



## **Our View of the Analog Market**

**By Bob Swanson, Executive Chairman, Co-founder,  
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What's happened this year is, as you probably know, seven or eight years ago, we did something that some people thought was stupid, some people thought was courageous. We said, "We're deeply involved in cell phone handsets and other consumer products, and we don't see any happy ending for us, there. The quicker we make a change and get back to doing what we've done for 20 years successfully, which is the hard stuff, use our better engineering, use our better processes, and all the silicon it takes, but stop designing silicon circuits that fit on a tiny piece of silicon but are only worth 50 cents, and go back to making the hard stuff that's worth \$2.00, \$3.00, \$4.00."

So, we directed the sales team not to focus on that business any more, but more importantly, we told the design team, "You've got to go off and start doing what you used to do." That turned out to be a three, four, five year activity. The customers we're after now, like automotive—are also in a two, three, four, five year design cycle.

So I think maybe the one key message this year, and it's the message of our annual report—is that seven years ago, management put the company in the right markets, took them out of the wrong markets, and the design team developed the right products. So this year, we can celebrate that we're in the right markets, with the right products, and the right results. I mean, in order for us to make up for the business that we were going to walk away from in consumer, we said, "we're going to re-energize industrial," which was always big. That has gone from the low 30s to 43 percent of our business, and the top line's been growing. Automotive was 3 or 4 percent of our business when we made this decision; now it's 20 percent. I thought maybe 20 percent was the top; now I'm convinced 20 percent is not the top.

In the communications area, we said that we want to hold our position here. Now, communications to most people means cell phones. We don't participate in cell phone handsets, but we're still very strong in networking. We still have a role in base station infrastructure and so forth.

So if you look at those, 90 percent of our business is non-consumer. We still have some military business that's steady at 6 to 7 percent. We still have computer business at more than 10 percent. So we're found in all these markets where we can play at this kind of level. But the markets that make up for the consumer business that's gone from 28 percent to 3 percent included more industrial, and a big move in automotive. So our automotive business has been the fast growing one, but it's even better, it's almost like we were clairvoyant.

When the analog market was \$20 billion in size, in total, automotive and industrial made up 20 percent of that. Fast-forward to where we are today, the market is now over \$40 billion, and industrial and automotive are now 43 percent of the \$40 billion. So we're in the right place at the right time, and I think we have a five plus year head start on our competition.

Even when our Electronica booth was as big as a telephone booth, it was always crowded. In fact, I dreamed about having a booth this big when I first came here 20 years ago, and now we have it. I thought, when the booth is big, maybe it won't be crowded, but you can see, the booth gets bigger, the crowds get bigger.

Our goal was to be the best, it never was to be the biggest, so our strategy was always, "Be better before we're bigger," and I think that kind of strategy and a lot of good execution has created a company with great financial results. We have a chance to set the price when we are a sole source supplier. We don't sell things to a customer for \$5.00 that are only worth \$4.00; we sell things to customers at \$5.00 that are worth \$6.00. That's been our strategy from day one as well.

Well, there's a challenge there. You have to be in the right markets at the right time, and you have to have the right solutions, and if you do, and you're first to market, then you can sell customers a product priced at a functional value. To achieve functional value, the product must do the job, it's cheaper than what you're paying now, so everybody's happy.

Maybe the thing that people give me credit for is, I'm deeply involved in the strategy—not the product strategy so much as the market and business strategy, but also the culture. We've developed an engineering-driven culture; we're a company of engineers. We want to keep politics to zero. We want to keep bureaucracy—I'd like to say zero, but as you get bigger, bureaucracy sneaks in. You need to control those two things and make engineers, all of them, understand that top management knows we're an engineering company, don't second guess them on the engineering stuff, let them go do it. We have engineers who want to do the hard stuff, so let them go do it, and sometimes we have to be patient—which isn't one of my virtues, but that's part of the secret sauce.

I never forget we've got to take care of the engineers, because that's what we're about. Hopefully that kind of culture and those kinds of things have contributed to creating the company that "nobody leaves," except to retire.