

Millennium Transformation

Change Management for New Acer

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Stan Shih

***Millennium Transformation
Change Management for New Acer***

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My sincere gratitude goes to Dr. Eugene Hwang who had spent a great deal of time translating, and special thanks to Stella Chou for reviewing the translation. Both Eugene and Stella were my Acer colleagues who are familiar with the people and events mentioned in this book.

Last but not least, I want to thank all Acer colleagues and business partners around the world for giving me the substance and the opportunity to write this book. The English translation was made in order to share Acer’s new thinking models in an objective environment, different from those in Europe or America. I hope this book will be helpful and interesting to those who are facing similar challenges.

Preface
Passing On The Wisdom

Mrs. Carolyn Yeh Shih

Has Stan changed? No, he is still the same, except with more white hairs. Soon to retire, he has been busy writing and recording the history of Acer's transformations. This book illustrates his endeavor to pass on his wisdom.

Eight years ago, while publishing his earlier book "Me Too Is Not My Style" and celebrating Acer's 20th anniversary, Stan provided a clear description through the publication about Acer's achievements. He hoped people could gain inspiration and encouragement from those Acer stories. Now, he also hopes to share the whole picture of Acer's development process, and inspire the readers once again.

Stan always wanted to share and pass on his knowledge. This is invaluable; not too many people in the business or career arenas want to share their domain know-how without some reservation. I believe every reader can see his effort and hard work from these two books. He chose to publish the books, including the English translation, so that the global Chinese community can read them and appreciate his feedback to the society.

Stan tells his own stories in this book. He illustrates the challenges Acer faced, the price Acer paid for growth and the invaluable lessons learnt throughout the years. He has continuously given the opportunities to his colleagues and partners, allowed his competitors the space to coexist, and let his younger talents have the opportunities for development. In Stan's books, you will see his sincerity and frankness. He never avoids admitting to mistakes. And he shares some first-hand knowledge, which, as I see, are Acer confidential information or inside stories.

You will find that "people" are the foundations of Acer. People determine the development direction of a corporation. Different people bring up different teams and create various results. In Acer's history, you can really feel that people change everything. One's achievement is determined by his value system. The mindset of the high-level management is very important. Any deviation of their mindset will influence their subordinates and generate significant impact.

Acer was built by many people. Stan provided the platform and let people determine their own thoughts and actions. As Stan passes on his post, he does not want to create any burden for his successors. Many senior colleagues have chosen early retirement with him. Stan questions this sentence: And he is writing-off those previous bad investments by establishing his new company, iD SoftCapital. We both think that an enterprise should keep the momentum while the business is good, and break away or change the situations when the business is bad. Everyone has to rely only on oneself.

In this book, Stan is the leader of Acer...or maybe he is not. Acer is a group creation by all Acer colleagues. Without many people's help, Stan would not have such an

achievement today. We sincerely appreciate all the help from our friends and associates.

Stan had devoted much energy into writing this book. During the preparation stage, I saw him revising the contents again and again at his desk. I could not bear to see his flushed complexion and anxiety after each interview. However, as his wife, I can only support him for whatever he considers as his mission.

This book is finally ready for publishing, and my longing for his retirement days will soon be rewarded. Many people ask me what Stan will do after he retires, I only hope he can completely let go. His health is the most important thing, then, he can do something to feedback to society, spare sometime for me, lead a relaxed life, and enjoy his family life.

Author's Note *My Journey*

Stan Shih

Sharing the Acer Experience

My previous book "Me Too Is Not My Style" was published in 1996 for three reasons. First, to commemorate the twentieth year since the founding of Acer; second, it was the year that Acer's business had peaked after the first reengineering in 1992, therefore it was an appropriate time to record all the accumulated experience; and third, Dr. Charles H.C. Kao of Commonwealth Publishing invited me to write the book.

Eight years later, I am writing this book "Mega Transformation for the New Century", for my retirement. I've never wanted to write an autobiography. Therefore, both "Me Too Is Not My Style" and "Mega Transformation for the New Century" are not autobiographies. Instead, the contents are about my experiences in founding and operating an enterprise, including many philosophies and principles developed over the years. The writing of this book, invited again by Dr. Kao, was originally in my retirement plans. I had been thinking about how to remember my retirement at the age of 60. One of the projects was to record my invaluable experiences at Acer.

This English version intends to share my experiences to those people and companies in the developing countries. I believe the contents of this book will be helpful to the global Chinese in understanding the unique experiences from Taiwan. In addition, the other people shall benefit from my lessons-learned in their future developments toward internationalization. The second edition of "Me Too Is Not My Style" has also just published.

While "Me Too Is Not My Style" describes Acer's development for the first 20 years, this book records the change management in the following eight years, especially of the second reengineering at the end of year 2000, and all the related transitional backgrounds and decision processes. The changes were more dramatic than those of the first reengineering in 1992.

Acer had reached a peak business performance after the first reengineering in 1992. However, in 1998, Acer faced another bottleneck. Acer's indirect investment in DRAM caused a significant deficit; later the business was sold to TSMC. Acer's branded businesses in the U.S. market loss heavily. After replacing the person in charge several times, Acer almost had to exit from the U.S. market. In the first half of 2000, Acer was impacted by the Internet business collapse. During the second half of 2000, the media continuously reported Acer's hardship. Under these internal and external pressures, Acer started to incubate the momentum for the second reengineering. Acer had to break through the growth limit and create another peak.

At the end of year 2000, Acer initiated the second reengineering and carried out many organizational separation and consolidation. The former Acer Communications &

Multimedia stopped using the Acer brand name and started its own brand of BenQ products; Acer Display Technology and Unipac Optoelectronics merged into AU Optronics; Ambit merged with Foxconn; while ALi was sold to MediaTek. These actions were good for Acer's long-term developments and set an example to Taiwan's other industries.

These changes were conducted based on the following principles:

- Aggressively face all the problems
- Explicitly provide and seek various solutions
- Place stockholders' interests on the top priority, and consider employee benefits when making a decision
- Set aside personal interests and find a solution to solve the problem permanently

These principles are simple but are easily ignored at the critical moment during decision-making.

Review My 33-Year Industry Experience

Reviewing my 33 years of industry experience, starting from my first job, to creating my own business, to my retirement, I have so many nice memories. 33 years ago, I graduated from the Graduate School of National Chiao-Tung University and decided to stay in Taiwan for my career development. I was lucky to be able to join Unitron—the first company in Taiwan that provided research and development jobs. I was there to develop the first calculator in Taiwan. In 1971, I co-founded Qualitron with Vincent Lin. We did both branded businesses and contract manufacturing. While I was in Qualitron, I developed many handheld calculators and electronic watches. In 1976, I introduced the world's first pen-watch on the market. I had a very nice memory there.

Qualitron ran very well initially. Later, the company was trapped by the failure of the big shareholders' family businesses. I had to leave. In a hurry, I founded Acer in September 1976 to continue the long-term goal in Qualitron—entering the emerging markets of the microprocessor application. I did not want to miss the opportunity of the second industrial revolution, driven by the microprocessor.

When I started my business, Taiwan's electronics industry was equipped with strong competitiveness in manufacturing. I found that Taiwan needed to enhance the research and development works, and in international marketing. Since then, I have been working hard toward these two directions. Later, I developed the thought into "Stan Shih's Smiling Curve", which has been used widely in various industries till now. In 1992, while Acer was in the first reengineering, I formally proposed the theory of my "Smiling Curve" to illustrate the value shifts among different industries. Like a smiling curve, the high added-values are located on both ends, the up- and down-streams of an industrial segmental chain, were research and development, and marketing segments. The middle stream industrial segment, in the middle of a smiling curve, for assembly works, had become the lowest added-value portion. With almost 30 years' hard work, Acer has continuously worked toward the directions with

the highest added-value. This should be the only developing direction for all Taiwanese industries.

Many people said my career reflected the progress of Taiwan's information technology industry. Not only am I one of the most senior persons in the IT industry, but I have also encountered many tough business situations, paid the highest prices, and experienced the deepest and widest business scopes. I can be a treasure of the global IT industry and should contribute more. In addition to writing the books and sharing my experiences, especially those lessons learned, I hope to continue to provide my knowledge to society after my retirement.

Passing On My Knowledge

After my retirement, I will focus more on the newly established company iD SoftCapital. The company slogan is "Intellectual Development for the New Economy". We hope to create the values with people through the investments from iD SoftCapital and through experience sharing. Aspire Academy is another key element for passing on my wisdom. I hope Aspire Academy can focus on the global Chinese talents and develop world-class training materials to fit their needs. By training the trainers, Aspire Academy can market all the teaching materials to the global Chinese communities.

In addition, I also set up a website for knowledge sharing: www.stanshares.com.tw. On the website, there are many ideas and opinions regarding the current industry hardships and future developments, which I want to share with the people in the related industries and businesses.

A Heart Filled with Appreciation

I am extremely lucky to be able to retire with honor, at the peak of my founded businesses. I want to acknowledge many people who have supported or assisted me throughout my 30-something year career. The most important people are my mother - who gave me the most significant spiritual support, and my wife, Carolyn, who has built the business with me, worked hard together, and gone through so many up-and-down business situations; on the job, Carolyn always played the bad guy. In addition, I want to thank all my colleagues, who have not just been working hard but also equipped themselves with the sense of mission. I also deeply appreciate our helpful competitors and many friends in the political and business domains. I have never built any enemy. I have always felt that everyone has been helping me and considered everyone as a friend.

My journey for the last 28 years in Acer has helped the Chinese to outperform others on the international stage. I have bravely done many things that many people wanted to do but did not dare to do, or dreamt of but did not know how to do it. I have always wanted to lead everyone to find a feasible way. Throughout the years of searching, there have been smooth and tough roads in my journey. Now, I finally can say that I have gained so much, directly or indirectly. The direct gain is that Acer gradually found the direction for the future development. The indirect gain is that the other companies have gained some inspiration from our experiences and lessons learned.

After 28 years since the founding of Acer with NT\$1 million, the Acer affiliated companies – the ABW (Acer, BenQ, Wistron) family, reached a revenue scale of NT\$740 billion in 2004, with annual growth rate of 40%. I am so happy to see this result.

Although my founded business scale has grown significantly, I have never changed my fundamental principles of running a business – "challenge difficulties, break through bottlenecks, and create value". Based on this spirit, I have been able to continuously face new challenges. I have always been able to break through the bottlenecks and create value during the business development ups and downs.

Founding Acer has enriched my life and fulfilled my dreams. After my retirement from Acer, I will continue to create my life values. Again, I acknowledge so many partners with the same ideals who are willing to go on with me. We shall assist more people to create further values and together to fulfill everyone's goals.

Preface *Looking Back*

The Changes in Acer

Acer has experienced many changes since the founding in 1976. Among these changes, only two occasions could be qualified as a "corporate reengineering." The first time was in 1992, and the second one was at the year-end of 2000. Both changes were due to the significant movements inside and outside of Acer and due to the extreme business difficulties faced. Acer finally was able to walk away from the downside, transform into a new company, and shift to another higher peak level.

There were also quite a few other smaller-scale changes. For example, a few years after Acer was founded, with limited finance capability Acer leveraged the trading business and technology consultation to initiate the microprocessor business, which later became the core technology of information and electronic products. In 1981, having set up the first factory in Hsinchu, Acer went into the manufacturing industry from a service company. That was also a change. The change was not big, but just enough to catch the business opportunities.

Another change was that Acer Group reorganized into five sub-groups in 1998. As I could recall, it was only an adjustment based on the developing direction. Indeed, the reorganization was only a preparation for my retirement at the age of 60. In order to hand-over the giant computer business, I needed to clarify the future development. There was no enormous change. It was only a "quasi-reengineering" since there was no huge crisis around. In general, a reengineering is necessary due to a huge crisis or demanding for a critical change. For example, Intel decided to focus on central processing units (CPU), and gave up its original core product – dynamic random access memory (DRAM). Therefore, I see the change in 1998 as a warm-up for the second reengineering in year 2000.

Values from My Previous Book: "Me Too Is Not My Style"

My previous book, entitled "Me Too Is Not My Style" recorded the history of Acer from its founding to the first reengineering, and the high-growth period after. The book contains many of my original thoughts. The response after its publication was better than I thought. It was not the issue of the sales volume, but the public recognition. I received many good words from the readers who expressed that most businesspeople shared only the successful experiences, while the academia tended to illustrate only simple rules. Readers responded that the reference value of "Me Too Is Not My Style" was higher than other similar business books, especially in sharing the challenge of business difficulties.

"Me Too Is Not My Style" created a huge impact in China. Some thought the book enhanced the competitiveness of the companies in China and gave a great help to China. Actually, the values are not just good for the companies in China, such as Legend (now known as Lenovo), whoever really wants to run a business, on either side of Taiwan Strait, or in the other regions, can refer to my book and benefit from it.

During these years, I have continuously received the good comments and favorable reviews that are the best evidences.

The influence of my book to the readers is not about enlightenment. I am offering my experiences for when readers are facing difficulties or are losing their own ways. There are many practical problems in running a company that are well illustrated in "Me Too Is Not My Style." The problems of running a business are countless. Some of my points may be good references to solve the readers' confusion immediately. Some readers grasped the direction and discovered the methods to solve the problems by themselves. Some readers were no longer discouraged during the tough times since they learnt that I had been in the same situation before. These are the values of "Me Too Is Not My Style."

The English version of "Me Too Is Not My Style" was published with a free electronic file on an Internet website for downloading. Acer Foundation also gave away printed copies. I was asked by the Department of Foreign Language and Literature of Tunghai University, in Central Taiwan, to allow them to use the English version as a reference reading material for their commercial English class. Later, the students sent emails to me and affirmed the values of the contents. Even today, I am still receiving similar thank-you letters. Most of my readers of the English version are residents in Southeast Asia, the others are in the U.S. The book was very helpful to those who just graduated or are just starting business in developing countries. Some MBA students also found the book very helpful. In addition to the traditional Chinese, simplified Chinese and English versions, "Me Too Is Not My Style" has been translated into Thai, Pakistani, Indonesian and Japanese. The royalties received from these countries are all donated to Acer Foundation.

In addition to talking about the needs for Taiwan, I also spoke out for the minds of many young persons in that book. I can see the agreements from those young people in many developing countries. However, they lack confidence as well as experience. Their mentors can probably tell them the right things to do, but without any real experiences to support the theory. In those developing countries, the media also teach the young peoples how to succeed. Those young people may know the directions, but either did not dare to implement their ideas or failed to succeed. In the book, I explain to the young people how I often lost my way. Nevertheless, I always found the right way in the end. The reasons stated in "Me Too Is Not My Style" are the most valuable references.

Three Main Business Models and Innovative Thoughts

In "Me Too Is Not My Style", I provided many original ideas, such as Stan Shih's Smiling Curve, and three main business models: "global brand, local touch", "client-server organization" and "fast-food business model". Although Acer has changed its strategies and modified the three main business approaches, I can promise that these breakthrough thinking and methodologies are applicable to the other industries in the other situations, and outside of Taiwan. As long as you can catch the spirits of these innovative thoughts, you can create tremendous values in the other industries, situations, or places.

Among the three business approaches, "Global Brand, Local Touch" was the basic principle for the international operations. It was in accord with "Taiwan as a High-Tech Island" — the speech I delivered at the Presidential Office in 1989, and also in accordance with what I called "localization with an international management." In principle, local touch is correct. However, Acer over-delegated and lost the control completely. The main problem of local touch was to let the local shareholders become majority and the branch office became a real local company. Once the local offices had launched the initial public offering (IPO), such as those in Singapore, and in Mexico, they lost the global competitiveness. Each local company ran the operations in their own ways. They could not reach an economy of scale; nor had the mass-buying power to lower costs, therefore, Acer had to change.

Another business model, the "client-server" organization structure is still in practice in many aspects within Acer Group. Acer had changed this structure into an Internet Organization (iO) in 1998, during the second quasi-reengineering. But in 2000 we found that the iO, requesting all the business units to follow the protocols, was not successful. The bottleneck was the protocols. Internet is so powerful due to the TCP/IP communication protocols. However, an organization consists of people. People are different from the computers, and the protocols were not followed through. The pan Acer Group, including Acer, BenQ, and Wistron sub-groups, is a very loose client-server structure, with a hint of the iO. There is more autonomy in each sub-group now.

The goals of the fast-food business model for the working processes are the same as those of the "Channel Business Model" that Acer now adopts. The main purpose of both models is to speed-up new products' time-to-market and at the same time lower the inventory. The fast-food business model was very effective initially, when there were only a few assembly plants. When the number of assembly plants reached to more than 30, Acer was short of talent for the management. The inventory started to build up and the fast-food model was no longer applicable.

"Stan Shih's Smiling Curve" was first formally mentioned in "Me Too Is Not My Style" (Figure 7-1). I am very happy to see so many international citations on the Smiling Curve from time to time. I hope the simple illustration can provide a clear explanation for the long-term economic development and for the future knowledge-based economy.

My Smiling Curve provides directions for some enterprises. Besides the IT industry, many other industries have recognized the importance of the Smiling Curve, such as the agriculture and textiles industries. Taiwan has passed the stage of a manufacturing-intensive economy; while China currently is still based on manufacturing. We can tell that those enterprises in China have been very aggressive in developing toward the industry segments with higher added-values, at the left- and right-hand sides of the Smiling Curve. For example, they do not welcome the high-polluting industries and fully develop the innovative high-tech industry that is at the left-hand side of the Smiling Curve.

As Taiwan goes toward both ends of the Smiling Curve, there should be no concern on the issue of hollowing-out. The term "hollowing-out" reflects the view that manufacturing is the only way to operate the industry and the dropping-out of

manufacturing sites will induce the industry hollowing-out. This also implies that people think only the physical and tangible things are valuable, which is a big mistake in a knowledge-based economy. The progress of a society depends on the social value system. It will be a step-back if people consider the tangible things are more valuable than the intangible. For example, some politicians may prefer to build a visible construction since it will take a longer time to build an invisible development that cannot be seen during their terms. On the other hand, a society is making progress if people can appreciate the value of intangible things. Look back at history and we will find out that the most advanced cities always gather the literates to foster knowledge.

Implementing a Corporate Governance

In 1997, the second year after "Me Too Is Not My Style" was published, the Asian Financial Crisis occurred. The fundamentals of the financial framework mentioned in the book actually provided the preventive measures to the financial crisis in advance. The fundamentals included an appropriate percentage of owner's equity and autonomy in financial independence. When I started my own business, I had reached a consensus with my partners: the company's decision would be made by all partners, despite that my wife and I together owned more than half of the company shares. This was to create an organizational culture that the company interests were prioritized above the personal interests, and also to declare that Acer would not be a family-owned business. The fundamentals I proposed prepared for the later corporate governance. One of the key reasons for the Asian Financial Crisis in 1997 was that corporations did not implement corporate governance well.

In Taiwan, the problem of corporate financial-leverage is not very serious. After launching the IPO, most companies owned quite a lot of cash. However, this does not mean there is no problem with the individuals. In order to control the company, some corporate executives would expand their personal credits continuously. They would mortgage their stocks, use the loans for other investments, resulting in personal financial problems. The executives became the companies' burden. There were many companies with sound financial capabilities, however, hollowed-out by the management during the Asian Financial Crisis. Ambiguity of the public and the private interests is a huge defect among some Taiwanese corporate executives. Although I have faced many challenges, and the value of my personal property has fluctuated up-and-down, I have always clearly separated my personal and the company finances.

Experience Sharing

In "Me Too Is Not My Style", I had expressed my willingness in share my experience. My website www.stanshares.com.tw was set up to share my 33 years of experience in the IT industry. After my retirement, I will dedicate my efforts to my new company, iD SoftCapital. "iD" stands for both "intellectual development" and "intelligence dragon." I have never forgotten my dream to help the Chinese to become outstanding in the world. I know that one can no longer rely on money to realize the dream. Instead, in a knowledge-based economy, what we need is soft capital. The soft-capital business has existed for a long time, such as the consultant business. My idea of soft-capital businesses is not just a consultant business. It should be a combination

of venture capital, fund management, post-incubation and change-management services. I created the "post-incubation" and "soft-capital" terminologies. I want to practice a new type of venture capital. A conventional venture capital company invests in a founded business. I want to participate in the starting of an enterprise. This is a brand-new concept. My new partner of iD SoftCapital, Acorn Campus founder Wu-Fu Chen, calls it an "investor as a virtual founder."

My idea is simple. Right now, it is very hard for a new business to succeed if you try to do everything by yourself. The only way is through the power of the organization and other people. iD SoftCapital shall base and root in Taiwan, and expand broadly our view, starting from Taiwan to China, and beyond.

Accept Defeat, Then Win

I talk of many cases of accepting defeat during the first reengineering in "Me Too Is Not My Style". And I found that the critical element to win was to accept defeat. Every time we lose, we give up something, and then the problems can be solved and a new situation can be created. There will be no change in the situation without accepting defeat. For example, writing-off in a U.S. company is a common practice, but not applicable to companies in Japan or Taiwan. In 2001, Acer wrote off NT\$4.1 billion, it was the first time in Taiwan that a corporation took such a large scale of write-off action. The impact was huge and the other companies in Taiwan followed. This was a true case of accepting defeat in order to win.

During the second reengineering, Acer found winning strategies after accepting defeat. The main strategies in the second reengineering were to divide the original equipment manufacturing (OEM) and branded businesses into two companies, by splitting the manufacturing and marketing sales arms, and creating another brand — BenQ. After the spin off, Acer kept only the four-letter brand name, A-C-E-R, and transformed into a brand new company. With the clear distinction, if Acer wanted to create added-value, Acer had to make profit in the personal computer business. We created a New Channel Business Model, and set up the Acer Value Labs. These movements were relatively innovative to the whole world and generated much attention. For example, many industry analysts asked Acer regarding the split of manufacturing and marketing sales arms. They wanted to know the reasons why the other companies followed Acer to take the similar actions.

Unity is Strength

"Me Too Is Not My Style" has inspired many readers. I hope this book "Millennium Transformation—Change Management for New Acer" can play the same role again.

Acer faced a ten-fold challenge during the second reengineering. The revenue goal increased to US\$10 billion in the second reengineering, from US\$1 billion in the first reengineering, with a tougher industrial environment. During the first reengineering, most IT companies did not make profits. At the second reengineering, the whole industry was more mature, with higher competition and tougher challenges. Not just in Taiwan, the global IT industries faced the same issues: constant changes, high competitions, and difficult operations.

IBM had no significant change management until 1991, several decades after their computer business was founded. For Acer, there were only nine years between the first and the second reengineering. That was because Acer conducted diversified operations, with aggressive growth expectations. Many pioneering businesses in Taiwan were indeed quite difficult, such as creating a branded business, and entering the PC, DRAM industries at the earlier stage. Most pioneering businesses failed. Acer failed in some businesses too. Fortunately, a few were very successful and, overall speaking, Acer has been doing great. In 2003, Acer's revenue was about NT\$166.1 billion. The revenue for the pan Acer Group [1] had reached NT\$541.1 billion (or US\$ 15.7 billion). Acer's PC sales volume is ranking in the top-five globally for 2004. Historical challenges seem to come again and again. People make the same mistake when not they are careful and fail easily due to a lack of experience. Acer has been so lucky to go through many challenges and most Acer colleagues are willing to face them together. The current achievement is earned by everyone's hardworking.

I have been in the IT industry for 33 years now, from putting the first calculator onto the market. There are hardly any CEOs who have stayed in a post for so long in the global IT industry. From some points of view, I am an important resource to the global electronics industry. Therefore, I write this book to record my experiences.

I often ask myself "what is Acer?" Some say Acer represents Taiwan's high-tech history. Others say Acer represents the success of Taiwanese branding. Acer is also known for its earlier model of employee stock- and profit-sharing in Taiwan, and represents a new culture of corporate governance. My thoughts are slightly different. I think Acer represents the strength of unity. I am more well-known in the public media than most Acer colleagues, it seems that I represent Acer. However, Acer is a team. Acer started with a decentralized management and has trained many talents — the strength of unity.

It is harder to become Wang Yung-Ching, Chairman of Formosa Plastics, than to learn from Stan Shih. This has nothing to do with the personality, it's about the ways of doing business. It is harder to learn the bold vision and business style with such a huge economic scale, from Wang Yung-Ching. The same situation exists for Morris Chang — hardly anyone can do his job. On the other hand, I always do something from small to big, gradually. I established BenQ, ALi and Ambit, following the same way. Everyone can learn from what I did. It might be very hard for the others to imitate my character, for example, to enjoy the decentralized management. But if Stan Shih can do it, other people can too. Due to my health concern, I can no longer do business aggressively now. My ambition will need to be developed by the other people's wisdom. I will simply enjoy the fun.

Experience Sharing on Change Management

I am not just telling Acer stories. This book also includes the background to the stories. These ideas and principles are based on my 33 years of industry experiences and two corporate reengineering. I use "change management" to illustrate these experiences and as the theme of this book, that is different from the chronicle style in my previous book, "Me Too Is Not My Style." I believe the contents will still have

the reference values after 10 or 20 years. However, I am absolutely against anyone who tries to simply imitate the actions stated in the book. I even can say with certainty that they will fail.

I have experienced so many dynamic changes in the global electronics industries. I understand there is always a limit of growth. The inside and outside environments are changing in every industry. To be sustainable, a company needs to create new values and cannot just follow the old rules. Change management is a must.

Therefore, in the following chapters, I will first describe what Acer did during the second reengineering in 2000. Based on a simple, focused, and forward-looking approach, Acer reorganized and reallocated resources substantially. The key objectives included the growth of the branded business in Europe, breaking even in the U.S. market, and the future development directions for Wistron and BenQ, after separating from Acer.

After commenting on the second reengineering, I will discuss in depth some key subjects in a corporation. First, it is the theme of this book, change management. The purpose of change management is to create corporate values. I will explore the methodology and tricks of creating corporate values, including the brand-value formula, Acer Value Labs, MegaMicro e-enabling service, human resource development, corporate culture, finance management, corporate governance...and so on. Meanwhile, I will illustrate the well-known "Stan Shih's Smiling Curve" one step further.

Acer had led the IT industry in Taiwan for a long time. At one time almost all the IT news was about Acer. Every pioneering industry needs a one-man show initially. However, if there remains Acer's one-man show, it means the industry development is not sound. Fortunately, the high-tech companies in Taiwan were very multi-dimensional. There are so many outstanding companies participating now, not just Acer. Therefore, more people are making much more money than me now.

I have been awarded often during my 33 years of industrial experience. In 1998, Acer became the largest manufacturing company in Taiwan and was the largest import-export trading company in Taiwan. Acer owned the largest number of patents — greater than the sum of all the other high-tech companies in Taiwan. Acer was awarded the first National Invention Prize. Acer received so many number-one prizes in Taiwan. However, that was in the past. It is important to focus on the present and the future. There are still many efforts needed.

A Happy Retiree

I am still not sure how to retire. I think I will be a happy retiree, a rare case for a CEO of a global company. Most entrepreneurs want to depart from their career when the company is still in the peak stage. Not many can realize it. I am very happy to make it.

In 2003, I received the "Promote Taiwan International Brand Special Contribution Award." In my acceptance speech I attributed my happy retirement to K.Y. Lee (Chairman of BenQ), J.T. Wang (Chairman of Acer), and Simon Lin (Chairman of

Wistron). I also acknowledged Gianfranco Lanci who will become President of Acer. As a foreigner to Taiwan, Lanci has been a critical person to Acer. Under his leadership, Acer's notebook PC sales-volume had jumped to the first position in the European market since the second quarter of 2004. Because these people have done very well in their jobs, I will have little to regret at my retirement.

However, there is no perfect life. The sales ranking of Acer's notebook PC is not number one in Taiwan, even though the overall PC ranking in Taiwan is at the first position. I know that everyone has done the best he or she can. I do not blame anyone. As a joke, I sometimes say that Acer lost the number one position in the Chairman's home country.

Another pity is the late development for Wistron's OEM business. Wistron has to face tougher competitors and harder business operations in the mature industry. The company is going steady now. If all of the Acer, BenQ, and Wistron sub-groups could have high-growth revenue, I will have no regret at my retirement.

Me Too Is Not My Style

I had long-decided to retire at the age of 60. I hope I can have a completely different way of retirement, as I always emphasize that me too is not my style. When Professor Kao, Publisher of Commonwealth Publishing Group, invited me to write this book, I had not thought clearly about how to retire. Now, this book can be seen as an important gift for my retirement. The way of my retirement has to be meaningful; hopefully it can be a role model. I want to do something that the young people dream of, but dare not to do. However, it is not like a national revolution by Dr. Sun Yat-Sen. I won't do anything something that is very risky.

Now, there are a variety of media, with plenty of information in the society. Everyone can have his or her views. Sometimes, something cannot be achieved because the objective environment cannot have a breakthrough. When I put "the original human-nature is good" as one item in Acer's corporate cultures, most colleagues were very happy. But, the side observers thought the rule was impossible, and with high risk. It was the issue of the social environment. If you are in a big box, how can you jump out and do something that everyone really wants to do? In such a multi-dimensional society, I will not do something completely the same as the others. If everyone can do something a little differently, the whole society will proceed toward an innovative road. All the correct and good innovations are helpful to the social energy. Therefore, even my retirement needs to be innovative.

With my 33-year industrial experience, I have done my duty. I have also left a huge enterprise group for more people to continue developing. Writing this book is to contribute my experience for the reference of thousands of people. The contents in the book are not theories only, but real and applicable. I believe my books can last a long reading period. Of course, I do not expect my books to circulate through a hundred generations like those classical books. This is not my goal. From the view of life value, I hope I can leave something for many people's reference. That is my real value.

[1]: "pan Acer Group" will become a historical term after my retirement. Recently, there is a media calling Acer, BenQ, and Wistron three groups as "ABW Group", since they all originated from the same company system.

-----*Part One*-----

New Horizons for Acer, BenQ, Wistron Family

Chapter One

The Second Reengineering in Acer

Background of the second Reengineering

On December 26th, 2000, Acer announced a significant corporate transformation plan. That was the initiation of the second corporate reengineering since the first one in 1992. The objectives were: cancel the organization of the five sub-groups; integrate some overlapped-investments; emphasize on the principles of "focus, simple, forward-looking", and separate Acer's Design and Manufacturing Service (DMS) and Acer Brand Operation (ABO) into two independent business units (Table 1-1).

