

Intel's CEO pick sticks to tried-and-true formula

MICHAEL LIEDTKE - AP Technology Writer - Associated Press

In picking Brian Krzanich as its next CEO, Intel Corp. stuck to a familiar playbook amid a game-changing shift in computing that has raised worries about the future of the world's largest chipmaker.

Ever since Intel co-founders Robert Noyce and Gordon Moore ceded their roles as the first two CEOs, the company has always promoted the second-in-command to the helm. That started in 1987 with Andy Grove, who served as the top lieutenant under the co-founders. After learning the ropes under Grove, Craig Barrett took over as CEO in 1998 and then handed the reins to his understudy, Paul Otellini, in 2005.

Krzanich, Intel's chief operating officer, was named its sixth CEO on Thursday. He will start in two weeks.

The succession formula worked well in a computing market dominated by desktop and laptop machines that ran on Intel's microprocessors and Microsoft Corp.'s Windows operating system.

But if there is a time to break from that tradition, this would be it. Traditionally strong in personal computers, Intel is facing a threat from smartphones and tablet computers, which demand lower-energy processors that Intel is late to master.

"We are a little disappointed that the board didn't bring in new blood at this critical juncture for the company," Wedbush Securities analyst Betsy Van Hees said. "We have seen a pretty significant shift in the tide, and they are now navigating some pretty tough currents. It would have been nice to have a fresh pair of eyes."

PC sales are declining as businesses and consumers embrace mobile computers — most of which don't rely on Intel's chips. Microsoft has even created a lightweight version of Windows that isn't well suited for Intel's processors. The upheaval contributed to a 15 percent decline in Intel's profit last year.

Intel has been scrambling to develop power-sipping chips and designs better suited for the needs of mobile devices. But even if that effort is successful, the company's profit margins may be squeezed. That's because mobile chips sell for much less than PC chips.

Some analysts believe that Otellini, who is 62, decided to retire early because of the industry turmoil. The board had expected him to remain CEO until he turns 65 in 2015.

"It's time to move on and transfer Intel's helm to a new generation of leadership," Otellini said in November when he disclosed his plans to leave.

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His retirement created an opportunity for the Santa Clara, California, company to hire an outsider as CEO for the first time in its 45-year history. Although external candidates were considered during the six-month search, the board concluded that Krzanich is the best leader to tackle the mobile computing challenge.

Krzanich, who is 52 and spent his entire career at the company, comes out of a manufacturing organization where meticulous attention is required to churn out processors with billions of minute details.

Just because Intel promoted from within doesn't mean there won't be changes, RBC Capital Markets analyst Doug Freedman said. He believes Intel plans to become less focused on engineering technological breakthroughs as it concentrates on helping its customers develop their products.

"Our view is Krzanich's appointment was awarded as a result of changes in the future direction of the company, with these changes expected to become visible over the next few quarters," Freedman said.

Investors evidently weren't disillusioned with Intel's CEO choice, which had been widely expected. Intel's stock rose 12 cents to close Thursday at \$24.11.

Krzanich isn't inheriting Otellini's title of president. It will go instead to software chief Renee James, 48, creating a two-person "executive office" at the head of the company.

Gartner Inc. analyst Sergis Mushell believes one of the reasons Intel promotes from within is because of the difficulty finding outsiders capable of running a business with the size and complexity of Intel. The company generates \$53 billion in annual revenue, employs 105,000 people and operates dozens of offices and plants around the world.

"By the time an outsider got a feel for things, the company could be already lost," Mushell said.

Mushell named Cisco Systems Inc. CEO John Chambers and Apple Inc. CEO Tim Cook as among the few people who could have run Intel, as they already have experience in managing large high-tech manufacturing operations.

Beyond that, he said, "you need someone who has grown through the ranks that understands the complexity of the ship. You need someone who knows when he turns one knob on the ship to the right, he has to turn another knob to the left."

Intel previously faced competitive threats to its PC franchise from other chipmakers such as Advanced Micro Devices Inc. and the now-defunct Transmeta Corp. Under the regimes of Grove and Barrett, Intel managed to thwart those threats, partly by relying on cut-throat sales tactics. Those methods resulted in lawsuits alleging that Intel was illegally trying to stifle competition. Intel paid AMD \$1.25 billion to settle one complaint and resolved Federal Trade Commission allegations by agreeing to change some practices.

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In those instances, Intel was fending off a threat in an area that it had already been dominating. Intel processors are the brains behind four out of every five PCs.

Krzanich will have to come up with a strategy to make Intel a more formidable force in a new era of computing.

"He doesn't have an easy job ahead of him," Van Hees said. "He is facing challenges no other Intel CEO has had to face."

In an interview, Krzanich said he will tackle the challenge of declining PC sales by relying on the assets that Intel is built on: its engineering prowess and enormous, billion-dollar chip factories, which feature technologies that are years ahead of its competitors.

By promoting from within, Mushell said Intel's board is signaling its belief that nothing is seriously wrong at the company.

"The message here is that Intel is not shaken," Mushell said. "A lot of people thought this CEO selection would lead to a new Intel that would be flipped upside down. This clearly shows this is the same Intel."

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AP Technology Writer Peter Svensson in New York contributed to this story.

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