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Idaho economic outloo

By Bob Evancho

High tech's hard times are no surprise to Boise resident Ray Smelek. He knows plenty about his industry's volatility — how robust sales and soaring stocks can quickly turn into declining economic output, cyclical downturns and plunging profits. As the Treasure Valley's godfather of high technology, he's seen it all.

In 1973, when the burgeoning Palo Alto, Calif.-based computer maker Hewlett-Packard decided to add printers to its line of products, it was

CHIPS ARE DOWN

Can high tech weather the current crisis?

Smelek, then a 38-year-old HP executive, who was chosen to spearhead the project. His responsibilities included the selection of a site for the company to develop and manufacture its new printers.

He picked Boise.

Three years after HP's initial move to Idaho's capital, the company transferred its disk memory division to its Boise complex and Smelek was named vice president and general manager of its mass storage group. A few years later, a small high-tech enterprise that would later become Micron Technology set up shop in Boise. The two companies became the genesis of a high-tech explosion in the Boise area — a phenomenon that would propel Idaho's economic prosperity in the 1990s and reach its apex in 2000.

My, how things have changed since those heady days at the turn of the century.

With the nation's economy slumping and worldwide personal-computer sales sputtering, these are uncertain times

for the high-tech industry. Unfortunately, computer/semiconductor/electronics hotbeds like the Treasure Valley often bear the brunt of the economic consequences — witness what has befallen the area's high-tech sector with plummeting profits, the takeover of MicronPC and sizable layoffs at HP, Zilog, SCP Global Technologies and other firms.

To be sure, times are tough for the Treasure Valley's high-tech companies, and things may get worse before they get better, allows Smelek. But the 66-year-old chairman of Extended Systems, a Boise-based HP spin-off, and other experts seem certain that the current downturn, although serious, won't last forever. Even so, Smelek admits that a high-tech revitalization in the Boise area won't happen anytime soon. "I don't know if it will be in the next quarter or even eight quarters from now," he says, "but I think that any company that uses prudent management and plans to stay in business will stay in business."

Furthermore, the area's overall economic health, albeit

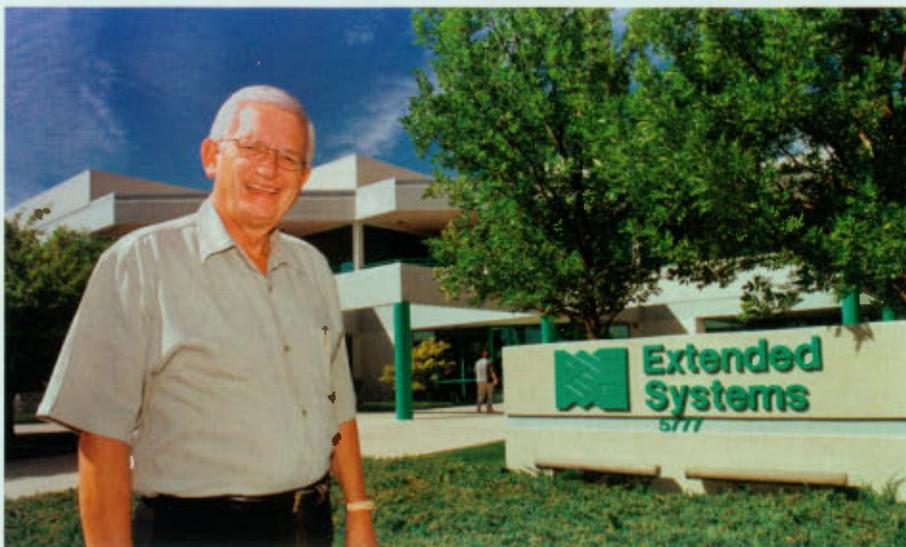
sluggish, remains relatively stable, say Boise State economists Don Holley and John Church. They believe that while high-tech's struggles are troubling, a major overall recession is unlikely.

"It's safe to say that high-tech is the big engine of Idaho's growth in the last decade," says Church, a visiting professor in the College of Business and Economics, "but it's still not the largest component of the economy by a long shot. We still have this underlying base of agriculture and service industries that have grown very dramatically, at times faster than high-tech has."

Church, one of Idaho's top economic consultants, predicts the economy will be able to withstand additional high-tech downsizing should it occur. "I think we would chug along," he says. "There would be a dip, but the underlying base would still be there."

Holley, chair of Boise State's economics department, agrees. To illustrate his point, he uses the H.J. Heinz Co.'s decision to move its Boise-based Ore-Ida Foods operations to the company's general offices in Pittsburgh in 1999. "Look how easily the Treasure Valley absorbed the Ore-Idaho workers a few years ago," he says. "Of the 400 who were laid off, less than 20 went to Pittsburgh. To me, that's a good indication of how strong the economic health of the Boise valley is. Sure, the high-tech firms are struggling, but in this valley you have corporations such as Simplot, Albertson's, Trus Joist, St. Luke's. We are much more diverse economically than we were 30 years ago."

Smelek agrees. "Before high-tech came along, there was farming, mining and timber," he says. "That's why it's important for the state to continue to have a blend of industries, so that they can perhaps counterbalance the cycles that are going to occur."



CHURCH: SCHEER PHOTO

Extended Systems chairman Ray Smelek believes Boise State's College of Engineering is essential to the Treasure Valley high-tech industry, saying the school is "the linchpin to high-tech growth in this area."

