10 Kent Ridge Crescent Singapore 199260

BMA5112 Asia in the Global Economy

Company Report (Asustek Computer, Taiwan)

Brand-building in Taiwan:
Asustek, from contract manufacturing to brand-building

Agata Pętelska (NT081256Y)
Hege Knotten (NT081131B)
Sidhartha Kaushik (HT075677W)
Tan Shao Yi (HT075601H)
Tan Shu Juan (HT085599M)
Wong Weng Kong (HT075605A)

18 April 2009

NUS BUSINESS SCHOOL 2008/09

Contents

Introduction

Contract manufacturing in the electronics industry started in the 1990s when the world standardised on Microsoft's operating system software and Intel's microprocessor. Taiwan, with its economy characterised by numerous small and medium enterprises (SMEs), emerged as the capital of personal computer design (Engardio et al, 2005).

Through industrial leverage and learning strategies, SMEs in Taiwan have progressed from contract manufacturing agreements, to outsourced innovation, and more recently to establishing own brands. The road to brand-building is however, fraught with challenges. Endeavours in brand-building have opened up opportunity for conflict in growth segments with the contract manufacturers' name brand customers. Some name brand customers have cancelled contract manufacturing orders, while others have even taken drastic measures such as seeking import bans of branded products of their contract manufacturing suppliers.

In this paper, we provide an overview of Taiwan's contract manufacturing industry and present strategies that the economy's contract manufacturers may adopt as they transitioned to building own brands. We will also provide brand-building insight for Asustek Computer, a contract manufacturer engaged recently in brand-building, and that has been catapulted to the limelight through its popularity in the brand new netbook segment.

Literature review

Taiwan's contract manufacturing industry

Taiwan is recognised as one of the world's largest contract manufacturers, in particular, in electronics (Lin, 2008). The economy's contract manufacturers, with owned and/or managed factories in China, assemble most of the world's desktop and laptop computers for name brand multinationals like Dell and Hewlett-Packard. With a narrow value-add focus in only assembling and testing, these contract manufactures typically contribute to less than 5% of a product's total cost. The largest of these engineering and manufacturing specialists is Hon Hai, with global revenues of $51b, net earnings of $2.3b, and a Shenzhen campus that employs almost 270,000 people (Ghemawat and Hout, 2008).

The contract manufacturers' presence in mainland China has allowed name brand multinational customers to benefit from the low costs of manufacturing products in China without having to invest in the factories there. In addition, they have also been able to leverage on China's talented software and hardware professionals who can design products quickly in an industry characterised by notoriously short product life cycles (Khanna and Palepu, 2006). Thus, the outsourcing of the engineering and manufacturing functions to these specialists have permitted name brand multinationals to focus their differentiation efforts on their businesses' front-end (marketing, design) and on their underlying platforms (systems, customer-connected processes) (Ghemawat and Hout, 2008). In turn, the contract manufacturers benefit from lower average costs per unit through manufacturing economies of scale.

Up to recent years, the specialisation has conferred on Taiwan's contract manufacturers a competitive advantage over local companies in the countries it owned or managed factories in. Having manufacturing facilities in China also helped to drive down costs even further. However, when China joined the World Trade Organisation (WTO) in 2001, the dismantling of tariff and other barriers that went with WTO membership profoundly altered the course of trade flows in Asia; countries started exporting parts and components for assembly on the mainland. Factor markets in the mainland became increasingly saturated and more costly. In addition, mainland Chinese firms started courting name brand multinationals for their contract manufacturing business, bypassing Taiwan contract manufacturers (Economist, 2005a). Some financial institutions even predict that if Taiwan contract manufacturers do not develop better approaches to cost control, the old business model might generate only 3% to 5% of net profit in the near future (Lin, 2008). The consolidation among name brand IT producers has exacerbated the problem by reducing the number of potential customers for contract manufacturers and intensified competition (Economist, 2005a).

The journey from contract manufacturing to brand-building

Taiwan's pursuit of high-technology industrialisation has been developed through leverage in the public sector[1], and then within private firms through a managed diffusion process. R&D remained an unaffordable luxury for most of the backbone of Taiwan's industry—small and medium-sized enterprises looking for short-term

[1] Initially through the Industrial Technology Research Institute (ITRI).

profits. The industry has for years concentrated on making goods as efficiently as possible, rather than on branding and marketing. A look at the Interbrand's top 100 global brands[2] list reveals not a single Taiwanese firm.

