

Ask The Analyst

Question 9:

I Have Read That You Do Not Believe In The Fab-Lite Business Model; Why?

Answer:

First I have a real definition problem. Fables I understand and, as Chips & Technologies (the first real fables company) showed, this can be a very successful model. With fab-lite, also known as 'asset-lite' and 'asset-smart', no-one has yet managed to explain to me exactly what it means.

One definition heralds it as having a small in-house pilot line fab with a foundry for volume production, the half-pregnant utopia. The problem here is such a fab can never be cost-effective with e.g. a TSMC 150,000 wafer a month Gigafab so the bean-counters and financial community will be constantly whinging and moaning ... "why are you doing this if it's not cost-effective? This is not in the shareholders best interests"

At the other extreme, although few fab-lite proponents will openly admit to this yet, it de-facto means going fables at a given technology node. This at least is honest but it is a path to nowhere. Simply dumping your fabs does not make you better able to compete with a fables competitor which in general is a much leaner, keener, meaner business model. You don't get there just by dumping your fabs.

And in the middle is the smoothing option whereby firms remain effectively IDM but use the foundries for smoothing the peaks and troughs and topping up demand. That's a classic adversarial, 'Them & Us' business model that is clearly not in the foundries' best interests. These customers will simply not get the wafers they need in times of wafer shortage, yet this is exactly when they are expecting the foundries to come to their rescue.

Aside from the definition problem, fab-lite is built on an 'Emperor's new clothes' illusion ... that having a fab somehow makes you less competitive than your fables competitors (it doesn't this is an execution issue) and that the foundries will carry on producing an endless supply of cheap wafers at ever decreasing process nodes – i.e. doing more for less and less return (they won't especially when there's no competition).

Just as an endless supply of cheap easy to get debt ground to a halt, so too is the endless supply of cheap foundry wafers unsustainable. And it's particularly unsustainable when the world looks like moving towards several years of shortage of foundry capacity.

"Fab-lite is an illusion, in reality it means IDM with no fab capacity but with all of the corporate baggage of a tired organisation - potentially it's the worst of both worlds.