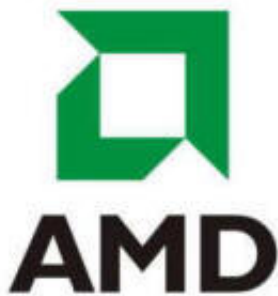


AMD struggles to reinvent itself

November 23 2011, By Steve Johnson



Sunnyvale, Calif.-based Advanced Micro Devices was hoping to profit from a bigger share of the PC chip market after its longtime nemesis, Intel, suffered a string of antitrust regulatory rebukes in recent years.

But it hasn't quite worked out that way. Intel has extended its lead in the business while AMD has struggled to stay out of the red, ousted its CEO and recently announced it is gutting its workforce.

Now AMD, a [Silicon Valley](#) fixture for more than four decades, is considering a new strategy that some experts believe could dramatically alter its protracted struggle with the Santa Clara, Calif.-based Goliath, one of the most closely watched and acrimonious brawls in the tech industry.

"We're at an inflection point," said company spokesman Mike

Silverman. "We will all need to let go of the old 'AMD versus Intel' mindset, because it won't be about that anymore."

Although AMD has been vague about its plans, the company is widely expected to push hard to get its chips into smartphones and tablets. Those markets not only are dominated by other companies, but its gargantuan archrival is trying to elbow its way into them, too - potentially moving the war with Intel onto a new battleground.

Nonetheless, AMD has to change to keep up with the fickle tastes of consumers, according to Mercury [Research analyst](#) Dean McCarron.

"The competitive dynamic has shifted because of these new markets opening," he said. "There's kind of a big restructuring of the world taking place and all of the companies are working to address it."

AMD, which was founded in 1969, and Intel, launched one year earlier, began feuding over patents and other matters in the early 1980s. That's when IBM chose to equip its personal computers with Intel's brainy x86 microprocessors and picked AMD as a backup supplier of those chips.

But the squabbling hit a new decibel level after AMD developed its own x86 design and accused Intel of employing intimidation and other unfair tactics to discourage their use by computer makers.

After AMD filed a broad antitrust suit against Intel in 2005, similar allegations were leveled in the next few years by Japan, Korea, New York state, the U.S. Federal Trade Commission and Europe, with the latter fining Intel \$1.45 billion.

The chip giant has repeatedly denied wrongdoing and is appealing the European penalty. But in 2009, Intel agreed to give AMD \$1.25 billion to resolve its complaints, and in 2010 it settled the FTC's suit by

promising to change some of its practices. New York's suit is still pending.

AMD executives had hoped the legal actions would help them grab a bigger piece of the PC microprocessor business. But the opposite has happened. In 2006, AMD owned 23 percent of the market, while Intel controlled 75 percent, according to research firm IDC. Since then, AMD's share has slid to around 19 percent, while Intel's has grown to 80 percent.

Heavily in debt from its \$5.6 billion purchase of a graphics chip chipmaker, AMD in 2009 sought to cut its expenses by spinning off its manufacturing operation into a joint venture called GlobalFoundries. But by then it had suffered a long string of financial losses, which didn't sit well on Wall Street.

"How many quarters are investors supposed to tolerate before we get action necessary to deliver some semblance of break-even or profitability?" groused American Technology Research analysts two years ago.

Since then, AMD has turned in better earnings and won praise for its chips' quality. Nonetheless, it's been chided for trailing Intel's technology and for being heavily dependent upon the PC business, where the pace of growth has slowed.

AMD's failure to get its chips into smartphones and tablets reportedly was behind its board's decision in January this year to oust CEO Dirk Meyer, who had been in the job since 2008, and to replace him in August with Rory Read, former CEO of PC and tablet maker Lenovo.

Meanwhile, AMD's woes have continued. In September it cut its revenue and profit forecast after having fewer of its top chips to sell because of

manufacturing glitches at a German GlobalFoundries plant. And earlier this month, AMD announced it was laying off 1,400 employees - nearly 12 percent of its workforce.

By contrast, Intel's business has been booming. Reporting sales of nearly \$44 billion last year, compared with about \$6.5 billion for AMD, Intel has turned in a succession of record earnings.

Some analysts believe AMD may fire back at Intel by adopting a chip design long anathema to both companies. The design, licensed to various chipmakers by British firm ARM, currently dominates smartphones and tablets.

AMD might make chips based on both the x86 and ARM designs, some experts have speculated. But if it switches exclusively to ARM, it would leave Intel essentially alone in the x86 business, which "would make Intel kind of look like they are the guy that missed the meeting," said tech analyst Rob Enderle.

All AMD has said so far about its new strategy - which it has promised to detail in February - is that it intends to pursue "growth opportunities" in low-powered devices, emerging markets and Internet-based businesses.

Whatever path it takes, it had better be different from the one it's been on, said Creative Strategies tech analyst Tim Bjarin, because the microprocessor market "has really changed in this post-PC age."

ADVANCED MICRO DEVICES:

-Founded: 1969

-Headquarters: Sunnyvale, Calif.

- Business: makes microchips, primarily for personal computers
- Employees: about 12,000 worldwide, but it is laying off 1,400.
- 2010 sales: \$6.49 billion
- 2010 profit: \$471 million

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