

STRATEGIC ANALYSIS

ADVANCED MICRO DEVICES (AMD)

STUDENT NAME

2013

Executive Summary

Advanced Micro Devices is a technology firm based in California. The company designs and develops the technology which powers and accelerates millions of computers, gaming systems, cloud servers, digital devices, and embedded systems used by millions of users worldwide. AMD is the rival of market leader Intel, however, the market share of AMD is much lower than that of Intel. Due to the changing face of PC industry, slow global economic growth, and the rapid pace of technology change, the company is faced with a number of challenges. These challenges include weak financial performance, loss of investor confidence, and vague direction of future strategy. The external and internal analysis of AMD reveals that microprocessor industry is dominated by two major rivals, Intel and AMD. Due to capital intensive nature of the industry, new rivals are hard to come by. Some rivals exist in the form of ARM and NVidia. Despite their presence, AMD has been consistent in rolling out new technology at a rapid pace. This might be one of the reasons that AMD has lost sight of the future goals and strategies. AMD has its strengths in being low cost and energy efficient producer of microprocessors, which can be a great appeal for developing and emerging markets. This strategic analysis presents three different strategic options for AMD to pursue in order to enhance its competitiveness and financial stability. These strategies include expansion into the client mobility segment through tablets, PC hybrids, and smartphones; strengthening its leadership position in the graphics cards category; or revitalizing its brand proposition to enhance its visibility. Of the three alternatives, it is recommended that diversification into the client mobility segment is appealing because a late entry into this segment would mean that Intel or other players will already have a strong hold in the market. Furthermore, because the PC market is in its decline stage, client mobility offers the new avenues of growth which AMD should readily incorporate in its strategy.

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Introduction and Company Overview

Advanced Micro Devices is a California based technology firm located in Sunnyvale, California. It is a 'semiconductor design innovator' (AMD, n.d.(a)). The company designs and develops the technology which powers and accelerates millions of computers, gaming systems, cloud servers, digital devices, and embedded systems used by millions of users worldwide (AMD, n.d.(b)). The company basically produces Accelerated Processing Units (APUs) which are used to power a range of computing devices. At the same time, the ground breaking innovative graphic technologies of AMD are used in a number of devices ranging from gaming consoles, to personal computers, to supercomputers (AMD, n.d.(a)).

This report presents a detailed strategic analysis of AMD by discussing the history of the company, its current position in the technology industry, and developing three distinct strategies that AMD can adopt for its long term sustainability. The report is divided into five sections. First section talks about the history of the company, its mission, vision, and values, and presents a crisp, yet concrete stakeholder analysis. This section will help establish the grounds of the report. Second section of the report talks about the external analysis of AMD. External analysis constitutes careful examination and evaluation of micro and macro factors present outside the boundaries of the organization which have an impact on the business's operations. A number of models including Porter's 5 Forces and PESTEL analysis will be carried out in this section. Third section attempts to view the organization from the inside by highlighting the competencies of the firm as well as its internal weaknesses. Fourth section of the report presents strategic choices for AMD in the light of current situation and circumstances. These strategic choices are proposed in the light of extensive internal and external analysis of the business and its operations. Lastly, fifth section of the report presents an evaluation of the strategic option that the company should choose. This section concludes the analysis with the help of implementation recommendations. The report uses secondary sources of data for the analysis including published reports, company website, newspaper articles, and journals. Thus, the strategic options put forward can be considered limited in the scope with respect to access to information. However, it is made sure that recent data is used for the analysis in every section of the report.

