ACER GLOBALISATION[1]

In 1976, Stan Shih and four other Taiwanese investors created Multitech with an initial capital of 25,000 US$. At first, Multitech produced computer periphericals and traded electronic components, published IT journals and ran a computer training centre. The company rapidly started to manufacture personal computers as an original equipment manufacturer (OEM) but rapidly designed its own models. In 1988 the company went public and changed its name to Acer Inc.

Initial Steps in Globalisation: 1976-1990.

As early as 1979 Multitech started to export personal computers combining OEM contracts and sales under its own brand. However its international expansion was confronted with a series of difficult hurdles.

a) A Dubious Taiwanese Image

According to Stan Shih, *"Taiwan's reputation is for low-end products".* This image affected the company. Stan Shih developed a series of initiatives in order to overcome this disadvantage.

First he actively supported and benefited from government public relation campaigns designed to promote Taiwanese products and change their image. He also contributed to joint efforts by Taiwanese industrialists to enhance Taiwan's image during trade fairs, publications and advertising.

Second, he started its own public relation and inexpensive advertising campaigns by undertaking innovative PR campaigns such as case writing by universities or banners on airports luggage trolleys. In addition it changed the name of Multitech to Acer, giving the company an easy name to remember and crisp global spelling. It also undertook a series of alliances in the USA, some of them ending as acquisitions. The most famous one was the alliance with Texas Instruments in semiconductors that ultimately ended by the acquisition of TI notebook business.

Finally Acer emphasized technological innovation (it was the first ahead of IBM to develop a 32-bit PC) and quality as a mean to obtain consumer recognition.

b) Access to Distribution and Market Intelligence

[1] This data from this mini case are from: Stan Shih, J.T Wang and Arthur Yeung, « Building Global Competitiveness in a Turbulent Environment: Acer's Journey of Transformation", 2006; Arthur Yeung "Acer Challenge of Global Collaboration and Synergy", 2004, and Deborah Clyde-Smith, "The Acer Group: Building an Asian Multinational", Insead case n° 01/98-4712, " Acer in 2001: The Reorganisation", Centre for Asian Business Cases, HongKong,2001, Acer Annual Report, 2008.

At the beginning Acer had a poor understanding of the market, competitive and legal conditions in foreign markets, not to mention its lack of distribution channels. In the USA Acer went for alliances and acquisitions with companies like Texas Instruments, Altos, and Counterpoint. To manage its operations American executives were recruited but were difficult to control. They acted quite autonomously and took sometimes inadequate initiatives. In Europe Acer, began selling its products through distributors, after making contact through trade fairs and advertising. A European office was opened in Germany to coordinate distributors and do market research. In emerging countries such as Thailand, Indonesia, Brazil, Chile, Argentina, South Africa, Mexico and India, Acer initiated a series of joint ventures.

c) International Management Talents

Taiwanese employees at Acer were primarily engineers and lacked international experience. The company was obliged to rely on local recruits and in some case to Taiwanese working overseas in high tech firms. Cross-cultural communication and understanding was difficult between the "Westerners" from the field and the "Chinese" from headquarters. Stan Shih wanted to really create a global mind set emphasizing a strong corporate culture. In the mid 1980's he launched the "Dragon Dream" slogan to mobilize people around the world. He also sent more and more Taiwanese managers abroad and invited foreigners to Taiwan.

Creating a Multinational Organisation: 1990-2000

In the early 1990's Acer experienced a decline in sales and profit. The US operations in particular were at loss due in particular to price war in this market dominated by Compaq, IBM, and HP. The autonomous management of US executives made things worse. Stan Shih undertook a series of immediate restructuring initiatives such as downsizing non-profitable operations, laying-off low performers, and tightening internal cost control. But in addition he redesigned completely the global organizational structure around three major business units and three managerial innovations.

a) The global operations were organized in three types of Business Units according to the principle of "*Global Brand, Local Touch*". (Exhibits 1 and 3)

Product Business Units (PBUs) were responsible for the overall global product portfolio management and marketing communication support of their respective product lines: PCs, Notebook, servers. The measure of their performances was based on three indicators (KPIs): global sales, global market share, and global profitability of their product lines.

