

Interview

The Splinter 7

An Interview with Michael R. Splinter, President and Chief Executive Officer, Applied Materials, Inc., Santa Clara, California



Michael R. Splinter

EDITORS' NOTE A 30-year veteran of the semiconductor industry, Mike Splinter began his career at Rockwell International, where he rose to become manager of the company's semiconductor-fabrication operations. Prior to joining Applied Materials in 2003, he spent nearly 20 years as an executive at Intel Corporation, where his roles included executive vice president and director of sales and marketing worldwide. Additionally a member of the governors' council of the World Economic Forum, Splinter is the recipient of many industry awards and the author of numerous papers and articles. He holds bachelor of science and master of science degrees in electrical engineering from the University of Wisconsin.

COMPANY BRIEF Established in 1967 and based in Santa Clara, California, Applied Materials, Inc., is the world's largest supplier of products and services to the global semiconductor industry, and a leading information-infrastructure provider. With approximately 13,000 employees in more than 65 locations in Asia, Europe, the Middle East, and North America, the company creates and distributes the processing and manufacturing technology that helps semiconductor manufacturers produce the world's most advanced chips. Applied Materials (Nas-

daq: AMAT) reported net sales of over \$8 billion for fiscal 2004.

What is your outlook for Applied Material's growth over the coming years, and will that growth come organically or through acquisitions?

We expect both our systems business and our service business to grow strongly, as capital investment in semiconductor equipment returns. How fast that investment will return is the big question. However, we believe our services will grow during this next year regardless, and most of that growth will be organic, based on new products developed inside Applied Materials. That doesn't necessarily mean that we won't be making acquisitions. It's just that, in the short term, we don't anticipate making any acquisitions that would be large enough to overshadow the growth that will come from internal projects. We do in some instances provide venture funding as a way of looking at new markets and opportunities.

Are you expecting most of your growth to come from the North American market, or are there strong opportunities overseas as well?

Eighty-five percent of our business is outside the United States, so we're a very global company. Seventy percent of our business is in Asia, and we're very strongly positioned with companies in that region.

In your Asian operations, are there any other countries that present opportunities as strong as those in China?

In the next few years, Japan, Korea, and Taiwan will continue to be the biggest growth markets for us. China is a growing market, too. We've been in China for 20 years, and we recently announced that we're creating a holding company in China that will allow us to do more business there. We also opened an engineering center in Xian. All these efforts will help us to improve our engineering efficiency, giving us 24-hour engineering capability. So our view on China is more of a 10-year view, in that we believe our industry will grow in China fairly dramatically over the next 10 years. We want to be

well positioned to take advantage of that growth.

In your overseas markets, are you able to find the local talent you need?

Yes, for the most part we are. Certainly, we train people in many of those markets. And, as I said, we've had a long history in some of those countries, so we've had some incubation time to develop people. We hire people from the universities and help them to understand the Applied Materials culture. We have donated equipment to many universities which allows the students hands-on experience with our tools before they graduate. With that approach, we are able to build the expertise we need.

Are you satisfied with the market's current understanding of the solutions and services offered by Applied Materials?

Our customer base clearly understands our product offerings, as well as our value proposition, which is based on us enabling the next generation of technology for our customers in all the markets that we serve. Sometimes that involves building systems; other times it is about delivering services. We also play heavily in the flat-panel arena, and that is really critical to our marketplace.

Our brand is also well understood by investors. However, I'm not so sure they understand our value proposition as well as they might, or how strongly we are positioned in the marketplace. We have some branding and marketing efforts underway to better explain our position to all our stakeholders.

In a competitive marketplace like yours, services can sound somewhat similar from company to company. Can you really show what makes a brand unique?

In our sector, the service we offer is really quite different from the market's usual understanding of service. For a company like Applied Materials, service is still all about delivering technology to the customers and enabling them to move their operations to the next level of productivity. So ours is a very differentiated business. In every one of our service business

types, we have to provide clearly differentiated products, whether they are concerned with cleaning, maintenance, spare parts, enhancements to our equipment, or diagnostic software. In each of those cases, we have to continue to drive the technology and make it value added.

Do you see your general package of services and solutions remaining consistent for the next few years, or will you be expanding your offering?

We'll definitely broaden our product line. There are still a number of areas into which we can move to increase the breadth of capabilities that we offer. For instance, we have just introduced a new vision-inspection product that previously would not have been in this market. We'll continue to move into markets where we haven't been in the past. The way I see it, our current products are a very strong foundation on which to build. We will keep investing in that foundation in order to keep it strong.

