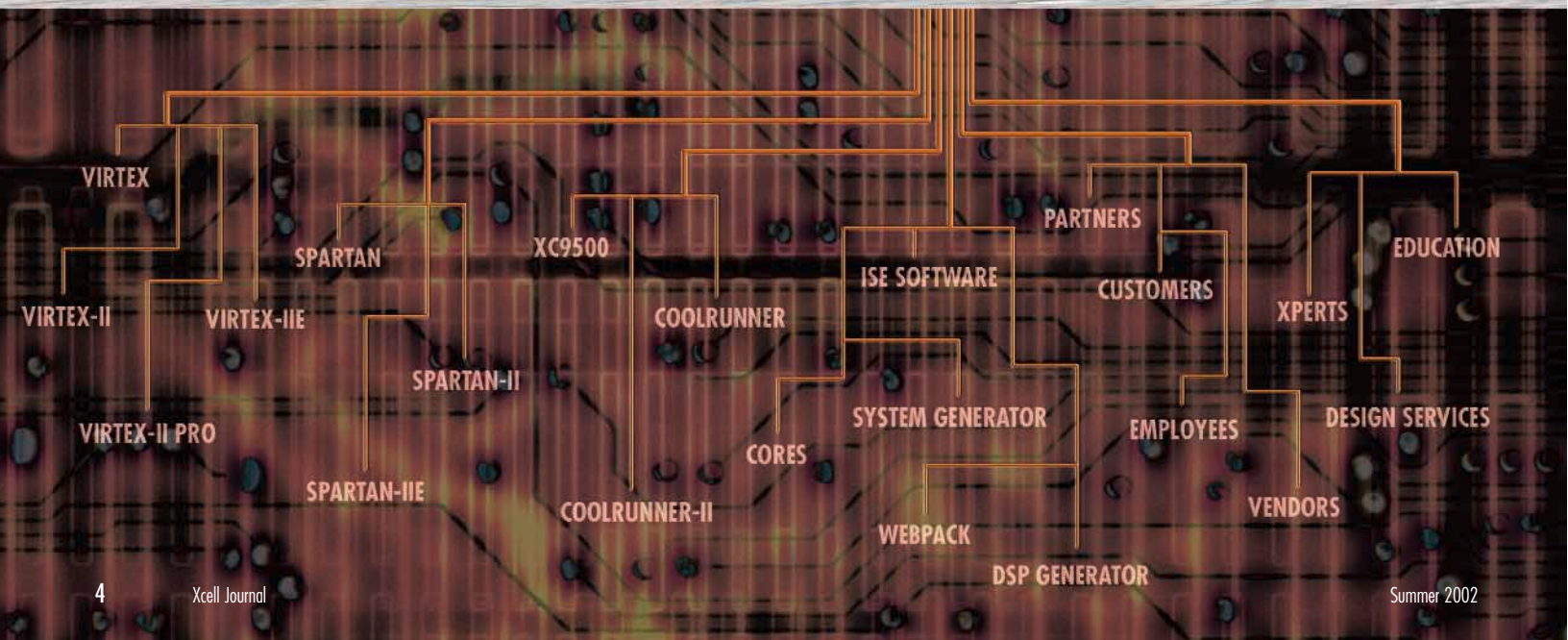


# How to Survive a Recession and Gain Market Leadership

"I said from the beginning that we wanted to emerge from the recession a greater company — and I think we have achieved that."





by Wim Roelandts  
CEO, Xilinx, Inc.

Last year was a very difficult year for the semiconductor industry. In fact, it was the worst recession ever in the history of semiconductors. In 1985, the industry decreased in a year-over-year basis by 17% to 18%. In 2001, the decline was 32% to 33% – almost twice as bad as 1985.

Nevertheless, I believe that it's in the recessions that the good companies distance themselves from the not so good companies. Even though our business was very weak, we gained market share during this recession in quite a dramatic way. Last quarter, for the first time in our history, we became larger than all the other public programmable logic device companies combined.

From a strategic point of view, we want to win through product leadership. That means we have to have the best products – always from the customer's point of view – which means the highest densities, the fastest performance, and the software and service to support them.

When you are an industry that is new and that is still changing very rapidly, you have to continue to innovate. You have to continue to bring new products into the market.

Despite the recession, the last part of 2001 and the early part of 2002 was one of our most productive periods for new product introductions. In about five months' time, we introduced a new family in every one of our product categories – Spartan™, CoolRunner™, and Virtex™. Each, in its own way, is unique in its capabilities. In fact, two of these new products – the CoolRunner-II RealDigital CPLD and the Virtex-II Pro™ Platform FPGA – have no competition. Literally, there are no comparable products on the market that can compete directly with them.

### Total Solutions

I'm very excited about the programmable logic industry. It's an industry that's still in the early phases, but over time, it will become the dominant way to implement integrated circuit designs.

The inherent flexibility of programmable logic allows you to gain time to market, to introduce new products very quickly, and to upgrade your product, even after the sale, through field-upgradeable technology.

We're not just focusing on the chips, however. Our chips must also have the software, the intellectual property cores, the training, and the support to deliver total solutions to our customers.

And we have to continue to be innovative in all these areas of IC technology. My whole belief is that Xilinx must excel in a continuous push to innovation – throughout the company, be it in chip design, software development, or marketing. Innovation is absolutely critical – especially in times of recession.

### No Layoffs – Not Just a Nice Thing to Do

This recession has put a tremendous strain on the industry. When I saw this decline coming, I concluded that it would be best for us if we could avoid layoffs – even though the economic consequences would be very difficult. I wanted to avoid layoffs, because once you start layoffs, people get worried – and if people are worried, they cannot innovate.

