

## FOR IMMEDIATE RELEASE

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### **Design Chain Associates, LLC Alerts Electronics OEMs to the Coming Component Allocation Cycle**

**San Francisco, California – August 6, 2003** – In a recent email to its mailing list subscribers, Design Chain Associates, LLC raised the specter of allocation returning in the next two to three quarters.

“From discussions with those in the industry, as well as a plethora of reports from trade journals and associations over the last few months we have determined that the likelihood of widespread allocation, especially in integrated circuit devices, is high sooner than anyone expected”, said Michael Kirschner, President of DCA. “Normally allocation occurs when business is improving for OEMs and semiconductor manufacturers as well. This cycle is anything but normal. We provided our clients with an ‘early warning’ to start focusing on this today because it’s going to take time with everyone’s reduced staff levels.”

Since early 2001, when demand dropped off and Average Selling Prices (ASPs) began to fall, semiconductor manufacturers have scrambled to contain costs. Many have had to close fabs and lay off workers. Substantial capacity has been lost, especially in technologies >0.25 micron, according to the Semiconductor Industry Association's SICAS Capacity and Utilization Rates Q1 2003 spreadsheet. Note that it's not just the integrated device manufacturers; foundry capacity was dropping and utilization was increasing through 1Q03.

While ASPs for semiconductors have dropped precipitously over the past three years, demand has increased to the point where unit volume is nearly as high as it was during the peak year of 2000. As the breadth of applications and markets for electronics has increased, suppliers have fallen all over themselves to beat each other on price in order to make sales and keep their remaining fabs operating efficiently (which is key to achieving adequate levels of component yield, quality, and reliability). This has resulted in a profitless (and jobless) recovery of sorts.

But now, with capacity utilization expected to soon be so high (over 90%) that leadtimes lengthen and shortages occur, the semiconductor industry is, with some exceptions by company and technology (especially for products like processors, DRAMs), very hesitant to spend money to increase capacity. We see them waiting for ASPs to rise in order to rebuild their cash reserves before they resume adding capacity in earnest, as well as testing the firmness of the recovery.

DCA has identified six critical areas for Electronics OEMs to address so they can manage the environment rather than react to it. These areas are:

- 1) Design and Supply Chain Alignment
- 2) Supplier Relationships
- 3) Supplier Rationalization
- 4) Supplier Contract Negotiation

- 5) Design and Bill-Of-Material Analysis for Supply Chain Agility
- 6) Component Cleansing, Reduction, and Management

Design Chain Associates has described some of the concerns and actions to be taken in each of these areas at <http://www.designchainassociates.com/imbalance.html> and advises all Electronics OEMs to view their supply chain as a strategic element of success and take action now.

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### **About Design Chain Associates, LLC**

Design Chain Associates, LLC provides consulting services to Electronics Original Equipment Manufacturers. DCA focuses on the ***Design Chain***, which defines and sets up the Supply Chain. DCA brings strategic value to clients through "Best Practice" process and methodology guidance on supplier and component selection, qualification, and lifecycle management. DCA also provides other core services relating to corporate acquisition integration; "womb-to-tomb" Component Engineering support; and software tool assessment, configuration guidance, and user education. San Francisco-based DCA has a local presence in other high-tech regions of the country such as the Austin/Houston corridor and the Boston region as well as around the globe through local associates. For more information, visit DCA on the web at <http://www.designchainassociates.com>.