BenQ was among the first of Taiwan's big contract manufacturers to try building a brand. The firm was spun off from Acer in 2001 to absorb cash flows from contract manufacturing to finance brand-building. Its chairman and chief executive then, K.Y. Lee argues that the industry's only way forward was to shed its current anonymity: "If we just focus on the [contract manufacturing] business, the only way to go is cost cuts. For stable revenues long term we must build a branded goods business. It is the only way to survive." (quoted in Economist (2005b)). Peter Chou, HTC's chief executive shared similar sentiments that looking forward "if you really want to capture the value of innovation, you must have a brand identity." (quoted in Einhorn (2007a)).

The Taiwan government in 2002 echoed the importance of building brands and to concentrate on cutting-edge technologies through *Challenge 2008*. The programme called for an increase in total R&D spending from just over 2% of GDP to 3% within six years. Through the programme, the government would provide low-interest loans and launch new transport infrastructure projects. A well perceived brand is important as it is an identity that goes beyond recognition. Consumers are connected emotionally with the brand, creating appeal and loyalty if it offers superior perceived value for them (HKTDC, 2007). Branding is an effective means for Taiwan firms to break away from country of origin image and ethnocentrism effects—an effective means to differentiate its products from those of mainland Chinese that are perceived to have inferior quality (eg, Economist (2009)).

Biting the hand that feeds you

The broadening of contract manufacturers' business into brand-building has however, made them effective competitors of their customers. These endeavours in brand-building have opened up opportunity for conflict in growth segments with the contract manufacturers' name brand customers (eg Allison and Hille, 2007; Economist, 2005b; Hille, 2005). Ambitious upstart contract manufacturers can arrogate their customers' intellectual property, cross-subsidise their own brands with profits from the contract manufacturing business, or even claim for themselves the

[2] http://www.interbrand.com/best_global_brands.aspx.

very advantages they provide especially when making a wide range of products allows them to know the profitable ones to focus on. Indeed, contract manufacturing relationships are marked by promiscuity, infidelity, and betrayal (Arruñada and Vázquez, 2006). As contract manufacturers' products begin to commoditise, they begin to undertake their patron's value-adding activities: R&D and marketing, thus giving them room to develop the capabilities they may later use to threaten their name brand customers (Liu, Liu and Lin, 2008; Arruñada and Vázquez, 2006). Some have even been able to purchase entire divisions of their name brand customers: BenQ (Siemen's mobile phone business) and Acer (Gateway and Packard Bell).

Research question

In studying recent developments of contract manufacturers building brands, we seek to answer the following research question:

What strategies are available to Taiwanese electronics firms like Asustek to build brands while not incurring the wrath of their contract-manufacturing partners?

The question is important as in a hedging strategy, conflict with contract name brand customers is perilous as revenues from these customers pay for the expensive, long-term brand-building efforts. The contract manufacturing business is a low profit margin manufacturing business. On the one hand, contract manufacturers want to increase profitability by leveraging on their manufacturing capability and to gain access to the market directly. On the other, contract manufacturers must maintain good relations with their major buyers. Building their own brands sends a strong signal to their contract manufacturing customers that the commitment to the partnership is weak.

Acer's brand-building strategy blew up in 2000 when IBM cancelled a major order, reducing its share of Acer's total contract-manufacturing revenues from 53% to 26% (Ghemawat, 2003). IBM even alleged that Asustek had violated its patents and sought to ban US imports of the Taiwanese firm's motherboards and other computer equipment (Allison and Hille, 2007). Motorola also punished BenQ for its brand-building efforts in the prized China market by shifting orders to rival Compal. Accounting for about 90% of BenQ's mobile phone sales and one-fifth of group revenues (Economist, 2005a), BenQ never recovered and its R&D centres and product development team were eventually acquired by Motorola. The loss of BenQ's key customer even rippled upwards to jolt its parent, Acer that experienced a 30% slump in turnover and its first operating loss since the company was listed.

About Asustek Computer

In this study, we focus on Asustek, a manufacturer of computer hardware and components. The firm is a global leading player in motherboards with a market share of over 30%, and at times rivalling even Intel in motherboard technology design superiority. Asustek operates a hybrid business model of manufacturing its own brands[3] mainly under the Asus name as well as contract manufacturing for other name brand multinationals (Datamonitor, 2008a). Like many other Taiwan contract manufacturers, Asustek observes shrinking margins in contract manufacturing—the firm witnessed a 418% jump in sales from 2003 to 2006 but with only a 66% rise in profits (Einhorn, 2007b).