Strategic Business Units (SBUs) were responsible for the R and D and the manufacturing of components and products: semiconductors, keyboards, PCs, etc... Their customers were either the Acer's Regional Units or OEM clients. Their performance were measured on profitability

Regional Business Units (RBUs) were responsible for the sales and services of Acer products around the world. In 2000, there were a total of four regional business units (America, Europe, Asia-Pacific, and Greater China), covering a total of 40+ countries. Their performances were measured by the total sales revenue, market share, and profitability of selling and servicing Acer products in their respective regions. Some SBUs and RBUs were publicly listed in their own countries.

b) The three managerial innovations were:

- *21 in 21" strategies:* In order to reinforce effectiveness and entrepreneurship Stan Shih's idea was to create a federation of 21 publicly listed companies by the 21st century so that locally listed companies with significant local ownership would be established in all major markets like Taiwan, Singapore, Malaysia, Turkey, Mexico.
- Client-server structure: In order to integrate the various business units Stan Shih organised the networked interdependencies of SBUs and RBU, assigning to each dual relationships among units a specific transaction. This networked relationships were named "client-server" by reference to the PCs servers IT architecture. (Exhibit 2)
- Fast food business model: Just like fast food, in order to be responsive to local markets demand, computers were assembled close to the markets by 35 assembling operations around the world. Those sites received components manufactured centrally. This fast food model labelled "the smiling curve" assumed that the two most important value contributing activities are components manufacturing and distribution. Components manufacturing is the responsibility of SBUs and distribution the responsibility of RBUs. Assembly is also done locally in the RBUs to insure proper customisation. (Exhibit 4)

Problems

This business model worked well in period of growth but in the late 90s, the situation changed. Dell gained tremendous market power with its direct sales made to order business model, Compaq and HP merged to gain global economies of scale, Lenovo from China capitalized on its emerging domestic market and eventually took over IBM PCs business. Acer was threatened and its organization was plagued with internal coordination and communication problems.

Regional Business Units complained on the transfer price, poor quality, and slow delivery of products from strategic business units. Some countries started to carry non-Acer brand products. SBUs complained that RBUs were not producing good forecasts and were asking for too many customizations. The results were higher inventories. SBUs privileged OEM manufacturing against Acer's products. Also PBUs complained that RBUs were not following global strategies with respect to products and pricing. The business unit managers spent their time arguing on the internal transfer price and finger-pointed each others on their respective responsibility when target were not met. In 2000 and 2001 the group operating income was negative.

Globalisation stage 3: the early 2000's

In December 2000, J.T. Wang was appointed as the President of Acer responsible for turning around Acer PCs worldwide. At the time, the Acer group employed around 37,000 People in 232 enterprises in 41countries supporting a network of distributors in

100 countries. In 2001 the bursting internet bubble precipitated a decline in PCs sales. Among the ongoing challenges was the situation in the USA where Acer never managed to establish a leading position. Also Acer faced difficulties in establishing itself in China due to the strong position of Lenovo. The dual model of OEM manufacturing and Acer's own products manufacturing was creating tensions. The decentralized model of 21 in 21, client-server and fast food was no longer appropriate.

Already starting in 1999 the Company took a series of cost-cutting measures: workforce was reduced, US Operations were downsized. But J.T Wang initiated a profound re-structuring. He introduced a more centrally integrated approach based on 3 global principles: One Global Company, One Global Brand, and One Global Team.