Company Overview:

Advanced Micro Processors was founded with \$100,000 on May 1, 1969 under Delaware laws and became a public company in the year 1972 (AMD Annual Report, 2012). Over the course of the existence of AMD, the semiconductor industry grew at exponential pace due to innovations in compute technology. Silicon and software took the roles of steel and plastic of the global digital economy. AMD has been committed to innovation and puts customer needs ahead of any other company activities. The products that AMD produces include microprocessors, chipsets, embedded microprocessors, video, graphics, and multimedia products. These products are sold on global scale for both commercial and consumer usage. Over the years, the company has established itself a strong rival to Intel, the market leader in microprocessor industry. The company reported \$5.42 billion in revenues in 2012 and employs more than 10,000 individuals worldwide (AMD, n.d.(b)). AMD facilities are located in more than 50 locations worldwide including manufacturing and distribution facilities. AMD owns more than 4,650 patents for its innovations and products (AMD, n.d.(b)). AMD is listed in Global Challenges Index as one of the only two semiconductor companies (the other being Intel) for its superior sustainability. AMD technology powers more than 200 million gaming consoles all over the world (AMD, n.d.(b)). The company aims to strengthen itself by adopting sustainable ways of growing and innovating.

Mandate:

- **Mission:**

The primary purpose of existence of AMD, as delineated in its corporate site is to “lead through innovative, customer-centric solutions that empower businesses, enhance the digital lifestyle and accelerate global digital inclusion” (AMD, n.d.(a)).

This mission of the company exemplifies that the company wants to lead through customer centric approach led by its innovative ways of continuous development and improvement. The vision of the company can be derived from its mission and is instilled in its core values.

- **Core Beliefs and Values:**

AMD mandates that it has three core beliefs which are embedded in its philosophy to add value to its people, its customers, and the shareholders (AMD, n.d.(c)). The core values are:

1. Ownership and Commitment- which means that AMD takes responsibility of whatever it does and does what it commits to do
2. Customer Focus- the Company is highly committed to putting customers ahead of any other activities. The commitment to customers was set by the founder Jerry Sanders who said “customers should come first, at every stage of a company's activities.” (AMD, n.d(d))
3. Innovation Leadership- AMD aims to excel on the basis of innovation.

The core values of AMD include **Achievement** (planning and playing to win); **Accountability** (building trust by honoring the commitments); **Alignment** (“debate, decide, embrace, and execute”); and **Agility** (continuous learning and improvement across all business areas).

- **Stakeholder Analysis:**

The most important stakeholders as identified by AMD itself include employees, shareholders, customers, social investment analysts, suppliers, local community, non-governmental organizations, as well as other interest groups (AMD, n.d.(e)). AMD considers each stakeholder group as an important contributor to the progress of the company and its future plans. This is why AMD has developed a Stakeholder Engagement Panel in order to gain valuable insights as well as stakeholder perspective in the areas related to corporate responsibility, corporate strategies, communications, as well as performance. The company interacts with the stakeholder groups twice a year, through different offline and online medium to specifically gain feedback on the corporate responsibility strategy. AMD recognizes its employees as its most important stakeholders. Employees of the company expect that AMD delivers to them job satisfaction and at the same time align its activities towards sustainable growth and development (AMD, n.d.(e)). AMD engages its employees through Green Teams and Go Green initiatives. Customers are

provided a number of ways to communicate with the company to provide their feedback. These customers include individual consumers as well as business clients. Customers of AMD have a deep impact on company's policies and products as their feedback is incorporated in strategies of the company. Shareholders, who are primarily considered to be profit centric, are also involved in the strategy making of the company. These shareholders constantly push the company towards seeking innovative routes and sustainable policies. Other stakeholders work closely with AMD for the attainment of other strategic goals. The stakeholder groups involving NGOs, social activists, and communities continue to give the message to the company to continue the transparent policies and execution of corporate responsibility (AMD, n.d.(e)).