Asustek also presents itself as an important firm to study as the firm is increasingly engaged in brand-building activities. In recent years, the firm has aligned itself with low-powered Intel Atom microprocessors, and led the world in developing new netbooks based on the new microprocessor (Einhorn, 2008a). As Taiwan contract manufacturers progressed from engineering and manufacturing specialisation to building brands, insight from the efforts of other Taiwan contract manufacturers (including that of Asustek) is important to avoid incurring the wrath of its customers-turned-overnight competitors.

Roadmap of this paper

This paper proceeds through an exploration and discussion of strategies adopted by various Taiwanese contract manufacturers (including those of Asustek) when establishing brand names. Not all have achieved success but they all offer practical advice for Taiwan contract manufacturers that are embarking on a journey to build brands. We conclude the paper with implications for further research by the academia, and practical advice for other contract manufacturers in Taiwan—not limited to Asustek—who may be looking into transitioning from being engineering and manufacturing specialists to name brand owners.

---

[3] Other brand names include Pundit, Terminator and Prodigy in computer systems.

Discussion and findings

The power a contract manufacturer wields is determined in part by the amount of business the contract manufacturer receives from brand companies—the more business it receives, the stronger it becomes especially if the contract manufacturer's own brands are also strong (Lin, 2008). Thus, as a contract manufacturer transitions to being a name brand owner, it is often challenged by brand-owning companies doing the outsourcing as they fear they are helping potential competitors.

Extant literature presents us with the brand-building experiences of various Taiwanese contract manufacturers that we can draw lessons from. In this section, we present some of the strategies adopted by these firms through seven broad categories.

Choose product lines at the growing stage of the product life cycle

HTC and Microsoft's long-term partnership in the development of portable Windows gadgets gained the software giant's support and resulted in collaborative development of key technologies, for instance, in the more recent Smartphone market (Liu and Liu and Lin, 2008). The partnership with Microsoft began in 1997 when a team of engineers left the Taiwanese subsidiary of Digital Equipment Corporation to launch HTC. The firm eventually launched the first Windows handhelds which became Compaq Computer's popular iPAQ. (Einhorn and Green, 2006). HTC's early commitment to Windows has given it a big edge, moving HTC up the ranks to compete with industry giants such as Motorola, Palm, Research in Motion, Symbian (now Nokia), and more recently, Apple Computer in Smartphones. In 2008, the firm allied with Google and T-Mobile to unveil the first Google Android Phone—T-Mobile's HTC-built G1 (Kharif, 2008b). Says Todd Achilles, a former president of HTC America, "I really don't see (RIM, Nokia and Motorola) as competitors, because all of us combined are just beginning to scratch the surface of the potential for converged devices." (quoted in Carson (2006)); HTC's foray into the brand world through Windows Mobile Smartphones at its growing stage reduced the potential of backlash from its customers.

Recently, Acer has also been catapulted to second position in the worldwide notebook PC market share (DisplaySearch, 2008). The 65% increase in volume has also been buoyed by its focus on the latest niche in the computer industry—netbooks. Originally developed for school children in emerging markets, the first to realise that the netbook could become a crossover hit in wealthier countries was Asustek, which launched its Eee PC in late 2007. Acer quickly followed and is now the leader with 38.3% of the market. Together, Acer and Asustek garnered a combined 68.6% of the netbook market share, far eclipsing mainstream notebook giants like Dell, HP, and Lenovo that hesitated before launching netbooks of their own (Einhorn, 2009; DisplaySearch, 2008).

The introduction of netbooks for Acer and Asustek is significant as it plays on the Taiwan contract manufacturers' economies of scale with component manufacturers to obtain prices lower than any Western manufacturer could through large orders (Kharif, 2008a). Taiwan contract manufacturers need to identify more of such niche markets that play well to their strengths instead of trying to compete in already overcrowded markets by increasing functionality[4].

Target geographic markets at the growing stage of the product life cycle

A contract manufacturer may also focus its core business on customers in developed countries, while selling its own branded products in developing countries where the name brand multinationals cannot sell at a price low enough to compete. Acer, employed distance arbitrage (Ghemawat, 2003)—where exploiting similarities often calls for targeting customers similar to the company's home base—to focus sales in the East Asia region where its name brand customers will be at a cost disadvantage; in particular in mainland China where its factories are located.