- The principle of One Global Company led to the delisting of all locally listed international subsidiaries and repurchase back of all minority shares by Acer Inc. The group was reorganized at first into three divisions that ultimately were reduced to two after the spin-off of one of them:

    - *Acer Brand Operation (ABO)* whose responsibility was to design, to market and to distribute products across the world. ABO consist of two types of units: the g*lobal products units* in charge of product management, market intelligence, central supply chain management and the r*egional wholly-owned subsidiaries* in charge of marketing, sales and distribution in the various countries. One very important role of those regional units was to manage relationships with third-party distributors and resellers.

    - *The Design, Manufacturing and Service Division (DSM)* in charge of R and D, manufacturing and service of all IT products. DSM was spun-off in 2001 and renamed Wistron Corporation in which Acer progressively sold its shareholding. With the creation of Wistron, Acer transformed itself into a design and marketing company sourcing its products from various OEM vendors (including Wistron but not exclusively)

    - The third organizational leg was the *Holding and Investment Business* that was in charge of all, taking care of Acer's holding in various business such as multimedia (BenQ) or E-Businesses

- The principle of One Global Brand was stating that only Acer brand could be used for IT products but not for others products such as multimedia or peripherical equipments...

- The principle of One Global Team required that all managers abandon their parochialisms and work together as a global team. For that purpose an Executive committee was formed with the President and the top executives of business and regional units with the mandate to discuss global corporate strategies and not to be representative and advocate of their own business. Incentives were designed to reward managers by introducing global performances measurement in addition to their business unit performances. Finally a series of core values were defined, a new logo was designed and a vast training program was launched to educate employees across the world about the new direction.

The global business model behind this restructuring was to transform Acer from a high technology, hardware-focused company to a customer-centric service-oriented company. On the strategic front, contrary to others PCs vendors who tried to emulate Dell by adopting the direct-sales model, Acer decided to rely on third party channels. By getting rid of all manufacturing functions Acer was free to source all hardware from multiple suppliers. The supply chain model was to direct the flow of goods directly from suppliers to distributors through an headquarters' centralised enterprise resource planning system (ERP) fed by information coming from local subsidiaries. In 2004 Gianfranco Lanci, an Italian, was promoted CEO of Acer Inc. while J.T Wang remained President. In 2007 Acer bought Gateway in the USA and Packard Bell in Europe and became the Number 3 world provider of computers and number 2 for notebooks, and achieved significant improvement in profitability. (Exhibits 5 and 6)