External Analysis:

The microprocessor industry is a duopoly which is dominated by Intel and AMD. The industry is a very lucrative and important industry for the US economy. According to Jorgenson, Ho, and Samuels (2010), 25% of the US productivity growth was due to the computer equipment manufacturing industry from 1960 -2007. The external analysis of AMD includes an analysis of the attractiveness of the industry, the competitive rivalry, and other macro factors. Different models are used to carry out the external analysis below:

Porter's Five (Plus One) Forces Analysis:

In addition to the traditional Five Forces, Andrew Grove, former CEO of Intel, introduced a sixth force into the Porter's analysis by the name of Complementors. A detailed analysis of these six forces is presented below to determine the attractiveness of the microprocessor industry:

- **Bargaining Power of Suppliers:**

The suppliers of AMD include the producers of raw material silicon which is used to develop microprocessors. Since silicon is a commodity by nature with a huge number of suppliers present in the market, the bargaining power of suppliers is very weak. Furthermore, switching costs are also low and any raise in supplier prices can lead AMD to switch supplier.

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- **Competitive Rivalry:**

This force is the most important one, specifically for this industry. AMD recognizes that the industry is intensely competitive and the competition is largely on the basis of product quality, product reliability, power consumption(which includes the battery life), speed, size, performance, cost, price, adherence to industry wide standards, hardware and software compatibility and stability, product introduction times, brand recognition, and product availability (AMD Annual Report, 2012). Due to the nature and pace of technology advancement, as well as cut throat competition in the global microprocessor market, the industry is characterized by quick product innovations and introduction, and regular price cuts. The primary competitor of AMD is Intel which has the market share of 82percent approximately as opposed to AMD which has a 10.4percent market share in terms of revenue (See Appendix 1) (Wilkins, 2011). The rest of the market share is held by smaller companies. As discussed earlier, the frequent price reduction in the face of high fixed costs nature of the business causes both the firms to compete on the basis of prices to capture market share. In iSuppli report by Wilkins (2011), he reported that an increase in share of Intel results in a subsequent loss of share of AMD and vice versa. This means that one rival's gain becomes the other's loss resulting in a zero sum game. Intel has also been found of using its influence its customers to use its microprocessors in their devices. Goettler and Gordon (2011) identify that Intel has been accused in the past for using anticompetitive practices like rewarding computer manufacturers who exclusively use Intel processors, thus restricting AMD's market share and access to new customers.

- **Complementors:**

Complementors of microprocessor industry primarily include the OEMs and ODMs. These industry players are important because they define and develop the demand for microprocessors (Hill & Jones, 2009). Due to the recent shift to cloud computing and increased popularity of mobile computing, the demand for multicore processor chips has increased rapidly (Reportlinker, 2011). At the same time, the number of complementors in the industry is increasing not only with the emergence of new companies, but also new products and devices which make the computing industry very attractive.

Macro Analysis (PESTEL):

▪ Political:

The operations of AMD spread across the globe including countries like the United States, Europe, Asia, and Canada. Furthermore, third party operations are spread across China, Taiwan, and Malaysia. 92% of the operations of the organization are international and thus national and international political events and conditions affect the profitability and long term viability of the business (AMD Annual Report, 2012). Changes in tax laws, import and export licensing requirements, sanctions and war in Middle Eastern countries all lead to certain political challenges for AMD. At the same time, the demand for AMD products and supply chain is also affected due to the United States involvement in armed conflicts across the world. Terrorism and hostile acts in countries where AMD operates can create difficulties in the distribution and can lead to physical damages to property.

▪ Economic:

Similar to political factors, economic factors affecting AMD are also global in nature. The global financial crunch has had a negative impact on the company's profitability. Uncertainties in the credit markets have resulted in failed auctions of AMD's securities because of insufficient demand (AMD Annual Report, 2012). Liquidity conditions of the company have also been affected due to the failure to readily convert its securities to cash. However, a positive growth outlook in the developing and emerging economies mean that the demand of the products will continue to grow.

▪ Socio Cultural:

The cultural shift of digital devices towards smart phones, tablets, and netbooks mean that customers are now looking for more portable devices which offer ubiquitous solution to their needs. The pace of changes in consumer needs and wants has quickened due to which product lives have shortened. Another social and cultural shift can be seen in terms of consumer emphasis on building socially responsible companies. This pressure from consumers means that

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players to protect their proprietary technologies and products. The legal environment, however, is favorable for the industry players not only in the US but also internationally.