Other examples include mainland Chinese companies such as TCL that started off by engaging emerging markets in Southeast Asia and Africa where their brands would be more competitive with their existing technology, quality, and brand image (Rein, 2009). BenQ in its formative years also concentrated largely in China and Taiwan that accounted for 35% of brand sales, with Europe and other Asian markets accounting for much of the rest (Dean, 2003).

Spin-off contract manufacturing business

Motorola's punishment of BenQ by shifting orders to rival Compal, and IBM's political manoeuvres against Asustek show why Taiwan's faceless contract

---

[4] Peter Chou, HTC's CEO terms this lack of innovation as the "me-too" syndrome (quoted in Einhorn (2007a)).

manufacturers may struggle to grow brands, in particular in growth segments where name brand customers will not tolerate a big supplier becoming a rival.

Acer struggled for years trying to have it both ways—selling its own brand while also operating a contract manufacturing business, eventually hitting a glass ceiling[5] that name brand manufacturers imposed to prevent contract manufacturers from becoming too strong (Lin, 2008). Acer eventually spun off its manufacturing arm as a separate company, Wistron Corporation in 2001, to allow the parent to focus on brand development (Einhorn, 2007a). The reorganisation led to Acer growing to become the third largest name brand personal computer company (Lin, 2008).

In 2008, Asustek adopted Acer's approach and split into three companies to separate its branded product business from its contract manufacturing operations. The branded business continued under the same name, while its PC-related manufacturing operations became Unihan Technology; its casing, modules and non-PC contract manufacturing business became Pegatron Technology (Asustek, 2009; Drysdale, 2007). The similarities in the approach led to most market analysts to generalise that through the reorganisation, the Asus brand will be as successful as Acer in the near future (Lin, 2008).

The examples of Acer and BenQ illustrate the importance of the decision to spin-off contract manufacturing operations. For Acer, spinning-off contract manufacturing removed the artificial barrier that inhibited its growth. For BenQ, failure to separate contract manufacturing from brand-building efforts led to eventual downfall of the firm. Taiwan contract manufacturers must disentangle their brand-building efforts from contract manufacturing operations to avoid the conflicts of interests inherent in a combined operating model.

Target a new set of customers

In targeting a new set of customers, the contract manufacturer goes to market with the same products as its name brand multinationals, but targets a different customer segment outside the industry that its contract manufacturing customers operate in. In some cases, these new customers may be prepared to pay more for specific products, thus shielding the contract manufacturer from margin pressure as they attempt to boost their own market presence (Hille and Marsh, 2005).

[5] For example, IBM cancelled a major order, reducing its share of Acer's total contract-manufacturing revenues from 53% to 26% (Ghemawat, 2003).

An example of a Taiwan contract manufacturing firm that has adopted this strategy is HTC. HTC makes Smartphones but rather than sell these to handset suppliers (eg, Nokia), it sells to telecommunications service companies (telcos) in the US, Europe and Japan that are trying to move into the handset suppliers' market and who may be prepared to pay more (Hille and Marsh, 2005). By leveraging on telecos[6] that wanted differentiated devices, HTC has been able to get its mobile handset development subsidised (Taaffe, 2005). To ensure that its brand does not go unnoticed in these partnerships, the company slapped its logo on the backs of the phones that it co-brands with the telcos (the telcos' logos adorn the front of these phones). To promote brand awareness, the firm also launched its first-ever advertising campaign that claims its Touch phone was released before Apple unveiled the touch-screen iPhone (Einhorn, 2007b).

HTC's co-branding with telcos also reduced the firm's entry barriers to brand markets as these telcos are usually incumbents in the countries they operate in. In addition, HTC's partnership with Microsoft in manufacturing Windows Mobile Smartphones culminated in products that have strong integration with the operating system. The partnership afforded the firm great bargaining powers and a very strong position when negotiating with brand clients. Faced with strong consumer demand for Windows Mobile Smartphones, HTC's brand customers have no other options and hence cannot exert any pressure on HTC even though they know HTC might be able to replace, or has already replaced their market positions (Lin, 2008; Taaffe, 2005).

Inventec[7], another large contract manufacturer that manufactures in China and supplies to name brand multinationals like Hewlett-Packard and Toshiba, recently started selling computers in China and Taiwan under its own brand name. The firm has avoided direct competition so far with its contract manufacturing customers by installing Chinese operating systems and software on the computers it sold (Khanna and Palepu, 2008).