Table 1-1: Acer's First and Second Reengineering

The First Reengineering (1992)	
Before Reengineering	At the end of 1991, Acer had an unexpected deficit of NT\$607 million, which was the first significant deficit in Acer history.
External Factors	A new competitor appeared in the computer industry. Taiwan motherboard companies and the worldwide import trading companies worked together and formed an assembly alliance of the compatible PC. The industrial business model had gone from an "integration" mode to a "disintegration" mode, challenging the conventional system companies, including Acer.
Internal Factors	Acer carried a heavy burden due to the continuous fast growth for more than a decade. The burden included: too much cash that induced a "defocus and over-spending symptom"; gigantic organization that caused an "obesity symptom"; "comfort symptom" — the failure to sense a crisis; slow response "dinosaur symptom"; blurred authority and responsibility of a "big-pot-cooking attitude".
Subjects of Change	<ul style="list-style-type: none"> • Warm up: in November 1989, the "Acer Transformation" flattened the organization. The concepts of a "human-resource gas-station" was proposed and transformed the organization into various profit centers. In 1991, Acer executed a layoff plan and reduced the headcount. • 1992 Reengineering: <ul style="list-style-type: none"> — Principle: global brand, local touch — Organization: the decentralized "client-server" management — Operation: fast-food business model
Results of Reengineering	High growth in both revenue and profits. From 1993 to 1995, the annual revenue growth rates were 51%, 69%, and 81%; the annual profit growth rates were 2,436%, 207%, and 72%, respectively.

The Second Reengineering (2000)	
Before Reengineering	In the second quasi-reengineering, Acer allocated the resources unevenly among the five sub-groups, which made Acer have almost zero growth and undesirable profits. Acer had to sell the stocks of invested companies to survive.
External Factors	<ul style="list-style-type: none"> • The competition became harder in the personal computer arena; the product price and profit both dropped. • The IT industry tended to enlarge the business scale, which was speeded by the corporate outsourcing. Taiwanese OEM plants grew quickly, their competitiveness exceeded Acer, who was still doing both OEM and branded businesses. • Internet companies took-off. Acer followed the mainstream to involve in the Internet business, and got hurt later when Internet businesses bubble burst.
Internal Factors	<ul style="list-style-type: none"> • The co-existence of branded and OEM businesses increased the complexity of management and the conflicts between resources and operations. • The branded business could not build a profitable model in Europe and the US. • Over expansion in each of the five sub-groups induced many overlapping investments.
Subjects of Change	<ul style="list-style-type: none"> • Organizational change: restructured the Acer group; the branded and OEM businesses separated into Design, Manufacturing and Service (DMS), and Acer Brand Operation (ABO). • Operation model change: adopted the “Three-One; Three-Multiple” strategy. • Process change: adopted a New-Channel Business Model • Brand partition: a new brand — BenQ — was introduced
Results of Reengineering	<ul style="list-style-type: none"> • Growth in revenues of the pan Acer group [1] <ul style="list-style-type: none"> — 2002: NT\$444.3 billion — 2003: NT\$541.1 billion — 2004: NT\$740 billion

Acer conducted the second reengineering due to many internal and external changes. The internal conflicts were not second to the external ones.

The outside changes were from the tendency of the scale up in the PC industries. There were many global consolidation and mergers that make the big company even bigger. The business competition was harder and the profits lower, in which situations were similar to those during the first reengineering. In the first reengineering period, Compaq dropped the sales price 30% in one day. The overall environment for computer industries shifted from a high-profit to a low-margin industry. At that time, corporate outsourcing for manufacturing was not very common. By the second reengineering, the outsourcing had become a mainstream. Many large companies drove a big-scale outsourcing to one more step. It induced a high-growth of the dedicated Electronic Manufacturing Service (EMS) in the U.S. and those OEM plants in Taiwan, such as Quanta, Compal, Inventec and Arima. Working both on OEM and branded business, Acer lost the competitiveness gradually in the OEM field to those Taiwanese plants.

Meanwhile, as Taiwanese OEM plants continued to grow and became stronger, Acer neglected the situational changes and followed the outside environments in

developing aggressively in Internet businesses. Acer suffered later by the burst of the Internet bubble.

The problems inside of Acer, attributed to the coexistence of Acer branded business and the OEM businesses, had induced many conflicts, and created a complex operational management.

To the outsiders, they saw the conflicting interests between Acer's branded and OEM businesses. While the tendency of outsourcing was strong, potential customers would give the orders to those OEM plants without any conflicting interests. Acer could not receive a big order easily.

Inside Acer, there was a conflict between the manufacturing and sales marketing divisions. When the sales revenue was not good, the sales department would attribute the bad business to the low competitiveness of the product, and vice versa. The Strategic Business Unit (SBU) in charge of manufacturing, and research and development, and the Regional Business Unit (RBU) in charge of local marketing and sales, always blamed each other. The responsibility was very hard to clarify. In 1998 in the second quasi-reengineering, Acer integrated the SBU and RBU into a Global Business Unit (GBU). We tried to solve the conflicts between the two business units. We saw only limited effectiveness. The root problems of the coexistence of the branded and OEM businesses still could not be solved. The internal complications had induced the decay of Acer's competitiveness.

In addition, the complexity of management increased due to the different characteristics of the branded and OEM businesses. If Acer only worked on the OEM business, the inconsistency of business revenue would not be high. The only variation would be whether the production could have a leading position. If the product was more competitive than others, the business would be good. Otherwise, the revenue would decrease. That's all. The situation is similar for Wistron's current OEM business. The outside review says Wistron is not doing well enough. That only means Wistron will not earn as much money as expected, but will not lose money.

On the other hand, running a branded business is like a boat in a stormy sea situation. Earn quite a lot when the business is doing well; lose big money if we are not doing so well. Like IBM lost money before and now Dell is making high profits. There are two common factors that cause a branded business to lose money. One is the competitiveness of the product; the other is the marketing of a local management. The latter is especially important in managing inventory and overhead costs. In fact, Acer carried out both reengineering processes because of the deficit of the branded businesses.

Acer was fighting internally and externally in the second reengineering. Acer was questioned by the analysts for the deficit of the branded business, as reflected in the weak stock price. At the same time, Acer's OEM capacity with a weakening competitiveness, was being overtaken by other Taiwanese OEM vendors.

We did not know then what would be the winning strategies. Meanwhile, the effects of uneven allocation of resources among the five sub-groups, done in 1998, made the situations worse. Acer had almost zero growth and undesirable profits. Acer had to

sell the stocks of our invested companies to survive. The second reengineering was conducted in such an environment.

Three Principles and Three Key Strategies

Acer conducted the second reengineering based on a simple, focused, and forward-looking approach and adopted three key strategies:

(1) Organizational reengineering: reorganized the companies in the Acer Group and separated the Acer brand and OEM businesses

(2) Business-model reengineering: adopted a of "Three-One, three-multiple" strategy

(3) Process reengineering: adopted a New Channel Business Model

For Acer, the simple, focused, and forward-looking principle was very important, especially "simple" and "focus". Diversification is a normal phenomenon in running a business. Whenever one loses focus, the business scope will expand here and there. Diversification makes things complicated. The more diversified a business becomes, the more entangled it gets. Two people doing one person's job will make it complicated. This is human nature. Therefore, we had to emphasize on the importance of "simple" and "focus", they became the highest instructive principles for all the future thinking and strategy execution.

Based on "simple" and "focus", the organization structure of the whole Acer Group was adjusted substantially. Acer had better research and development capability and the advantage in human resources. The bottleneck was the conflicting coexistence of the branded and OEM businesses. Acer's branded business had to be separated from the OEM business.

In addition, during the 1998 second quasi-reengineering, the Acer Group followed the original plans and divided into five sub-groups: the Acer, Acer Communications and Multimedia (now BenQ), Sertek, Acer Semiconductor Group, and Acer Internet. Later, we found this separation created an imbalance of resource allocation. The group organization had to be re-adjusted.

Among the five sub-groups, Acer had to give up the semiconductor and Internet sub-groups. The semiconductor sub-group's flag-ship company — Acer Semiconductor Manufacturing, Inc. (ASMI) — lacked leading technologies, and suffered enormous deficit due to the dynamic changes of the industrial environments. Later, ASMI was merged by Taiwan Semiconductor Manufacturing Corp. (TSMC). The semiconductor was no longer a core business for Acer. (See Chapter Two). As far as the Internet sub-group was concerned, the dot com companies dominated the whole emerging IT markets during the second quasi-reengineering. Acer thus built the Internet business based on the outside main stream. In the end, when the Internet business bubble burst, Acer failed too. We shifted the Internet business into a non-core business in the second reengineering. (See Chapter Three.)

The other three sub-groups, Acer, BenQ, and Sertek, sustained. Acer and Sertek needed adjustments to fit their own resources and the opportunities of development.

Management Issues Faced by Each Sub-Group

Acer restructured into the five dedicated sub-groups in the quasi-second reengineering. This meant that I gave the operation team in each sub-group one management assignment. I gave myself one too. I was in charge of the semiconductor sub-group. Before choosing the assignments, I first needed to find those assignments with potential good answers in Taiwan, i.e. the assignments had to be able to create values, be meaningful and challenging. Then, the assignments had to be solvable so that the teams could possibly answer the questions to pass the examination, with score of B grade or above.

To choose an assignment so that each sub-group could pass, this involved a self-evaluation, i.e. a reasonable assessment on Acer's capability. However, I found later that those assignments, including my own assignment, needed to be adjusted. Some assignments were too tough, while some were too easy. The assignments did not match the ability of each sub-group's management. At that time, J.T. Wang only oversaw Sertek, but his ability was more than that. That was an easy assignment for him. Simon Lin's assignment was too hard. Simon had to take care of all GBUs, which was the merger of the RBUs and SBUs. The duty was too heavy. Simon himself realized the situation too. All of us spent some time to communicate and then established the consensus.

As for K.Y. Lee's BenQ, the company had used different developing models from those used in Acer. BenQ started with an OEM business, relying on the manufacturing capability to establish the ground. That was different from Acer's emphasis on the branded business. Indeed, BenQ had run independently for a long time. Accumulating the competence and matching the resources with the sales goal, BenQ has always developed well.

After Acer divided into the five sub-groups, J.T. was earning money in Sertek and K.Y. also led BenQ in making money. However, my semiconductor sub-group and Simon's Acer Inc. were both not profitable. The crucial reason was that Simon and I chose the wrong assignments. Because the domain territories of each sub-group and resource-allocated did not match, a correct base could not be established. Thus, we had to change the assignments in the second reengineering.

I did not change the assignments arbitrarily. On my Smiling Curve, I found the positions of those assignments with values. I needed to choose the assignments, which were valuable, challenging, and appreciable by the people. If I chose the wrong assignments, even with a good score, it would not be recognized by others. The results would be in vain. For example, Acer focuses on the branded business after the second reengineering. Without the OEM business, the assignment became simple. Right now, the Acer brand is famous globally. Both revenue and profits have grown dramatically. I passed the examination for branding.

To change the assignments, the branded business had to separate from the OEM business. Acer and Sertek had to reorganize.

After separation the branded business had to primarily base on Sertek, since Sertek owned a stable brand business with the most stable human resources. Starting in 1981,

I ran the branded business in Taiwan through Sertek. I had built a solid foundation both in the sales channel and management system. Sertek merged into Acer to run the branded business. The merger created a new Acer, with J.T. as the President of New Acer. There were three core businesses in New Acer: IT products, IT services, and the channel business. After completely outsourcing the manufacturing, New Acer was about to transform into a marketing and service company. (Table 1-2.)

Table 1-2: Old Acer vs. New Acer

	Old Acer	New Acer
Business Category	Manufacturing	Service
Environment	Information age	Knowledge-based economy
Corporate Culture	Technology innovation	Customer-oriented
Mission	“Gardener of microprocessor”	Pioneer in knowledge-based economy

When I founded Acer in 1976, I just did trading, research and development, and the branded business. I outsourced most manufacturing works. In 1981, Acer had the initial representing product "Micro-Professor I", a computer-learning machine. Most MicroProfessor machines were produced by Delta Electronics. They did a very good job. We did not need to worry about the quality problem and could concentrate on expanding the markets. On Stan Shih's Smiling Curve, Acer was strong on the left-hand side (research and development) at the earlier stage, and the right-side (marketing and sales) was also strong in Taiwan. In 1981, Acer set up a plant in the Hsinchu Science-Based Industrial Park and started manufacturing, located at the middle part of the Smiling Curve. The new Acer, after so much reorganization efforts, went back to the old road in the times of 1976 to 1980.

Interesting Historical Coincidence

In Acer's history, there were many interesting coincidences. In the earlier stage, Acer owned strong research and development capability. The Micro-Professor-I was not actually Acer's first product. Acer's first mass-production product for export was a CRT terminal, designed for ADI electronics. Barry Lin, now Chairman of Quanta also commissioned Acer to design a home computer around 1980. At that time, Barry was still working in Calcomp electronics. Although his background was very strong, he himself alone could not develop a computer. Acer was the only team who could design a computer in Taiwan. He commissioned us to do the design, but did not commercialize the product until later. In the early 1990s, Acer wanted to start the notebook PC business. Acer commissioned Quanta to do the design and manufacturing for a laptop computer. The product was not successful. In 2001, Acer adopted a multiple vendor strategy. Besides Wistron, the first outside-vendor partners were Quanta and Compal. Before, Acer designed a computer for Quanta, then years

later, the role-playing switched. This kind of change is really interesting. It seems that the history keeps repeating.

Group Reorganized; Resources Re-allocated

After the Acer Brand Operation business unit merged into Sertek, Acer's Design and Manufacturing Service (DMS) business unit was merged into Wistron. Wistron was established to fit the needs of the Acer Group's reorganization, to be a dedicated design and OEM company. Wistron was chaired by Acer's President Simon Lin. The Wistron group includes some invested companies, such as AOpen, NeWeb, and Nexus.

The third group is BenQ with K.Y. Lee as President, and myself as Chairman. I handed over the chair position to K.Y. in 2002. The subsidiaries of BenQ include AU Optronics, Daxon, and Darfon.

The fourth is a group of holding and investment businesses (HIB), directly under the headquarters in the organization structure. HIB was in charge of all the investments by Acer. It will spin off from Acer and become iD SoftCapital — the company I am going to be dedicated to after my retirement.

After the second reengineering, the Acer Group was restructured and the resources were reallocated. Each assignment for every sub-group had been simplified, fitting the principles of "simple" and "focus" principles. For example, in Acer, J.T. and I were in charge of different assignments. J.T. focused on the short-term operation of Acer. I was in control of the main development direction and key projects, and spent more time on the future growth of Acer. Considering the company's long-term development, I had to develop the software and service business in Acer. Acer needed diversification, not just all hardware businesses. Software and service were for the future. To improve the effectiveness, J.T. would not involve in the future operation items in the transition period. All these operation rules were set to thoroughly execute the principles of "simple" and "focus".

Conflicts of Sharing a Common Brand

After the new organization solved the conflicts between the branded business and the OEM business, we faced another issue: sharing a common Acer brand name by both Acer and BenQ. Before BenQ had its own brand at the year-end of 2001, the company was called Acer Communications and Multimedia (ACM). The Acer Group had a bigger scale before. The Acer brand was used by all Acer Group's business, while BenQ leveraged the same brand name for their product sales. However, when both Acer and BenQ grew to a certain scale and the manufacturing capability of BenQ became higher than Acer, BenQ started to find the limitation of sales from Acer's sales arms. Because Acer would not promote BenQ's stand-alone products, BenQ's products were just treated as independent products. For example, Acer traded BenQ's monitors only when a computer system was sold. In addition, there were more and more products made by BenQ. The sales arms were still used to the familiar business and could not take care of each product from BenQ, and could not satisfy BenQ's needs.

Acer did not like to share the brand with others neither. The Acer brand was used in many company's names and their products, within the whole Acer Group. Every product and company could be named "Acer". Both the good and weak products had an Acer brand. Acer brand could not have a precise positioning in the market. In addition, one brand could not take care of every product in each company. BenQ was always not happy about it. Therefore, J.T. told K.Y. long time ago: if BenQ perceived Acer did not do a good job, BenQ should do its own marketing and sales. Therefore, before the second reengineering, within Sertek's territories of Taiwan and China, Sertek was no longer the only sales arm for BenQ's Acer-branded products. But in other regions, BenQ still had to rely on Acer's RBUs.

When a brand name is managed by a variety of companies, there surely would be a conflict. After all the separation and merger issues were fixed, we concentrated on this tough problem—how to leverage one Acer brand to sell the both Acer and BenQ products? As coordinators, Jerry Wang (now BenQ's President of Global Branded Business) and I had countless meetings with J.T. and K.Y. We prepared some criteria, but none could be carried out. Soon we found that instead of sharing a common brand and inducing conflicts, another brand should be created.

We made an official announcement on proceeding a corporate reengineering at the end of year 2000. During the first and second quarters of 2001, we were still working on a method for both Acer and BenQ to share a common brand. Towards the end of the second quarter, we decided that another brand name had to be created. In December 2001, BenQ announced its new brand name. The company's English name was changed from ACM to BenQ. In May 2002, BenQ also changed its Chinese name.

Execution Issues on Organization Separation and Brand Partition

The separation between Acer and Wistron and the separation between the Acer and BenQ brands seemed like dividing Siamese twins. The split of a company was tangible, while the partition of a brand was intangible. No matter it was tangible or intangible; all these separations more or less created conflicts. All needed time to adjust.

The characteristics of a branded business and those of an OEM business are totally different. The separation between Acer and Wistron seemed well-defined; however, the execution indeed had many unavoidable difficulties. Take human resources as an example. The personnel, R&D and quality control divisions were to stay in Wistron in general, but Acer needed the same resources. Although Acer would no longer do manufacturing, it still demanded the same capability to set the product specifications for the outsourcing works. Even the procurement personnel needed the quality control know-how. Then, how to divide the employees into the two companies? Both sides wanted the high-performance talents. Who should make the decision? Should it be decided by the managers or by the choices of the employee? There were many other similar questions on human resources and property distribution.

Product supply was an even more troublesome problem. Before, Acer's products were totally supplied by Wistron. After the separation, Acer planned to contract more

outside vendors. Wistron was not happy about it. The outside vendors also doubted if Acer would commit to outside procurements in the long-term.

Acer and Wistron used to be the same company. It was hard for an Acer employee to push for a higher product quality from the other Acer colleagues. After the separation, Acer requested a very strict quality control from Wistron. For a while, Wistron had a hard time to adjust. After a transition period, all the adjustments were very good. The product quality and service have reached first-class level now.

Brand partition needed an adjustment period too. Acer and BenQ had agreed on some principles. However during execution, each side stood for their own interests and nevertheless generated conflicts. BenQ had used the Acer brand for ten years and established certain foundations in the markets. The transfer into another brand more or less caused some conflicts and misunderstandings. For example, Acer agreed that BenQ could claim the brand was originated from Acer in the marketing activities for the first year. But the message was ill communicated. Some thought the Acer brand and the Acer products would change to BenQ, that Acer would disappear. Another example was BenQ wanted to take back the sales of monitors. The result was that Acer had no monitor product to sell. There were other problems on separating the channel partners too.

These kinds of conflicts mostly happened in 2002, and reduced in 2003. By the second-half of 2003, there were almost no conflicts. The transition period for the brand partition process took about two and half years.

Internal Anxiety and External Troubles of New Acer

The pan Acer Group [1] was reorganized into three groups in the second reengineering. J.T. Wang faced the biggest challenge. BenQ had been independent for a long time and always made good profits. Wistron's challenge was simply to compete with many strong competitors, without survival problems. J.T. faced the problem of whether Acer could go on further. He used to lead Sertek, with a small business territory only Taiwan and China, among these three groups. After the establishment of New Acer, his responsibility increased significantly and he had to face a lot of problems. He had to handle the inside anxiety and the outside troubles. Domestically, he had to solve the conflicts between Acer, BenQ, and Wistron. In the foreign territories, there were many well-established overseas business leaders, who controlled the markets and most resources. Besides, many organizational structures in the foreign countries were not sound and needed to be rectified.

Facing the internal and external challenges, J.T.'s first job was to affirm the value system of New Acer. Originally, Acer headquarters behaved like a parent. The mentality was to support all the subsidiaries. If they did well, the headquarters would be looking good. But the situation changed after the reorganization. The headquarters needed self-protection first. J.T. insisted that anything that would hurt the parent company could not be implemented. In other words, Acer's interest was then put on the first priority. To gain back the product competitiveness, Acer needed to outsource the manufacturing to other vendors besides Wistron. Also, Acer could no longer avoid any markets occupied by BenQ.

I spent the most efforts in New Acer after the second reengineering, since J.T. faced the biggest challenges. I had to eliminate the difficulties for him. I fully supported his new policies; I agreed his outsourcing decision so that I helped to shut out Wistron's complaints; I would not discourage him whenever there were conflicts between Acer and BenQ; I had to go abroad to speak for him and help him to take all the foreign executives back to the headquarters.

New Acer transformed from a manufacturing to a service company. The whole corporate culture and value systems needed to change since the overall environments were different. I needed to assist the change management in this aspect. I had led changes in corporate culture and values systems before. So, I did it again. This time, I insisted J.T. had to participate and made sure that the changes were what he wanted. Acer was then going to become a marketing- and service-oriented company. Acer's divisional managements attended a workshop on "New Acer's Basic Belief and Corporate Culture " on June 22, 2002. After all the participants' in-depth discussion, Acer established a common belief: serve with honor, work with pride. Meanwhile, five core values were proposed: profitability, service-oriented, professionalism, effectiveness, and energetic approach. (Table 1-3.)

Table 1-3: New Acer's Common Beliefs and Core Values

Common Beliefs: Serve with Honor, Work with Pride
<ul style="list-style-type: none"> • Profits: placing first priority for shareholders interest and creating win-win success for business partners • Service: satisfying customer needs with innovative and caring spirits • Professional: making full use of knowledge management for increased business competitiveness • Effectiveness: utilizing business processes for effective integration of company resources • Energetic: creating an attractive workplace and realizing employee potential

"Three-One; Three-Multiple" Business Model

In the second reengineering, the second aspect of the company evolution was to adopt a "Three-One; Three-Multiple" strategy in the operation model. "Three-One" means one company with one brand, and one global team. Its purpose was to centralize, simplify, and focus. "Three-Multiple" means having multiple vendors, multiple product-lines, and multiple channels, in order to avoid the outsiders' control.

"Three-One" Strategy

The one company strategy indicated that all the Acer subsidiaries should be fully owned by Acer. We should operate the subsidiaries as within the same company. Thus, we could integrate the control. This was different from the autonomy in each branch before. Acer used to encourage "21 in 21", in which Acer had expected to have 21 IPO companies worldwide by the 21st century.

As for the one brand policy, the whole Acer Group would only carry one brand name. Acer used to own many other brand names, such as AOpen, Apacer, ALi...and so on. The subsidiaries such as ALi, TWP, GameZone could not use "Acer" in either their

products, or the company names. These subsidiaries were forced to change the names within a certain time. Now, no matter how many brand names there are in the pan Acer Group (See [1] in Chapter One), only Acer will carry the Acer brand.

The third "one" was a single global management team. Although Acer had many product business units, we regarded them all as one team. The overseas presidents were treated as members of the headquarters and participated in the decision-makings. We formed an Executive Committee. The members included the presidents of each product business unit and worldwide region, J.T., and myself. This was a centralized operation. Everyone had to execute the policies accordingly. Before, Acer allowed each region to make its own decision on the product-line and the procurement. In order to create an economy of scale, generate the bargain power, and fit in the convenience of the overall management, the product lines are now mostly decided by the central management. Especially, for the notebook PC, the procurement decision is concentrated in the central management.

"Three-Multiple" Strategy

"Three-Multiple" means multiple vendors, multiple product-lines, and multiple channels. Besides some components, Acer's personal computer was originally produced by Wistron only. Acer now also contracts to the other OEM factories. With only one vendor, the management effectiveness tended to slow down as the product line increased. Now, we have adapted to the multiple vendor policy. The product lines can increase slowly, steadily and become complete. The multiple-channel policy hopes to increase various channels. In addition to the channels for the commercial and home businesses, we can increase the national and regional distributors, retailers, and chain-stores. We can avoid being controlled by others.

Solve the Problems Derived from the Internal Transfer Price Policy

In order to achieve the purpose of a global operation, it is critical to treat the headquarters as a cost-center and each region as a profit-center, and fully disclose the headquarters' cost to each region.

Before, Acer used an Internal Transfer Price (ITP) policy. The Strategic Business Unit (SBU) in the headquarters adds 2~3% over the cost as the price quoted for each Regional Business Unit (RBU). The mentality was that the SBU should have a reasonable profit to keep going and RBUs could have sufficient margin to make profits too. When the markets became very competitive, it was very hard to make profits. We thought as long as the RBUs made profits or broke even, Acer could still gain the money from the SBU in the headquarters. However, when the deficits from RBUs greater, the headquarters could no longer take it any more.

There was a big problem. The SBU thought it always had a 3% profit. If they reduced 1% in the price quotation, the profit could grow to 4%. There was no incentive to reduce the actual cost. On the other hand, RBUs were lacking responsibility. Their mentality was only "doing the best." They could always blame the listed price was too high from the headquarters. This was a tough question. Many multinational corporations have been bothered by the same ITP problems.

To solve the problems derived from ITP, we let the headquarters become a cost center, with a transparent cost structure. This was made possible due to one important reason: Acer no longer had a manufacturing plant. If we still had a manufacturing cost, it would be hard to clarify the real deficits between the sales and manufacturing arms.

After the headquarters became a cost center, the cost in Taiwan was shared by each sales unit worldwide. If every region said that the cost was too high, the headquarters had to find a way to drop the cost. This way, Acer only earned once in the international operation, i.e. the money earned purely from each region. If we lost money in each region, the whole company lost money. The responsibility of creating profits fell into the sales arms. To encourage our sales team, we provided enough incentives and invigorating policies to inspire them to make money for the company.

I discovered a good way to do that. We could leverage the stock bonus in the headquarters. Starting from 2002, we agreed on the business goals for each quarter, including the revenue and profit. If the goals were reached, we would draw the stock bonus in advance as a quarterly bonus. This is the same to say that whenever I know the year-end bonus, I would draw it in advance for the quarterly bonus. The policy had to be sustainable. The bait could not be used up all at once. Whenever we have more stock than we have to draw on, we will reserve the stock for later; we would pre-distribute some stock if there were a shortage of stock. According to the current regulation in Taiwan, this new policy is hard to implement. To carry out this policy successfully, we investigated internally to find a legal way of doing it.

We did it gradually. Only the critical personnel were corporate granted the quarterly bonus. They fought at the front line to expand the business revenue. At the beginning, only a few persons qualified, then the number of entitled people increased slowly. Actually, most employees received an annual bonus. We considered the bonus thoroughly in the annual bonus program. For example, one employee could get his quarterly bonus for 10, 10, 15, and 15 for the four quarters, respectively, and an annual bonus of 10. The sum is 60. Another employee could receive a year-end bonus of 60, providing I consider the person has the same contribution. The only difference is the time to get the cash in the pocket. This incentive program was originated from me; J.T. Wang carried out the detailed implementation.

This is an innovative way that has never been done elsewhere. Most people, especially those overseas employees, did not believe it would work at the beginning. It took one year to build everyone's confidence on this program.

From Horizontal Disintegration to Horizontal Integration

The difference of the operation models between the first and the second reengineering was the concept of how to divide the process work. In the first reengineering, we used a horizontal disintegration model; in the second reengineering, we shifted to a horizontal integration model. Using my Smiling Curve to explain, we conducted both horizontal and vertical disintegration in the first reengineering. A vertical disintegration meant different plants were in charge of various products, components, and manufacturing. A horizontal disintegration was the autonomy of sales in each region. The European RBU was in charge of the European market; the U.S. RBU was responsible for the U.S. market. Every region was independent.

Then, it was different in the second reengineering, in which we used a vertical disintegration and a horizontal integration. Before the reorganization, the branch offices in each country operated like independent companies, and owned their inventory and marketing/public relations. After the second reengineering, the branch offices became simple sales units, and all the other functions were centralized and managed by the headquarters. Back in 1996, we started to investigate the possibility of a horizontal integration. At that time, Acer encountered some serious problems that hindered its growth. Since all the sales and marketing units were horizontally disintegrated, every RBU only minded its own business. To meet the RBUs' requirements, the SBU set different product prices, and produced small quantities of machines with diverse specifications to each RBU. The buying power of each RBU was decentralized without an economy of scale. Therefore, we were discussing whether RBU should unify procurement and fight together. But the RBUs in Singapore and Mexico were IPO companies; the execution of integrated procurement had certain difficulty.

In the 1998 second quasi-reengineering, we combined the SBU and RBU into a GBU. The business units — R&D, manufacturing, and marketing sales — were all integrated and managed by the GBU at the headquarters. The GBU could decide how to divide or integrate the operation processes in each region. Although the GBU could not solve all the problems, it built the foundation for the horizontal integration in the second reengineering.

In the second reengineering, manufacturing was still in a vertical disintegration. However, the sales arms changing into a horizontal integration made all the product-line and procurement jobs in each region concentrate in the headquarters. Later I found that most industrial eco-environments were in a vertical disintegration and horizontal integration.

The horizontal integration of the second reengineering included the integration of those Internet-related businesses, such as Acer Internet, Pagic.net, Acer CyberCenter Service. In addition, Acer bought 100% share of TWP, which belonged to both the channel and service groups, and de-listed TWP. All the branded business subsidiaries in hardware, software, or service could be named "Acer". But if they were only doing agency or consultant work, the subsidiaries could not be called Acer, even those 100%-owned by Acer. These actions were for the horizontal integration.

For most industries, the horizontal integration can create an economy of scale, with an effective operation. For example, for a channel dealer, there is no difference between carrying one or many products. The core competences in inventory, account management, and marketing capability are the same. If we can provide many similar products to the same channel dealer, with a horizontal integration, the operation would be more effective.

New Channel Business Model to Reinforce Inventory Control

In the second reengineering, we adopted a New Channel Business Model. This model was related to the brand value. I discussed the concept of brand value in my previous book, "Me Too Is Not My Style". Later in the second reengineering, to better explain the New Channel Business Model, I defined a formula:

Brand Value = Brand Positioning X Brand Awareness.