Exhibit 1
Acer Organisation Structure in the 1990's

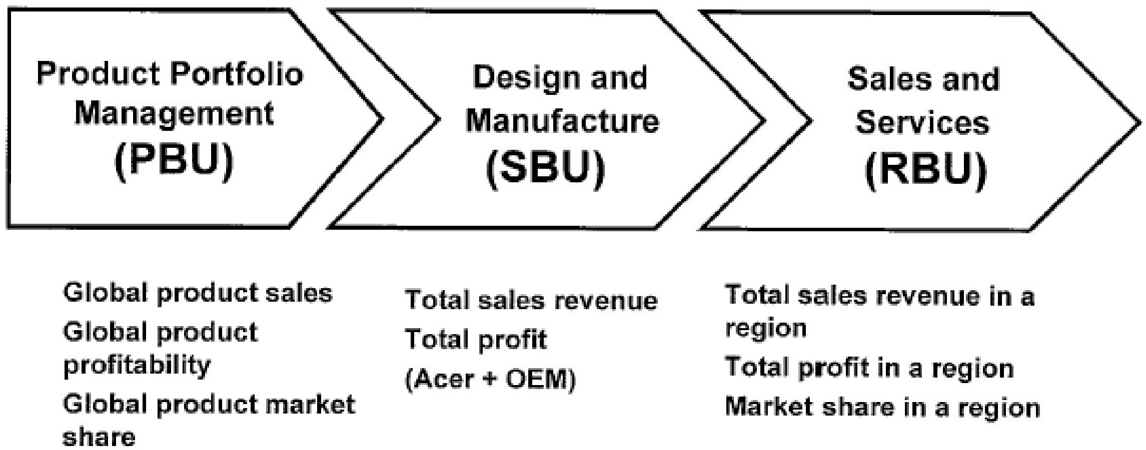


Exhibit 2
The Client Server Model

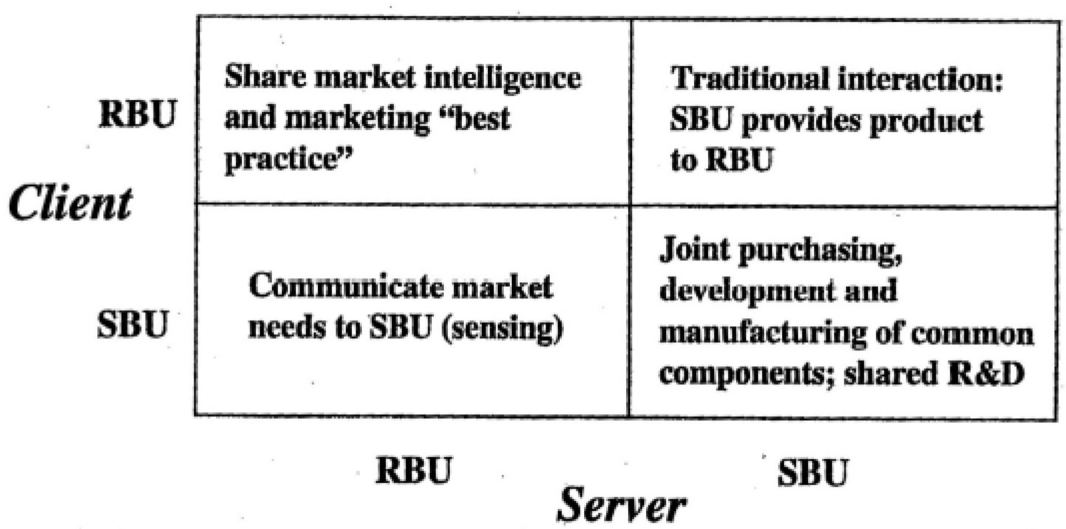
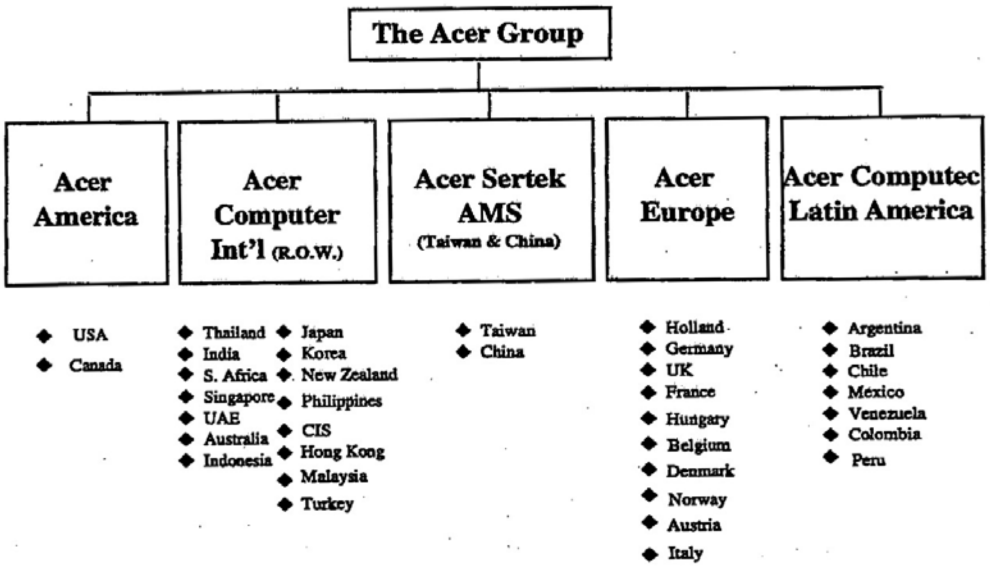