Accelerate through acquiring brands

Acer's $710m purchase of Gateway—the third largest PC brand in the US—and its $48.5m acquisition of the Packard Bell brand—popular in parts of Europe—

[6] For example, Cingular, DoCoMo, Orange, Softbank, Sprint, T-Mobile and Verizon.
[7] Famous for its Besta brand of consumer English/Chinese electronic dictionaries.

catapulted it to third position worldwide with 11.8% of market share (Einhorn, 2009; IDC, 2009). Acer's acquisition of the two firms puts the combined company less than two percentage points away from Dell's 13.7%.

The acquisitions marked Acer's return to the US consumer market that it abandoned in 1999 after losing $45m struggling to build brand awareness. Its acquisitions then of two minicomputer firms, Counterpoint and Altos proved to be costly mistakes, draining Acer America's cash flow for years (Amine and Chao and Arnold, 2005). Despite having a strong presence in parts of Europe, performance remained lacklustre and brand awareness remained low in the US. This time, Acer is banking on its acquisitions of Gateway to become a significant player in the US consumer market (Einhorn, 2007b). In the words of its Chief Executive, J.T. Wang, "Building a brand is very different in the US. The investment at the initial stage has to be very big—otherwise there is almost no impact." (quoted in Einhorn (2009))

Brand acquisition from the resource acquisition perspective has its limits especially when name brand customers are likely to respond in an aggressive fashion and the contract manufacturer does not have sufficient resources to engage in a prolonged battle to defend its new brands. BenQ, an Acer spin-off that manufactures cellular phones and consumer electronics, enjoyed early success as an outsourcing designer and manufacturer of handsets for companies such as Motorola. To accelerate its growth in its name-brand strategy, the firm acquired the cellular division of Siemens in 2005. With BenQ now a rival selling its own branded phone in Western markets, former outsourcing customers moved business to other manufacturers. The paired BenQ and Siemens brand never won acceptance from consumers and BenQ liquidated the German business in 2006. BenQ has since been renamed Qisda and now returns to its original focus on contract manufacturing (Einhorn, 2007a, 2007b). The BenQ-Siemens acquisition illustrates the limits of the brand acquisition strategy, especially in growth segments and where revenues[8] from name brand customers pay for the contract manufacturers' brand-building efforts. No amount of innovation and customer know-how claimed from brand-building in growth segments would justify the transformation from supplier to rival.

In addition to established brands, contract manufactures may also target smaller name brand firms for an immediate presence in the locations they covet. In 2007,

[8] For BenQ, Motorola accounted for as high as 90% of the company's mobile phone sales and one-fifth of group revenues.

HTC acquired Dopod, a PDA and Smartphone distribution company with nine offices throughout Asia. The acquisition of Dopod that will result in the phasing out of the Dopod brand, is intended to anchor HTC more firmly in Asian markets as a consumer brand (Greenberg, 2008; Einhorn, 2007a). Such acquisition targets, though with smaller brand equity, may prove to be value-for-money for the additional design capabilities and distribution networks they provide. In addition, the smaller sizes of these acquired firms make for easier merger and may be more palatable in terms of the amount of capital required.

Establish partnerships and joint ventures

Although acquisitions may be useful for brand-building situations where the institutional environment is so different from the markets they are intending to enter, time pressures are high, or when there is a need to achieve multiple goals at once (eg, in HTC, it may be argued that HTC acquired the Dopod brand to reduce brand dilution by eliminating Dopod altogether), partnerships and joint ventures remain invaluable. This strategy may be adopted when continuing cooperation is beneficial, when acquisition would be challenging (eg, when there is regulatory scrutiny) and where control centralised would destroy a combination's value (Yin and Shanley, 2008).

The value of this strategy is evident in recent years where we observed emerging economy firms going global. For example, mainland China's Haier teamed up with Japan's Sanyo to leverage on the latter's sales network to sell Haier-branded products in Japan (Rein, 2009). In 2003, mainland China's Huawei partnered with 3Com to boost its IP switching and routing portfolio, with Siemens in 2004 to integrate Huawei's network infrastructure products in Siemens' enterprise communication solutions, and with Symantec in 2007 to combine Symantec's storage and security software with Huawei's hardware. Its failed acquisition of 3Com in 2008 emphasised the usefulness of partnerships and joint ventures where regulatory scrutiny[9] would have condemned an acquisition to failure.

[9] The failed acquisition has been compared to Lenovo's successful purchase of IBM's PC division, and has been attributed to Lenovo being a public company while Huawei is privately-held and its CEO, Ren Zhengfei is a former PLA officer (Einhorn, 2008b).