After the second reengineering, Acer had nothing left except the brand name. The corporate value was totally based on the brand value. According to the formula, Acer had to either enhance the brand position or promote brand awareness. Generating awareness could not be done in a short time; we had to set up a long-term plan. For a higher brand positioning, we encountered difficulty in defining a personal computer. Thus, we had to make profit first. Making money would make a brand positioning higher.

Acer wanted to make profit. If there was only one action to be selected, it was inventory management. I spent quite a lot of time discussing with Acer colleagues the importance of inventory. There were two aspects on this.

The first aspect was about generating profits, since low inventory meant low cost. The second aspect was to leverage the low inventory to generate a momentum to enhance the brand value. Through good inventory management, we could always have the newest product in the market.

After we outsourced the manufacturing, the product quality improved and the brand image enhanced gradually. Acer's brand value will increase significantly in the near future. In 2003, the Bureau of Foreign Trade of the Ministry of Economic Affairs in Taiwan conducted a survey of Taiwan's Top-Ten International Brands. Acer ranked third place. I thought Acer should soon become the number two, or top brand.

Acer is one of the few global PC companies making profits. This helps to enhance both the image and awareness of the brand and generate a synergy effect. There are even more good things for a profitable company. I told our global talents that the Acer branded business was in a deficit before. Although Acer's earning per share was good, it was mainly gained from other investments, and the stock price was low. Each additional cent earned on the core businesses can bring not just profit alone, but also raise the stock price. The advantage is many-folds.

Therefore, reducing inventory had become the most important task in New Acer. How? The products could be sent directly from the vendors to the channel dealers, without going through Acer. As long as Acer did not involve in inventory, our inventory should be low. This is the New Channel Business Model.

New Channel Business Model to Differentiate from Direct-Sales and Conventional Channel Sales

Developing the New Channel Business model had two meanings: one to show its difference from Dell's direct-sales; the other to differ from the conventional channel models.

Many people consider that direct-sales are the future competitiveness. HP imitated Dell's model to strengthen the layout of direct-sales. Acer would not follow. We did not have an international organization for direct-sales; and neither were we neither willing to invest the overhead cost to build our own direct-sales team. Before, we lacked the management capability in the foreign management and lost too much.

There are some factors in the channel business that are favorable to Acer now. The channel dealership structure is very sound and the dealers are oversupplied. After merging with Compaq, HP had turned to direct-sales aggressively. With both direct-sales and in-direct-sales coexisting, HP was questioned by the channel dealers. Under various reasons, Acer now can choose the better channel dealers to become long-term partners. Thus, we decided to fully support the channel dealers. Acer's European markets have run the New Channel Business Model very successfully.

The New Channel Business Model has a different dealership. The conventional operation caused too many layers of inventory. The costs would accumulate, one layer over another, and induce a high cost and low flexibility operation model to the channel dealers. Our New Channel Business Model adopts a direct supply-chain management to push the lowest inventory and the fastest response for the markets.

The so-called "lowering inventory" indicates we have the least inventory. We keep the inventory at the channel dealers and vendors, but not too much. Otherwise, the whole supply chain cannot be smoothly operated. We do inventory management. Including our procurement and sales, we have to manage the overall inventory, even though they do not count as ours.

Now, we have a monthly forecast, with weekly adjustments and daily monitoring. I set a budget plan every month to estimate the sales volume. Then, I observe the orders and the sales in the channel dealers. Based on their sales volumes, we will adjust the preparation for the weekly demands. There is no difference whether the merchandise is counted as Acer's inventory or the dealer's inventory. The European dealer buys out the merchandise; while the U.S. dealer does not. As long as the merchandise is not sold, the dealers will not place the next order. For the vendors, we have to understand the inventory of our promised volume, and then we can judge the best timing to let our new products be placed on the market, and do some strategic adjustments.

The New Channel-Business model is actually only the first stage for creating Acer's brand values. Acer will focus in the second stage to develop MegaMicro e-Service business, establish Acer Value Labs, and promote a ten-year caring engineering.

Break Through the Growth Limit

If the corporations undergoing a change follow the right direction, they will gain greatly in both revenue and profits. Both the first and the second reengineering showed the results (See Table 1-1). The success of the second reengineering is based on the U.S. market that turned its deficit into profit. The U.S. sales arm started to gain in May 2002. That was the first time that Acer made profits in all regions worldwide.

The pan Acer Group [1] is still growing substantially. In 2003, the revenue increased about NT\$90 billion; the growth in 2004 is expected to be NT\$200 billion, about a 40% growth rate. Wistron should perform better in 2004 than the previous year. Acer can continue to maintain the growing momentum. BenQ is anticipated to have high growth, with the development of AU Optronics.

The achievements in the second reengineering, besides the numbers, have three meaningful aspects.

The first meaningful aspect is to successfully establish a role model to handover the chairmanship. If not through the second reengineering, the whole Acer Group reorganization could not be so perfect. There may have been disputes after a company split if the shares were not distributed evenly. There may also have been an immediate conflict, if the two subsidiaries did the same business after the split. At least, the allocations were relatively fair in Acer. This built a very good role model.

The second meaningful aspect is the creation of a profitable international brand. The success of the Acer brand can build some confidence on the international development for Taiwanese companies. In addition, we created another very effective new brand — BenQ.

The third meaningful aspect is to be the first company to conduct many corporate changes in Taiwan, such as the corporate split, the corporate transformation from a manufacturing to a service company, and a significant write-off.

Acer is approaching its thirtieth year. Going through so many ups and downs in the information technology industry, Acer cannot break through the growth limit and sustain the growth without the two occasions of reengineering.

Chapter Two

Phase Out the Semiconductor Business

A "Reverse-Development" Strategy: Investing in the Semiconductor Industry

During the second reengineering, Acer moved the semiconductor sub-group into the non-core businesses. Although the investment did not reach the goal of establishing the capability of manufacturing the key component, it was considered successful in terms of return on investment.

I have always adopted the reverse-development strategy in the electronic industry. Starting in the downstream to control the market, we can create the upstream needs. The investment amount in the upstream business such as semiconductor, TFT-LCD, and key component is usually quite large, requiring a global competitiveness. On the other hand, the investment in the downstream is smaller, with a lower risk. Therefore, a new business shall start from the downstream industries, while the fundamental is still weak. However, if a brand does not build up in the downstream, the entry barrier will still be low. Twenty some years ago, I started an enterprise with a reverse development strategy. At that time, Acer's resources were relatively limited. Starting with promoting the applications of the microprocessor, we regarded ourselves as a "gardener of microprocessor", with planning a long-term market development. This did not require too much cash and did make the cost to the minimum. After well-building the PC marketing and production systems, Acer began the upstream developments, by entering the semiconductor industry.

Locomotive of Semiconductor Industry: DRAM

The most benefits of controlling the downstream businesses were to generate the needs. With the needs, we could make the product and replace those imports upstream. This was the perspective of the Taiwanese economic development during the earlier stages. In 1988, I decided to invest in manufacturing dynamic random access memory (DRAM) to replace the imports. Before 1996, the DRAM's business cycle was about four years. At every Olympic year, the DRAM would be in short supply. Something always happened during the years of short supply. Acer's chips were stolen from the Hsinchu Science-based Industrial Park in Taiwan on March 18, 1984. The loss was as high as NT\$40 millions. In 1988, not only DRAMs but most semiconductors were out of stock. Taiwan's PC industry was taking off at that time. All factories were suffering with DRAM shortage. They gathered and requested the government to invest in the production of DRAM.

At the time of initiating DRAM production, Taiwan Semiconductor Manufacturing Company (TSMC) had been set up. Morris Chang, Chairman of TSMC, had been the head of the semiconductor business at Texas Instrument (TI); the company suffered losses from manufacturing DRAM. Therefore, he did not agree to manufacture DRAM in TSMC.

In 1988, Chairman of Samsung, Kun Hee Lee visited Taiwan. He treated Morris Chang, Chintay Shih — the President of Industrial Technology Research Institute (IRTI)— and I to a meal. Chairman Lee invited us to tour around Samsung. He wanted us to know that they had built a significant setup in the DRAM business, with huge investments. Chairman Lee's actions were to try and stop us entering the DRAM business. However, the three of us felt the DRAM business was very important to Taiwan. We would not stop.

At that time, if Taiwan did not have a DRAM plant, the industrial developments would be limited. This was due to two factors: the supplies of critical components, and the development of manufacturing process technologies.

In the early 1980s and 1990s, all the advanced process technologies in the semiconductor development were driven by DRAM. Primarily as there were not too many advanced products that could be mass-produced. It had to rely on DRAM mass production to push the manufacturing technology to a mature status. Among the other semiconductor products such as central processing units (CPU), manufacturing the product required a very advanced and different technology from those for the memory. In the earlier stage, the demand for CPUs was not high so that it could not be the driving force for the progress of manufacturing. If the manufacturing process were developed dedicatedly for CPUs, like what IBM did, it would cost much more money with a low economical effectiveness. Later, Intel changed the ecosystem. When the CPU demand increased, the semiconductor technology was developed alongside. TSMC led the emerging foundry service. With a standard manufacturing process, foundry became another locomotive for the progress of the semiconductor technology. However, in 1989 when I decided to get into the DRAM business, TSMC had been founded only for two years. The foundry was not ready yet to drive the development of the semiconductor technology. I realized that there would be a shortage of driving force for the semiconductor technology, providing Taiwan had no DRAM industry.

Acer needed DRAM. Acer's needs could support a whole plant so that the risk of operating a DRAM plant could be controlled. Acer decided to build TI-Acer. Later Acer's DRAM was not bought entirely from TI-Acer. We bought only one half from TI-Acer, they had to sell one half of their products to other companies. From the aspects of human resources development and enhancing the manufacturing process capability in Taiwan, TI-Acer played a considerably important role. It made profits too.

The Transformation and Decay of TI-Acer

Later TI-Acer went downhill due to two reasons: the changes in the overall industrial environment, and TI's falling behind in technology.

In 1996, the four-year business cycle of DRAM was no longer valid. The whole DRAM industry fell into a longer recession period. This had a big impact on TI-Acer. The DRAM market had been up and down. Every company lost money during the bad time. Until most companies could not take it any longer, the business would go back. That was the reason for the business cycle. During a cycle, the companies with sound financial capability could sustain the operation until the booming period to cover the previous deficits. I thought it was Samsung that broke the business cycle.

Samsung invested heavily in the technologies, pressed costs to the minimum, and led in the manufacturing process far away from others. Samsung's absolute lead had made a high profit. On the other hand, Taiwan's DRAM industry as a whole was in a deficit.

The second reason for the decay of TI-Acer was that TI fell behind the technology; I told TI at a much earlier stage that their backward skills were unfavorable to us. Later, TI decided to sell out their entire global DRAM plants to Micro Technology, except TI-Acer that they sold their shares to their partner Acer. After Acer took over TI's shares, the company name changed to Acer Semiconductor Manufacturing Inc. (ASMI). I decided to transform the company and no longer manufacture DRAM. However, the enormous difference between DRAM and non-DRAM cultures required a few years for the transition period. Thus, I had to leverage Acer's needs of CPUs and graphic chips to ask some US suppliers to give the orders to ASMI. Acer promised to buy those suppliers' products and paid the royalty to bring in IBM's most advanced manufacturing process. I hoped ASMI could transform into a "membership" manufacturing plants. We could choose a few IC design companies as the members, or strategic partners and serve these member clients. It was just like all of Sony's ICs were made by NEC and Toshiba, since Sony did not want to give the work to a foreign manufacturing plant.

The transformation was too slow. After half a year, the new business was less than 10%, while the other 90% of the business was still DRAM. The DRAM business lost money everyday. In 1997 and 1998, ASMI had a deficit higher than NT\$5 billion and was named as a "5-billion club member" by the media. In 1998, the deficit of ASMI increased. Acer listed a deficit of NT\$2.5 billion for the investment of ASMI.

ASMI faced a crisis. I had seldom visited Acer's manufacturing sites at Hsinchu Science-based Industrial Park for so many years — at the most once or twice per year. To help to build the best operation for ASMI, I went to Hsinchu every week. We had a monthly board meeting, and invited non-board-members who had a sizable investment. All this was to help ASMI to survive. I also invited many new investors. The investors together were willing to assist ASMI due to Acer's excellent reputation. I was responsible for the transformation of the company so that everyone took the risks with me. Later, it was sold to TSMC. Every investor earned money. Good persons had the good rewards.

During phase one of ASMI's transformation, I asked Morris Chang for cooperation. In June of 1999, TSMC announced it would buy 30% shares of ASMI. TSMC would transfer the manufacturing process to ASMI and would be in charge of the sales. Although Acer owned more shares, I gave the management power to TSMC to lead speedily toward the foundry services.

There were two motivations for TSMC to buy ASMI: first, the semiconductor supply was low while the demand was high; second, TSMC could stay ahead of the competitor, UMC, one further step. In 2000, UMC consolidated five-to-one, by merging four foundry subsidiaries. The company size approached to that of TSMC. TSMC wanted to double its leadership over UMC in terms of size. Thus TSMC merged ASMI, and later merged Worldwide Semiconductor Manufacturing Corp. (WSMC) as well.

There were some issues about the price of merging ASMI. I considered the price that TSMC paid for WSMC shares was too high. Thus, I re-adjusted the exchange ratio of ASMI's stocks to TSMC's stocks to be 1:3.90265 to reduce the difference. But this was a small issue. The big problem was that another foundry company— Semiconductor Manufacturing International Corp. (SMIC) — was set up in China by a management team previously with WSMC. Currently, the size of SMIC is far less than that of TSMC and UMC. However, the expansion action has been very aggressive in SMIC. With the backup of the huge market potential in China, the development of SMIC is worth to watch out.

SMIC was launched its IPO in the US on March 17, 2004, and in Hong Kong the day after. The production capability of SMIC is expected to exceed that of Chartered Semiconductor in Singapore and become the third largest foundry company. We can anticipate a great influence of SMIC to the foundry industry in the near future.

Acer in the Semiconductor Industry after ASMI's Failure

While ASMI still made profits, Acer did other investments when the vertical disintegration of the whole semiconductor industry became clear. Acer established Aegis Semiconductor Technology Inc. (ASTI) in 1996 for semiconductor testing. In 1998, Acer co-founded with TSMC to build Taiwan Semiconductor Technology Corporation (TSTC) for semiconductor packaging. Plus the original integrated circuit (IC) design company ALi, and the Taiwan marketing sales arm Sertek, the Acer Group had invested in the semiconductor industry from upstream to downstream, including design, foundry, packaging, testing, and marketing sales. In 1998 the second quasi-reengineering, a semiconductor sub-group was established in Acer.

After the flagship company ASMI failed, the future of the semiconductor sub-group was reconsidered. We let TSMC take over ASMI and sold out the shares of TSTC to one of the shareholders, a US company — Amkor.

ASTI had suffered a hardship for years. Now it is stable and has started to make profits. ASTI becomes an independent company now, after reducing the capital, followed by a capital injection. However, considering there are so many investors, Acer has the responsibility to run the company very well before handing it over. I hope I can find a strong organization as the backup company for ASTI and avoid any chaotic situation. There are two possibilities: one is a business group doing the related business. ASTI must belong to their core businesses and will be led by the group; another is for Acer to wait for ASTI's business operation to mature and hand over the company to those trusted and dedicated managers. Actually, we have been looking to merge ASTI with others in the same industry for years. But most companies are not in a good situation. It is difficult to put two hardly-surviving companies together and expect them to do well. Now, ASTI has started to make profits. ASTI has the opportunity to seek for the cooperation partners.

My Observation on the Semiconductor Industry

The capital market in Taiwan played a key role in the whole semiconductor industry. TI-Acer was not publicly listed. But later on, most founded DRAM companies were publicly listed. The Taiwanese capital markets provided many funds, plus the foreign

funds flowed into Taiwan, were looking for good targets. Actually a domestic-focused company did not require too much fund. For an original design manufacturing (ODM) company, the need of a fund was not high unless the company went into diversified business. The industries that needed funds the most are the semiconductor, TFT-LCD, and the communication service industries. All these investments count the funds NT\$10 billion units and have various effectiveness of investment. Say communication, the earlier stages of Taiwan Cellular and Far EasTone succeeded but their fixed network and 3G businesses both failed.

For the semiconductor investments, the foundry service was a unique business. The overall return on investment (ROI) was relatively high. TSMC was the best and UMC the second. On the other hand, the ROI on DRAM was not satisfactory. If an industry cannot monopolize, the price would not be good and the profit would drop sooner or later.

Taiwan's DRAM cannot monopolize the markets and lead the competitors because the technology was not completely independent. Currently, only Samsung and Micron have the independent technologies worldwide. Japan had no fund to continue the DRAM business. They had the technology but no plant, therefore, started to go downhill. Germany had the technology and might have had the funds too, but the cost was too high to build a manufacturing site in Germany. So Infineon came to Taiwan for partner cooperation. Since DRAM is a kind of integrated product, it is more beneficial to compete after the integration. It is different from the product design of a graphic chip and foundry, which can be separated.

Comparing the performances of DRAM and TFT-LCD industries in Taiwan, we could understand the importance of monopolizing the markets. I had met the CEO of Samsung. Samsung's TFT-LCD was ranked number one in the global market then, but not like the absolute lead in the DRAM industry. The CEO of Samsung was complaining about the situation while we met. He had a concern that this would give the growth opportunity for Taiwanese companies. The DRAM technology in Samsung did not only have their independent technology, but also the technology level and the production scale both led the competitors far away. An advanced DRAM technology could impact the cost significantly. Assuming the cost for Samsung was 100 and that for Taiwanese companies was 120, Samsung would drop the price to 110 when there was over-supply. What could the other companies do? This was the root of the problem.

However, the situation is different in TFT-LCD. The advanced technology cannot differ too much in cost like that with DRAMs. A yield rate of 95~96%, or 81~82%, cause only a difference in the material cost. There is not much difference in facility cost. The variation overall is not big. The difference in the economy of scale does not create too much impact like that in DRAM. Therefore, Samsung cannot get rid of Taiwanese companies. Taiwanese TFT-LCD companies will not consider mergers since every one can survive today.

Another reason Taiwanese DRAM companies cannot merge is that each one has the foreign partners. Merger will create too many problems. Cash is not a big issue for them. Most semiconductor industries are capital-intensive. The companies usually get a huge capital when they are founded. They might not need any new investment

at a deficit, and they could continue the operation by depreciation for years. This is quite different from other industries in which the companies need cash to buy the parts and raw materials to survive. A DRAM company with a deficit will have no big problem immediately. They will only suffer the human resources draining and the loss of employee morale.

The Disappearance of the Crucial Position

I don't think there is further opportunity for Taiwan to develop the DRAM industry. This is just like the case of the CPU. Unless there is a new situation, Taiwan cannot enter the CPU industry. The critical factor for changing the CPU industry is an independent new market segment generated by the huge demand of a cheap and low-end technology. In the DRAM industry, most new technologies can replace the old ones. With relatively low research and development budget, Taiwan will have a hard time to compete.

I have left the DRAM industry for more than four years. I cannot comment whether the current DRAM companies can survive and have a high return in the future. I do not think it is worthy to put so much effort and resource in DRAM. A CEO has to review the company resource allocation constantly, including the human and financial resources. DRAM is worthy to be inspected again. Firstly, DRAM as a critical component will no longer be short of supply; secondly, DRAM is no longer on the leading position to drive technology development. The crucial position for DRAM does not exist anymore. Taiwan's government should consider from the aspect of return on investment (ROI) to decide if we still need a strategic development in DRAM.

I was not sorry that Acer did not get into the DRAM business in the end, since the overall ROI was good enough. TI-Acer had been the third largest semiconductor company behind TSMC and UMC in Taiwan. With only one single product, TI-Acer had a higher potential in growth and profit. The company can do very well in the industry's booming period; surely the company can hardly continue whenever there is an industry downturn or when the technology is falling-behind.

Acer had invested in TI-Acer and ASMI for almost 10 years, from 1989 to 1999. In the 10 years, TI-Acer and ASMI made profits for a few years and then we exchanged the shares for TSMC's stocks. Both made money for Acer. However, ASMI did not reach the original goal—establish the capability of making critical component.

Investing in TFT-LCD

I was no longer interested in the capital-intensive industry after investing in the semiconductor business. But K.Y. Lee of BenQ was very aggressive about it. He planned to invest in TFT-LCD years back. In 1996, Acer Display Technology (ADT) was established. Based on my experience in DRAM, I was very concerned about whether TFT-LCD would have the same over-supply issue. K.Y. told me that TFT-LCDs are different from DRAMs. From the supply-side, the future DRAM products will have a smaller size and a higher production rate. However, the growth TFT-LCD supply, without any major new investment, cannot improve as quickly like DRAM did.

From the demand side, the potential need for TFT-LCDs is higher. Many 3C products needed TFT-LCD, such as notebook PCs, mobile phones, digital cameras, and televisions. Another emerging market is the replacement of CRT monitors.

Choose the Technology Sources Carefully

After evaluating the supply and demand, I was not against the investing in the TFT-LCD business. However, I emphasized the importance of choosing the sources of technology. Before, TI-Acer did not have an independent technology; both the technology and sales rights were controlled by Texas Instrument (TI). We could not afford to repeat the same mistake. To find the best technology resources, we talked to Philips initially. At that time, only Philips was interested in talking to us since their technology was not a mainstream. We talked to Philips for a while, still had a concern whether we should go for a mass production or not. Philips later merged a Japanese company, Hosiden, whose technology was not in the mainstream either. Then Philips turned to work with Korean's LG Electronics and spent one-half of the capital to establish LG-Philips. We could see Philips's determination in the TFT-LCD business. Because they wanted to do consumer electronics, they for sure would need TFT-LCD. Another Japanese consumer-product company, Sony, did not own any TFT-LCD business. This will be a fatal damage for Sony's future businesses. Indeed, except Sharp, most Japanese companies did not invest enough in the TFT-LCD industry yet.

We then talked to IBM. Acer had many large programs going with IBM at that time. Acer and IBM bought each other's products. Acer, as a key global strategic partner of IBM, licensed IBM's semiconductor manufacturing process. Acer had a very good relationship with IBM in the honey-moon period. I met IBM Chairman and CEO Louis Gerstner. He said, IBM had many technologies which would be useless without any application. He welcomed us to leverage IBM's technologies. Surely, we had to pay for the usage. I knew IBM Japan had the TFT-LCD technology and the rights belonged to IBM U.S. After talking to Gerstner, I opened the cooperation channel with IBM Japan. Later, I went to Japan a few times. I also escorted K.Y. Lee and H.B. Chen, President of ADT, to meet with them.

Back in 1989, IBM co-founded with Toshiba to establish DTI Corp. for the production of TFT-LCDs. Thus, we also visited Toshiba. Later we found Toshiba already had a close cooperation with Winbond Electronics in DRAM, and formed a consensus to let DTI sell the same third-generation technology to HannStar Display, part of the Walsin-Lihwa group. On the other hand, IBM was willing to assist ADT to improve the third-generation to the "3.5" generation technology. We chose IBM. This was a critical decision. Although we had to take the risk of technology transfer, we would have the chance to create a leading situation. This decision was based on our past experiences, learned from the investment of Acer-TI.

My role-play changed from time to time. When ADT was looking for key technical partners, I fully supported and participated every board meeting. When the company was on the right track, I stopped monitoring every decision-making or other details. I only attended the important meetings, such as those for the merger of ADT and Unipac Optoelectronics Corp.

Alliance with the Number One

Unipac was invested by UMC. UMC Chairman Robert Tsao served concurrently as Chairman of Unipac initially. In 2000, I.D. Liu succeeded the Chairman of Unipac. One day, K.Y. Lee called me and proposed the merger of ADT and Unipac. I agreed to it. Then, both sides started the communication. I talked to Robert Tsao; we discussed the management team structure during the second time that we met. Since both sides were well matched in strength, we set a principle of balance of the powers. Among the posts of Chairman, Vice Chairman, President, and Executive Vice Presidents, each side should have two seats. The Chairman and Executive Vice Presidents were in one set; Vice Chairman and President were in another set. Each side took one set, with two seats. Other positions were arranged based on the same principle. This merger was quite fast. It took less than two months from initiation to the final deal. In March 2001, both companies' board meetings passed the merger case. In September, ADT and Unipac were officially merged and became AU Optronics Corp. Later, the former UMC management gradually withdrew from AU Optronics Corp., leaving mostly former ADT management to run the company. The merger of ADT gave me a new perspective. I did not care about the stock price before. While discussing the merger with Unipac, Robert Tsao mentioned the importance of stock price. He was very attached to it. UMC was the second largest foundry. But the price per earning ratio was much lower than that of the number one company TSMC. He said to me, after the merger ADT would become the largest TFT-LCD company in Taiwan, the stock would be more valuable. He was correct. AU became number one. His investment returns immediately enhanced. In addition, the merger gave the operation management to ADT who would run the company for sure in a proper way. UMC could simply enjoy the fruits of a higher stock price. This was like I gave ASMI to TSMC so that I could simply enjoy the fruits. Therefore, I always express my appreciation to Morris Chang whenever I meet him. Based on the same concept, I let Ambit merge with Foxconn. There is a definite advantage as the number one.

Acer Did Not Always Gain the Rewards

DRAM was very much like the other businesses that I initiated in Taiwan, such as venture capital and IC design. We were the first pioneers, but we did not necessarily reap the final rewards. The reason was that Acer could not take care of every business in such broad areas and keep the lead substantially. During the second reengineering, Acer emphasized "simple" and "focus" to dedicate on the operations of core businesses. We had to master planning in the right direction and in the right timing. Choosing a wrong business would only create problems.

IC Design: Misplaced Resources, Lost Opportunities

The first pioneering work for Acer was technical trading, Acer as an IC agent. In addition to a pure agent job, Acer provided technical supports and services. Acer designed many application products of the microprocessor for the clients. Acer was the first company that kept an IC inventory while most companies only built orders by request. Even now, most IC agents do not provide any design services. In the Acer Group, Sertek acted as the IC agent and only ranked in the third place in Taiwan, following after the younger companies — World Peace and Synnex.

In the semiconductor industry, Acer was probably the first fabless IC design company in Taiwan. Around 1984 and 1985, I built an IC design division in Acer, which was the predecessor of ALi. The technology was transferred from ITRI, led by Kelvin Lee, now the CTO and Vice President of BenQ. In early 1987, Acer merged a company founded by Ronald Chwang, Chin Wu, and S.J. Lee in Silicon Valley. In 1993, Acer spun off the whole IC design business into an independent company, ALi Corporation. During the same period, another dedicated IC design company, Syntek Semiconductor, was founded by David Wang.

In the early years, Kelvin Lee led a team and designed a chip for the AT personal computer. We had subcontracted the IC design to a Japanese company, Oki, for production before TSMC was established. Working with TSMC, ALi therefore reduced the cost and shortened the delivery time.

Later, ALi lost the leading position because of two mistakes. One mistake was to develop a Micro Channel Architecture (MCA) chipset and the other was to develop a Performance-Enhanced I/O and CPU Architecture (PICA) chipset.

IBM developed the MCA chipset after the AT personal computer. Acer considered this architecture would be the mainstream and invested in the development of the chipset. At the end, the markets of MCA chipsets were not good. Our investment was in vain. The money lost was just a small case. The bigger issue was that we put so much human resources in the field, instead of for other truly profitable products.

Another mistake was to develop the PICA chipset for the Advanced Computing Environment (ACE). ACE was initiated by both Microsoft and Compaq. Microsoft developed the Windows NT operation system, which was not limited to certain CPUs in order to break Intel's monopolization. Compaq joined the program so that they could no longer be controlled by Intel. Acer followed under the same perspective. In the end, Compaq dropped the program. ACE used the MIPS central processing unit. ALi was in charge of the design of the matching PICA chipset. Without the chipset by ALi, Microsoft could not make the product. From the technology point of view, ALi was leading the global chipset design globally. However, the computer with the combination of MIPS and Windows NT was not well received by the market. It was not helpful to the revenue, even with a global leading chipset.

Both mistakes were to pursue the most leading technology worldwide. Both product developments consumed our resources greatly, resulting only in less sales volume. ALi originally was the most resourceful IC design company in Taiwan. The wrong decisions induced us to misplace the resources and lose the opportunity. Right now, the best IC design technologies are concentrated in VIA Technologies, built in 1992, and MediaTek, built in 1997.

Both mistakes were against my principles of "being the second". The wrong decisions were made because Acer wanted to have a breakthrough, right after launching IPO. As I recall it now, Taiwan would fare better following the leaders. In June of 2004, Acer decided to sell all the ALi shares to MediaTek, based on the interests of ALi employees and Acer shareholder. Acer officially withdrew the management of ALi.

Motherboard Industry: Forced by the Situations, Gave Up the Opportunity

In the motherboard industry, Acer had missed two opportunities. It was not because Acer did not see the opportunity; or was it that Acer had no will to enter the industry. Acer was forced by the situation that did not allow it to involve in the motherboard business.

I want to specially emphasize that the key persons in current Taiwan motherboard industries are all from Acer. They know the motherboard so well because I sent them to the U.S. for trainings. In 1984, I participated in an investment in a U.S. company, Suntek. The CEO of Suntek, K.C. Shih is the husband of the current Chairwoman of Taiwan's HP Technology, Rosemary W. Ho. Suntek used the 32-bit Motorola 68000 CPU to design a workstation. The technology and power were stronger than a 16-bit CPU used in a personal computer then. In 1985, I sent a team to support Suntek since the company was burning money rapidly. The team members included Thomas Chen who later left Acer and founded Elite Computer. The team leader was Johnny Shih, now Chairman of Asus Computer. There were two purposes to send the team to the U.S. One was to support K.C. Shih and assist in lowering the operation cost; the other was to learn the technology and transfer it back to Taiwan. These were also the reasons that I invested in Suntek. The team stayed in the U.S. for quite a while. They rented a house and lived together, working very hard, days and nights.

Suntek's workstation project finally failed. Our investments were gone. However, after their training in the U.S., the team gained a profound understanding on the 32-bit framework. After returning to Taiwan, the team led IBM and designed a 32-bit 80386 personal computer.

