what is really going on. I had an FAE at a semiconductor company tell me: "Sure we sell a lot of parts to Asia. Those low-voltage CMOS consumer parts are what we have been making. If we made parts for the ISM market I could have kept the volume here in the USA." Now I doubt anything could have maintained volumes at

US levels, but that FAE had a point. In this downturn all the analog semiconductor companies are beefing up their ISM portfolio.

You won't hear any talk about emphasizing consumer electronics for the next three years. Everyone will want to be like Linear Technology, who has always served ISM markets superbly. ADI will stress its iBipolar high-voltage process and National will continue on its road towards broad-market customers. Texas Instruments' analog division is divided into high-volume and high-performance in acknowledgment of the high-margin ISM markets. Maxim has always catered to industrial customers as well as its high-volume business. But then times will get good and all those managers and executives will start eying that high-volume needle again. "Just one, just one shot of consumer electronics and then I'll quit." Then that needle will start getting passed around again.



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