# Tech Firms Balance Cost Cuts and Innovation

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*Editor's Note: I do understand that we are in tight financial times, but cutting R&D is mortgaging the future to save money.*

PARIS/NEW YORK (Reuters) - Technology executives say they are prepared to cut more costs if the downturn proves more prolonged than expected, but finding places to get further savings won't be easy.

The obvious place to look is research and development budgets, which are typically the last things to get cut at tech companies that thrive on innovation. But with no guarantees that an economic revival is on the horizon, there are signs that thinking could change.

Alain Dutheil, chief executive of wireless chip maker ST-Ericsson, said it is difficult for the company to justify its "huge" R&D spending with revenue under so much pressure. "If this economic situation does not improve, we will take further measures. If we cut, it's going to be on R&D," he told the Reuters Global Technology Summit.

Many companies that participated in the summit, which took place in New York, Paris and Tokyo this week, have laid off workers as they weathered the worst economic slowdown in decades. German software maker SAP's cuts were the first in its 37-year history.

To what extent the recent spending cuts will set innovation back remains unclear. Executives said tech firms can help lift the economy out of recession by creating new products that give consumers and businesses a reason to buy again.

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Corning Inc CFO Jim Flaws pointed to new technology like flat panel TVs that are lit by LEDs instead of fluorescent tubes as one of the new innovations that will drive demand for TVs. And he pointed to a new type of glass that Corning developed for touchscreen electronic devices as evidence of the company's commitment to innovation throughout the downturn.

Corning, the world's largest maker of glass for LCD panels, has cut costs in its manufacturing operations, mothballing half of its production capacity in December. Since then, however, Flaws said Corning has begun to bring some of its production lines back on-line and rehire laid off workers to meet demand for flat panels and fiber optic cables.

**PAY FREEZES, PARTNERSHIPS**

Chip firms SanDisk Corp and ARM Holdings have continued to invest in next-generation products and technology even as they cut costs in other parts of the company, executives said at the summit.

ARM reduced headcount by 3 percent at the start of the year and does not anticipate any more job cuts. CEO Warren East said any further savings will come from "tight financial discipline, pay freezes, restricting all sorts of discretionary expenditures."

SanDisk has also made multiple rounds of job cuts as it suffers through a severe downturn in the flash memory industry, which has contributed to billions of dollars in losses. CEO Eli Harari said SanDisk has not scaled back its efforts to develop a new form of flash memory, known as 3D rewriteable flash, which he said will be key to improving products like solid state hard drives. Last year SanDisk partnered with Toshiba to speed up the development of 3D flash chips. But Harari

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said the technology is still a few years away from commercial availability.

Partnerships with other companies provide a good way to save money, said Stan Miller, director of the international mobile unit of Dutch Telecom group KPN. "If you partner, it's a lot cheaper than if you try to reinvent the wheel," he said. Capital spending at KPN Mobile will "not necessarily" be lower this year than in 2008, he added.

Bill Henry, chief executive of digital map maker Tele Atlas, which merged last year with navigation device maker TomTom NV, said the company has been very diligent in managing its cost structure and making sure R&D was protected. "We're spending more engineering hours in 2009 than we spent in 2008. We have more headcount and more hours," he said.

The ideal situation for some technology companies is to be able to innovate and grow through an economic downturn. "The benefits of R&D show most clearly in the downturn," said Choi Doo-whan, senior executive vice president at KT Corp's service design group. "The key to growth is having new things ready ahead of time."

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