Later Thomas Chen and some other team members left Acer and all of them went into the motherboard business. Motherboards gradually became an emerging opportunity with quite a scale. However, Acer could not get into the business. When Thomas Chen founded Elite Computer, Acer wanted to start the motherboard business. But most motherboards were sold in the low-cost clone markets for those non-branded computers. If Acer had sold a motherboard to the markets, they would claim the clone computer was made by Acer after assembly. Their price might be 30% lower than Acer's sales price and would impact our channel sales. The eco-environment of the market would not allow Acer to enter the business. Then again, when Asus established, the motherboard industry started to boom. We knew the business opportunity. Asus asked me for an investment. For me, it was okay to invest in my ex-colleagues. But internally, Acer was against investing in a competitor. The old problem of conflicting interests still could not be solved. Acer did not invest in Asus in the end.

When the Acer Group established AOpen for the motherboard business, it was already the third wave of the motherboard industrial development. There was not much difference of the price between a branded computer and a clone one. The old problem then resolved but the best opportunity was gone. It was hard to change the built market ecosystem then.

Control the Changes; Boom with the Trend

The situation for TFT-LCDs is different. Taiwanese TFT-LCD companies became outstanding because the industry was facing a situational change. This is like the appearance of microprocessors in the past. When the number of the applications grew, the situation changed. I caught the opportunity of microprocessor, followed with a correct implementation, so that the revenue of Acer could pass over the home-appliance industry.

Acer's personal computer business in Europe had boomed based on a situational change too. After the merger of HP and Compaq, the new HP was planning to shift to direct-sales in Europe. Their original channels suddenly lost the supplier. At that time, Acer had just transformed and was ready to concentrate on controlling the situational changes. Acer worked with those channels and replaced their suppliers. This made Acer's sales volume of overall PCs rank in the fourth place and notebook PC the first place in the European markets, starting in the second quarter of 2004. If Acer did not catch the timing and control the change, and waited for the situation to settle down, it would be very hard to work it out.

Chapter Three

Transformation of Acer's Internet Business

"Fighting-for-the-Moment" Internet Business

Acer got into the Internet business before 2000, while it was still hot. Acer's Internet business unit, like the semiconductor one, was transferred to the non-core businesses after the Internet industry bubble burst.

In Acer, George Huang might be one of the first people to know about the Internet. George was an expatriate in the U.S. in the earlier 90s, when the Internet concept was just built. He had hands-on experience of using America Online. In 1996, at Acer's twentieth anniversary, Acer designed a virtual show on the Internet, along with the company profile on the website. Most of Acer's younger employees knew about Internet, while I had not used it too often. To get familiar for the anniversary Internet event, I checked out Yahoo.com to get a taste of the Internet.

Later the Acer Group decided to develop the Internet businesses. George showed very high interest and aggressiveness. Therefore, he was assigned to take charge of the Internet business. During my career at Acer, I have tried to find a stage for every one. Originally, I was mapping out the semiconductor business for George. He was the person responsible for the investments of TSTC and ASTI, and also the contact window to negotiate with Texas Instruments (TI) on the semiconductor related issues. He was involved in the business earlier and should have been the right person for the semiconductor business, rationally speaking. However, TI-Acer had started to show a deficit and the Internet business was just starting to grow. Most of the younger Acer executives had their own territories already. I could understand George's ambitious mind. That was why I supported him on being the leader for the Internet business. Meanwhile, I took over the job for the semiconductor field. After TI-Acer merged into TSMC, Teddy Lu replaced my post.

The Internet Business Investment Myth

Looking back at the investments in the Internet, I found there were many myths. For some investments, I had known that they were not appropriate even before the investments were made; for the others investments, I also reviewed them after Acer decided to make a transformation of the Internet business.

When we began the investments, I had found the price was too high. I really doubted if the investments were really as good as those young persons said. I created my own enterprise before. Using a Taiwanese concept, one share was NT\$10. When the Internet wave prevailed in the IT industries, those young kids usually proposed an investment plan with NT\$30 or even NT\$50 per share. I could not stop thinking its unreasonableness. At that time Taiwan's stock index was around 10,000. When the stock market is going up, everybody can buy stocks randomly without losing money. However, to operate a business is a different story. The investment price and return

must be considered. Everyone wants to have a good return but the goal will be hard to achieve, with an unreasonably high price.

In addition, it was unreasonable that those young persons who wanted to build an Internet enterprise did not want to buy their own shares. They asked the investors to pay a high price instead. My perspective was the founding members should take the risk together. Every key member should buy shares, and then if we lose, everyone would take the consequence.

The Money-Burning Culture

I could not agree with the money-burning culture of the Internet business. Most Internet companies just kept burning money, without even caring if their actions were profitable. However, it seemed a universal phenomenon. I could only accept it. I reminded Acer Internet talents the goal of running a business after all was to make money. I encouraged them to "fight for the present and for the future." Fight for the present so that they could obtain the financial resources for the needs of burning money; fight for the future was to make profits to survive, since all the investors put money in order to make more money. I gathered around 50 managements of our Internet businesses in Aspire Park for a half-day meeting to emphasize the importance of making profits. But, those young persons after the meeting were again spending most their times in a "fight for now" environment and culture. My advice had no influence on them.

Some reporters told me they were running for press conferences every day. As long as a company announced to invest in the Internet business, their stock price would go up. Acer also caught on the heat and invested in many Internet businesses. In that kind of environment, I was alone and could hardly make a change. Acer then set a simple principle: Acer's board meeting decided a total amount of investments to put in the Acer Internet sub-group; the decisions within the Acer Internet businesses were basically made by George Huang. We were informed of the bigger investment cases only. My management style is to empower the person-in-charge, not to interfere with their decisions. I have to respect their opinions as well as their actions.

Unless it is something I am firmly against, I will not express my disagreement. For example, I once stopped K.Y. Lee; he was invited to invest in SMIC in China. But it was illegal to do that in Taiwan; even if it was an indirect investment. Therefore, I had to stop it. But in another case, when BenQ wanted to go into the mobile phone industry, I did not express any opinion. Based on my style, as long as I was not against it, that means I will go along with it. I did not give a big help on the mobile phone business development for BenQ as I did in the TFT-LCD case. However, when BenQ started to discuss the cooperation with Motorola and Philips, I showed up in both business discussions. Most foreign clients still requested my attendance for the meetings.

As I empowered the Internet business to George Huang, I respected his ideas. I just reminded him to watch out some factors. For those who understood me better, they could see that I was indeed against those investments. But George did not realize my thoughts.

Later the investment in the Internet failed. Many colleagues were dissatisfied about the loss on the Internet investment. J.T. Wang thought the loss had been done. Acer had to accept it. George was one of the co-founders. We had to pay our respect to him. George also paid his price. He lost his stage at Acer, which was equal to be responsibility for the failure in the Internet businesses. I had to do that to be fair to the others.

Easy to Start; Hard to Maintain

I have to take care of everyone's needs. Edward Chang was a colleague who co-founded Acer America with me. His father-in-law, a businessman, told him that it was easy to initiate a business together, but hard to maintain as fellow workers. Every Acer co-founder had a different personality. Some were amiable like Fred Lin. I had to protect him. Some were aggressive like Ken Tai. He did not appreciate my protection and considered I was biased toward some colleagues. He left Acer and created a new enterprise. After he left, we still kept a very good relationship. I helped to call a few industrial giants for his initial business funds. As the biggest shareholder of *DigiTimes*, I supported him as the Chairman. My working style had to be able to endure the consequences, i.e. I needed to have enough resources to compensate the weakness of my personality. Like those Internet investments, I did not insist against those inappropriate cases. I had to take the responsibility of the failure in the Internet business. As the leader of the whole Acer Group, I had contributed to the success of Sertek and BenQ, and also took the responsibility for the underperformance of the semiconductor business and Wistron. My contribution could compensate the blame on me. George Huang had to bear the consequence of the failure.

The Failed Internet Business

Later I reviewed the failure in our Internet investments. I compared the Internet phenomena with Acer's earlier founding stage, as a "Gardener of the Microprocessor." My conclusion was when a business became very hot; it would no longer be a good investment target. The perception of a "hot subject" is myth. It is like in a bull market, the late investors will lose the most capital when the stock market bubble bursts. The over-heated period is not good investment timing. The same applies to stock markets and other industries. However, the human nature tends to wait until the situation is very hot to become interested in an investment.

There are three important things about an Internet investment. First, the company has to build an entry barrier; second, the money-burning rate for the company's operation must be controlled; third, the business model must be fitting.

To invest in any industry, one must build an entry barrier to sustain. The Wang Steak House restaurants in Taiwan have their entry barrier. They had been in the business for more than a decade and established a good management mechanism. Others will experience difficulty competing with them. On the other hand, the egg tart was popular in Taiwan at one time. Without any entry barrier, a crowd of people got into the business when it was popular. The trend did not last long. A common Internet company usually has no entry barrier. Yahoo.com has the competition barrier.

Yahoo.com had built a mechanism much earlier, before the Internet companies became very hot.

Second, the rate of expenditure has to be reasonably controlled. Earlier Internet companies obtained the capital funds quite easily so that their corporate value system was misled, without spending control and any concept on profit-making. Every website was watching the flow rate and counting its value by the volume of the site visitors. George Huang talked to me happily every time that Acer had so many "No. 1" on the Internet development. For example, Acer GameZone owned the most online players for Mahjong games. But, he never told me how much money we made from that achievement.

Nevertheless, creating profits is essential to run a company. Profit builds the basis of a sustainable company. This is what I call a long-term strategy. Educating the market to accept new products or technologies is the key to the success of all businesses. For example, the tablet PC is a good product. But it requires the investment in promotion and time to let people familiarize with the product. Investing in the Internet business was very similar. Attracting the young community to get online might not be a big issue. The next step should focus on more valuable applications, i.e. let all the corporations in each domain field become a network. You must spend the time to educate the market; and meanwhile, you have to resolve all the challenges until your customers can accept it. It all depends on if your company can sustain for long enough.

Three Basic Indexes for Evaluating a Company

I normally use three basic indexes to evaluate an investment within Acer's internal management. The first index is return on sales (ROS). The value differs from one industry to another and is not a universal evaluation standard. The second index is return on equity (ROE). No matter in which industry, I will always watch the ROE, including the Internet investment. The third index is return on human resources (ROH). This index explains the cost of each employee and the profit made per employee. For example, the average employee salary and related human resource cost, compared to the total company profits, will be able to measure the ROH. Few people look into this index. I think every businessperson should pay much attention on it.

Both the ROE and ROH are critical indexes for evaluating an enterprise. For example, state-owned companies usually are monopoly businesses. Their ROS will be high. But, ROS is not the key. The important indexes should be the ROE and ROH.

Another reference index is return on total assets (ROA). I place the ROA and ROE in the same category, since both are a form of resource. Equity is the money from the shareholders and belongs to the company; while total assets are the self-owned resources plus other people's resources, say payable and loan money. Under a reasonable financial leverage, I just review the ROE; if the financial leverage is not reasonable, I will review the ROA.

The cost of equity is uncertain so that investors have to accept all the loss. But there is a fixed cost for the loan, interest, no matter the business is gaining or losing money.

In the earlier years, many Taiwanese and South East Asian enterprises liked to exercise the financial leverage. They loaned for the operation capital. As long as the profit rate is better than the interest rate, the more you loaned the higher profit you would get. In this case, the ROE is high but ROA may not be high. When the profit rate is lower than the interest rate, the more you borrow, the more you lose. In the case where the ROA is not high, it will hurt the ROE too.

I have used these three indexes to review all of the Acer Group enterprises. Evaluating the Internet companies should be no exception. A resourceful company investing in Internet companies usually ignores the importance of the ROH and ROA, unless the managements are very experienced or the companies have set an evaluation rule for this. However, I still think that it is necessary to look carefully at the return of investment in the Internet businesses.

At the earlier stage of an enterprise, the operation may not be stable. However, any investment after an appropriate period has to reach a reasonable return. The appropriate period, depending on the industry may be one year, three years, or five years. To evaluate a company, we can review the above three basic indexes whether the average values are reasonable, and then comparing with the data of other industries, and with those of other companies in the same industry. If the performance is not good, this means the equity and human resource are misplaced and the company has to change. A change management is necessary.

The third key in an Internet investment is the business model. Acer focused on growth at every stage. Only in our Internet investments did the media report that Acer had lost the focus and it was hard to recognize Acer's core business in the Internet. After the second reengineering, Acer concentrated on the core businesses again. Acer did not give up the e-commerce, but Acer will never involve in any traditional Internet businesses, such as Internet infrastructure, communication, or content. Our new positioning is an "IT technology enabler." We do not invest in network building, but we will integrate Acer's technologies to with other's networks and to serve our clients for the Internet applications. This is how Acer is conducting its MegaMicro e-Services now.

To declare Acer's new positioning in the Internet business and change the perception of Acer's diversified investments, Acer announced a donation of NT\$100 million to the National Chiao-Tung University in December 2003. The donation was used to fund a Digital Creation Industry Development Center at the university, whose mission is to develop an incubation platform for the new digital enterprises. The donation was made as goodwill to my alma mater. In addition, Acer wanted to deliver the message that we cared about the development of the enterprises of digital and cultural contents. But Acer will not directly invest in the digital content industries, which is no longer our core business.

The Next Wave of Internet Business Opportunities

Looking back at the burst Internet bubble, I still think the Internet is quite important. The real market potential of the Internet has not completely developed yet. Before, the Internet was thought to belong to the younger generation users. This did not mean only young people used the Internet, but that only those Internet businesses whose

major customers were young people received a good result. However, the market was limited in its first wave of development. It must wait until every manufacturing, service, and financial industry have built their networks, before the real market potential of the Internet can be shown. The market scale shall be far more than five-fold, or even ten-fold of the current one.

Meanwhile, the largest retailer worldwide, Wal-Mart, has started to aggressively apply radio frequency identification (RFID). RFID is a label which embeds into a radio-frequency chip. Customers can checkout all their merchandise easily with the remote scan of the RFID labels, without scanning item-by-item. This not only shortened the checkout process, but also improved the supply chain and inventory managements. If the price of an RFID label can be dropped further, there is a possibility to replace all the current bar codes. Starting from 2004, Wal-Mart's first 100 largest suppliers fully implemented the RFID technology. The technology helps lower the supply chain cost. The value created shall be far greater than all the values that have been talked about.

Opportunities and Challenges

But the huge potential in the Internet market will be harder to operate. The first wave of customers was the Internet community. The solution was very easy, such as text messages. The second wave of customers will be difficult to educate, requiring a solid solution and maybe a hundred-fold complexity. The younger generations do not understand the domain knowledge in each industry. They even do not know how to integrate the resources of technology suppliers. It will be tough to provide a solution to fit the customer needs. This is the opportunity for Acer. We can provide all the needed technologies for various industries in developing their Internet businesses.

For example, Acer Internet Services got into the online shopping service, Acer Mall, at the earlier stage. I immediately questioned them why they wanted to sell merchandise instead of simply providing the Internet shopping technology for their clients. Acer Internet Services was selling tickets for the National Opera House through a website. But I felt they should only involve in the backend tech support for the National Opera House, instead of selling tickets at the front end.

Those young people could not accept my opinion since they had a different view for the whole business. They only knew about shopping websites or the similar things and thought that they were right. But my first instinct told me it was wrong. Acer Mall was selling books and gifts, or boxing tickets for others. These activities were not our core businesses. The business model was not correct. They did not leverage any technology to gain the profit repeatedly. The huge development investment was only for a website, without much operation benefit. Surely, the return would be small. On the other hand, if we were a technology enabler for the shopping website, we could use the same skill in many shopping websites. In other words, if we could use the knowledge repeatedly, with many clients and a bigger scale, we could lower the cost. Then, we could easily recover the expenses.

I talked for five years about this simple rule. They never understood. George Huang did not buy it neither. During the second reengineering, I was too busy to take care of

Acer Internet Services' transformation. J.T. Wang was the one that supervised and finally push them to make a change. J.T. had a tougher attitude than I did.

After the second reengineering had confirmed Acer's core business as a technology enabler, we prioritized the hardware-sales related services. Computer is an enabler. It is the simplest enabler without any competition barrier, since every body can make a computer now. However, when we provided many MegaMicro e-services through a computer, it was no longer just a simple technology. After repositioning ourselves, we gave up those businesses without any competition barrier and decided they could not leverage the Acer brand name either. We wanted to do the businesses that could apply various Internet capabilities, including our understandings in the industry, the customers, the multi-dimensional technology, and the control of hardware and its channels. What we do now is to integrate all kinds of capabilities, as well as many technical vendors. We called Acer a business integrator.

For example, Acer invests in The Lottery Technology Service Company which provides a kind of MegaMicro e-Service. In addition to working with our partner, the U.S. company —GTECH— we integrate many vendors. The job includes organizing 300 part-time engineers to provide on-site services at any time. If a lotto service point has any trouble, especially right before drawing, the problem will become very serious. Therefore, it is very important to maintain the lotto service point in working order. Acer missed the first Internet opportunity. Acer now sees clearly the direction for the next bigger opportunity. Acer cannot afford to miss it again.

Chapter Four *International Achievements*

Persist in Internationalization

In 1977, Acer took its first international stride by setting up a branch in the U.S. For more than two decades, Acer under-performed but finally scored success recently. In the third quarter of 2004, Acer proudly celebrated its progress in the Western European markets: the overall personal computer sales ranked number three in volume; while the notebook PC sales jumped to first place. After years of deficits in the U.S. market, Acer turned to profitability in 2002 and was ready for more.

Internationalization is an endurance test. One has to constantly adjust the strategies according to the situations. Acer's international business did fairly well for the first 10 years until 1991, when Acer's overseas investment resulted in a huge loss; and the public started to doubt Acer's international efforts. Later I developed a strategy, "Global Brand, Local Touch"; it resolved many tough issues, such as those in finance, brand image, and management effectiveness. The new strategy also pushed Acer to become the world's No. 7 PC brand. (See "Me Too Is Not My Style".)

However, after a period of time, we found we overdid the principle of local touch. The "local shareholder majority" policy made each branch do their businesses in their own ways. Each local branch failed to reach an economy of scale and the cost could not be decreased. We had to change. In 2000, Acer drove the second reengineering. We started a "New Channel Business Model", which had successfully reduced the inventory, lowered the cost, and shortened the new products' time-to-market. Acer has demonstrated tremendous success with this model in the European market. Now, we want to expand the new model into the U.S. and China markets.

Ever since it was founding, Acer has insisted on the direction to internationalization. We realized that Taiwan's small market required the support of international markets for the economy's further development. Every enterprise must leverage effectively the global industry disintegration and international resources to lower the cost and enhance competitiveness.

Acer was the pioneer in international marketing among Taiwanese enterprises; for the internationalized manufacturing company, BenQ was the first.

Acer's Experience in International Marketing

In the earlier stage, Taiwanese trading companies found some products and sought to trade with interested clients around the globe. The trading companies also searched for the products for their clients. This business had two characteristics: sell whatever clients wanted, and no brand and marketing. Meanwhile, the local buyers took charge of the local marketing and sales. It was simply a buy-and-sell relationship, or pure trading.

Starting from the first export of the Micro-Professor computer learning machine in 1981, Acer did not follow the style of pure trading. We did not sell the products to whomever wanted to buy them; and we insisted on using our own brand name. Acer chose a different road, with a long-term study and adjustment, to reach the current achievement.

We can discuss the international marketing in two aspects: sales channel and brand image.

Sales Channel Operations

With each potential sale, we evaluated carefully the clients interested in distributing our products. The Micro-Professor I was well received in the market. The primary reasons were its outstanding functionality, high quality by producer —Delta Electronics, and the attractive price that was only a half of other similar products. The success of Micro-Professor I gave Acer's former brand name, Multitech, a place in the international and professional domain. Therefore, we had to choose the channels that satisfied the following three conditions: first, their understanding of our product and development opportunities; second, their sales capability and; third, their commitment to promoting our products.

The channel partners who fulfilled the above three conditions would cooperate with Acer very happily. While Acer grew, some distributors made their progress along with U.S. and became long-term partners; some did not succeed with U.S., we would form have a joint-venture or buy out their rights; some performed poorly and we had to cancel their distributor rights.

Acer had many "do nots" which became the key of the company's sustainable operation. In addition to screening the channel dealers strictly, we asked all the dealers for collaterals when we sold the Micro-Professor Learning Machine in for the first time in Taiwan. We allowed only very limited credit trade. For more than two decades, my distributors had little chance to run away. For those international distributors, we asked for a non-conditional letter-of-credit. Careless acceptance of a conditional letter of credit would usually result in trouble. The same issue often occurred in China, in which Acer suffered losses.

In the earlier stage, we used an exclusive distributor in each country, while most multinationals adopted a non-exclusive distributor system. Acer follows that rule now. We were a small company with very limited resources. We had to rely on the distributors who spent large marketing dollars. To protect our distributors, we offered them exclusive rights. Later when we gradually took back the distributor right; we had to pay some money to the exclusive distributor for a period of royalty. Usually the royalty charge would be higher at the beginning, and then drop little by little, and reach zero after two or three years. Nevertheless, these exclusive distributors had their contributions to Acer. Acer would continue to reward them for some time after Acer took back the distributor right.

When our business ran very well, our distributors started to worry if they would be controlled by Acer. The more money they invested, the higher the risks. They expected Acer to offer more commitments to them. Therefore, we set up the local

branches to better support them. It made the communication easier, without the frequent flight visits. Europe was our main market and the U.S. had been set up some sales points. It was easy to build the subsidiaries in both regions. Then, we built the distribution warehouses to put the inventory in Europe, to share the risks with the distributors.

Take Europe as an example, I set up the European headquarters in Germany at the beginning, then moved it to Holland, then back to Germany again, before finally settling in Italy. The moves were to accommodate with the local management and organization capability. The first headquarters set up in Düsseldorf in Germany was because most Japanese company headquarters were gathered there, and another Taiwanese company Tatung was there too. Later we merged a Dutch company whose distribution warehouse was in Holland, so we moved the headquarters to Holland. Then, we merged a German distributor and moved back the headquarters to Germany. After we bought Texas Instruments' notebook PC business unit, we moved to Italy where the management team were located. During the course, we initially sent over Taiwanese expatriates. We then adapted to the local thinking process to start the real international businesses.

Building the Brand Image

In addition to the channels, we needed to mold the brand image for a successful international marketing. Acer mainly exercised the branding strategy through public relations. Whenever we had a good product, we would continuously announce the news. We also consistently put aside some marketing funds, as a matching fund, to work with our local distributors for local advertisements.

It is easy to create a brand, but hard to manage. It takes only a willingness to create a new brand. Everybody wants to own a brand. But it requires financial management and marketing organization to get into the branding business. Both are tough to manage.

A financial management organization is an equity management organization. When the scale of account-receivables and inventory are big, the operation management becomes hard and the credit management becomes complicated. American and European companies are very good in branding. Japanese companies rely on their good products to build the brand image, instead of brand management or local talents.

A marketing organization takes charge of propagation, promotion, and supervising the local distributors. Acer adopted a "poor man's marketing" strategy with limited advertising budget. We focused on the public relations and innovative products. The lowest PR costs have been my interviews with the press. I have traveled and told the Acer stories and my own stories around the world. It is tough work indeed. In addition to Asia, I have been to most European and Latin American countries, plus South Africa and the Middle East. Honestly speaking, my continuous exposure in front of the international media would not be less than Teng-Huei Lee, President of Taiwan. One time I took a taxi in Singapore, and chatted with the driver. I found that he had heard of Acer's Stan Shih but did not recognize me. I also encountered many people while traveling through the airports in the Mainland China who knew about

me. These publicities cannot be exchanged by advertisements. It takes a lot of time and wisdom. The recognition is accumulated over a long period.

Marketing via a new product was very useful before, but right now, there are few hot topics about the personal computer. In fact, there is no new product to talk about. We can only talk about the companies. Besides the stories about Dell and Compaq at the earlier stage which counted as success stories, others have been negative stories. Before, Acer had many success stories, with innovative products and growing revenues. In 2000, Acer was just like Sony; the media would say that Acer was facing many challenges, and one must wait and see.

Until these two years, Acer had made a successful transformation and the momentum has come back. But I thought Acer could do more than this. I established Acer Value Labs. I hoped we could find out an innovative way to enhance Acer's international image effectively. We did the similar efforts before. In 1995, Acer launched the Aspire computer. The short but excellent response built Acer's image in the U.S. However, the long-term business profit could not be reached. It could not be called a successful event. Without good sales, only good reviews cannot support the continuous inputs needed for the future development.

Acer has spent so many years in international marketing. Our business in Europe and Southeast Asia can be counted as successes. The Mainland China markets need to be enhanced. The U.S. market, having turned profitable, can be only counted as a stable situation; it is still waiting for the conditions and opportunities of a great scale growth.

Europe – the Pride of Acer

Our strategies in the European markets illustrate how New Acer exercised a successful international marketing. Overall, the European markets have been successful for Acer and will be a better base for New Acer.

Three Key Success Factors

New Acer succeeded in the European markets due to three factors: outstanding business team, competitive products, and the New Channel Business Model.

Acer's European team is primary based in Italy, with most members originally from Texas Instruments' (TI's) notebook PC business. The team leader is an Italian, Gianfranco Lanci. When Acer acquired TI's notebook PC business, the team was doing a better job than their U.S. colleagues. But with Acer's European management and headquarters in Germany, Gianfranco's influence was limited to Italy. From time to time, Gianfranco would have different opinions from our European managements, but he still outperformed in his territory, expressed his thoughts, and made a really good accomplishment. He built his credit by gaining more than 30% of the notebook PC market in Italy.

Later the overall European business results looked undesirable. We removed some executives from the German headquarters, while some members of the management left Acer. Surely, we wanted the outshining performer, Gianfranco, to assume the presidency of Acer Europe. The headquarters then moved to Italy. TI was a first-

class company worldwide. Their business team was more competitive than Acer's. In addition, Europeans tend to have a stable relationship with their company. After the acquisition, the team stayed with Acer and carried out an excellent business for Acer. If this had been in the U.S., most Americans would probably leave the company after the acquisition, or be laid off by the company.

I spent a long time to build the mutual trust with Gianfranco. Our first meeting was in San Jose, before Acer's acquisition. But we did not talk in depth. After the acquisition, I had talked to Gianfranco privately. I appreciated his hard works and outstanding performance. I let him realize Acer was one of the quite few companies worldwide that allowed him to be in charge the company in a long-term and stable way. I asked him to deliver my message to the European team and made them understand that Acer's corporate culture was close to the European's long-term value system. "Please stay with Acer," my point was that if they could successfully run the Acer business, they could take the control and feel a unique achievement. It would be different from those in Apple Computer or Compaq that sent their European talents to the U.S. to reward their success.

To build a mutual trust with the European team, J.T. Wang spent numerous occasions to communicate with them. In addition to the phone communications, there were monthly video conferencing, and quarterly meetings. The European team also built a close relation with T.Y. Lay, President of International Operations, and Jim Wong, President of Information Technology Products Business.

The cooperation between the headquarters and the regional units has been a problem for many multinationals. The headquarters sometimes cannot understand the regional issues, or even if they can, still cannot always reach the regional goals. This usually cuts down the base of mutual trust. But Acer's situation was different. Our European team asked a lot and promised only a conservative goal of revenue and profit. As long as the headquarters were willing to accept their opinions, they nearly always reached their promised goal, if not exceed their original goal. This is the most practical way to build the trust of the headquarters, since only talking about the future and mission is not real.

The second key factor that helped Acer to take pride in the European markets is the competitive products. After the second reengineering, we adopted a multiple-vendor strategy to improve our product competitiveness. Before, when we manufactured our own products, we might have only three or four out of ten products that were very competitive. With limited resources, we could not take care of every product. We then changed. We outsourced to three vendors for the manufacturing. Each vendor took charge of three to four product lines. Every product became very competitive, including both the quality and the speed to the market. We achieved an economy of scale. The old problems regarding high-cost and unstable quality were resolved.

The third success factor in the European market was the New Channel Business Model. After the second reengineering, Acer no longer did any manufacturing. All the products were shipped directly from the vendors to the distributors, then to the dealers, for lowering the inventory. A low inventory can drop the cost and shorten the products' time-to-market. Both were the most important elements to succeed in the personal computer industry.

The dealers communicated with U.S. directly, although they got the products from the distributors. We exercised control on the retailer dealers. In September 2001, HP and Compaq announced a merger. The newly merged company planned to emphasize a direct-sales model, which worried their original dealers. We caught the market opportunity and decided to fully support the retailer dealers and gained the cooperation of many outstanding dealers. In addition, we communicated with the consumers directly. Europe then became a successful market for Acer.

The Acer headquarters in Taiwan appreciated the success of its European colleagues, but showed concern on the entire company's heavy reliance on one regional market. In 2003, the European market sales accounted for about 63% of Acer's global revenue. We asked Gianfranco to oversee the U.S. operation; meanwhile we invested in Mainland China aggressively, to balance the regional revenue shares.

Understanding the three key factors, we gradually replicated the successful New Channel Business Model to across Europe. Indeed, we did not anticipate such victory initially. When we acquired TI's notebook business unit, they had done a very good business in Italy, but did not have much presence in the other countries. After we moved the European headquarters to Italy and Gianfranco took charge of the business, he replicated the Italian model into Germany and Spain successfully. Usually Italians are perceived as emotional people. Gianfranco's pragmatic approach seems different. His team members were mostly trained by U.S. companies, so that had a different style too.

Every replication of the model in each country showed positive results within a year; and Acer's business jumped to the top ranking in two years. Gianfranco had replicated the successful model encompassing logistics, marketing, and management. Take the distributor companies — Ingram Micro and Tech Data — as an example, Gianfranco would first talk to their headquarters, then their European branches would follow and co-operate.

The next step was to expand our branded product lines. We gave up the right of using the TI brand name, and instead used the Acer brand together with TravelMate, TI's notebook PC sub-brand. We started another sub-brand, the Aspire, for the home notebook PC market.

The U.S. – a "Full Fighting" Market

Acer underperformed in the U.S. market. The U.S. market is big and the most important challenge. Acer's revenue in the U.S. market was low. We focused on how to cut our losses. We needed to make sure of our survival first, and then wait for the opportunities.

Acer's U.S. business team was neither stable nor strong, and the sales channel was less effective.

