

## ***The Chip Insider***<sup>®</sup>

**October 24, 2014 – *What's Happening*: Remembering Haruo Matsuno of Advantest *WildPhotons*: It's easy to make good decisions when . . .**

### **Focal Points:**

- Remembering Haruo Matsuno of Advantest
  - A unique career path from HR
  - Legacy is innovative strategy to M&A
  - Market share gains proved out the strategy
  - Matsuno-san valued Verigy's accomplishments
    - and respected them as a competitor
  - Aligned the focus to protecting customer investments
    - He did not pare tool offering
    - Typical to kill duplicative platforms
  - Re-tasking the truly duplicative resources enabled them to address new markets

**Remembering Haruo Matsuno of Advantest:** It's something we all fear and can relate to: while traveling overseas on business, Matsuno-san succumbed to a brain hemorrhage. More important are the contributions he made in his short stint as CEO and President.

Matsuno-san had a unique career path as he had risen to the top from a background in HR. I first met him in June of 2011 when he was mapping out the strategy for the acquisition of Verigy. He may have had the perfect background for doing this. It's difficult enough to integrate the cultures of two companies based in the same country. He was attempting what many would think is unthinkable: integrate a Japanese company and an American company that also had deep roots in Germany. This had never been done before with a company in the semiconductor industry. Yet when the books closed on 2012, the combined company had gained market share.

Matsuno-san's legacy will be his award-winning innovative strategy\* to not immediately pare 'duplicative' resources but instead to re-task them to growing revenues; many analysts saw it as a wasteful no-integration integration process. But the market share gains proved he was right. Moreover, it inspired Advantest's employees to reach further, as they could feel much more secure in their jobs.

The classic merger integration process focuses on cutting duplicative resources in a fast attempt to increase margins. The theory is that revenues for the combined company will continue on their normal path because they are demand related; while cost structures can be cut without affecting revenues because they are supply related. This static model works well in the near term to manage quarterly earnings. But it ignores the fact that existing customer relationships and installed product bases will affect future

revenues. A winner-take-all mentality emerges in a merger, once it's clear that jobs are at stake and corporate antibodies rise to kill off the transplant. It is this way that mergers of one-plus-one become equal to one instead of the 2 or greater the revenue size that is expected.

In contrast to this, Matsuno-san valued Verigy's accomplishments and respected them as a competitor. Verigy was strong in areas that Advantest was not, such as testing of RF-mixed signal, and high-speed SoC ICs. So in order to not lose these strengths the first tactical part of Matsuno-san's strategy was to keep Verigy separate as a wholly-owned subsidiary of Advantest. Going slow on integration would buy the time needed to really understand what they had with both. The second tactical part of Matsuno-san's strategy was his concept of a Strategic Business Unit with the mission to "build and execute creative, strategic business plans, propose solutions that exceed customer expectations, and develop new businesses and new customers."

The third tactical approach of Matsuno-san's strategy was to align the focus of the combined company to protecting the investments customers had already made with the products of both. Advantest strictly enforced this to ensure it would hold the customer bases of both companies. The key to protecting customer investments was to not kill duplicative platforms, as this was where customers had the greatest exposure to Advantest's internal decisions.

It is typical to kill duplicative platforms with the classic merger integration process, since it lowers costs across operations, service, support, and SG&A. This leads to one of the biggest problems with mergers, which is customer leakage to competitors and the resulting market share loss. The reason is that competitors typically see each other's products as substitutes for each other. But Matsuno-san wisely understood that customers saw both companies' products as being complementary. Otherwise one would have won out over the other in the market. The fact that multiple products exist in a market is de facto proof that there is enough differentiation between the two for both to thrive. Kill one and customers rarely migrate to your remaining product. Instead, you are pushing them to your competitors.

The results of Matsuno-san's strategy are clear: They not only held market share through the integration process, they gained market share. This came because they held customers. Additionally, re-tasking the truly duplicative resources enabled them to address new markets in MEMS and Life Sciences. Today, Advantest is a much stronger company than it would have been due to Matsuno-san's unique approach to merger integration. Instead of stripping out cost by cutting resources, his strategy held resources tight to build new revenue bases. His approach was bold, while more humane, in that he put people ahead of short-term profits. He built his plan around the belief that only people could grow profits in the long term. For that, many owe Matsuno-san a great deal of thanks.



\* Matsuno-san's approach to the merger was so revolutionary that VLSIresearch would honor Matsuno-san with its 'All Stars of the Chip-Making Industry' award and he would receive the ACE (Annual Creativity in Electronics) Award for Executive of the Year, presented by semiconductor industry journals EE Times and EDN.

By G Dan Hutcheson

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