Stanford eCorner

Managing Competition from Startups

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Wallace describes the various steps he takes at KLA-Tencor to ensure that their technology doesn't get outdated by a fresh start-up. He discusses a unique organizational structure that fosters growth and innovation, an investment arm of the company which monitors start-ups, and large financial barriers to entry.

Transcript

We had our own crisis around that a few years ago in terms of the fear that we're going to get taken out by a lower tech solution that we would ignore, like the basic classic problem. What we do is we spend out kind of what I mentioned, we have these small units where they're holy focused on winning in those markets. The tyranny of the large, the thing you worry about this company is get too big and nobody feels the heat, nobody owns winning a market. So we intentionally split our organization so that you have smaller units that are focused very heavily on innovating and sometimes our view is if we're going to cannibalize something why we should be cannibalizing it? Right? In other words, if there's a new technology approach. So we also do KT Ventures where we fund with venture funds. We'll fund innovative startups that might look like they'll bring something to us in the future. And we'll do acquisitions along the lines. So we'll do combination of organic with small focused groups. We'll do M and A. And we'll do investment venture.

But it is an ongoing concern is how you're going to get taken out? Barriers to entry, what analysts will tell me is they'll say, "Why can't people compete with you?" Because a lot of people come and gone and the answer is barriers to entry are very high in our business. So on the one hand, the growth rate is probably somewhat cuffed but the barrier is very expensive to bring capital equipment to market. It's probably $50 to $60 million to bring a product to market. And then you got to have worldwide support systems and there aren't that many customers. So customers tend to favor buying from the larger players.