The business team has been changed several times. Initially, Acer asked Steve McKinsey to be the President of the U.S. branch office to manage the local sales. Circumstances changed and in 1987, Acer acquired CounterPoint. The original CEO of CounterPoint, Pauline Lo Alker — a Chinese-American — remained in her

position. Later we appointed Leonard Liu, former President of Acer Taiwan, with experience in IBM's international business, as Chairman of the U.S. branch. Following him, Ronald Chwang, now President of Acer's U.S. venture capital business, assumed the post.

Acer's U.S. sales channel was not effective. We started to assemble the products in the U.S. while Ronald Chwang served as President. Initially the operation ran quite smoothly. In 1996, there was a change. The big retail channels started to run the businesses irrationally, which impacted Acer's U.S. operation. These large retail channels became a big hole for Acer as well as for many other computer companies, such as Packard Bell and IBM.

Most European sales were through dealers, with minor businesses for the big retail stores, like Carrefour. The retail stores were not the main sales channels in Europe. However, in the U.S., retailers are very important sales channels, and they asked for unreasonable trading conditions. I had discussed with many people, including Intel and McKinsey & Co., regarding changing the U.S. market ecology, otherwise, the personal computer companies could not make any money through the retail stores.

The biggest problem in the U.S. channel was high inventory. After a product fell idle for one or two months, the retailers could randomly drop the sale prices. They would clear their inventories with a high discount, and still the inventories could be returned with full refunds. The vendors had to bare the inventory cost for the useless sales channels. Channels claimed that they were the victims too. Anyway, the U.S. channels did little work while the vendors had to bare the deficits. If the problem cannot be solved soon, perhaps all the global computer companies will suffer in this sales channel.

Acer had fallen into the trap. In 1995, we promoted the first generation Aspire computer. We expected to leverage the Aspire computer to build our brand image and had a significant success. Although the market share grew and the volume was huge, the margin was very low. We overall could not make a profit due to the unsound U.S. retail channels. The more we sold, the more we lost.

In the U.S., since the retail channel operated an unreasonable model, most companies in the consumer PC business were in deficits. While the corporate or SOHO businesses had a higher chance to gain profits. Dell is a good example. In the corporate markets, Acer neither has a strong brand nor a grand organization set up to serve those big clients. We can only target the small and medium enterprises (SME). Even so, Acer's market share is still very small in the SME segment.

In addition, the U.S. competitors are indeed very strong and Acer is fighting on their homeland. Similarly, the U.S. computer brands cannot beat Acer in Taiwan. Right now in the U.S. market, the only foreign companies owning significant market shares are Japanese consumer electronic companies, and German automobile companies — BMW and Mercedes-Benz. Japanese consumer electronic companies are so powerful that they have defeated most U.S. competitors. German automobiles have their product differentiation to occupy certain market segments. In the China market, U.S. companies and Acer are all foreigners, but we have the advantage of speaking in the

same language. In Europe, we have a slight disadvantage in cultures since most Americans and Europeans are Caucasians.

Acer's fight in the U.S. market has been difficult. The distance is so remote that the U.S. office cannot rely on the supports from the headquarters in Taiwan. The U.S. office has to at least self-support, better with profits like the European office. Before finding the profitable model, the U.S. office has to downsize to decrease the deficits.

Max Wu, now managing partner of Investar Capital and Chairman of iaSolution, succeeded Ronald Chwang as the President of Acer's U.S. office. He downsized the business but the business was still in deficit. In 2000, Patrick Lin was assigned the post. He cut down the human resources to about 200 employees, less than one-tenth of the highest headcount. Meanwhile, Acer had generated a higher competitiveness, with competitive products and lower inventories.

Finally, the U.S. office turned profitable in 2002. Patrick Lin reached his goal. Acer waited for the next opportunity to fight. The only hope was to adopt the European model. Of course, the U.S. market was different. We can fight one country by another in Europe, but the single U.S. market is greater than the whole of Europe. We appointed the President from Europe. Gianfranco concurrently supervised the U.S. market; he gradually opted the European model into the U.S. market and broke through.

We anticipated that Gianfranco would implant the New Channel Business Model into the U.S. successfully. Our success in Europe caught the opportunity created by the merger of HP and Compaq, by working with those displaced dealers. Although there was a similar situation in the U.S., Acer was not on the top priority for those U.S. dealers to work with. In the U.S., Japanese brands are stronger than Acer. The U.S. dealers still do not trust Acer since our weak organization in the U.S. is less competitive than our competitors. However, with the European success stories and appointment of a European as President, Acer's U.S. office has a chance to gain the confidence of the dealers. In addition, our European distributor partners are based in the U.S. We also hope to exercise this relationship for a breakthrough.

We did not expect an immediate success after Gianfranco took charge of the U.S. market. We knew that Acer's condition in the U.S. required a long-term plan. Our U.S. office has established a non-deficit base. Before my retirement, we will expand the revenue with profit.

Waiting for the Opportunities in China

Besides Euro-America, China is another significant market. However, Taiwanese IT companies working in China still have some issue to be resolved. First, the cooperation between Taiwanese companies, e.g. Sampo, Acer, D-Link, and Microstar, and Chinese companies has not been successful; both sides have yet to find a good model. Second, the Chinese companies are too young to realize the potential industry challenges. Taiwanese companies have to wait for the Chinese companies, such as Haier, Levono and TCL, for another five to ten years, after the Chinese companies go through a few business cycles and reengineering. This is a vital path. No one can skip the process.

Both Acer and BenQ adopted a long-term sales strategy for the China market. BenQ's products are relatively uncomplicated, making them easy to promote in China. In addition, BenQ has a manufacturing base in China; they can rely on their economy of scale to build a competitive barrier. They have no manufacturing competitor and can fight with localization. On the other hand, Acer's local competitors are supported by Taiwanese vendors and have a stronger marketing capability than Acer. Without any local manufacturing competitiveness, Acer has a tougher fight than BenQ does.

The China market is important, but it is hard for foreign companies to enter. Many inborn conditions in the China market make the operation, including credit management and dealer networking, very hard for Taiwanese companies.

Take credit management as an example. It's very likely a company is not able to collect its receivables in China. U.S. companies have a worse situation than Taiwanese companies. Compaq had lost more than US\$100 million in bad accounts in China.

There are many problems to build dealer networks in China too. Acer's channel dealership base is relatively weak. We have continuously tried and studied for many times. In 2003, a flat organization policy failed again. In November of 2003, we terminated four notebook PC dealers and started to work directly with local dealers by setting offices in different regions in China. At the beginning, we planned to let our regional offices handle five- to eight hundred dealers directly. Later we found our regional offices were not capable of handling that, so we had to downsize the business scale. Right now, we have fifty regional distributors to take care of the market. This is a step-by-step process.

Acer started to sell our products overseas early on. We proposed some goals while the momentum was strong. In January 1994, the "2000 in 2000" slogan represented our revenue goal to reach NT\$200 billion by year 2000. In 1986, we proposed an idea — "top 5 in '95" — whereby Acer's goal was to become a worldwide top five personal computer brand by 1995. However, we fell short of the goal, always ranking the number six or eighth places. After ten years, based on IDC's data, Acer ranked as the world No. 5 PC brand in the second quarter of 2004.

BenQ: Pioneer of International Manufacturing

BenQ was the first pioneer in the Taiwan IT industry to set up manufacturing sites overseas. As early as in January of 1991, while establishing a branch company in Malaysia, BenQ built its first overseas manufacturing site. BenQ's products, such as the CRT monitor and computer keyboard, were low-priced and labor-intensive. They had to move the production out of Taiwan, therefore started internationalization earlier. BenQ had so many component products involving various manufacturing processes. Thus, they had to be very strong in the international management, which had become their core competence.

BenQ's first foreign manufacturing site was located in Penang, Malaysia. I chose the city because there was a solid electronic industrial infrastructure and quality human resource. However, I knew in advance there was not enough labor for all the manufacturers needs. Since BenQ's products had relatively high added-value, I

believed the labor would come to us. BenQ needed engineers, not production line employees, to work on the high value-added products. Later, BenQ's site in Malaysia had a higher level of automation than that in Taiwan. The production effectiveness of CRT monitors and disk readers was not inferior to that in Taiwan. This proved my prospect was correct.

The setting up of BenQ's site in Malaysia was a very meaningful in the aspect, as Penang became a training base for other overseas manufacturing companies. It was similar to many foreign companies, such as Texas Instruments, General Instrument, and RCA, whom had trained manufacturing talents in Taiwan. In Penang, there were many multinationals with a greater scale than Taiwanese companies. Those multinationals had trained quite a lot of engineers and manufacturing talents. With Malaysian's English language advantage, Penang in manufacturing process and production automation was better than Taiwan. Later BenQ continued to set up other overseas manufacturing sites in Mexico, the U.K. and China, with the support from the Malaysian site.

The Malaysian site had cultivated many talents for BenQ, such as H.B. Chen. Before joining BenQ, H.B. worked for Philips, with solid training in manufacturing. He was assigned to set up the Malaysian site for BenQ after he joined Acer, and became the first general manager there. Later he stayed with BenQ. Now he is back in Taiwan, as President of AU Optronics.

The manufacturing business requires a series of expansion. The Malaysian site continued to expand after it was built. To a certain degree, we started to move those low-end products to the Soochow site, in China. The Malaysian site was working on those high-end products. In the earlier stage, I visited Penang every year, and later also visited Soochow after it was built. BenQ has extended their overseas sites to many other countries now. BenQ's first manufacturing site was in Taoyuan, Taiwan. They bought and remodeled an old textile plant. The site was very small and needed expansion. With each expansion, they increased the size, little by little, five to ten acres. In Penang, the land was cheap. We bought near to one hundred acres in one time. In Soochow, the scale was several folds of that in Penang. BenQ's manufacturing model has changed since then and is different from the old one in Taiwan.

Every time BenQ invested in the overseas business, it created an effect—bringing the satellite vendors together to the foreign place. BenQ's product needed many components, such as plastics, wires, connectors, and so on, so vendors had to be close by to support with the necessary supplies. On the other hand, Acer's notebook PC could not generate that kind of effect since most high-cost components were supplied by foreign vendors.

Acer's Overseas Manufacturing Experience

Acer took a slower pace than BenQ regarding the internationalization of manufacturing, since Acer's product had a higher unit price. Acer chose the first site at Subic Bay, the Philippines. The decision-making process was simple and record-breaking. It took only fifty-eight days from the confirmation of the investment to the start of production. I was on the board for the Asian Institute of Management and

visited Manila at least every other year. Before, I found the local people were not confident about the investment in Subic Bay; I was therefore not interested. Later, when President Ramos took charge of the government and started to improve the investment environment, I found the local people started to show willingness in the investment. I then promised to take a look of Subic Bay. When my wife, Carolyn, and I took a helicopter from Manila to Subic Bay, I saw a group of people below us. I told my wife there were so many sightseeing visitors. After we arrived, I realized that all the people I saw from the helicopter were mobilized by the administration office to welcome us. I talked to the chairman and administrator of the Subic Bay Metropolitan Authority (SBMA), Richard J. Gordon during that visit. I then decided to make an investment quickly.

It was Acer that decided to invest in the Subic Bay. However, after the second reengineering and the sub-group separations, Wistron was the company that stayed there. Until now, Wistron is still the only big Taiwanese company over there.

When we decided to set up the manufacturing site in the Subic Bay, we wanted to leverage the component supply system in Taiwan. The cost was not high since the Subic Bay was a free port. The products exported from the Philippines seemed to be better quality than those from China. However, after President Ramos stepped down and the chairman of SBMA was replaced, many issues came out. For example, water fee increased arbitrarily and the incubation of a labor unit continuously shadowed the local atmosphere. By this time, the cost of the components from Taiwan became very high.

Acer has leveraged Taiwanese vendors for the manufacturing internationalization in Asia. But the situations in Europe and America were not well. Acer set up the plants in Europe and America to support the neighborhood countries. Those sites were not huge or competitive, with high management expense. In the beginning, we considered to invest in England, while Eastern Europe's investment environments were not mature. BenQ built a plant in South Wales, but quit the local production later. The investment in the Europe had much subsidy, better than in Taiwan. But, the burden was high, such as the costs of hiring and laying-off employees. Recently, Asus and Foxconn both choose to invest in Eastern Europe.

Acer and BenQ both set up the manufacturing sites in Juarez and Mexicali of Mexico, respectively. It was difficult to expand the scale, and was hard to gain profits and be competitive. The Mexico site was more of a symbol to show our international site distribution had reached the American continent.

Taiwan's Future Competitiveness

On the manufacturing aspect, Taiwanese companies cannot gain the current competitiveness without the internationalization of the labor-intensive industries. Taiwanese companies started the overseas manufacturing in Southeast Asia initially and later completely relied on China. I think Taiwanese IT companies have controlled the manufacturing industries in China. There are not many competitors in Chinese ODM and contract-manufacturers. Besides Taiwanese companies, there are only other multinationals such as Flextronics, Solectron, Seagate, and IBM. Chinese manufacturing companies have not been internationalized yet and have remained in

making toys and low-end electronic products. The same situation applies in the other regions. In Southeast Asia, there is only one Malaysian manufacturing company, Golden Lion Group, but it is not competitive; while another Singaporean company was merged by Solectron.

There will be some local competitive Chinese companies in the future. Taiwanese companies will not be able to rely only on manufacturing capability, but also design. Take the semiconductor industry as an example, the Taiwanese government does not allow the semiconductor industries to invest in China. TSMC cannot go over there to layout the arrangements so the local Chinese competitors will have a chance to build up its strength. Strictly speaking, China has no condition and environment to develop foundry service. Before, the Japanese company, NEC, had worked with the Shanghai city government. There were many semiconductor companies in Wuxi too. None of them succeeded. The current semiconductor industry in China was not developed by the Chinese. It was indirectly cultivated by Taiwanese capitals as well as Taiwanese technologies.

Taiwan's industrial technologies were quietly built up by a group of talents. In the early years, while I was working in Unitron and Qualitron, there was a team working in San-Ai Electronics, including Barry Lam (now Chairman of Quanta Computer), Kuo-I Yeh (now Chairman of Inventec Group), Sayling Wen (former Vice-Chairman of Inventec Group who passed away recently), and Michael Chiang (Founder of GVC Corp.). The group was later known as the "San-Ai Gang". Our scale was not comparable to those foreign companies in Taiwan, such as Philco, RCA, but we had the ambition. We created the enterprise with our bare hands and established our industrial knowledge gradually.

Such kind of people did not exist in China before. Although many people were keen to create new businesses, the focus was mostly for the domestic sales, not manufacturing. Taiwanese companies had to export since the domestic market was too small; Chinese companies, on the other hand, wanted to start in their domestic market instead of the international or ODM business. Now, both Lenovo and Haier have started to think about internationalization. They want to expand their brand into the international markets, but their competitiveness is not strong enough yet. Haier has a better chance to succeed since there are not too many competitors. In the white appliance markets, such as the refrigerator, air-conditioner, and microwave oven, General Electronics, Whirlpool, and some European companies are not very competitive. Haier has the chance to win. In terms of the television, personal computer and mobile phone, there are many issues regarding international marketing. Haier will have a hard time, in both the China domestic market and international markets.

Taiwanese Entrepreneurship

One main difference between Taiwanese and other Asian companies is the spirit of starting a new company. The new generation companies in Taiwan, such as Acer, have a scale far bigger than those old brand appliance companies. The U.S. is similar to Taiwan; most new information technology products are created by the new companies. On the other hand, in Japan, Korea, and Europe, the new products are from those old companies with continuous growth. This is due to the difference of

social culture. In Taiwan and the U.S., there is a stronger atmosphere in creating enterprises. Taiwanese companies, doing purely ODM in China and in Southeast Asia, have less local competitors. This indicates that Taiwanese companies are competing with other foreign companies, while the local people have less aggressive in creating new businesses.

The U.S. companies in Taiwan had trained many local entrepreneurs while the Japanese companies had done less in Taiwan. The U.S. companies set up in Taiwan purely in consideration of cost. They leveraged the cheap human resources here. They would move out and leave the company base to the local Taiwanese enterprise, when the cost became high. Therefore, they trained many entrepreneurs. For example, Texas Instruments had trained many entrepreneurs. So did Acer. On the other hand, Taiwanese companies in China were similar to the Japanese companies in Taiwan. They controlled the advantageous situations in China. They will not leave any space for the Chinese companies, for a long period of time.

Most Chinese companies have not thought about the internationalization issues yet, since they have a huge domestic market and are relative close-minded. With a huge domestic market, the Chinese companies do not focus on manufacturing, except ready-made clothes, toys, and low-end electronics. They mostly follow their clients' instructions, without any innovative products, since they do not realize the overseas' needs. Now, only leather businesses in Wenzhou have an international concept. They send people to Europe in order to understand the European market demand.

The Taiwanese companies in China have controlled the ODM and contract-manufacturing works. However, this was not a long-term plan. They needed to upgrade their businesses. There is another possibility, like SMIC, that based itself in China and became a Chinese company.

There are also many chance happenings, such as if TSMC had not merged Worldwide Semiconductor Manufacturing Corp. (WSMC), the ex-President of WSMC, Richard Chang would not have set up SMIC in China. If Texas Instruments (TI) had not assigned Richard Chang to TI-Acer, he would not have founded WSMC. Therefore, if there had not been the merger of TI-Acer, there would not have been SMIC. No one could have expected the connections and outcome. If San-Ai Electronics had not existed, there wouldn't have been the "San-Ai Gang", who eventually created so many new businesses in Taiwan. These were all due to chance.

Acer has worked toward internationalization for almost thirty years. We walked on smooth roads as well as winding paths. Internationalization is tough, but is essential for Taiwanese companies. It enhances the sustainability of a company as well as the nation.

Chapter Five

Acer, BenQ and Wistron

A Wealth of Talents in the Acer Group

The Acer Group began its second reengineering at the end of 2000 and was divided into three groups: Acer, BenQ, and Wistron. I do not know if the name of "Pan Acer Group" will remain (See [1] in Chapter One), the important thing is whether the member companies can be sustainable.

K.Y. Lee, now Chairman of BenQ, had worked in Qualitron as a subordinate of Fred Lin, who was one of the co-founders of Acer. I knew K.Y. while he was with Qualitron. A while after I started Acer, I offered him a job. He had been involved in R&D, manufacturing, and marketing. In the earlier stage, he was assigned by Acer to study the newest microprocessor technologies in AMD in the U.S. After that, he became an instructor of the Microprocessor Training Center set up by Acer. He taught the skills he had learned in the U.S. In addition, K.Y. assisted in customer services by providing technical supports and solutions for the sales of our microprocessor's development system. He owned a strong technology base.

In 1988, Acer launched its initial public offering (IPO). K.Y. expressed different opinions on the company development and some of the operations led by President Leonard Liu. At that time, Acer's organization was relatively rigid. Johnny Shih, now Chairman of Asus, was planning to leave Acer. Indeed, both K.Y. and Johnny were on Leonard's young stars list. Therefore, the problem was not due to Leonard's perceptions on the individuals. The operation of the whole organization made the young colleagues feel helpless.

Acer had a wealth of talents. The talents were respected by Acer and later became Acer's key stockholders. In 1979, we set up a Taichung branch in Central Taiwan, and a Kaohsiung branch in Southern Taiwan. Acer held only 40% of the shares and the other capital was provided by the local partners, such as Simon Lin (now Chairman of Wistron), and Harry Liang, who has left Acer. Both worked at Acer's Kaohsiung branch. In 1982, we merged the Taichung and Kaohsiung branches by exchanging the shares. These colleagues thus owned more Acer's shares. In addition, we allocated 2% of the shares for each key talent at a buying price of half the net-value. These talents included K.Y. Lee, Johnny Shih, Bill Lu (now Chairman of Acer VC), Kelvin Lee (now Vice President of BenQ), and Michael Tsai (now Chairman of VisEra Technology, a joint-venture of TSMC and OmniVision Technology).

After launching the IPO in 1988, Acer started to grow quickly, with the opportunities of internationalization. Most Acer talents were just in their thirties. They were very capable and had high-potential. But, in my perspective, I was afraid that they were not mature enough to fight the tough war. I had to find the experienced people from outside. From the 1986 to 1990 General Manager Development plan, Acer brought in many outside talents, such as Alvin Tung, John Hei, and Leonard Liu. The younger talents felt a development bottle-neck in the company since suddenly so many vice

presidents and presidents of higher levels were recruited from outside. These outside comers did not understand the company and were not as coherent as the young talents. Besides Leonard had showed his capability and his strong working style, the other outside comers were not convincing to the Acer young talents. Some thus left Acer. For example, Michael was assigned as Vice President of Acer America. He left Acer later because Acer assigned another American as his boss, as President of the U.S. subsidiary.

I think K.Y. decided to study in Switzerland due to similar reasons. In 1991, he obtained an MBA degree from the International Institute for Management Development (IMD) in Lausanne.

BenQ and K.Y. Lee

In 1984, I established BenQ, then known as Acer Peripherals. K.Y. Lee had worked with J.T. Wang, now President of Acer, for a period of time at Acer Peripherals. In 1991, K.Y. came back to Taiwan after his overseas study. I appointed him as President of Acer Peripherals.

K.Y. Lee—an Opposition Party in Acer?

The media said K.Y. Lee was the opposition party in Acer so he went to BenQ. It is not true. K.Y. went to BenQ as part of a job arrangement. He succeeded the post of Ronald Chwang, now Chairman of Acer Venture Capital (U.S.). Ronald went back to replace Leonard Liu and took charge of the U.S. office. I believe these movements were very important contributions in human resources development and cultivation.

As far as the so-called "opposition party", it was related to K.Y.'s personality. K.Y. was a straightforward person. He spoke out for all he did not like or agree. His management style was tough. If my subordinates did not work hard, I would usually ignore it and hope they will self-improve eventually. However, K.Y. would tell them directly and leave no room for their idleness. He pressed people and people were afraid of him. It was hard to work under him if one could not adapt to this kind of personality and management style. However, he empowered people and was very supportive to his subordinates. If a subordinate could gain his trust, the opinions could be accepted by him. Otherwise, once he insisted on something, the subordinates would not dare to give any opinion against him up front. On the other hand, most colleagues could propose different thoughts to me on the spot.

K.Y.'s straight personality was still accepted by his subordinates, but it was a problem to his peers. He was very capable and hardworking. He spoke out for anything he perceived was wrong, even when it was not within his responsibility. Sometimes, in the gray area, his peers might not agree with him. He became an unwelcome person.

K.Y. walked out his own way after he took charge of BenQ. In 1992, Acer decided to decrease the shareholding of both subsidiaries BenQ and Acer Sertek and offer the employees to buy the shares. The final goal was to let the subsidiaries be independent and publicly listed. BenQ gradually became an independently operated company in the pan Acer Group (See [1] in Chapter One). Indeed, BenQ had a different development model from Acer from the beginning. BenQ originated as an original

equipment manufacturer (OEM) , relying on production effectiveness to make money; Acer was based in on branding and served as an original design manufacturer (ODM) , relying on research and development, and finding the market opportunities to make profits.

BenQ: Winning in Manufacturing

BenQ started with contract manufacturing. Acer had an order from a U.S. customer, International Telephone and Telegraph (ITT), who requested Acer to work exclusively for them. Thus, I set up BenQ in 1984 to dedicate in ITT's business. With a relatively weak research and development capability, BenQ had to rely on Acer's credit to obtain the orders of personal computers in the earlier stage. BenQ later expanded their business from having only one customer, ITT, to the other companies.

BenQ has been profitable from their outstanding manufacturing capability. This should be attributed to a key person, Jeff Chen, the first President of BenQ. Jeff had a strong manufacturing background. He was a top manufacturing talent in Taiwan in the earlier stage. He had management experience in Taiwan's Zenith plants and was President of a subsidiary of Hong Kong's Conic Electronic Group. He had the experiences in managing the factories and the practices in technology management. He built a very good manufacturing base for BenQ.

On the other hand, Acer was based on the branding business. Even in the early years, Acer did not rely on manufacturing efficiency and cost-control to make profits, as what BenQ did. Acer's ODM business was different from the OEM. Acer was making the profits through exploring new market opportunities, doing research and development, and persuading customers to deliver the orders. Acer's customers were much diversified, with small orders.

BenQ started to expand rapidly after K.Y. assumed the post. K.Y. had a strong technical background. His MBA study at IMD had extended his international visions. He aggressively planned the development of BenQ and showed a strong ambition. BenQ started to mass-produce products, such as monitors. Later, Acer also shifted the keyboard product line to BenQ. Gradually expanding the product lines, now BenQ has a much broader range of product lines than Wistron.

K.Y. has a long-term scheme on human resources development. He aggressively brings in the outstanding young talents with Doctoral and Master Degrees.

Now, BenQ wants to do the branding business. In addition to their continuous research and development enhancements, their most competitive advantage is manufacturing. BenQ has so many products based on strong manufacturing capability. It competes in long-term with the other technical vendors and has become a top company for keyboard, optical storage, and scanner products. The scanner has been developed for several generations. The leading company in the scanner industry has moved from Microtek to Mustek and to the others. Now, BenQ may be the best for scanners. Those technology-leading companies lost in the end. They could make high returns in the earlier stage of a new product, but suffered on high production-cost

and low manufacturing quality, at the low-margin period. BenQ demonstrated a better manufacturing capability.

Acer versus BenQ

BenQ now does both branded and OEM businesses. People question why Acer had to separate the two businesses and BenQ can do both. There are many reasons. Primarily, BenQ's main products are mature and compete by the manufacturing scale; while Acer's main products are personal computers that competing not only the manufacturing scale but also in design and flexibility. Design means fast design capability using the most available technologies to put the new products on the market; flexibility means being able to adjust the products according to the market change. BenQ's main products, such as the monitor, scanner, optical storage, and keyboard, are all low-margin products, which compete in manufacturing capability and speed. Among BenQ's competitors, only ViewSonic does not have a monitor factory. Most other competitors, like Samsung and LG Electronics, have their own manufacturing sites.

Acer has become BenQ's competitor in the monitor business, after BenQ separated from Acer. Acer does not have a monitor factory but now has stronger monitor sales than BenQ. There are so many big-scale suppliers cultivated by Dell and HP in Taiwan. The suppliers have no market channel and have to cooperate with Acer, who is not a manufacturer.

In addition, Acer started the company with a branded business while BenQ was built for an OEM business. Acer took the OEM orders to reach an economy of scale. On the other hand, Acer's OEM clients could leverage Acer's investments and capability in design, and thus did not object to Acer owning a branded business as well. Both sides established a mutually beneficial relationship. Actually, many companies preferred to purchase the products from a branded vendor to enhance their image. For example, Taiwanese companies wanted to buy motherboards from IBM; BenQ bought Trinitron tubes from Sony. There are many benefits in purchasing from a branded ODM vendor. Usually the ODM vendors have the well-designed products, with an economy of scale. The customers do not have to bear too much risk and can leverage the ODM vendors to strengthen their own competitiveness, even though the ODM vendors may have a branded business. Later, the profit margin of PC products became thinner and thinner. The orders from the customers were helping the ODM vendors to lower the manufacturing cost; however, the ODM vendor's branded business became competitor to the customer. As Acer's brand name became strong, the relations of Acer and the customer became tricky. Then, there came the ODM vendors dedicated in notebook PC and motherboards. These vendors turned to be a strong backing to those multinationals. Acer lost the ODM competitiveness.

BenQ was different. BenQ did OEM first, followed by the branded businesses. In the earlier stage, BenQ's brand business was more like an OEM business. They used Acer's brand name and sold the products through Acer's overseas companies. BenQ's monitor was a good example. Later, the situation for the mobile phone was not the same. BenQ did OEM first, and then followed with the BenQ branded mobile phones.

At the beginning, BenQ's customers doubted if there would be any conflict of interest. Usually, I had to come out and talk to the key customers, such as IBM, Motorola, and Dell. When I talked to Motorola, surely I would not promise to do the businesses with Motorola exclusively, like BenQ's first case with ITT. I told Motorola that BenQ would keep the branded business. However, we promised we would not compete unfairly and do our best to avoid any direct conflicts.

As the environments changed, BenQ now has many large-scale OEM competitors. Motorola has many choices now. They modified their strategy and worked with many other vendors. Although in 2000, BenQ manufactured 50% of the mobile phones in Taiwan, it could no longer be the same every year. This was similar for Acer, in 1984 Acer occupied more than one-half of the PC market share in Taiwan. Now, it is impossible.

There is no such thing as a never-changing relationship between two companies. The business relationship is based on the mutual needs for both sides at the certain period. There are rules and principles in doing businesses. As Acer had been working with various companies and leveraging the advantages from each other, the relations would change from time to time. The important thing is whether you learn from the cooperation processes. For example, when you do contract manufacturing, have you learned the technology know how, mass production capability and quality control?

Separating for an Individual Sky

There were pros and cons for BenQ to create the new BenQ brand after the pan Acer Group (See [1] in Chapter One) divided into three sub-groups. The negative impacts included the conflicts in the sales channels initially, since Acer did not want their channels to sell BenQ branded products. Meanwhile, there were some confusion and misunderstanding for both Acer and BenQ brands on the markets.

There were more positive outcomes. First, BenQ was independent and could decide their developing strategies. Second, they could build up a brand image fitting to BenQ, and no longer be controlled by the Acer brand. These were the main benefits.

Third, BenQ received all the human resources in marketing and sales from Acer members who originally worked on BenQ's products.

Fourth, BenQ could leverage the previous experiences learned from Acer. Before the separation, BenQ had sizeable revenue already and could soon develop the sales volume. Especially in Taiwan and China, BenQ had started their independent sales and marketing earlier and had warmed up for the businesses. Actually, BenQ started to manage their product sales in the U.S. before the brand separation too. Only the Southeast Asia and Europe markets were combined with Acer before the separation.

There were some positive impacts on Acer with BenQ's new brand name. First, there were no longer any daily disputes concerning BenQ's product lines. Second, the Acer-branded monitor business, originally produced by BenQ, was not influenced by the separation since Acer's monitor products had been in the markets for a while. In the fourth quarter of 2003, Acer-branded monitor sales revenue lead the European

markets. Third, Acer's overhead cost decreased due to the shift of human resources to BenQ.

Who Is Winning in the Brand Race?

K.Y. Lee is ambitious in brand building. I surely can understand. He will be very happy if one day BenQ's brand value exceeded that of Acer. With Acer's past branding experiences, BenQ has a very good foundation to build its brand, and is doing very well, boosting the employee morale, and confidence from the channels. There are so many things to take care in branding. BenQ has been showing professionalism in the brand building within a short time and could be regarded as a role model.