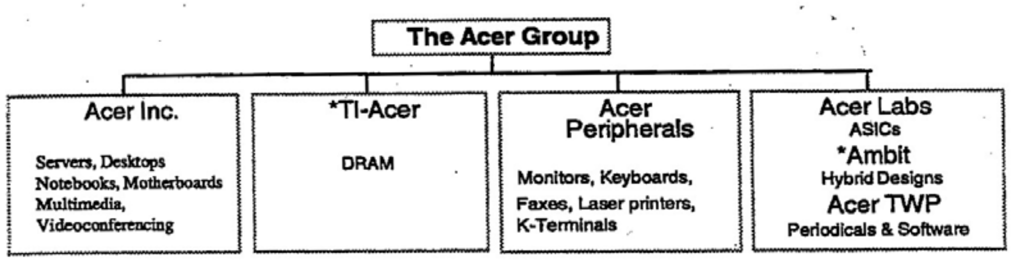
Exhibit 3

Acer Regional Business Units (RBUs)



Global Brand, Local Touch

Acer Strategic Business Units (SBUs)



"*" Joint Venture

Exhibit 4
The Smiling Curve

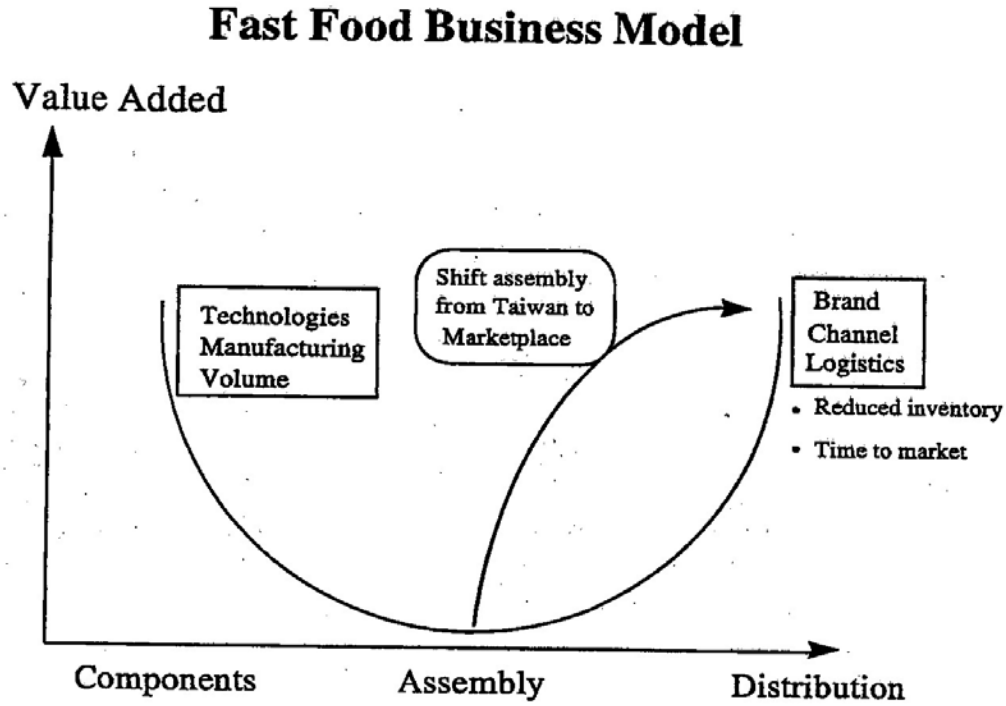


Exhibit 5
Acer's Financial Results 2000-2007

(billions NTS $)	2000	2001	2002	2003	2004	2005	2006	2007
Revenue	157	93	107	158	225	318	350	462
Operating Income	-2.6	-3.4	0.17	1.8	3.8	7.6	7.5	10.1
Income After taxes and Non Operating Expenses and Loss	6.2	0.8	0.9	7.3	7	8.5	10.2	13
Exchange rate 1 US$ = NTS $	31	34	34.6	34.5	33.5	32.2	32.5	32.9