Church uses an analogy from his past to make a point. "My father worked at a naval base in Astoria, Ore., in the early 1960s. There was some shipping, fishing and tourism, but the naval base was basically the economic base for Astoria," he says. "When the base closed, it took two decades for the town to recover. The economy here in Boise is much more diverse than that."

Holley and Church also note that the Treasure Valley's unemployment rate remains low despite all the high-tech gloom and doom. "As of July it was 3.9 percent. I think it's amazing that we're talking 3.9 percent with all the layoffs we've had," says Holley. "We don't usually start talking about a severe problem until the unemployment rate hits 6 or 7 percent."

Employment figures calculated by Church show that as recently as June 2001 more than 20,000 Treasure Valley workers held jobs in the machinery and electronic equipment manufacturing sectors — the two sectors that are most often regarded as comprising Idaho's high-tech industries. Furthermore, from June 2000 to

June 2001 there has actually been an increase of more than 500 jobs in those two sectors. (While the machinery segment declined by 700 jobs, there was an increase of 1,300 electronics positions during that 12-month period.)

The reasons behind the high-tech industry's lingering downturn are numerous, complex and not unique to the Treasure Valley, says Boise State electrical and computer engineering professor and industry expert Steve Parke. "I don't think it's any worse here than anywhere else in the world. In fact, I think Idaho is stronger in many respects than a place like the Silicon Valley, which is in a real severe slump. What we are experiencing here is part of the [sluggish] global economy in electronics and semiconductors."

Smelek, who serves on the Boise State College of Engineering's Advisory Board, and Parke point to three primary factors for the high-tech downturn.

"In my opinion, Y2K was the start

of the problem," says Smelek, who retired from HP in 1994. "People overspent, buying more than they needed for the so-called problem, which never materialized. It made the suppliers think, 'Gee, this is great, there's an upturn in demand and it will last forever.' But it didn't."

Another reason is the widespread failure of online businesses — the so-called dot-com demise. "Too many [dot-commers] were out there selling ideas without any substance; people finally figured them out and decided they weren't going to buy stock in companies that were full of ideas but weren't making any money," says Smelek.

Parke agrees. "At the end of 2000, [investors] were coming to grips with the actual value of some of these dot-com companies," he says. "They were way overvalued, and all the euphoria over their existence just died. It came down to the differences between [online businesses] that could provide a product you could hold in your hand as opposed to these ethereal dot-coms, which many of them were."

The third reason, says Parke, is twofold: the saturation of the market with PCs and cell phones coupled with the absence of a revolutionary, high-demand consumer product to take their places. "There has been a leveling off of the demand for computing and communications products," Parke says. "Plus there isn't that killer product that's pushing the consumer to buy."

Parke believes these problems began to manifest themselves late last year when too many players seemed to be caught up in the euphoria of the immense popularity of personal computers, cell phones and other high-tech gadgets while at the same time paying scant attention to long-term strategies.

"I'm not just talking about Idaho companies; perhaps Idaho is actually better in that regard," he says. "But it seemed like everyone in the industry

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Steve Parke

was looking one or two years down the road and looking at evolutionary products, at incrementally improving products as opposed to developing revolutionary products and breakthroughs — the cell phone, for example. But where is that next killer product? Why isn't it out there now? I think it's a lack of vision, a lack of long-term investment [in research and development]."

This unfolding scenario has Parke concerned. "I got into the semiconductor industry in 1981, and in my experience I've seen a lot of cycles. But this [decline] came very abruptly; it wasn't on a normal slowdown speed."

While the industrywide slump is certain to plague the Treasure Valley's high-tech sector for the foreseeable future, Parke believes Micron Technology's presence in Boise will help soften the blow. He points to the expansion of a new research and development facility at the semiconductor giant's Boise site. "Micron is bucking the trend," he says. "The industry is obviously in a slump right now, but [Micron is] poised for R&D for the long term and will be ready to catch the next wave."

Not all of the Treasure Valley's high-tech firms have Micron's deep pockets, however. "Some smaller companies have had to scuttle some of their R&D," comments Parke. "We are seeing top R&D engineers and managers applying for academic positions and leaving the state and going to other jobs. That creates a brain drain in the valley, which is a real shame because these people are such an asset to Idaho. Micron has absorbed some of them, but not all of them."

Another key player that must maintain its commitment to high technology in the Treasure Valley is Boise State, say Parke and Smelek. Fortunately, in their opinion, the university continues to do so.

Parke notes Boise State's plan to establish a business incubator at its Canyon County campus, a facility designed to provide services to high-tech start-ups when it opens in late 2002. "But the most important contribution we can make," he adds, "is to pump out good engineering bachelor's and master's graduates and place them with high-tech companies in the valley. And I think we're doing that. The competition for our graduates is intensifying. Last May, we had students take jobs in Colorado, California and Boston. Also, the number of companies at our engineering career fair has risen dramatically. They're not just from the Treasure Valley anymore; they're coming from Portland and the Silicon Valley."

Says Smelek, "I think there are two important components to Boise State's role: the engineering school and the business school. Entrepreneurship is vital to the high-tech industry. I think there are some bright, qualified people who have come to the area's companies, but they also need training to run a business."

While the so-called "tech wreck" of 2001 continues to cause much consternation, Smelek says Boise State must not lose sight of the need to help produce a quality work force for the Treasure Valley's high-tech sector. And the university's importance, says Smelek, cannot be overstated.

"Boise State's engineering school," he states, "is the linchpin to high-tech growth in this area."