It is hard to say if there will be another brand like BenQ capable of developing a new brand so fast. BenQ achieved the current accomplishment since they have a special historical background and conditions. Fairly speaking, BenQ's branding works had taken some advantage from Acer, including the original international human resources and sales, and the experiences. Experience is very precious. For the last twenty-some years, BenQ had observed Acer's branding activities. Thus, BenQ's branding capability started at a much higher level than Acer's starting point twenty some years ago.

Can BenQ continue to do an even better job in branding? Surely, this conclusion is based on BenQ's research and development, and manufacturing capability. However, BenQ still needs to cultivate the internationalized human resources as well as the satellite channel organizations. Strictly speaking, Acer's European and Southeast Asian markets are relatively mature; while the China market needs to be enhanced and U.S. market still has a long way to go. BenQ is competitive against Acer in Europe but weaker in the U.S. As far as the China and Taiwan markets go, BenQ is stronger since J.T. Wang had allowed them to start the marketing and sales in the regions years back and they had the manufacturing sites in China. Both are helpful to BenQ's business developments in these regions.

Overall BenQ has no problem in building the brand image or product lines. However, they still have to work on the channel management which requires a long period of time.

At this stage, BenQ can take care of both the branded businesses and manufacturing. In the long run, they can refer to the experiences of SamSung. BenQ is following SamSung in doing both branded and OEM businesses; Acer on the other hand will go Dell's brand business only direction.

Reflecting on Samsung's Experience

SamSung's current businesses indeed are mainly in the business-to-business (B2B) domain. Their two key product lines are the DRAM and TFT-LCDs. In the business-to-consumer (B2C) branded businesses, SamSung is not a strong brand for conventional appliances such as the television. Although the sales volume is huge, their image has not yet been excellent. In computer sales, SamSung has some recognition in monitor products only. But for the mobile phone business, SamSung

has built an outstanding image. In the near future, they can establish a strong brand in LCD TVs surely since their TFT-LCD technologies are leading the world. They are expected to be the prominent leader in the wide-screen LCD TV market.

Critical Factors of SamSung's Success

We have to admire SamSung for their winning streak in the tough competition. There are two key factors that make SamSung's successes: the first factor is their leading technologies in the fields of TFT-LCD, DRAM, and CDMA (Code Division Multiple Access). The second factor is their shipment of many products ranking the top place worldwide.

Can BenQ catch up with SamSung? Leading technologies help the brand and image of those U.S. companies, especially for B2C branding. On the other hand, the business scale represents long-term competitiveness and economy of scale. SamSung has the capabilities in both technology and scale. I anticipate BenQ can come closer with SamSung in ten years. In ten years, if BenQ can reduce the difference of the scale to one fold, BenQ will be doing an outstanding job.

If we consider the competition for the coming 20 years, there are still many variables that are hard to predict. Maybe SamSung will encounter some change and collapse. Thus, change management is very important in the coming era. Dell has had no big change management yet. Neither SamSung nor BenQ have had any genuine change management. However, BenQ has the DNA from Acer whose successful experiences in change management are famous in the world.

BenQ is posed to challenge SamSung in the China markets. The ambition is good. But BenQ must realize the different size of challenge. In the new TFT-LCD products, AUO has reached the same level as SamSung within a shorter time. This is dependent on how the corporate catches onto opportunities during a changing period. The shift in the industries is very fast. The position of Taiwan's largest manufacturing company has been replaced often. Acer occupied the number one position at one time, as did TSMC. Now Foxconn is number one.

Large-Scale Management for International Marketing

From the leading-technology and large-scale management points of view, Taiwan has progressed quickly in technology development but finds large-scale management still hard work. In the past, Taiwan only did OEM work and had no problem in B2B managements. However, we lacked experience in the large-scale B2C managements. B2C management requires both product competitiveness as well as an internationalized marketing management. Sony is highly experienced in global and large-scale B2C management however will face some challenges for the future low-margin situations. SamSung had sent people to investigate the circumstance of Acer's reengineering. They went to Europe and found out most executives were not Taiwanese or Chinese. All of SamSung's executives in Europe are Korean. They follow the Japanese style. Many factors impact the large-scale management; localization is one of the most basic factors. For B2B businesses, it is not necessary to do localization; but for B2C, especially in large-scale, there must be localization.

Even SamSung's large-scale B2C management cannot be considered as effective. SamSung only achieves effective large-scale management when they have the leading technology and products. For example, SamSung's mobile phone has a strong B2C brand that relies on the leading technologies. They use CDMA technology which currently has no strong competitor. In addition, their main markets are only in Korea and the U.S. where a CDMA system is used. A simplified market makes their large-scale management easier. Japanese companies do not have a good management in international marketing. However, they have forced out most competitors and monopolized the markets; therefore they can afford not to have a good large-scale management.

If a company does not have similar conditions as SamSung or those Japanese companies, it must have an effective local marketing management to compete in international marketing. Especially, they must maintain low overheads and high flexibility. These two capabilities are extremely important in a dynamic market. I believe now Acer is equipped with the conditions. Acer with its international management capability for a mid-scale B2C segment is anticipated to expand into a large-scale management. Acer's capability in large-scale management has not reached the worldwide scale yet since its presence in the U.S. and China markets both needed to enhance.

Be Practical in Order to be Sustainable

K.Y. Lee had visited SamSung several times. Each time, he praised their long-term vision and planning. It is indeed easy to be visionary. Usually it requires two conditions: one is to have abundant resources otherwise, but more critical is to have a profitable and sustainable business.

Acer surely is visionary, and has been doing a long-term planning. However, as long as the profit of the core business is not stable, all the plans have to be adjusted immediately. Therefore, a big capital is not useful. The bigger non-core investment you have, the bigger the burden becomes, depending on if your capital can bear your burden. If yes, this means you are managing the non-core businesses smoothly. What happens if they are not running smoothly? To discontinue the investment, you will lose all the previous achievements. If you sell them cheaply, all the efforts will be in vain. It is easy to plan. The actual execution may experience the ups and downs of a business. This is a down-to-earth problem. We have to be practical. If Acer was to collapse, all its glorious dreams will collapse along with it. Once there is a problem, we have to solve it. Even with others' help, such as banks not withdrawing their financial aids, our core quality has to be good. Based on one's own efforts to turn a loss into a success, the company then can be sustainable.

K.Y. Lee is a practical person; at least he had learned Acer's experiences. If I see anything that could impact BenQ's roots, I still will remind him where the blind spot is. K.Y. is capable of correcting the small losses, but BenQ cannot afford to repeat the same big mistakes as Acer did. For example, K.Y. had seen clearly that the collaboration model between Acer and TI was not good. He will not make the same mistake. His venture capital scale is small, which will not shake BenQ even if it fails. Besides, K.Y. always considers carefully before making an investment. K.Y. is a man of great talent with bold vision, yet he counts every detail carefully.

The Challenges and Future of BenQ

The most important thing for BenQ in the near future is to collaborate with AUO. In other words, BenQ must control the future developments in display and television. There will be only three main electronic products: the LCD TV, PC, and mobile phone. Only these three products have reached the scale of 100 millions of units. They have an economy of scale. Others products are only the peripherals of these three products.

The LCD TV market has much room to grow. The price is still too high and the production scale relatively small. The LCD TV market will grow with the sixth and seventh generation of the TFT-LCD. This is the reason that Sony has a joint venture with Samsung to produce TFT-LCDs. In addition, those LCD producers Chi-Mei and Quanta Display both supply their affiliated corporations with LCD TVs. It is similar to AUO providing LCD panels to BenQ for producing the LCD TV.

BenQ must control some computer products. Right now, the home markets separate into two parts: one is for computer and the other is for television. In the future, the computer and television have to be compatible and can be integrated. It will not work any more if a computer cannot be used to watch TV or if a TV cannot be connected to a computer. BenQ focuses on consumer markets, especially the mobile phone segment. It will be a disadvantage for BenQ to become a personal computer company and hard for them to handle the corporate accounts too. Therefore, BenQ will do differently from Acer. BenQ will expand the products from TV to computer. BenQ's computer is designed for the audio-video applications. For example, BenQ positions their notebook PC as a digital hub.

Acer approaches from the opposite direction, from the PC to the TV. I had insisted that Acer should remain as an IT company, instead of a consumer electronics company. Acer needed to first focus on its core and branded PC business, before diversifying into other businesses. The first step of the diversification was to enter into the monitor business. Acer chose not to go into the television business directly, but to offer a multi-functional monitor that could be used to watch television programs, and gain a share of the television market. This kind of diversification prevented the need to create any drastic changes.

Acer got into the monitor business within a short period of time since the channel was the same as for the PC. The monitor was just another product for the channels, while Acer could leverage the existing infrastructure. Selling a television is a different story. Usually a TV retailer displays more than ten different models of televisions. However, a computer shop needs to display only one monitor-TV. Our multi-functional monitors are still sold in the original channels, and we will find the new channels slowly.

In addition, Acer can leverage current notebook channels for the desktop PC business, since the scale of our desktop business is still small and has a lot of space to grow. Taiwanese notebook PC vendors are very competitive. Acer can leverage their competitiveness to fight. The situation for the desktop is different. Taiwanese motherboard companies are strong, but their products are sold to various assembly plants in different locations. Therefore, Taiwan's system integration vendors for

desktop PCs are weak. Acer is not able to leverage their capabilities. Now we choose Foxconn for supplying the nearby desktop PC markets, first in China then Europe.

BenQ's Growing Engine

BenQ, with their economy of scale and manufacturing advantage plus AUO's collaborations, will develop very fast in the future. I support K.Y. Lee to continue along this direction. It is a good thing for their team to have a stage to perform. In 2003 BenQ and AUO together generated revenues of around NT\$200 billion. In Taiwan, they rank as the top enterprise groups. BenQ has many growth "engines". One big engine is AUO's TFT-LCD which is a display and TV related product. In terms of capital and revenue scale, AUO will soon become the top company in Taiwan, with a faster growth speed than TSMC. Another big growth engine for BenQ is the mobile phone business, or in general, the BenQ brand itself. It could be said that the brand name is BenQ's biggest growth engine.

BenQ's biggest problem is still in international marketing, particularly in the U.S. and Europe. The U.S. market is especially difficult. Currently, even Acer does not do well in the U.S.; it is tougher for BenQ to be outstanding. The toughest challenge is to have strong product and management capabilities in the U.S. Personally, I think BenQ does not have the solution yet. Currently BenQ's sales fall behind Acer in Southeast Asia, by a small distance. In China, BenQ's performance is not inferior to Acer.

Transformation of Wistron

Wistron's short-term issue is to build a stable structure, and has been busy transforming the organization. They expect to generate a high-growth in 2004. By building a solid base first, Wistron will not fall behind too much. In 2004, Wistron has to achieve third place for the notebook PC output to ensure high potential in long-term development. Wistron's diversified product lines have both pros and cons. Wistron has to concentrate on increasing the scale of the same product. This exactly fits Acer's main theme in the second reengineering — a "simple" and "focused" approach. Wistron is now at a phase of a corporate development cycle, different from their competitors. Quanta and Foxconn face high growth pressure and have to diversify the businesses now. The effectiveness of diversifying the business scope is usually low. Therefore, if Wistron could focus and do a good job in this business cycle, they can create a short-term niche.

Wistron now faces the biggest challenge that is to reach the effectiveness and level of a dedicated OEM company. When Wistron separated from Acer, Acer Sertek — an original Acer Regional Business Unit (RBU) for the Greater China market — merged with other RBUs, as the sustained company. The newly merged company carried Acer's brand and company name. Meanwhile, Wistron continued with the manufacturing business including R&D and B2B marketing. Since the original competitiveness of Acer's manufacturing was not as good as those dedicated OEM companies, Wistron did not immediately improve its performance after the separation.

The system companies such as HP and IBM could not compete with those dedicated OEM companies in the manufacturing domain since that is only one portion within

their organizations. The same also applied to Acer. Even though Acer did OEM for the other companies, we did not take full advantage of the manufacturing efficiency. In the earlier stage, Acer mostly adopted a mass-customization model, with many product lines and higher margin, and outsourced those mass-production works to Delta Electronics. At that time, there was no other company equipped with an advanced capability in computer manufacturing. In the computer industry, Acer was the earliest but not the most professional. Acer's manufacturing capability was better than those in the U.S. and in the Japan, but did not have any superiority in comparison with the other Taiwanese companies. During Acer's first reengineering from 1992 to 1996, we had improved quite a lot in manufacturing that induced a high growth in both the revenue and productivity. When the dedicated OEM companies such as Quanta and Compal had enhanced their technologies, they caught up with Acer and overtook Acer in terms of production effectiveness.

Wistron is going to transform into a pure design and manufacturing model. The requirements for cost-effectiveness and speed will be much higher than before. Wistron needs to spend a great deal of efforts to adjust slowly to the manufacturing culture. Wistron has made progress in its production efficiency after separating from Acer, but there is still a distance before reaching the truly professional manufacturing level, especially difficult with a higher overhead cost than the competitors. At around year 2000, we had noticed the seriousness of this problem. Right now, the margin is so low that reducing the manufacturing overhead has become Wistron's most critical issue. BenQ started as an OEM company and counted every penny in various items. Relatively, BenQ does not have this problem.

In another aspect, Wistron has a lower production scale than BenQ. Although the revenue and profit margin are close for both companies, Wistron's computers use many components like CPUs and memory from other vendors. The added-value of Wistron products is lower than those by BenQ. Assuming the manufacturing cost for a computer is 2%, the manufacturing cost for BenQ's product is higher — say 10~20% for keyboards, and 5~6% for monitors. If Wistron and BenQ have the same revenue, BenQ must have a manufacturing scale of three to five folds of Wistron's scale. Therefore, BenQ has a bigger scale in manufacturing size and number of employees, and has to move the manufacturing sites out of Taiwan.

Wistron's Future Business Opportunities

While Wistron is still in the process of transformation, year 2004 is a critical time. For the first half of 2004, Wistron's growth was not bad compared to the same period of 2003. The coming issue will be to keep the momentum of the growth and to enter into a winning model in the main business arena. If Wistron cannot find a stable business model, the biggest problem will be the impact on employee confidence. There are many industries, such as IC design, that need the talents. If there are not enough profit and stock bonuses for employees, it will be hard to keep the talents and will soon develop into a bad cycle. Acer had provided many incentives to help Wistron to keep their employees, during the processing of their independence. Wistron employees could purchase company stocks with a lower price at the beginning, and realize the gains after launching IPO. In the long run, Wistron has to work out a solution by them themselves.

Wistron now has to first build a feasible model, expand the scale, and turn it into a more profitable model. Based on this, Wistron then can master the new opportunities. There are some smaller product lines in the Wistron group with high potentials, but the scales are not big enough.

In the Wistron group, Wistron NeWeb is running relatively smoothly. The PHS (Personal Handyphone System), a low-power wireless communication system developed by the Japanese, has brought Wistron NeWeb a great opportunity for further development. They have stood on the leading position steadily although many other vendors have gotten into the industry. Their antennas and satellite receivers are on the top products in Taiwan. It is important to be number one. Wistron NeWeb can command a few leading positions so their development is relatively smooth. The same applies to Wistron. In the future, it is very important for Wistron to choose and pursue the leading domains. Wistron cannot just choose the niche markets, but must search for opportunities in the mainstream products and take the leading positions. Just like a play usually has more than one leading actor; or there are normally a first-leading actor, and a second-leading actor. Becoming one of the leading actors is important. It will not be enough to just play a supporting role.

There are two big opportunities in the computer arena. One is the audio-video business opportunity for the "digital home". Everyone has noticed this. The other opportunity requires a higher level of technology, in the server and storage domain. Servers and storages target corporate customers. Wistron is one of few Taiwanese companies in the position to enter into the industry. There is a big business opportunity.

Simon Lin's Challenge

After Wistron separated from Acer, Simon Lin assumed the chairmanship. Simon had worked in a technical company, which designed a parking system for the Taipei Chungshan Hall. Simon joined Acer as a sales employee. At that time, Acer was planning to extend businesses to central and southern Taiwan. He was willing to go south to Kaohsiung since he was from Tainan, close to Kaohsiung. He was also an instructor for Acer's Microprocessor Training Center, with a strong technical background. Simon involved in various assignments at Acer, including sales, procurement, and material managements. He and Johnny Shih were in charge of the personal computer business unit and computer system business unit respectively. After Johnny left Acer, these two business units merged, and Simon took charge of the merged unit. Before the separation, Simon was President of Acer Inc.

Leading Wistron, Simon faced a new challenge. First, many talents came chose the company due to the Acer brand name. After the separation, they felt lost without the Acer brand. Second, speaking of the transformation, although Wistron had stabilized the boat, it still had to seek for higher growths, and higher profits. Otherwise, the internal and external confidence would be shaken.

The toughest time for Acer and Wistron was the first quarter of 2002. After Acer announced the separation of the design and manufacturing, and the branded business at the year-end of 2000, Wistron could not be established legally until February 2002. That was a transition period. On the other hand, Quanta and Compal did not dare to

take Acer's orders since Wistron had not completed its legal separation from Acer. Meanwhile BenQ had created another brand name, which conflicted with the Acer brand. For Wistron, people would not believe they were going to be an independent company. During the transition period, Acer products had no competitiveness while Wistron's business promotion was not smooth. Until the second half of 2002, Wistron started to have some achievement. For the whole of 2003, Wistron did well and gradually got back on the track.

Altogether on the Summit

Since the separation BenQ has been stable. Acer is stable now, and Wistron's initial transformation has had some fruitful results. Surely, each company will face many challenges in the future, but overall speaking, the growth situation is better than before. Acer had a peak and will have another one again. Had I did not pushed Acer's second reengineering; there would not have been current situation. This is what everyone in the pan Acer Group (See [1] in Chapter One) has work so hard for.

-----*Part Two*-----
New & Freshing Perspectives

Chapter Six Change Management

Break Through the Growth Limit

Every growth has a limit. Not just for an enterprise, the growth of every business has a limit. Without a long-term investment, the growth will reach a limit soon; even a long-term investment without a change management will approach the limit when the objective factors change and the paradigm of success shifts. Therefore, there are two ways to break through a growth limit: long-term investment and change management.

When faced with a hardship, only a few companies can survive without carrying through a change management. Most companies will be weeded out sooner or later (See Figure 6-1). Even with a change management, the company will still go downward initially; once the change management succeeds, the result will again start the growth and sustain the company, with a growth curve in the shape of a double S. Of course, there is also the possibility of failure in a change management (See Figure 6-2).

Acer has experienced change management on two occasions, and demonstrated a triple S-shaped growth curve (See Figure 6-3). I did not invent this figure. It is known as a "multiple-S growth curve" in the academia. I would like to use it to illustrate two points: the first is on the time-axis to continuously invest in the long run; the second is to conduct change management during a paradigm shift period.

Figure 6-1: A Corporate without Change Management

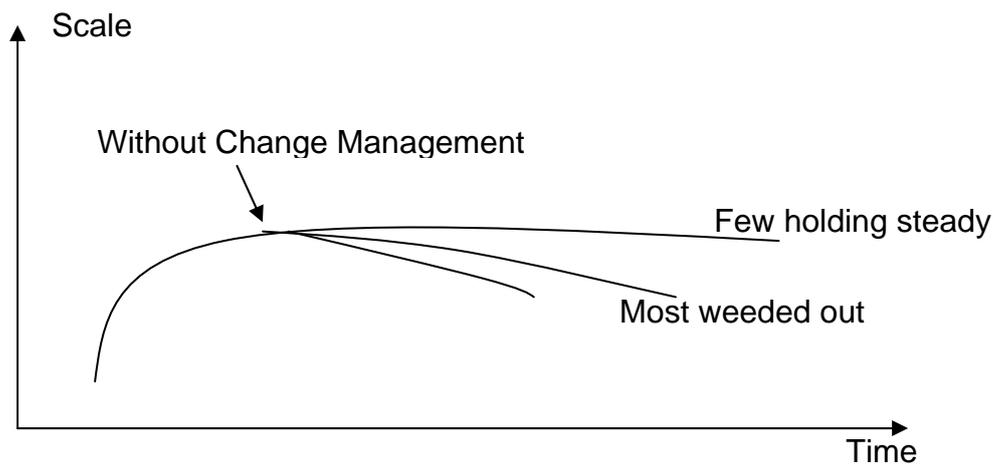


Figure 6-2: A Corporation With Change Management

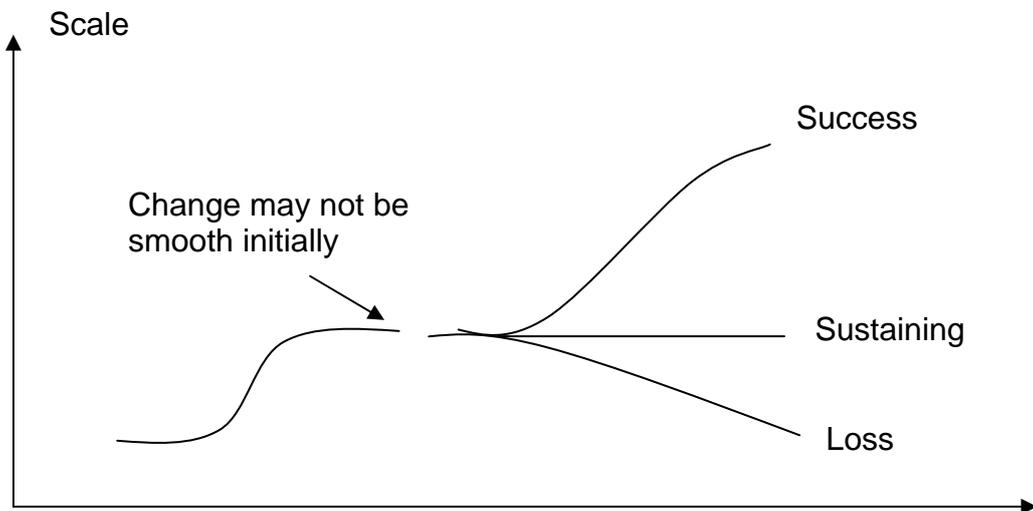
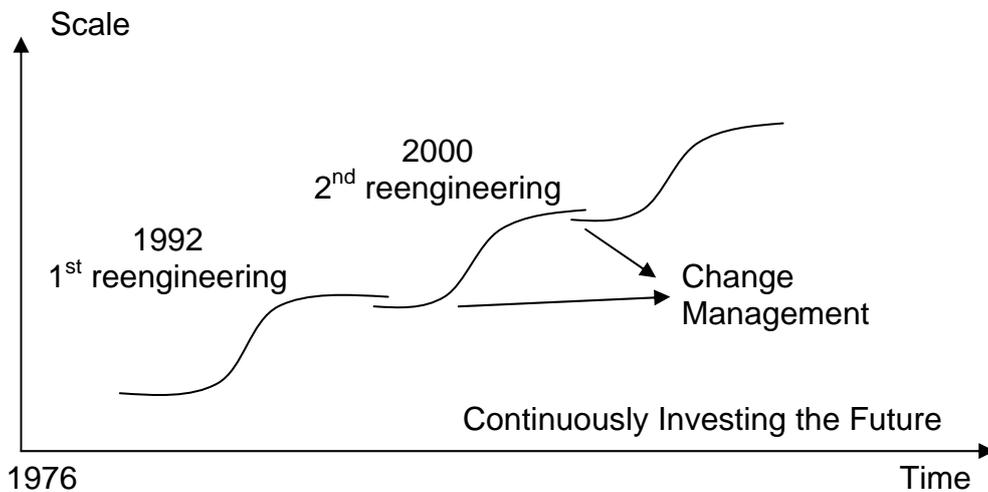


Figure 6-3: Acer's Multiple-S Curve of Growth



The Myths of Growth

There are two myths surrounding the mystery of growth: the first myth is a linear thinking model; the second myth is to believe that the old success trick can continue to be applied effectively.

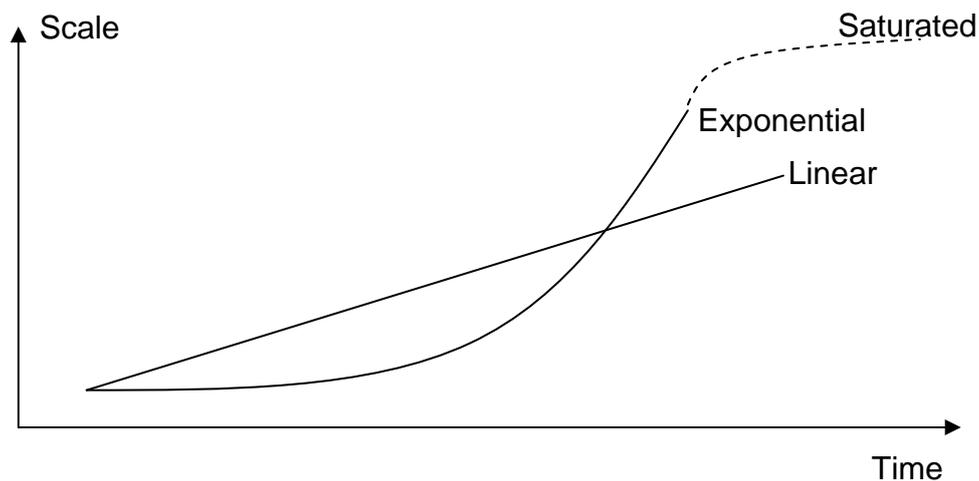
Expectation of a Linear Growth

Everyone expects a growth to be linear. In other words, the growth will continuously extend. I also thought this way. It is human nature. Growth makes people happy; but

there is a growing pain—the limitation of growth is hard to breakthrough. In June 2000, Morris Chang, Chairman of TSMC, gave a warning during a conference held by the Monte Jade Science & Technology Association of Taiwan. He mentioned that Taiwan's economic growth had reached a limit under the current system. If Taiwan did not proceed with change, the economical development would reach the limit of growth. Later former President Lee Teng-Hui expressed that he did not agree with this. He thought Taiwan had no growth limit. These two people had totally different thinking. However, from the reality, Taiwan's Gross National Product (GNP) per capita has remained stagnant at around US\$12,000~13,000 for years. About ten years ago, our GNP per capita was US\$12,000. Then, the government claimed that the number would reach US\$20,000 by year 2000. The government's prediction underestimated the challenges of growth. Therefore, I often use per capita GNP as an example to illustrate the thought. People usually have a linear thinking model. This is a big problem.

Human beings basically think in a linear model. It is easier to predict something linearly. However, most real things happen in an exponential way, or sometimes the growth will reach a plateau. A linear development is rare. The situation for an exponential growth is a slow initial development, but the growth in the long run will exceed expectations. Therefore, the initial development will be over-estimated while the later development will be under-estimated (See Figure 6-4). If you do the right thing, you cannot stop the growth; if you keep to the same old methodology, eventually the growth is going to shrink no matter how hard you work. This is like Taiwan's per capita GNP. For so many years, it cannot breakthrough the limit of growth.

Figure 6-4: Exponential Growth



Believing in the Old Way to Success

The second myth of growth is that people believe in the same old way to success. People ask me how it is that I make strategic decisions with so many uncertainties nowadays. In fact, many factors are predictable. For example, running a business a

person requires being sincere and creditable, and managing a high-tech company a person requires being creative. These basic principles have never changed. However, the methodology may be different for today, tomorrow, and the days ahead. And the goals may not be the same either. These reflect the changes in Acer now. The never changing factor is that we have concentrated our resources on the core businesses. Acer's change management stresses on "simple" and "focus", thus we will phase out all non-core businesses. This direction will not change, but there are various ways to implement. We can find the never-changing principles and basic spirits from many past success experiences. But we will adopt different practices according to the timing and location, the scale of the company entity, the individual industry, and even the cultural environments. Then, we will have the opportunity for breakthrough and growth.

Generally speaking, in the process of growth, both the internal and external environments are changing. People call it a paradigm shift of success. I had proposed my Smiling Curve to illustrate the observation and response to the external changes. In the past, the vertical integration was a successful business model. Until the early nineties, due to the change of industrial structures, I observed the U.S. starting to advocate for disintegration. At that time, *Harvard Business Review* proposed the concepts of a "computerless computer company" and a "fabless semiconductor company" as a kind of disintegration. It was a striking warning of the U.S. positioning, and a prediction for the future. They saw the environmental change and made the prediction. I also observed the same phenomena and considered the success paradigm would shift. When the values change, the success factors for management will shift. Taiwan has experienced some changing external factors, such labor shortage, rising production cost, currency appreciation, and increasing environmental awareness. These are the overall environmental changes.

Some objective environmental factors never change, while some other factors may change irreversibly. For many Taiwanese enterprises, the irreversible changes include the democratic development, environmental awakening, and increasing cost of human resources. These three significant factors have been the constant changes. The environmental senses are global now; employees want a better package to improve their lives. Since these are irreversible changes, people should accept the situation and conduct a change management.

I would like to emphasize that if you follow the principle of irreversible change, you will gain flexibility. There are so many uncertain external factors. As long as you follow the principles, you can respond to the changes very well. This is very important.

There are some internal factors. When the organization becomes complicated, there will be more internal conflicts. The management turns harder and the effectiveness drops. At this time, you will have to face the change management.

Philosophy of Change Management

When internal or external environments change, you have to conduct the change management right away. The so-called change management means that it is not possible to use the same methodology forever. My perspective is, while the "same

old way" can still profit, find a "new way". When Acer was conducting the second reengineering, luckily I still had many resources. Since I was able to use the same old trick to survive and own a lot of cash, I could conduct the reengineering with a peace of mind. Therefore, people should think about the next step while their business is still on the peak. Just as a nation has to think about the next phase of development at a certain status, whenever you find a symptom, you have to be alerted. You cannot wait until disaster hits.

There is a difference between change management and crisis management. Change management is dealing with the internal operational problems. A crisis management means taking care of an accident or an event that happen suddenly. Both managements require facing the reality. Change management is to handle the long-term crisis, while crisis management is to cope with the short-term reality quickly. If the short-term crisis cannot be taken care of immediately, it may eventually develop into a very high impact, or even fatal event.

To "change" is different from to "improve." The former makes a bigger difference than the latter. To improve is a linear function following the original direction, while change management requires a leap. There will be no problem if the direction for improvement is correct, and providing the external change is not high. Otherwise, the efforts will be in vain. The Japanese used to conduct improvements to continue a success, but in the nineties, they could no longer maintain a successful operation simply by continuous improvements, since they failed to catch the right direction.