Source : Acer Annual Reports

Exhibit 6
ACER's Global Market Position
(2007)

Regions	Form Factor	Rank
Worldwide	PC	3
	Desktop	4
	Notebook	2
Asia/Pacific	PC	4
	Notebook	3
	Monitor	3
	Projector	4
E. Europe	PC	1
	Notebook	1
EMEA	PC	2
	Desktop	3
	Notebook	1
	Server	5
	Projector	3
	Monitor	4
Latin America	PC	4
	Notebook	2
W. Europe	PC	2
	Desktop	3
	Notebook	1
	Server	5

EMEA	Form Factor	Rank
Austria	PC	4
	Notebook	2
Belgium	PC	2
	Desktop	4
	Notebook	1
Denmark	PC	2
	Desktop	4
	Notebook	2
Czech	PC	1
	Desktop	5
	Notebook	1
	Projector	2
Finland	PC	3
	Desktop	5
	Notebook	2

EMEA Countries	Form Factor	Rank
France	PC	2
	Desktop	2
	Notebook	1
	Monitor	4
Germany	PC	3
	Desktop	4
	Notebook	1
	Monitor	5
	Projector	1
Greece	Notebook	3
Hungary	PC	3
	Notebook	1
	Projector	1
Israel	Desktop	5
	Notebook	5
Italy	PC	2
	Desktop	2
	Notebook	1
	Server	5
Netherlands	PC	2
	Desktop	3
	Notebook	1
	Projector	2
Norway	PC	3
	Desktop	5
	Notebook	2
Poland	PC	2
	Notebook	1
Portugal	PC	3
	Notebook	3
Romania	Projector	4
Russia	PC	1
	Notebook	1
	Monitor	2
	Projector	1
Saudi Arabia	Projector	2
South Africa	PC	2
	Notebook	2
	Projector	1

EMEA Countries	Form Factor	Rank
Spain	PC	2
	Desktop	3
	Notebook	1
	Server	5
Sweden	PC	4
	Desktop	5
	Notebook	2
Switzerland	PC	3
	Desktop	4
	Notebook	2
	Projector	1
Turkey	PC	3
	Notebook	2
	Projector	4
U. K.	PC	3
	Desktop	3
	Notebook	2
	Monitor	4

Pan America	Form Factor	Rank
Canada	PC	3
	Desktop	4
	Notebook	4
	Monitor	1
USA	PC	4
	Desktop	5
	Notebook	4

AP Countries	Form Factor	Rank
Australia	PC	3
	Desktop	3
	Notebook	3
	Server	5
	Monitor	2
China	Notebook	5
Hong Kong	PC	5
	Desktop	5

AP Countries	Form Factor	Rank
India	PC	4
	Desktop	5
	Notebook	3
	Monitor	2
Indonesia	PC	1
	Desktop	3
	Notebook	1
	Server	4
	Monotor	3
Malaysia	PC	1
	Desktop	3
	Notebook	1
	Server	4
	Monitor	2
	Projector	5
New Zealand	PC	2
	Desktop	3
	Notebook	2
	Server	4
	Projector	3
Philippines	PC	2
	Desktop	4
	Notebook	1
	Server	5
	Projector	1
Singapore	PC	2
	Desktop	3
	Notebook	2
	Monitor	2
Taiwan	PC	1
	Desktop	1
	Notebook	2
	Server	5
	Monitor	3
Thailand	PC	1
	Desktop	2
	Notebook	1
	Server	4
	Monitor	1
	projector	2
Vietnam	PC	2
	Desktop	3
	Notebook	1
	Server	4

Source: Gartner Dataquest, 2007 Result; the Company Data
Ranking by unit shipment