The external analysis of AMD suggests that the competitive situation of the company is very harsh, which requires rapid innovation, timely introduction of new technologies, and sustainable ways of operations to ensure long term viability of the business. Moreover, since AMD is a global firm, the challenges faced by the company are also global in nature.

Internal Analysis:

The internal analysis of AMD by highlighting internal strengths and weaknesses is presented below:

- **Strengths:**

AMD has aligned itself towards the strategy of sustainable growth. One recent example includes the acquisition of SeaMicro, an energy efficient micro server company, to excel in the cloud computing technologies (AMD Annual Report, 2012).

The company aims to reduce costs and operational expenses through restructuring and improving the cost structure, enhancing competitiveness in core areas of growth, and reducing global workforce by 14percent approximately (AMD Annual Report, 2012).

AMD is industry leader in x86-based computers with efficient and fast virtualization, energy efficient multicore processors, and virtualization technologies (AMD.com, n.d.(f)). Due to energy efficiency and lower costs, it has a greater appeal in developing and emerging economies.

The operations, distribution, and production facilities of AMD are spread across continents which make it a truly multinational corporation with more than 92% operations outside the US (

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Johnson and Scholes (2002) identify that strategy of any company should be based on its core competencies and critical success factors. Logistics is an integral part of AMD's success factors; however, AMD has considerably lesser access to retailers, and other supply chain members.

AMD does not have a mechanism to interact with the end users and understand their needs and demands. This results in introduction of new products which consumers might not want. Selden and MacMillan (2006) point out that AMD and Intel need to create a deeper understanding of consumers and their needs before going on the innovation spree.

AMD has no presence in smart phones and tablet markets which restrict the business to PC and laptop market by large.

The financial performance of the company is not attractive (Appendix 2). The company is facing a continuous decline in its share prices due to the slump in the global PC market. The share prices declined by more than 60% in 2012 alone reaching a peak at \$8.20 in March and hitting an all-time low at \$1.80 in November, 2012 (Team, 2012). Company is also facing negative cash flows from operations and a mounting debt figure which has resulted in dampened investor confidence in the company's shares (Team, 2012).

Frequent changes in the top management over the last couple of years are also an important factor behind the weak financial performance of the business because such frequent changes led to a lack of strategic direction (Team, 2012).

Strategic Options:

Based on the recent direction of the computer industry, three distinct strategic options for AMD can be put forward for strengthening its market competitiveness and long term growth. The first option can be to focus on client mobility technology through entering the tablet market by offering energy efficient, low cost chips. Another strategy that AMD can pursue is to adopt a

focus strategy and enhance its competitiveness in graphics processors segment as AMD currently has a good reputation in this industry segment. The third option for AMD can be to revitalize its brand to overcome the negative sentiments from the investors and attracting new customers based on a new and different value proposition. Based on Hambrick and Fredrickson's (2001) strategic diamond, the three strategic options are discussed below in detail:

- **Investment in Client Mobility Technology:**

With the changing technological arena, PC market is losing its attractiveness with an increasing popularity of notebooks, tablets, and smart phones. One of the potential strategic directions that AMD can pursue is to diversify its business by investing in the client and mobility technology. This technology involves hand held devices and computer devices which are mobile in nature.

AMD's Chief, Rory Read has also acknowledged the significance of investment in this area. In one of his earlier speeches, he said "We're going to double down on client and mobility ... I'm not suggesting we dive into smartphones, a heavily crowded space with low margins ... I'm going to focus on client mobility, thin and light " (Randewich, 2012). This implies that the company already has an eye on the notebook sector where Intel has a weak presence so far. This opens new gateways of opportunities for AMD. So far, AMD has directed its efforts towards this segment by introducing chips which are aimed at x86 notebooks and tablets (Miller, 2013). Since notebooks and tablets are light weight, ultra -thin, and are highly mobile in nature, they are gaining popularity in the global PC industry. According to Intel and AMD, customers are ready to compromise on a little bit of performance in exchange of longer battery lives and cheaper processors.