Even with constant improvements, it cannot guarantee against further change, but may be able to skip one or two changes. Like IBM has conducted a significant change management every twenty or thirty years. They recruited outsiders as their CEOs. Generally, change management involves replacing the CEO. If you do not change the person, then the brain has to be changed. Changing the brain of a CEO is equal to changing the CEO. When I conducted the reengineering, I had to change the perception and the implementation. That was to change my brain. However, for the Japanese, there are no real cases of successful reengineering, because they did not change the brain, or the person. That was a cultural problem.

The term "reengineering" appeared in the early nineties. It emerged because of a huge change. Thereafter, there were various other new terms, such as "outsourcing", "right sizing", and "down sizing."

Implementing a reengineering requires facing the reality. This is hard for the Japanese culture. For example, the Japanese economic recovery has been very slow since the banks do not dare to write off debts immediately. Acer was usually the first one in Taiwan to face reality and take actions. In April 2001, we wrote off NT\$4.1 billion. Later, other domestic banks in Taiwan started to write off when they underwent reforms.

Usually a bigger company needs a longer time to reengineer. Acer took many actions which were indeed the processes of change management. For example, we divided the OEM and branded businesses; Acer Semiconductor had a strategic alliance and then merged with TSMC, and the Acer subsidiary, Ambit, merged with Foxconn. President Arthur Yang of Aspire Academy said we would see the effectiveness in

three years after the reengineering. As a result, we announced a better-than-expected achievement within two and a half years.

Timing and Approach for a Change

The timing to initiate a change management is very important. Catch the right timing will make it more effective. To choose the appropriate timing one can first look at the revenue. When the business numbers are not looking good, it is a good time for a change. The second is from the external pressure that may come from the social opinion, or the public investors, and the least from the board meeting. Generally speaking, relying on the pressure of the board meeting to push a change management is easier in the U.S. It is hard to do that in Taiwan where most board meetings will hardly give any pressure on the CEOs.

Besides the timing, the approach for a change management is important. Usually a change management has to be implemented by a company itself. Consultants are not helpful. The consultant can give you some concept and provide more choices. The final process of a change management has to be self-decided. Acer was consulting with McKinsey & Co. during the first reengineering. Then, we gave up. Before the second reengineering, we also asked their assistance to improve the global logistic processes. But the overall process from research/manufacturing to service was too complicated to implement thoroughly. We gave a wrong topic so that they could not provide many advices. The conflicts between the branded and OEM businesses were unsolvable anyway.

We have to decide the topic while the consultant can only tell us their options. The consultant sometimes even does not know our conditions. This is like they suggest me to participate a game, but my physical condition is not good and without any competitiveness. The consultant cannot help if they do not understand you. Therefore, the real execution has to be implemented within the organization; it cannot be done by an external consultant.

Generally speaking, you can treat consultants as a helpful task force. If you plan to rely on the consultant to do the change, most likely you will fail. Do your own change management means you have to change the brain of the company. You have to believe your old ways are no longer valid, no matter how hard you have tried. Sometimes, you will be hit by a recession period or by some unusual competition. These are normal. You cannot change it. You have to change yourself, by yourself.

Transition Management

Change management has to establish the new vision and strategies in the first phase; while in the following phase it has to carry out a transition management. It takes times and efforts to get them done.

The first thing for a corporate reengineering is a new vision, in which the new core businesses and core competitiveness are defined. For the theme of Acer's first reengineering, I divided it into three levels: philosophical reengineering, organizational reengineering, and process reengineering. To put them in a few simple words, philosophical reengineering is based on the principle of "global brand; local

touch"; organizational reengineering is based on the "client-server" structure; process reengineering is the "fast-food business model". (Refer to Chapter One, Figure 1-1. For more details, refer to "Me Too Is Not My Style".)

In addition, there were some activities to run through the three levels of Acer's first reengineering. For example, "21 in 21", having twenty-one public-listed Acer affiliates by the 21st century, emphasized the concepts of client-server and local touch. Our "General Manager Development" aimed to cultivate one hundred presidents for a decentralized management. These were supporting activities to generate the powers from the reengineering toward the same direction. Later, I developed my famous Smiling Curve. I hoped the whole company could focus the resources on a dedicated domain and pursue a higher added-value.

After the vision and strategies were set up, change management will enter into the second part—transition management. The keys are communication and transition plans. Communication is to clarify the new vision and strategies with the employees; transition plans are to design the action plans by which the overall complicated goals can be simplified and achieved. Starting from the simple and small actions to induce a bigger achievement is the right track in a transition management.

Persistence is a key factor in a transition management, unless the direction is wrong. If there is a lack of confidence in the execution or difficulty to change some conventional behaviors, you have to go on persistently. It takes time to make the change. This is like a recovery time period is needed after a surgery. Do not anticipate any miracle.

Communicate the updated situation continuously is another key for the transition management. Acer required a monthly written report for the progress and a face-to-face explanation on a quarterly basis during the earlier stage of a reengineering. Every time, the report has to include the situations then and now, as well as the major difference. This can impress the employees. The contents are company culture, incentive policies, and value systems.

For example, at the end of 2000, we announced the second reengineering. After six months, we provided a progress report. Even though the overall IT environment was not on the upside, Acer had shown the change effectiveness. At that time, our branded business revenue decreased by 17%, comparing with the same period a year earlier. But our loss decreased by NT\$800 million, and inventory level dropped NT\$3.9 billion, or 52% year-on-year. The revenue from the design, manufacturing, and service business unit, decreased by 36% year-on-year, but the inventory dropped 52% year-on-year.

In addition, the adjustment of the corporate culture has to be explained clearly and explicitly. For example, Acer used to think as long as the subsidiaries were doing well, we would be benefited. We did not stop the subsidiaries coming to the parent company for leveraging the resources. We thought the parent company could always get back from the subsidiaries for whatever we gave out. But in the case the parent company was at a hardship, there would be nothing more to give away. The purpose or benefit became vague for Acer to sacrifice for the subsidiaries in the original culture. Selling the stocks of the subsidiaries was a kind of benefit. Doing that would

have no long-term help but just for surviving. Now, J.T. Wang, President of Acer, genuinely spends maximum efforts to build a new team consensus, which is based on Acer itself, not on the pan Acer Group (See [1] in Chapter One).

Then, we had to change the prospect of expanding a corporate life span. Before the reengineering, every member company in Acer Group was named with Acer. I had been hoping that more companies could be named Acer so that the Acer brand name could be passed along forever. More Acer companies, more chances to have one Acer company alive after several hundred years later. Now, my idea has changed. Making profits is more important. Right now, there is one Acer Group, and some other group names, such as BenQ and Wistron. If we survive without making profits, Acer will become a vegetable. Then, I will prefer to end the company for starting other opportunities. This would be like Compaq could not live well so they were merged into HP. It was an important conceptual change for me.

This totally different concept is like the separation of Acer and BenQ brands representing a new Asian value. An old Asian culture perceives a diversified company, while the new value shall be changed to "simple" and "focus." Brand awareness does not have to do with many products under the same brand name. Among the global top ten brands, only GE has the diversified products. Most other brands tend to simplify the product lines. Therefore, there is no Japanese brand in the top ten; even Sony is not in the top ten. The Asian diversified culture is not favorable to a brand competition. Right now, to create a brand value or to run the business has to change from the original perception of diversification to focus. This is a kind of reengineering. It reengineers a new concept.

Execution is the Key

During the course of a change management, I myself always had a confidence. I was willing, not forced, to do it. I determined the direction of change based on some objective factors, including my understanding of the external environments as well as my communication with my colleagues. When I communicated with my colleagues, I usually could catch the situations. Therefore, if I wanted to make a change, it would not be difficult to build the consensus. I usually work on the warm up for the consensus for half a year by exchanging the opinions on certain issues. Then, we simply needed a final decision. Relatively, I was quite sure on the directions for each change since my supports from my colleagues were very strong and everyone thought that you had to change. For the second reengineering in 2000, most of the media agreed with Acer's main directions, but doubted on the execution capability.

Execution is a key to the success. In the second reengineering, our execution indeed faced many problems, such as the conflicts between Acer and BenQ brands, and the conflicts between Acer and Wistron. It was not easy to solve those problems. Meanwhile, I was often caught in a paradoxical situation. For example, when J.T. Wang said we should buy certain products from Quanta, if I said "maybe not", these words would collapse the whole reengineering; if I made the decision for him, I would be responsible for the project. Under the principle in the second reengineering, I could just let him make the decision. He himself decided if the business would go to Wistron or Quanta. He surely knew that the share-holding relationship between Acer and Wistron. I did not have to explain for him. The public media said I should come

out coordinate. But it was hard for me to say anything. I could just let them work it out.

There had been very clear directions for the second reengineering. I then insisted my principles. I have been very good in insisting a principle. For the competition between Acer and BenQ, I would not get involved unless it would lead to a bad competition. For example, when the media reported on the war between Acer and BenQ, they interviewed J.T. Wang and K.Y. Lee separately and stirred it as a mouth-water fight from both sides. I wrote a letter to all the press and explained clearly the fact, and I had a face-to-face communication with the reporters. I said I realized they had a concern on the news readability. I hoped they did not overdo it. I asked them to make it light. These were the problems only occurring during the reengineering. I no longer needed to get into the situations now. The conflicts disappeared naturally after the change management, as long as we insist the direction of development.

Conflicts during an initial change are inevitable. The habits for a long year cannot be changed within a second. Acer used to be the same company with Wistron. We did all the products together. After the separation, which vendor should be the priority, Wistron or the outside vendors? Not clear. If we choose the outside vendor, what should be the right sharing percentage? Not clear. However, a fixed direction was to lift our competitiveness through outsourcing. As far as seventy or fifty percents for the outsourcing, there was no standard number. I thus only said it could be outsourcing and let them to make all the other decisions. We must succeed.

While doing the change management, I worked very hard on every step. I did not have any big move apparently. Indeed, I intended to observe and think, and do only when I should. People thought I acted slowly, especially dealing with the human resources. It was not true. I decided every thing firmly and did whatever should be done. I slowed down the process regarding the change of people but I was decisive. I would move away those unfit persons without embarrassing them, unless they were hurting the company. My principle in handling the employees is that we have to pay respects to those who go out and fight successfully, while we shall not embarrass those not doing very well. For example, Patrick Lin had stayed in the U.S. for three years as President of Acer America Corp. He had turned the U.S. subsidiary from a deficit to profit and successfully completed his staged mission. When he returned to Taiwan, we should treat him with a high respect. If an expatriate does not have a right post after coming back from the overseas, it will hurt the employee morale. Right now, Patrick assumes the post of Vice President of Acer IT Product business unit. We also appointed him to attend an EMBA program by Thunderbird Business School. We expect him to get on a high level in the near future.

Never Enter Into a Fatal Battle

I have never been afraid of facing huge difficulties since I do not fight any fatal battle. Take Acer Semiconductor as an example, I had done my best. I even commuted to Hsinchu every week to work in Acer Semiconductor. I had worked so hard for quite a while. Even I would lose all at the end; I would not want to lose other people's money. This was my principle. I accepted the defeat; however, I did my best not to hurt the banks and not to hurt the shareholders. I asked TSMC to buy 30% share of Acer Semiconductor and let them conduct the business. Then, I let Acer Semiconductor

merge by TSMC. From the return on investment (ROI), the investment was profitable. Surely, I was very lucky to have the assistance from TSMC. In the case that I lost, I would not feel uneasy and have nothing to. I had nothing to fear. Actually, every investment has a risk. Acer Semiconductor did not reach the goal while most other portions in the Acer Group had been operating very well continuously. There was neither an impact on BenQ nor on other group member companies. Thus, I could be calm during such a huge crisis.

I am content with my life as long as I am making progress. I myself believe this is a correct life value. I am not a person who must win in every fight, or must always fight for something. I do as many as the resources I have. Doing more or less, I will always do my best. To protect myself, I never fight any battle that I cannot afford.

I myself cannot always dominate the whole situation. However, I have been able to know well the overall environment and the objective factors. I will give up any thing impossible in an objective environment. I am decisive. I will work hard on my duty and anticipate on it turning successful when the time comes. I am very clear what should and should not be done. This will not come from my own thinking, but from my consultancy with my colleagues to reach the conclusions. My confidence comes from my communication. I want the supports so that I must communicate with my colleagues and make sure they want to do the same. It will not be enough support for doing anything just from my own idea. I always say that I am the general to wave the flags and shout the battle cries at the frontline. But I need people to follow me. As long as we are willing to die together, we will die meaningfully. This is a very important principle of mine.

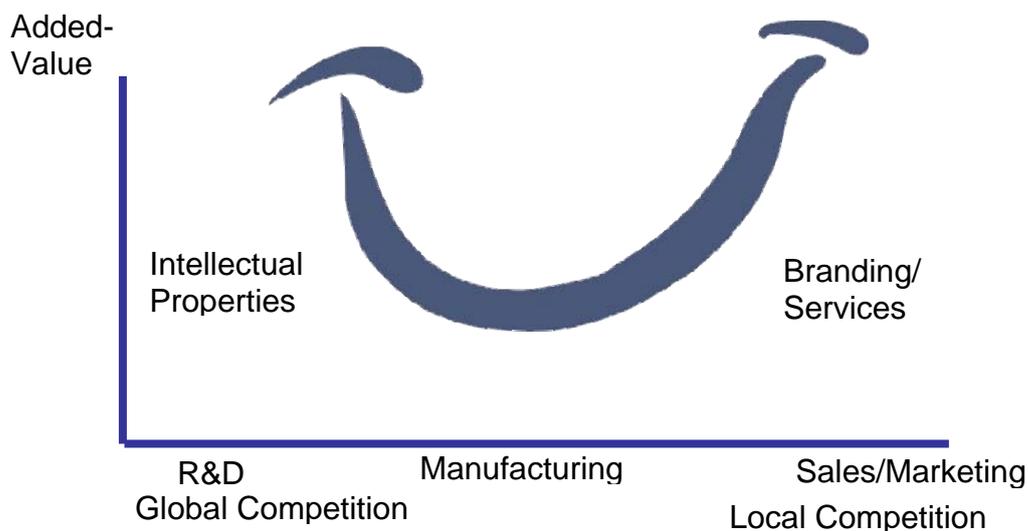
Chapter Seven

The Smiling Curve for a New Century

The Real Meaning of Stan Shih's Smiling Curve

In 1992, while conducting the first reengineering, Acer carried out the "fast-food business model" within the entire company to reform the work process. Initially, some employees could not accept the new policies. To make a better explanation, I designed a "Smiling Curve". (See Figure 7-1). This figure illustrates the distribution of the industry added-values. I used the curve to clarify how the manufacturing assembly work had become the lowest added-value portion in the PC industry. Acer should give up the assembly works in Taiwan and concentrate resources in a higher added-value domain. My colleagues then realized the meaning of the Smiling Curve.

Figure 7-1: Stan Shih's Smiling Curve
Stan's Concept, 1992



At the end of 2000, while conducting the second reengineering, I also used the same Smiling Curve to think over and decided to enhance both R&D and marketing, shown on both ends of the Smiling Curve. Acer would give up completely the assembly and manufacturing, shown in the middle portion of the curve.

The Smiling Curve has been accepted easily. However, I have found that not too many people understand the spirit of the curve. Some may understand the meaning, but just the skin. After I first proposed the theory, I simplified it to extend the application scope to other industries.

The curve provides two messages: one is to find the distribution of added values in a vertical disintegration; the other is about the type of competition.

Most people know that the Smiling Curve shows, for a PC industry, the higher added-value portions are the segments of (R&D), marketing, brand, and service. But people overlook the importance of the type of competition. R&D is competed around the globe, while marketing concerns local competition. Without mastering this principle, the execution process cannot be carried out correctly.

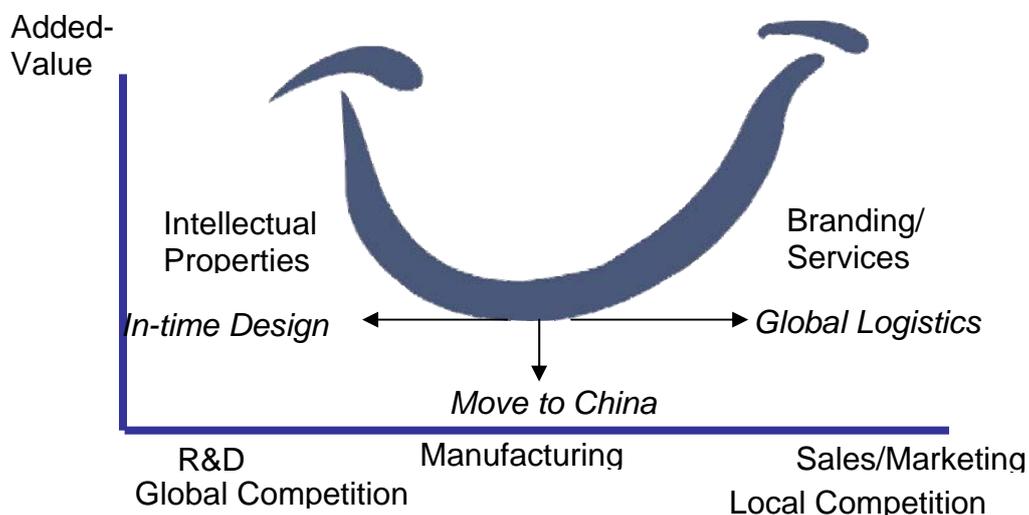
The tendency of the whole industry development is a vertical disintegration, shown on the lateral axis in the Smiling Curve. From the left-hand side to the right-hand side, the segments represent the upper-, middle-, and down-stream of an industry respectively. For most IT hardware, software, and semiconductor industries, the direction of development goes toward a vertical disintegration. There are three reasons:

1. When the industry scale becomes big, disintegration is more effective.
2. Intense competition means that vendors have to focus and share a small portion of the whole industry. Diversify the scope of businesses may result in loss of the competitiveness and failure.
3. The emergence of industry standard makes the possibility of disintegration. In the earlier stage of the PC industry, there was no standard and the vertical integration was a must. Acer now provides MegaMicro e-services to build a standard and make the vertical disintegration possible for IT service industries in the future. Then we focus on a certain segment to reach a horizontal integration so that we can create an economy of scale.

After the industry vertical disintegration, the change in added value for each industry can be illustrated. (See Figure 7-2.) Over the past ten years, Taiwanese ODM vendors have continuously enhanced their competitiveness in the following three directions:

1. Move the manufacturing to Mainland China
2. Enhance the left-hand side of the Smiling Curve which is R&D; start to engage in design and win by flexibility and speed
3. Develop global logistic services on the right-hand side of the Smiling Curve

Figure 7-2: Taiwanese Manufacturing Companies Enhancing the Added Values



Developing a global logistic structure requires capital. In the earlier years, those clients with brands bought products from the ODM vendors and bore the inventory and one-month transportation time. Right now, the ODM vendors have to set up shipping warehouses around the world to supply the customers' needs nearby. The ODM vendors have to bear the one-month inventory cost that equals to giving credit to the clients. These ODM vendors are all public listed companies and own abundant cash and can afford the inventory cost. Meanwhile, the Chinese vendors have only the manufacturing capabilities and lack R&D and global logistics know how. They are not a threat to Taiwanese vendors yet, as I mentioned previously in Chapter Four. Taiwanese ODM companies are working hard toward both ends of the Smiling Curve now.

The Smiling Curve for the Semiconductor Industry

Take the semiconductor industry as an example. Ten years ago, manufacturing was very important since there were not too many factories very good at it. The added-value curve was higher in the middle part and lower on both ends. Now, manufacturing for the semiconductor industry is no longer with the highest added value. The added-value curve has a lower value in the middle portion. (See Figures 7-3a and 7-3b.)

Figure 7-3(a): Added-Value Curve for Semiconductor Industry in the '90s

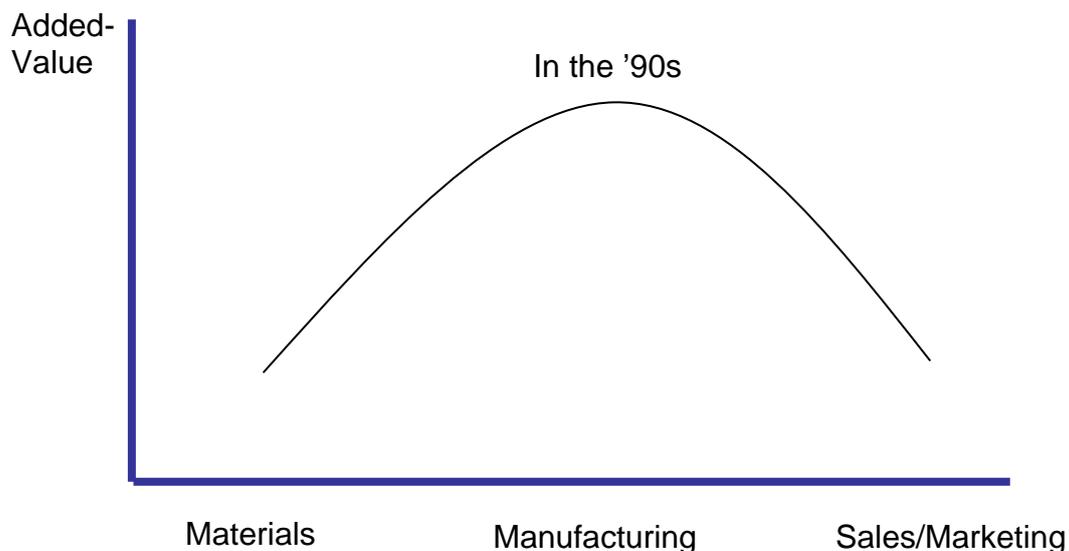
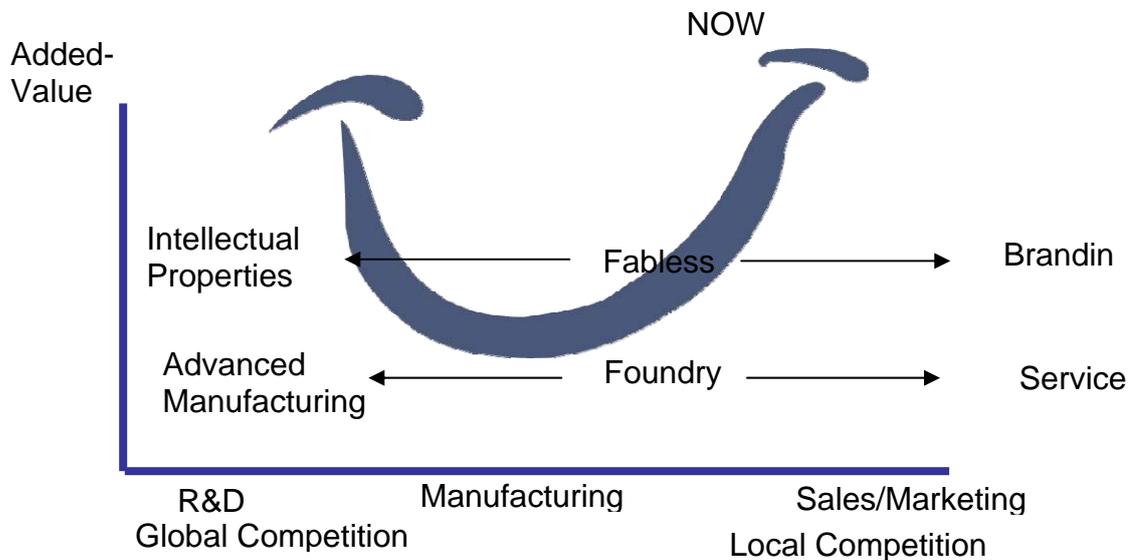


Figure 7-3(b): Current Added-Value Curve for Semiconductor Industry



There are various Smiling Curves within the semiconductor industry. The Taiwanese DRAM industry cannot get the leadership on the left-hand side—technology. For the right-hand side, the service is easy since the memory specification has been standardized and the number of customer is not big. There is no need for marketing. The only thing left to Taiwanese vendors is the lowest part of added value—manufacturing. TI-Acer Semiconductor was in this situation.

The foundry service is different. Take TSMC as an example. Currently, TSMC develops businesses toward the two ends of the curve, and enhances the customer services (right-hand side) and their manufacturing technologies (left-hand side). TSMC was a dedicated foundry service company; however, they position themselves as a service company now. A semiconductor company has to be very flexible and pays attention on product quality, yield rate, and shipping deadlines to fit a variety of customer needs. There were Korean and Japanese semiconductor companies wanting to enhance their foundry services, but lacked in flexibility and failed to succeed. TSMC provides B2B services which is the same as the ODM vendors.

TSMC's scale has reached the level of the global first tier. In terms of manufacturing scale, only three companies can be qualified as the global first-class: SamSung, Intel, and TSMC. When the scale becomes large, a company can get into the technology development substantially and become a tech-leading vendor. By contrast, IBM obtains a technology leading position through their high added-value chips for supporting the high-end computers, instead of the mass production or the scale.

Competitors in China

SMIC in China also provides foundry services. Currently they are behind on the technology—at the left-hand side of the Smiling Curve. However, they still get their market segment needs, such as the 0.25um and 0.18um technologies. Their strategies are: fight for the low-pricing markets, especially the domestic needed products in China with their tax advantage; and find some big clients to fill up the capacities. For

example, Tsuyoshi Kawanishi, ex-Chairman of Worldwide Semiconductor in Taiwan, had introduced many clients to SMIC. If SMIC gets stable by these two strategies, they can pursue the technology lead through the research and development gradually.

SMIC is still far behind TSMC. This is a similar comparison of IBM and Acer in Taiwan. In terms of full product lines, IBM is really very strong. However, if we only look at the PC market, IBM is not as good as Acer in Taiwan. SMIC is not comparable with TSMC in terms of full product lines and service scope. But SMIC is just starting. There is quite a large market demand, enough to support them for a stable stand.

I have often thought that if TSMC could set up a factory in China much earlier for the lower-end products, those Chinese semiconductor manufacturing might have difficulties to have any development. If Taiwanese vendors could provide the low-end IC from those factories in China, the customers of Taiwanese vendors would not have to talk to those Chinese vendors. After all, the customers had been working with Taiwanese vendors for a long time and were strangers to the Chinese vendors. Then, the situation would be like that in the IT industries in which Taiwanese ODM vendors control everything. The Chinese vendors could hardly have any competitiveness.

On the other hand, if Taiwanese semiconductor vendors do not go to China to build the factories, the clients will have to find the local vendors in China gradually for the cheap IC. Even though it is tough for the clients initially, once the Chinese companies get the businesses in producing the low-end IC, they will cultivate their capabilities and accumulate enough powers to compete with Taiwanese vendors one day.

To build an industry, the key is whether people can reach a standing point or not. Acer and other Taiwanese PC vendors started from the low-end products, built a standing point, and then gradually developed toward the high-level products. Most other countries did not reach the standing point before they could build an initial economy of scale. Before, the Chinese semiconductor vendors did not have a standing point and continuously lost. Now SMIC has a chance to obtain a standing point. Once they mature, there is a potential big-threat to Taiwanese vendors. Although TSMC and UMC have set up the plants in China, it is too late. They could not stop the competition from Chinese companies like that in the IT industries. Surely, SMIC has a chance of failure. However, the semiconductor industry companies usually have a huge capital when founded. Thus, they can sustain for quite a while and continue the operation through depreciation of the equipments and facilities. This will be similar to what those Taiwanese DRAM companies did before. As long as SMIC is providing services, the entire industry will be influenced.

From the Smiling Curve, See the Developing Directions of a Corporation

The Smiling Curve can illustrate clearly the distribution of industry added value and let us understand the right development direction for the entire economic entity as well as for an individual enterprise. In Taiwan, many people consider the manufacturing exit will induce the industry "hollowing out". They regard the manufacturing, the middle part of the Smiling Curve, as the most valuable portion.

Their thoughts may come from the tangible and solid job opportunities created through manufacturing.

This is not correct. Based on the Smiling Curve, giving up the middle manufacturing part or moving out the manufacturing site to a place with lower cost, and have the company move toward both ends of the Smiling Curve, will not hollow out the industry. Along with the economic growth, labor-cost and environmental cost will gradually increase. This will induce the increase of manufacturing cost or decrease of added value. The progress of the national economy requires the industries to move toward the two ends of the Smiling Curve and pursue a higher added value. Otherwise, the economic development will be idle and eventually will be weeded out.

For a corporation, the key message from a Smiling Curve is to realize which action is more valuable than the others. Every company should develop toward the two ends of the Smiling Curve, while the company is still making profit in a certain field, say manufacturing. A company should get moving. Creating the values must challenge the difficulties and break through the bottlenecks. If one does not think about the future, a disaster will come soon.

The companies on the right-end of the Smiling Curve face different challenges from those on the left-end. The left-end companies are technology oriented and face the challenge of technology shifts—new technologies can replace old ones completely. Those companies on the right-end have to improve their services gradually. It is hard to have a brand-new breakthrough, since once the service is implemented the customers become used to it. The change of a service will be made on the original base, which is different from a leap change for those left-end companies.

In the past ten years, Taiwan has aggressively reached for the two ends of the Smiling Curve; however, we have reached neither the top of the left-end, the core technology; nor the top of the right-end, branding and services for the B2C market. This means Taiwanese companies still have plenty of room for improvement.

A B2C brand is related to the effectiveness of an internationalized management. Acer gave up the manufacturing business at the end of 2000, and all employees are now working for sales and marketing, therefore Acer has more overseas employees. An internationalized management for sales and marketing equals to localization. There is less trouble for the localization of B2B businesses since English is the main language for most international businesspeople, and they use the same terminologies. However, for the B2C business it is different. B2C sales and marketing have to face general consumers, and deal with issues concerning language, channel, business credit, and collecting the payments from the customers. Everything has to follow local customs. The B2C brand competition on the right-end of the Smiling Curve is a territorial competition. To implement internationalized policies, they must be localized first.

In addition, service is also on the right-end of the Smiling Curve. Service is the realization of value. Once consumers become used to the service, it will be hard to be replaced completely. For example, television programs provide a value, even if it is just to while away time. Once the public gets used to watching the TV, it will be hard to change their behavior, any attempt to completely replace the TV will take time.