Promote a business-to-business brand

While other Taiwanese contract manufacturers are engaging in brand-building, Foxconn Electronics[10] promised its name brand customers that it would never develop brands (Lin, 2008). The firm engages in promoting its trade name, Foxconn, as a business-to-business brand through innovating and amassing a patent portfolio. As the largest electronics manufacturing services company, Foxconn has an arsenal of 14,000 granted patents worldwide. This remarkable patent portfolio enables the firm to distinguish itself from other competitors as a leader and with good reputation while not irritating its name brand customers. Thus, to succeed in building business-to-business brands, Taiwan contract manufacturers must learn to go further by improving the quality of their intellectual property portfolio (eg, leading the setting of international standards) and to learn how to enforce their intellectual property rights aggressively (ie, litigation) (Lin, 2008).

Taiwan contract manufacturers may also adopt an inorganic approach to innovation through Greenfield entry, joint-ventures or even acquiring small Western technology outlets. Mainland Chinese Haier adopted the Greenfield entry approach by establishing far-flung product development facilities in South Carolina, New York, Los Angeles and Boston. Huawei engaged itself in a joint-venture with 3Com to be closer to its sources of knowledge and learning (Deng, 2007). Lenovo recognised the challenge of low R&D productivity in China and bought IBM's personal computer business to gain immediate advantage (Ghemawat and Hout, 2008). Korean chaebols Samsung and LG recruited foreigners and overseas Koreans to build design in Europe and R&D facilities in both Korea and in the US.

Lastly, the government may also play its part by offering subsidies to promising SMEs to engage in R&D, and to position the economy as a new capital of granted patents. This strategy however may result in government support spread too thin due to the sheer number of SMEs in the Taiwan economy, and also runs the risk of the government being accused of favouritism among SMEs.

---

[10] Hon Hai Precision Industry's trade name.

Conclusions

Implications for research

Turning a blind eye to promiscuity or a shift in bargaining power?

Arruñada and Vázquez (2006) described contract manufacturing relationships as being marked by promiscuity, infidelity, and betrayal. It is tempting to extend this description to HTC as a name brand firm where it continues to develop Smartphones for Palm, Microsoft and Google—unforgiving competitors in the competitive Smartphone market.

Palm may have been too preoccupied with doing battle with Nokia—when the Finnish firm encroached on its PDA stronghold with its Symbian-powered Smartphones—to be upset by HTC's relationship with Microsoft. However, Microsoft may be less generous to share HTC's attention with Google, a firm it now competes with in almost all its product categories. Taking reference from the Motorola-BenQ partnership, such flings with the competitor would have resulted in ugly divorce and a switch to a competing manufacturer to put forth the point that promiscuity cannot be tolerated.

The lack of "disciplinary action" by Microsoft is interesting as it may indicate a shift in bargaining power through HTC's strengths in manufacturing converged devices. The phenomenon may benefit from further academic research.

Implications for practice

To guide our discussion, we adopt Lee et al's (2002) framework of competitive strategies for SMEs in market entry. Lee et al's framework suggests that depending on the maturity of the market (new or established) and the type of product offered by the SME (differentiated, substitutable, or identical) vis-à-vis the plausible reaction from the bigger rival (accommodating or aggressive), an SME may choose from four strategies to adopt: *niching*, *substitution*, *free-riding*, or *deterrence*.

The unforgiving nature of name brand customers when responding to contract manufacturers' focuses our strategies on the aggressive rival response column: *deterrence* or *niching*.

Deterrence: Product partnerships with industry giants

HTC's product partnerships in early product development with the likes of Microsoft, Intel, Texas Instruments and more recently Google, appears to have smoothened the contract manufacturer's transition to a name brand firm. While HTC benefits from ingredient-branding (eg, being powered by Intel and TI microprocessors, and the operating systems from Microsoft and Google), these technology providers have in turn benefited from HTC's expertise in manufacturing converged devices.

Asustek may also benefit from similar alliances with major industry players that offer complementary technologies, or that operate in different markets from those of its name brand customers. An alliance partner with significant bargaining power, brand equity, and financial might in the industry automatically confers on the alliance the same benefits they did for the stronger partner. This reduces potential backfire from name brand customers as Asustek's bargaining power is elevated overnight through the potential value the contract manufacturer gains from the alliance. In addition, the alliance allows for Asustek to leverage on the strengths of an established brand, and also for rapid R&D through access to the partner's R&D resources and greater financial muscle. An appropriate alliance for Asustek would be a co-brand alliance with a software company (eg, Google that is looking to develop its own operating system) to jointly develop new products to market.