The primary arena for this strategy includes diversification to the mobility technology which includes tablets, and smart phones. These are the new avenues of growth and thus should be explored. Furthermore, the strategy should be pursued at a multinational level because of the fact that high efficiency, low cost chips will have a higher demand in developing and emerging nations as compared to customers in developed nations. The vehicles used to pursue this strategy should include acquisition or joint ventures rather than organic growth. The winning proposition

or the differentiator for this strategy that AMD can provide is low cost and high efficiency microprocessors. The staging process for this strategy will include partnering with other chipmakers in this industry, or acquiring a business in this industry over the next 2 years. This will require setting medium term goals. The economic model for this strategy should be to acquire the new technology for diversification and capturing the market share as quickly as possible to gain on the profit margins.

- **Strengthen Presence in Graphics Segment:**

Amongst the three generic strategies of Porter, one is the focus strategy. This strategy involves focusing on something you are good at capitalize on the strengths. One such strategic option Retrieved from to AMD is in its graphics cards segment. The company has some star products in this segment which are manufactured for PCs, Laptops, gaming consoles, and now the tablets and PC hybrids. Recently, there have been many talks about the Graphics strategy of AMD for the current year. So this strategic alternative will further expand on this category. AMD plans to use a new chip configuration- the Sea Island chips which will supposedly offer higher efficiency, without any performance downgrades (Hardware Canucks, 2013). This strategy would mean that AMD prove itself as the best graphics processor manufacturer, and thus claiming a leadership position in this category. AMD faces competition from Intel and NVidia in this segment; however, AMD's technology is accepted and acknowledged.

The arena for this strategy should be to capitalize on the existing strengths by further enhancing the products in gaming categories and graphics of hybrid computers. The vehicles used for the strategy should include internal innovation processes which have, by far, been impressive. The differentiation feature will be the high end graphics technology which can compete with other existing players. Since AMD is already very good in this technology, it can prove to be a differentiating feature. The staging element of the strategy will include a continuous improvement cycle, and a major emphasis on graphics of gaming consoles first. The economic model for this strategy will be through market leadership, and competitive pricing. By forming alliances and partnerships with ODMs and OEMs, steady profits can be ensures.

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Recommendations:

From the strategic analysis of the organization and weighing down all three alternate strategic options that AMD can pursue to revive its profitability in the technology industry, it is recommended that AMD should pursue the first strategic option. Diversifying the business to client mobility technology presents new avenues of growth to the business. One of the significant factors behind recommending this strategy is that Intel has a weak presence in this industry segment and thus AMD should make the first move in order to capture greater market share.

Another important reason behind recommending the strategy is that fact that AMD's executives seem interested in the client mobility market; however they are not attracted to the smart phones market despite the smart phone revolution that has taken the technology world by storm (Shimpi, 2012). The company's CEO has repeatedly mentioned that his company is not interested in hand held devices' market because of the low margins and saying that the market is already crowded (Shah, 2011; Gaudin, 2013). However, critics believe that AMD should not delay its entry into the smart phone market as it is the new thing in the market, and is here to stay in one form or the other for the years to come. AMD has been found interested in the hybrid PC market which includes tablets, notebooks, and ultra –thin and light weight laptops (Gaudin, 2013). One recent move has been company's introduction of a new tablet chip which is named as Temash (Gaudin, 2013).