Is your target market mainly large multinational companies, or are there also opportunities to be found among mid-size players?

Our target market consists of semiconductor and flat-panel companies. If we moved into other markets, we would serve other companies too, but today, our market is really limited to those customers.

How high up the executive structure of your client companies must you operate in order for your business relationships to be successful?

One of the great things about Applied Materials is that we have relationships at every level of the company, from the CEO down to the engineers. That's something we've been working on for a long time. With services, the selling process is a little different. Our systems get sold to the R&D engineers. The services get sold to the manufacturing, management, and operations executives.

In your category, does a company need to be a certain size in order to succeed?

Increasingly, because of the huge investments our customers make, and because they have grown to be so global themselves, it has become more difficult for niche players, because they have to be able to support service and installations anywhere in the world. The way I see it, if we're successful in delivering value to our customers, our customer relationships will grow stronger, and our market share will also grow, along with those customers.

The integrity of corporate America was called into question recently with a series of high-profile cases of malfeasance. How much does that concern you, as a CEO today?

Applied Materials has always focused on operating to a very high standard of business ethics. As we have moved into various countries around the world, we've maintained that high standard and I think

that's to the credit of our chairman and former CEO, Jim Morgan. I intend to continue that legacy. We have put a lot of focus on corporate governance recently, and in order to really understand what is meant by that term, our board of directors went through some specific training in this area. We have been aiming to reach the next level of understanding about the responsibilities of the board when it comes to representing the shareholders. In short, we want to ensure that the company is run according to the highest standards of excellence.



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You are known for your focus on leadership, and have devised a leadership program called the "Splinter 7." How important is that program to the mission and the culture of the company?

The Splinter 7 program brings together various ideas and methods that I have observed to be successful over my career. It helps create and communicate a leadership culture within the company. It's built around seven fairly simple principles: Our leaders should increase the company's business acumen; lead change; build their teams; be more effective in everything they do; communicate well; think strategically; and be role models for the core values of the company.

Do you drive those principles throughout the company as a consistent message?

Absolutely. It takes a long time to get a message like this across in any company, because you have to communicate it first, and then you have to get people to really understand it. So you have to teach it. You have to get people to practice it, so it is reinforced every day.

Applied Materials is a technology company, but is it still a people business? At the end of the day, how important are your people?

They are very important. This is a siz-

able company and, ultimately, it's a people-management business. We have about 13,000 employees and we're very global, as I pointed out earlier, with 85 percent of our business outside the U.S. Managing people from different cultures, in different countries, and in different time zones is a difficult process. I sometimes think that our executive staff meeting is like a meeting of the U.N. There are Europeans, a few U.S. people, a number of Asians, and others.

What is your approach to corporate citizenship, and how is that reflected in your different markets around the world?

One of the great things about Applied Materials is the willingness of everybody in the company to give back, and it really doesn't matter what country they are working in. Our people are very, very active. As part of our core values, the company promotes the idea of being a good citizen in our communities. As an example of this, we run a campaign called Helping Hands every fall. Virtually everybody in the company participates in one way or another, helping needy people in so many different ways. Last year we raised more than two million pounds of food for the needy. The company also focuses on education. For instance, we recently announced that we are starting an innovation fund, which will offer scholarships to young people who want to get into technology and focus on our areas of interest. So our corporate citizenry spans a very, very broad area, and is very important to the company.

Looking forward to the next few years, what are some of the key priorities and challenges facing the company?

Our number-one priority is executing our growth agenda, and we will do that through our technology. Another key priority is increasing our profitability. Our focus there is to ensure that we're efficient and effective, and that our quality and reliability are constantly improving.

You've been in the industry for many years, serving in numerous different roles in leading companies. As CEO of Applied Materials, your attention is now pulled in so many directions. How do you prioritize your time?

One of the principles of Splinter 7 is about optimizing your effectiveness every day, and that involves really understanding what to prioritize – not just for the company, but also for yourself. You have to ask yourself, "Am I working on the things that most highly leverage my skills for the corporation?" Taking that approach, it isn't hard for me to let other people have leadership of certain aspects of the business. I need to focus on other things. Oftentimes, being the CEO is about deciding what the company is not going to do, and what you're personally not going to do. In my view, that's an important part of being a CEO. ●