Innovation means that you have to take risks that some things are not going to work, and therefore, if you are worried about your job, the mantra becomes, "Don't rock the boat. Don't push yourself or make yourself too visible" – which is totally opposite from what we want to see happening.

If people are worried about their jobs, clearly, they're not going to be as productive. Layoffs affect not only the people who get laid off. Very often the people who are still there go through trauma, because they see their friends disappear – and they always have this fear: "Maybe next time it will be me."

Whenever you lay off employees, some of the accumulated knowledge of the company – its "intellectual capital" – is going to walk out the door. Especially in the high-tech industry, the value of the company is in the heads of its engineers and support staff. At Xilinx, 70% or 80 % of our employees are highly educated people working in engineering and marketing and supply-chain management. They are all experts and specialists in their own way – and that's why it's so important to keep these people happy at Xilinx. Once people like that leave, that intellectual capital goes out the door with them, and that's a lot of value for a cutting-edge company to lose.

Several compelling studies have proved that if you go back two years later, the companies that laid off employees are generally in worse shape than companies that didn't. Layoffs have a very profound impact on the morale and the trust between management and employees. Furthermore, a lot of know-how has left the company. And it takes a long time to get it back.

For these reasons, and more, I decided to try to avoid layoffs.

### Pay Cuts – An Innovative Approach

The reality of economics is that when business drops, you have to bring your labor costs in line. With layoffs not being an option, the way we cut our labor costs was by a very innovative program where we had a tiered salary reduction that was proportional to the size of each worker's salary. The lowest paid people had no reductions, and the highest paid people had the biggest reductions (myself included).

In implementing this policy, we discovered that we should give people some choices and make sure they get something in return. People had the choice to either take the salary reduction or to take vacation time – or take stock options. Stock options aren't money, but it is compensation for the work people put in. We can't ask the employees to sacrifice unless we can compensate them for the extra flexibility we're asking from them.

The tiered salary reduction was extremely well received in the company. The vast majority – and I’m talking about close to 100% of the employees – felt this was the right thing to do.

People even volunteered for the plan, which was important in Europe, because in Europe, companies cannot mandate salary reductions. It must be done on a voluntary basis. If people hadn’t volunteered, we could not have done it, but pretty much all of our European employees volunteered for the salary reduction, because they felt solidarity with the company.

With an acceptance of fair pay cuts and a promise of no layoffs, our employees felt safe to continue to risk and innovate. They have kept their attention full-time on their jobs. The net result has been that we have been able to maintain our aggressive schedule of new product rollouts – and this in a period when our business was off by 50% in three quarters.

Moreover, we were not only able to remain in the black from a profit point of view, but during all this period, we were also able to remain cash-flow positive for the company.

**The Importance of Being “Fables”**

One of the reasons we could afford to stay in the black is because Xilinx is a “fables” semiconductor company. We don’t own fabs [fabrication plants]. We don’t have this big problem of having a fab that we need to keep busy. For us, if business goes down, we just buy fewer wafers.

The same thing is true for our sales force. We don’t have a Xilinx sales force. We work through distribution and sales reps, which again means that our sales costs are by and large variable. Sales people get paid a commission. If they don’t sell, there’s no commission.

These two factors helped us tremendously in remaining in the black and remaining cash-flow positive, because a lot of our expenses go up and down with the business climate.

The good news is that we reached our lowest quarter in September of 2001.



Since then, business has been starting to improve. We were able to eliminate salary reductions early in 2002, and as of this moment, all salary reductions have been eliminated. The company continues to do very well from both a new product generation point of view, as well as a business point of view.

**Innovation – Not Just for Engineers**

Innovation is not just the engineering department. Even in the way we manage the company, we are very innovative – and it really has paid off for us. Morale is very high, and the attrition rate is extremely low. People have kept their attention on their jobs of designing great new products and marketing them and supporting them.

In general, I think Xilinx is very much an admired company in our industry. I think we are perceived as a leader in our industry – not just from a product point of view or a financial point of view, but also from a management point of view.

I want to stress, however, that all of this is possible because we are a fables company. If we had our own fabs, I don’t know if we could have done this.

Nevertheless, as a fables company, our business model lends itself very well to go through these economic cycles that are infamous in the semiconductor industry. This last recession was the worst, but it also served to prove that our business model is a very, very solid model that allows us to go through these ups and downs without too much hurt.

**Conclusion**

In high technology, things change very, very rapidly. And companies often get in trouble because they don’t change quickly enough. One of the reasons they don’t change quickly is that the people who see the change happen don’t act on it, and the people who can act on it don’t even know the change is happening.

Therefore, what we are creating at Xilinx is an environment where everybody says: “Hey, if it changes, let’s change with it. Let’s anticipate change. Let’s make the change happen ourselves. Let’s be in charge of the change – not the victim of the change.”

It is this kind of thinking that got us through the recession, and now that we are emerging from the recession, there is a tremendous sense of pride in the company. People are saying: “Hey, this is unique. We have done something that very few other companies have done. Even companies that didn’t lay people off didn’t do it the way we did.”

There is absolutely no doubt in my mind that there is a much, much higher spirit of belonging, of community within the Xilinx people than there was before. When you go through a tough time together, it creates solid bonds.

And it shows that, indeed, if you can manage a company during a recession in a correct way, you can really differentiate yourself from the competition. You can gain market share and emerge a stronger company with a creative, dedicated – and intact – workforce at the end of recession. **Σ**