Already, the firm is making inroads in this direction with the Garmin-Asustek alliance; manufacturing Smartphones specialised in location-based services. Under the alliance, Asustek will phase out its own branded mobile phones and will produce future phones exclusively under the Garmin-Asus name (Nystedt, 2009).

Niching: Leveraging on contract manufacturing strengths

As Taiwan contract manufactures embark on brand-building, they should not abandon the strengths afforded by their previous role in the value chain; rather, they should exploit niche segments that they can play their strengths to advantage.

For instance, the contract manufacturers' purchasing power over component manufacturers remains applicable and even provides economies of scale in the netbooks segment, where the ability to drive down costs puts the firm at an advantage over their name brand customers. While name brand customers have no choice but to participate in the new segment to defend market share, contract manufacturers-turned-name brands are able to profit heavily from this new segment while producing netbooks similar to those of their name brand customers.

Another niche market that Asustek may flex its purchasing muscle in would be in miniature barebones computers (eg, the Apple Mac Mini that has seen slowed development in recent years). Asustek has extended its netbooks product line with the introduction of the EeeTop PC but the product may benefit from improved marketing and positioning.

Concluding thoughts

In this paper, we provided an exploration and discussion of the strategies adopted by various Taiwanese contract manufacturers when establishing their own brands. In transitioning to brand-building, the key to avoid incurring backlash by name brand customers has been to separate brand-building efforts from contract manufacturing operations. Acer and BenQ are prime examples as the fates of these two firms fall on two ends of a continuum, differing only in the decision to (or not to) spin-off the contract manufacturing business.

For Asustek, we recommend the firm to find its niche in a product segment that allows it to exert its competitive strengths. It should also engage in distance arbitrage, and pursue aggressive brand-building in Asia to grow its financial capabilities that will eventually fund expensive brand-building efforts in Western markets. In addition, Asustek should also ally with major technology companies to bring new products to market. The alliance with major technology companies will allow Asustek to benefit from positive brand equity afforded by the stronger brand and to put off harassment by other name brand customers.

The popularity of its netbook has given Asustek a much needed boost to its brand-building efforts. The firm now has to approach brand-building in a more rigorous fashion for continued advantage into the future.

References

Allison, K. and Hille, K. (2007). IBM seeks import ban on Asustek. Financial Times. London (UK). December 7, 2007.

Amine, L. S. and Chao M. C. H. and Arnold, M. J. (2005). Executive Insights: Exploring the Practical Effects of Country of Origin, Animosity, and Price-Quality Issues: Two Case Studies of Taiwan and Acer in China. Journal of International Marketing, 13(2), 114—150.

Arruñada, B. and Vázquez, X. H. (2006). When Your Contract Manufacturer Becomes Your Competitor. Harvard Business Review, September, 2006.

Asustek. (2009). Hoover's Company Records, 141021. Hoover's Company Records database. February 15, 2009.

Bremner, B. (2007). Better Days Ahead for BenQ? BusinessWeek, January 4, 2007.

Carson, P. (2006). HTC: Heading toward smart(phone) trends. RCR Wireless News, 25(40), 6—7.

Datamonitor. (2008a). Asustek Computer Inc. SWOT Analysis. December, 2008.

Datamonitor. (2008b). Computer Hardware in Taiwan: Industry Profile. February, 2008.

Dean, J. (2003). Taiwan Company Bucks Trend in Country, Seeks Brand name. Wall Street Journal (Eastern edition). October 22, 2003, 1.

Deng, P. (2007). Investing for strategic resources and its rationale: The case of outward FDI from Chinese companies. Business Horizons, 50, 71—81.

DisplaySearch. (2008). Strong Mini-Note (Netbook) Shipments Buoy Notebook PC Market in Q3'08. http://www.displaysearch.com/cps/rde/xchg/displaysearch/hs.xsl/Strong_mini_note_shipments_buoy_notebook_PC_Market_Q3_08.asp. December 8, 2008. Retrieved April 16, 2009.

Drysdale, C. (2007). Asustek Makes It Official: Will Split into 3. Circuits Assembly, 18(8), 8.

Economist, The. (2005a). Moving on: Manufacturing is out, knowledge-based industries are in. The Economist, January 13, 2005.