It is recommended that AMD should collaborate with already established players in the smartphones market in order to expedite its entry into this market segment. One recommendation is to collaborate with British technology firm ARM in order to compete with the archrival Intel and capitalize on ARM's strong presence in the smart phone market. This collaboration can be termed plausible as AMD and ARM have already had collaborating arrangements to produce 64 bit technology based processors. AMD is scheduled to roll out its very first ARM technology based 64 bit processors in addition to its traditional x86 processors (AMD, 2012). The very first processor is expected to roll out in 2014 and will start off with cloud and data center servers.

Since AMD's strength lies in its ability to produce low cost chips which offer high energy efficiency, the diversification into the tablet and smart phone market will mean geographical diversification as well. Higher demand will come from developing and emerging economies which are the lucrative markets for tablet and smartphone sales right now.

Subsequent strategies that AMD can and should follow after diversifying itself into the smartphone and tablets market include divestiture from those products or segments which are performing poorly and not producing sufficient returns. This will not only free up some cash for the company, decrease the mounting debt, and enhance efficiency, but will also help in steering the company towards the direction of growth.

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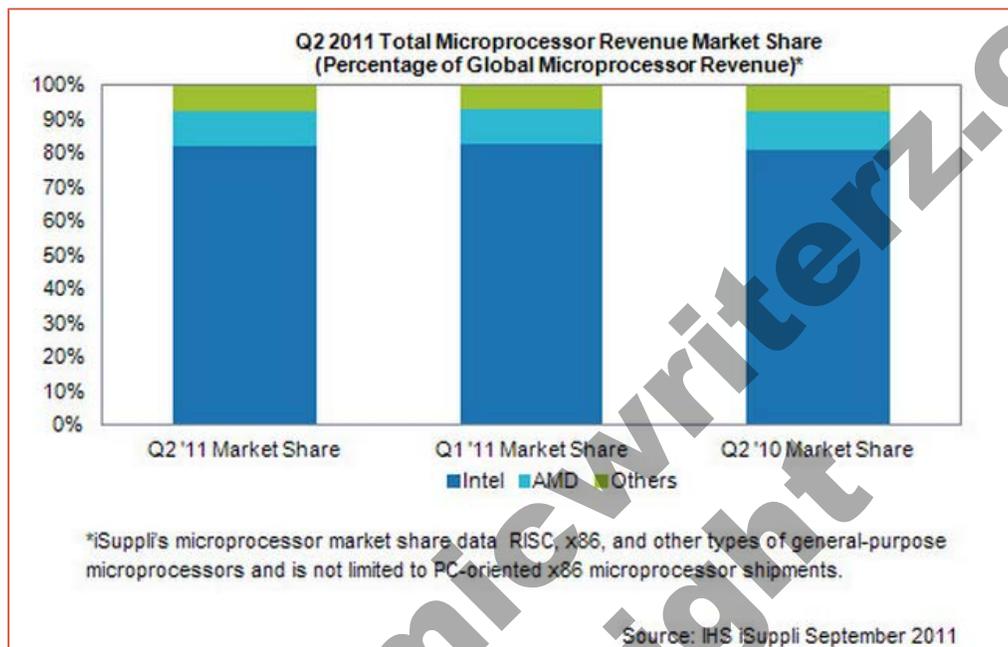
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Appendix:

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	2012	2011	2010
	(In millions)		
Net revenue:			
Computing Solutions	\$ 4,005	\$ 5,002	\$ 4,817
Graphics	1,417	1,565	1,663
All Other	—	1	14
Total net revenue	\$ 5,422	\$ 6,568	\$ 6,494
Operating income (loss):			
Computing Solutions	\$ (231)	\$ 556	\$ 529
Graphics	105	51	149
All Other	(930)	(239)	170
Total operating income (loss)	\$(1,056)	\$ 368	\$ 848
Interest income	8	10	11
Interest expense	(175)	(180)	(199)
Other income (expense), net	6	(199)	311
Equity income (loss) and dilution gain in investee, net	—	492	(462)
Income (loss) from continuing operations before income taxes	\$(1,217)	\$ 491	\$ 509

3.