Economist, The. (2005b). The man with two daggers: Can K Y Lee succeed in creating a Taiwanese global brand?, The Economist, August 25, 2005.

Economist, The. (2009). The flaws in Chinese business: Time to change the act. The Economist, February 19, 2009.

Einhorn, B. (2007a). Taiwan Phone Maker Seeks the Spotlight. BusinessWeek, May 11, 2007.

Einhorn, B. (2007b). What's In a Name? Fatter Profits. BusinessWeek. November 2, 2007.

Einhorn, B. (2008a). The mini-laptop changing the game. BusinessWeek. New York. 4088. June 16, 2008.

Einhorn, B. (2008b). Huawei's 3Com Deal Flops. BusinessWeek. February 21, 2008.

Einhorn, B. (2009). Acer Closes In on Dell's No. 2 PC Ranking. BusinessWeek. January 16, 2009.

Einhorn, B. and Greene, J. (2006). The Hottest Tech Outfit You Never Heard Of. BusinessWeek, April 24, 2006.

Engardio, P., and Einhorn, B. and Kripalani, M. and Reinhardt, A. and Nussbaum, B. and Burrows, P. (2005). Outsourcing Innovation. BusinessWeek, March, 21, 2005.

Ghemawat, P. (2003). The Forgotten Strategy. Harvard Business Review, November, 2003.

Ghemawat, P. and Hout, T. (2008). Tomorrow's Global Giants? Not the Usual Suspects. Harvard Business Review, November, 2008.

Greenberg, J. (2008). The rise of the Smartphone. Japan, Inc., January—February, 2008, 10—14.

Hille, K. (2005). Asustek plans spin-offs to cut brand conflict. Financial Times. London (UK). July 3, 2007.

Hille, K. and Marsh, P. (2005). Asia's bit-part makers seek lead role. Financial Times. London. Nov 23, 2005.

HKTDC. (2007). Having Your Own Brands: Ways to Succeed. http://info.hktdc.com/econforum/tdc/tdc070601.htm. Hong Kong Trade Development Council, June 12, 2007. Retrieved April 16, 2009.

IDC. (2009). IDC Worldwide Quarterly PC Tracker. http://www.idc.com/getdoc.jsp?containerId=prUS21627609. January 14, 2009. Retrieved April 11, 2009.

Ihlwan, M. (2008). Asian Companies Wary of Motorola. BusinessWeek, February 5, 2008.

Khanna, T. and Palepu, K. G. (2006). Emerging Giants: Building World-Class Companies in Developing Countries. Harvard Business Review, October, 2006.

Kharif, O. (2008a). Small, cheap—and frighteningly popular. BusinessWeek, December 8, 2008.

Kharif, O. (2008b). The Google Android Phone's Big Premiere. BusinessWeek, September 23, 2008.

Lee, K.S. and Lim, G.H. and Tan S.T. (2002). Competing for Markets: Growth Strategies for SMEs. McGraw Hill, Singapore.

Lin, H.-D. (2008). Taiwan's businesses learn to build IP value. Managing Intellectual Property, June, 2008.

Liu, F.-H. and Liu, H.-Y. and Lin, T.-L. (2008). The competence and constraints of brand building for contract manufacturers. Brand Management, 15(6), 412—32.

Mathews, J. A. 1997. A Silicon Valley of the east: Creating Taiwan's semiconductor industry. California Management Review, 39(4), 26—54.

Nystedt, D. (2009). Garmin, Asus Planning to Make Smart Phones. PC World, April 2009, 22.

Pack, H. (2001). The role of acquisition of foreign technology in Taiwanese growth. Industrial and Corporate Change, 10(3), 713—734.

Rein, S. (2009). Chinese Companies Go Abroad (Part 2: The Consumer Electronics Sector). http://seekingalpha.com/article/113442-chinese-companies-go-abroad-part-2-the-consumer-electronics-sector. Seeking Alpha, January 6, 2009. Retrieved April 16, 2009.

Taaffe, O. (2005). HTC minnow swims into Nokia's waters. Telecommunications (International ed.), 39(12), 10.

Tang, Y.-C. and F.-M. Liou and S.-Y. Peng. (2008). B2B brand extension to the B2C market—The case of the ICT industry in Taiwan. Brand Management,15(6), 399—411.

Yin, X. and Shanley, M. (2008). Industry determinants of the "merger versus alliance" decision. Academy of Management Review, 33(2), 473—491.