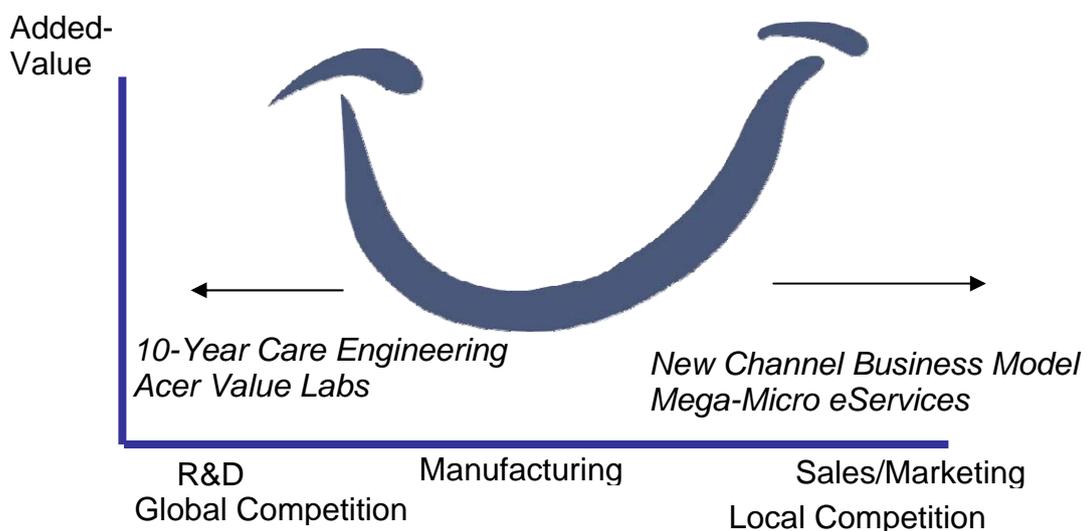
Although the left-end technologies have the potential to change human lifestyle, only the right-end service can really implement the change. Usually in an economic entity, the right-hand side of the Smiling Curve is about two-thirds of the total value while the middle part and the left-hand side together value only one-third.

Acer's Smiling Curve: Development on the Left-hand Side

In 1989, Acer conducted a change of organization. According to the nature of each business, we classified the business units into two categories: the manufacturing-oriented strategic business unit (SBU), and sales and marketing-oriented regional business unit (RBU). The SBU was in charge of the left-hand side of the Smiling Curve while RBUs were responsible for the right-hand side. For the manufacturing part in the center, the mass-production related tasks belonged to the SBU and the assembly belonged to the RBUs.

Since both sides were in the same company, internal conflicts were inevitable. This made the management complicated. In 2000, during the second reengineering we separated the works into different companies. This separation matched the tendency of the disintegration of the entire industry and made each company more competitive. After the second reengineering, Wistron was in charge of the research and development on the left-end, and the middle manufacturing part; Acer on the other hand focused on sales and marketing, with a small portion of research. Acer now conducts only the critical research and development on the right-end of the Smiling Curve (See Figure 7-4).

Figure 7-4: Acer's Smiling Curve



To enhance Acer's research and development, I initiated a "10-year care engineering" program and set up the Acer Value Labs.

10-Year Care Engineering

"Ten-year caring engineering" is meant to conduct a cultural change in Acer. Most engineers follow a technology thinking logic, instead of thinking for the customer needs, or, to care for the customer needs. An engineer has to understand the technical side as well as the consumer side. Thus, an engineer has to do the necessary research development focus for the right-hand side tasks. In principle, we outsource the works, instead of doing everything in-house, providing there are available technologies and products.

Caring for the customer requires sensitivity; while the engineering must be standardized. An engineering methodology is required to carry out the caring. We thus call it "care engineering". The formula has to be able to be applied in various domains, to be mass-produced to generate an economic benefit.

To implement care engineering, we set up the "Acer Product Value Lab" and "Acer Service Value Lab". It requires both innovative products and services to create values. In November 2003, these two labs proposed the "Empowering Technology". Starting in the second half of 2004, they began introducing products to the market. Empowering is different from caring. Caring is the motivation while empowering is the process for realization.

The Fool's Model Will Win

We can treat empowering technology as a "fool's model". This is not to say that we should make every personal computer with very low specifications. In 1996, we had a low-priced computer, the Acer Basic. But the sales volume was not good. Every consumer wanted to buy the best computer, along with a price low, good functionality, and easy of use.

A fool's model computer inevitably needs to simplify some functions. For those less-sophisticated users, they will be very happy since many functions are not useful. For the sophisticated users, the fool's model computer cannot demonstrate their professional knowledge or conduct some advanced performance. My ideal computer would cater for both groups of people.

For various other products, the fool's model has taken the advantage. For example, the auto-transmission in a car is a kind of fool's model. Technology was used to solve the problems of gear-shifting for those unsophisticated users. It is the same for a fool's camera. In the past, the photos taken by a sophisticated user and a non-sophisticated user had great difference. When the fool's camera was introduced it became very popular. Even though I had spent a great deal of effort to learn photography during my school days, and had understood all the technologies, I prefer to use a fool's camera now. I only hope the specification of a fool's camera can be better, even a higher price is acceptable.

End-to-End Thinking Model—Value Customers' Needs

The Acer Value Labs' goal is to make technology available. Dependable and easy-to-use products and services, including the fool's model, are the best ways to make the technology available to everyone. Right now, the personal computer is still not easy to use or dependable, and thus not popular. People run into barriers and have to find the answers. I use an end-to-end thinking model. There are many factors associated with the ease-of use of a personal computer, such as software, hardware, and service. I have to consider all the factors from end-to-end. Acer Value Labs' focus is not on technology development, but on caring for the needs of our customers. This is different from a competition on product, in which the focus is on the technology enhancement.

Carrying out an idea takes times. First, the concept has to be specific, and be evaluated for the value and feasibility. It takes time to verify, revise, and to promote. This is a long process. Our engineers in Acer's Value Labs have the directions, but cannot implement the execution due to their inexperience. Actually, I am inexperienced too. My experiences are more theoretical; however, I can image the ideal goal. When I have a meeting with my colleagues, I provide some ideas and let them think. I continuously pull them from a traditional thinking model to a new thinking model.

For example, as a user, I am a "fool" user. It has been almost thirty years since I stopped working on the research and development. I am not a stranger to technology development, but I am more of a fool compared with those engineers. At least, I can pretend to be a fool and propose some user problems for them to work on. When most engineers are proud of the state-of-the-art technology, they will pay all their attention to the technology, instead of the application or customers need. I have to remind them and always continuously illustrate the concepts of end-to-end, easy-to-use, and dependability to wash their brains.

This is not a problem in Taiwan only, but a worldwide issue. I have over 30 years of experience in this industry to have this vision—only when the products are developed from the consumer aspect, can they become really popular. The telephone, car, camera, and mobile phone are all examples. I believe the personal computer after ten or twenty years must be different. Today, some of us have to think about what a personal computer will look like in the future.

I cannot control which new features the consumer will accept and therefore adopt a simple policy for the new product—the functions and pricing of our computers must be competitive. It will not hurt for those consumers who buy our products without using the new features. Acer's tablet PC is an example. Other companies' tablet PC is a slate without the keyboard. Acer was the first company to make a notebook PC plus the functions of a tablet PC. The users can treat it like a notebook PC whenever they do not need the tablet functions.

Acer's Smiling Curve: Development on the Right-hand Side

On the right-hand side of the Smiling Curve, we provide two types of services: marketing service and e-service. Acer is transforming to become a service company.

Acer has kept the branded business through a New Channel Business Model and split-off the manufacturing division after the second reengineering. Meanwhile, we initiated the MegaMicro e-Service. The former is a process reengineering for the products; the latter is a new type of business.

New Channel Business Model

Acer focuses on a B2B2C marketing service. We know the end users are public consumers (C) and we leverage the channels (B). This is our "New Channel Business Model". MegaMicro e-services are also provided through the VAR (value-added reseller) channels. It is different from Dell's B2C direct-sales. We adopted the B2B2C model since the infrastructure for a B2C sale system is too big for us, while B2B alone cannot fully understand the end users' needs.

We have not been able to build up our own channel system and service system in Europe and U.S. yet. We have to leverage the channels. However, it is different from the fast-food business model. In the past, we produced the components in Taiwan, as a central kitchen, and did the final assembly in the local markets. After the second reengineering, we leveraged ODM vendors' global logistic capabilities to deliver the merchandise to our distributors, and reduced the inventory level down to one week. However, we do the distribution and carry more inventories in Asia. The New Channel Business Model helped turn our deficits into profits in Europe and America.

The common effect seen in both Acer's New Channel Business Model and Dell's direct-sales is to continuously market the newest products. Acer does not have to manufacture the products, but need to decide the specifications. The risk is not high. This business model has improved highly our competitiveness.

MegaMicro eEnabling Services

The second service business on the right-hand side of the Smiling Curve for Acer is MegaMicro eEnabling Services. This is a next-generation e-service model. There have been many models and terminologies proposed. For example, some proposed the idea of information as household utilities like water and electricity, which should be available whenever needed. This is a model of business-on-demand. Oracle had proposed a similar concept, the Network PC, which had simple clients with a complicated central.

After conducting the second reengineering for Acer's transformation, I gathered some twenty management executives to think together for Acer's future as well as the strategies to get into the e-service business. At that time, the concepts of "macro" and "micro" entered my mind. I said that we should build macro infrastructures to provide micro services. Some people did not understand the meaning of macro so we changed it to "mega" for a "Mega Infrastructure and Micro Service." Later, we decided to name the business "MegaMicro eEnabling Services".

I hope the MegaMicro eEnabling Services can be more valuable, more stable, and a bigger scale business, capable to drive more PC hardware sales.

Horizontal Integration Tendency

Acer's MegaMicro concept turns the services into a horizontal structure. In the past, services for information technology were vertical and could not be mass-produced. An application software or solution program can be applied in only one company or one industry. A horizontal service means the same service could be applied by most industries and companies of various sizes. The service becomes a utility just like everyone needs water and electricity. The market scale is bigger and the effectiveness is higher in a horizontal integration, and this is my philosophy for the MegaMicro e-Services.

I believe that once a technology reaches a certain level it will go toward horizontal integration. After fifty-year's of development, IT services remains mainly for the vertical applications, but it will definitely turn to horizontal applications. For example, the word-processing programs were vertical and led by Wang Laboratories. When the word-processing application software became horizontal and embedded into the personal computer, the entire market changed completely.

Microsoft is another example. Microsoft always chooses a horizontally integrated product, whether it is for an operating system or application software. The products can be repeatedly used and sold in large quantities. Before, Digital Equipment Computer would sell one set of operation system software; say for about US\$10,000. However, they had to invest at least US\$10 million. On the other hand, Microsoft may invest US\$100 million on the Windows® NT operation system used for a server and each set may only sell for a few hundreds dollars. When the sales volume is large, the return is high. It means that Microsoft invests an extra digit in its research capital, sells the product one hundred times less, resulting in a sales-volume of several hundred times more. This is why Microsoft has become a giant.

The software industry in Taiwan cannot expand to the scale of the hardware industry due to the incomparable demand. For example, many domestic software companies focus on government projects, but there is only one government. The products cannot be repeatedly sold. Plus the government usually gives its project to the vendor who offers the lowest price. Most software vendors cannot make too much profit from government projects. On the other hand, most small and medium enterprises in Taiwan do not have a standard operation system and cannot afford a higher fee charge. The few large enterprises in Taiwan usually have their own thoughts, without a standard neither.

In the future, if the horizontal integration software cannot dominate the industry, Taiwan has no hope. There are two reasons: first, horizontal software can be mass-produced; second, increasing the number of horizontal software can help to simplify the vertical integration. This is like building a house, if there are all kinds of building material modulus, people can select the ready-to-use materials to assemble a house. It will be different from starting everything from scratch by oneself. The computer industry is a good example too. The central processor unit, operation system, graphic card, DRAM, and optical storage devices, can be vertically integrated into one item, with the development of horizontal integration.

MegaMicro e-Services

Acer's MegaMicro e-Services are not commonly seen globally. Most small-size system-integration companies or software companies have no financial capability or resources to do it. They cannot sustain until the markets are mature enough for the profits. For those big computer companies, even if they have thought about the idea, they cannot enhance the original service-style businesses and concentrate on MegaMicro e-Service only. In the beginning the business size and contribution from MegaMicro e-Service may be too small to justify for these big companies.

However, Acer is not a systems-integration company, nor a software company. We do not have the burden and can insist to do only MegaMicro e-Services. After our analysis, the investment on MegaMicro is within an affordable the scope. Once we succeed, the added value will be very high.

The Mega Infrastructure is composed of software, hardware, and networking. Software includes a platform and all kinds of solution software; hardware includes data center, server, and networking; and networking can be integrated through the networks owned by ISP vendors.

The lottery is a typical MegaMicro e-Service. Although the trading is done through B2B, the applications are basically B2C. The mega infrastructure of Acer's lottery system is composed of five central computers, with peripheral computers for the points of sale or terminals for selling the lottery tickets. All the central and peripheral computers are connected through networks.

In the future, the mega-infrastructure and micro-services will extend to the home. A personal computer at home will become the terminal. As far as the computer at home should be purchased by the consumers or owned by the service-provider, it is not for sure yet. This is like the telephone company will route the line to each house while the telephone set may belong to the householder or to the telephone company.

Acer's MegaMicro e-Service has currently a business scale of more than NT\$1 billion, representing only 1% of Acer's revenue. In 2004, it will break even and in 2005, it is expected to make profits. It will take time for this new service to become fruitful, maybe after three to five years.

Chapter Eight *Creating A Brand Value*

Commercial versus Consumer Brands

Branding can be generally separated into two categories: business-to-business (B2B) and business-to-consumer (B2C). (See Table 8-1.)

Table 8-1: Commercial Brands vs. Consumer Brands

Commercial Brand	Consumer Brand
Hundreds of professional clients	Millions of general consumers
Sales by rationality	Sales by perception
Few customers, shifting orders with huge impacts	Discrete customers, with slow change of purchasing
Repeated purchase on the same product	Repeated purchase of the same brand, but different products
Image near the reality	Differences between image and reality

A commercial brand usually uses its company name as the brand name. Commercial brands are evaluated by their customers according to their performances on product quality, delivery, and services. Commercial brands face several hundreds of customers, who can easily and rationally judge on the companies' professionalism. Thus, the brand image is close to the reality. A customer only needs to check if the conditions fit and compare among a few vendors. However, the transfer barrier is very low. If there is another company gaining the customer's consensus with a lower price and better conditions, the customer will shift the orders. In addition, when the procurement quantity is huge, the overall price changes significantly with a small change of a unit price. However, for Taiwanese ODM vendor, their customers will not transfer the orders rashly. They equip the capabilities of logistics and design, and enlarge the transfer barrier. Especially, the service standard of a foundry service is very high. Not only are high capitals and excellent services needed, but also strong technologies are required. Once the cooperation relationship is built, the customers will have a hard time to transfer the order arbitrarily.

Building a B2C Brand

A B2C brand has to face millions of consumers, far more than B2B brands. Most B2C customers are ordinary publics who have no professional knowledge of the products. When they choose branded merchandise, their perception is more important than the rationale. Therefore, there is difference between the brand image and the reality.

The effectiveness of a B2C brand has nothing to do with the company size. A bigger company requests a higher marketing cost and takes more sales volume to balance the expenses. To build a B2C brand requires a good and innovative product, and a simple brand name. A simple name is easy to remember. For example, Sony, Nike, and SK

It are good brand names for the B2C markets. In 1987, Acer was planning to change the original English name, Multitech. We set up a rule—no more than five letters. After screening over ten thousand names, we chose Acer.

Another condition to build a good B2C brand is quality, which has become a necessary condition now. And, if applicable, service is important too. A good service generates public praise and is good for building a B2C brand. But the influence of public praise is slower.

A good B2C brand takes a few advantages: a consumer usually buys a branded product for a peace of mind, and will not turn to an unknown brand quickly. This means the branding company has more time to prepare a new product. On the other hand, for a B2B brand, once the product development gets behind, the customer may turn to the competitors soon.

A good brand helps the company to have a long-term stable business too. Once the brand image and sales systems are built, they can be leveraged for a new product to generate synergy and multi-folds of benefit. If a new product has a different image and positioning, a sub-brand or a second brand has to be built. Acer notebooks have two sub-brands, TravelMate and Aspire. Toyota has a second brand – Lexus.

If there is no conflict between two brands, the first brand can carry the second one. For example, P&G has many products, belonging to various brands. However, their sales channels are very close. The new product can go through the original channel for sales, which illustrates the impact of a brand on the long-term corporate operation. After the separation of the Acer Group, Acer's monitor sales quickly took the first place in Europe. This is due to the same sales channels for both the monitor and PC. For Acer, we just needed to add one or two employees for the new businesses. This is a branding effect.

To well utilize the current sales system, Acer must stay in the personal computer domain and keep to IT or PC-centric products. We have to think of a way to connect the image of all digital products with IT. If we deviate from this image the business will enter into a new arena, and have to fighting alone. This will not be favorable for us. For example, when we have a television product, we will not position the product as a television only. Therefore, we will not need to fight with those consumer electronics giants.

Branding is a Process of Accumulation

When a consumer or a client chooses a brand, they are thinking of two things: dependability and worthiness. Dependability means if the buyer can anticipate the performance of the branded product, in both the B2B or B2C markets. Worthiness means the value judged by the buyers. The B2B clients know the product development well and have enough information to appraise; while the B2C consumers do not understand the products — for those customers the branding image becomes important.

A B2B brand image has to rely on the public praise, slowly built through sales instead of advertisement. For B2C markets, the influence and speed of public praise are too

slow. B2C marketing has to go through public relations, advertisements, and various marketing activities to build the image.

To impress the consumers a brand image requires frequent repeats of the branding activities. Building a brand is an accumulation process. A brand image may be famous within a short time, but may not be able to sustain. I always say a brand is like the phenomena of the persistence of vision. It has to repeat every twenty seconds otherwise it will be forgotten. However, if the branding is always the same old story, even constant repeating will be hard to stimulate the impression. It needs to be innovative. Innovation is always impressive. Design, technology, and even color can be innovative. Meanwhile, you have to build, on various media, many kinds of impression, such as having a new product twice a year, conducting many talented events, and repeating the branding activities regularly.

An enterprise should leverage the corporate events and products to build the brand so that the corporate values can echo within the brand name. Implementation of the branding works can be separated into two parts: the tangible and intangible. The tangible portion comprises of the corporate identity system (CIS) and product identity (PI). This is like BMW vehicles and Cross pens, products with distinct styles. The intangible portion is mainly the innovation. Branding must be consistent and must combine the tangible and intangible portions. For example, BenQ has set its brand image as being vigorous in enjoying the fun technology. All their advertisements and product designs have to fit this image.

Stan Shih's Value Formula

Creating a brand requires making a differentiation. This differentiation has to be valuable to the consumers. It applies to both B2B and B2C brands. Take the B2B brand as an example. If you can shrink the product delivery period from five weeks to one week, you make a differentiation of speed and generate the values for your customers.

In addition, a corporate has to create new values continuously. Since any value you create today, someone else will catch up one day. Unless your innovation is like Wintel (Microsoft Windows and Intel CPU), which controls the industry standards and, with the protection of copyright laws, do not allow other companies to get into the same business easily. To create new values continuously and build the competition barriers can help to command your businesses effectively.

Brand Values

I had proposed a formula for the brand value:

Brand Value = Brand Positioning X Brand Awareness

- Brand positioning does not mean only the pricing range. More precisely, it is the premium between the value and the cost. In other words, it has nothing to do with the absolute price. As long as the premium is high, the brand value can be created. If the cost is higher than the value, the value created is not good enough; even if the price is high, there will be a deficit.

- Brand awareness can be divided into the appearance in media and in physical visibility. Appearances in media represent different kinds of public relations, advertisement, and various events. Physical visibility is the exposure of a product. For example, we see a Mercedes-Benz car on a street or see an Acer computer in a friend's house. These are examples to create public praise and awareness through the physical appearance. The higher the market share, the higher level of awareness it brings.

Depending on the company size, the ways to increase the brand value will be different and the challenges are various too. For a well-known big company, the operation focus is on the positioning. For example, IBM is famous. How to let the personal computer businesses make profits and generate a premium is its biggest challenge. For a small company, usually the product is more innovative with a fixed positioning; in this case the company should work on brand awareness with which it can position the brand on a firm base. Then, it can replicate and expand the branding works effectiveness.

For an advanced analysis, brand value is also a function of the replication cost. The formula can be rewritten as:

Brand Value = Replication Cost* + (Brand Positioning X Brand Awareness)

*Replication cost means the cost to rebuild a new brand

Take Acer as an example. The Acer brand has certain brand awareness. However, the branded business made only little money before; the brand positioning was very low. After an evaluation, we found the Acer brand was still valuable due to a low replication cost. Thus, in the second reengineering, we set the purpose of the transformation to enhance Acer's brand value. It takes time and money to generate significant brand awareness. We started from brand positioning.

Brand positioning consists of the two factors: price and cost. For the current PC market, it is not easy to raise the price. We have to drop the cost, not only the product cost but also the cost from end-to-end, from procurement to distribution. We then can generate the premium, and generate brand value.

According to the brand surveys for the Taiwan Top-Ten International Brand in 2003, and 2004, conducted by the Bureau of Foreign Trade of the Taiwan government, Acer ranked at the third place. The top two brands were Trend and Asus, respectively. Both brands exceeded the Acer brand because of their leading in brand positioning.

The brand of Trend Micro Technology did not have an extremely high awareness indeed. Even people have the embedded software in the computers; they may not know the company well. However, Trend's brand positioning is very high since their market share is about 30% to 40%, with high sales volume and almost zero cost. The premium is high. Like Microsoft, their brand values are attributed to their brand positioning.

Asus also relies on its brand positioning. Asus' main product is the motherboard. It leads the competitors in two ways: the new products' time to market and product

quality excellence. Both enhance the brand positioning. As for brand awareness, Asus has both B2B and B2C customers. It focuses on the clone markets, in which students are the major customers. Most corporate accounts do not know Asus products well.

Right now, Acer's brand positioning has been improving, plus Acer's awareness has a solid base after twenty-some years in operation. In a few years, I expect our brand value will exceed Trend and Asus.

Corporate Value

Brand value is critical to the corporate value. Corporate value is based on if the business is profitable, including making profits for now and for the future. Making profits in the future requires the development of core competence and technologies. In addition, there is one important factor which is intangible and effective for a long time — the brand.

In other words, brand value is the core of corporate values. It is related to the cost of corporate loans, employment of talents, and channel partnership. Generally, a high brand-value company has a lower sales operational cost. Depending on the products, brand value has various impacts on the corporate value. For more consumer-oriented, public-oriented, and popular merchandise, the impact of branding is more important. For a B2C brand, the brand value has a higher weight percentage for the corporate value. Brands like Coca-Cola have an even higher impact on the corporate value. On the other hand, a B2B brand has less impact to the corporate value.

My formula for corporate value:

Corporate Value = Value Creation Capability X Value Delivery Capability

- Value Creation is the upstream, including research and development, and manufacturing
- Value Delivery is the downstream, distribution and service. If the products cannot be distributed to the customers or the company cannot provide a good service, even the best product cannot deliver value.

Take Sony as an example. Based on Interbrand's Best Global Brands by Value for 2003, Sony was out of the top ten. Sony had a very good operating system. However, it could only have a limited contribution to the corporate value due to the high cost of each segment in the end-to-end process. Reviewing the corporate value has to consider the various cost. My formula of competitiveness:

Competitiveness = Sum of (Value/Cost) in various activities

The competitiveness of a corporate is equal to the sum of the ratio of the value over cost for each activity. When the ratio is higher than 1, the value is greater than the cost. When the ratio is lower than one, the activity will weaken the overall corporate value and cannot make profits.

Sony is strong in the front part of creating value. Its research and development capability is very good. But the cost of the engineering and manufacturing is too high. Through the current sales and service systems, Sony has no problem on the value implementation of those consumer electronics products, such as the digital camera. However, as the consumer product tends to become popular merchandise with decreasing product margin, they need to have enough premium and quantity to support the cost of huge sales and service systems. Currently, Sony's problem is the low effectiveness on the overall operation. In addition, these current sales and service systems are not necessary the best fit to the personal computer product. Sony may not be able to earn the profits in the personal computer businesses.

Table 8-2 Meaning of Value-Creation Formula

- Brand positioning must be clear. Otherwise, the brand awareness cannot have a positive effect.
 - Brand positioning requires innovation; brand awareness needs time, money, and innovation as well.
 - Creating brand value requires understanding of the markets, the intelligence properties of research and development, and brand image.
 - Brand value delivery is based on controlling the overhead cost, increasing logistic efficiency, and improving the service satisfaction.
-
- Brand positioning must be clear. Otherwise, the brand awareness cannot have a positive effect.
 - Brand positioning requires innovation; brand awareness needs time, money, and innovation as well.
 - Creating brand value requires understanding of the markets, the intelligence properties of research and development, and brand image.
 - Brand value delivery is based on controlling the overhead cost, increasing logistic efficiency, and improving the service satisfactory.

Using the Brand Value Formula to Analyze the Personal Computer Industry

In analyzing the personal computer industry by the brand value formula; dedicated PC vendors, like Dell and Acer, create more corporate values than those companies whose main businesses are not personal computer, such as IBM and HP.

Dedicated Personal Computer Vendors

Among the global top-ten personal computer brands, only four of them are dedicated PC vendors. These are Dell, Acer, Apple, and Lenovo. Currently, these four companies are all profitable.

As the PC margin continues to decline, vendors have to reduce their end-to-end cost. Otherwise, they will lose competitiveness. Usually American brands have a higher cost. But Dell conquers the problem. Dell has adopted a direct-sale business model to reduce the operational cost and risk to the minimum. Dell can create value quickly, since they have fewer inventories, the speed of new products to the market is faster.

I recall clearly, when Dell first appeared in the market, its advertisements focused on comparing the price with Compaq's products. Dell's pricing was about 20% to 30% lower than Compaq products with similar specifications. Initially, Dell's image was not high, but as the sales volume increased, Dell had become the most profitable company. Dell now occupies the biggest market share and enhanced its brand value. In contrast, Compaq's cost was too high and could not squeeze any premium for the product sales. Both Compaq and Dell are dedicated PC companies. They will be highly impacted whenever the PC market is at a down turn. They need to enhance their brand value to survive. Lenovo has a good brand value. It has built a strong brand positioning and awareness in China. However, Lenovo has not entered into the global market yet. Due to high overhead cost and the failure of diversified strategies, Lenovo announced a layoff plan in March 2004, and terminated some businesses to focus on the personal computer arena. But, the layoff — more or less — had influenced Lenovo's image.

After the second reengineering, Acer transformed itself and enhanced the brand value. Among the top-ten PC brands, Lenovo's presence currently is limited to China while Apple only goes for the niche markets. I believe the Acer brand within the personal computer domain, is in the top-three ranking, or even only second to Dell.

The PC Vendors with Other Core Businesses

There are many PC vendors whose core business is not the PC, such as IBM, HP, Sony, Fujitsu Siemens, NEC, and Toshiba. Their brand value in the PC market is not high. This is not due to a lack of brand awareness, but lack of brand positioning.

NEC's personal computer business was profitable in the earlier stage since it had monopolized the market in Japan. However, its products were not compatible with the IBM PC, preventing NEC from creating value for customers, and export to the overseas markets. Later, NEC's market share in Japan dropped from 50% to between 20~30%. Sony on the other hand focuses on the niche market and high-premium products. But I still question how much profit margin Sony can earn. Neither do I believe Fujitsu-Siemens is making significant earning on its PC products.

Toshiba had been leading in the notebook PC arena. But recently, as the notebook PC has become a commodity product and competitors such as Dell and Acer appeared, Toshiba started to face the hardship. Toshiba was not good in the commodity product field. They should let the PC department work independently.

IBM is not profitable in the PC business either. Similar to Compaq, originally IBM's brand position was very high. Its products were highly priced, with high margin, and high cost. As the situation of the PC industry changes, IBM cannot keep to the high pricing and high margin, but its cost remains high. IBM's overall PC brand positioning has dropped. I think, if IBM sells the PC business, its brand value definitely will be higher.

HP's personal computer businesses have only little or negative profit margin. HP's merger of Compaq did not create a synergy effect. The personal computer business, after the merger, continued to shrink, and their total volume was less than the sum of

the original two companies had. The New HP relied on reducing the cost to gain profits. However, it is still doubtful if it can sustain in the long term.

For HP, the real money-making businesses are printers and high-end computers, instead of personal computers. HP's printer business unit faces two strong competitors now. Dell has decided to enter into this business. Dell, in a threatening matter, has been well-known for a low-cost, high-efficiency operation. In addition, IBM is going for the high-margin business of the laser-printer ink cartridge with target price only half of HP's products. If HP cannot stop the low-pricing challenge from the new competitors, the whole company will suffer from the drop in profit. This is going to be a huge impact on HP.

Texas Instruments Dropped the Business to Reverse the Brand Values

Texas Instruments (TI) provides a good reference for those PC vendors with a negative brand value. TI ended its entire PC business years ago. TI first dismissed the desktop PC division, and then sold the notebook PC business to Acer. TI paid Acer about US\$100 million for this agreement. However, TI earned about US\$100~200 million from the deal. TI's stock price rose right after the announcement. Does the brand have a value at all? For TI, the brand value for the PC business was negative. Its brand value increased kicking out the PC business. Doing a brand business requires a solid operation. Doing something on the surface level will create problems sooner or later.

IBM will have a hard time if it wants to cut off the PC business. After all, IBM was the first company that provided the personal computer products. If IBM no longer sells PCs, people will not see the IBM brand in the enterprise offices; even if IBM still exists as high-margin mainframe computers and servers. This will be a big change for the IBM branding.

Brand Inspiration

SamSung's Brand Experience

For Taiwan's IT industries, the SamSung brand from Korea may be inspiring. SamSung develops their B2C brand on the top of B2B brand. In the earlier stage, SamSung had many mass-production B2C products, such as low-pricing microwave ovens and televisions. The premium was low and there was no brand value. Recently, its B2B brand has been excellent. SamSung is leading in DRAM, TFT-LCD, and CDMA technologies, ranking No. 1 worldwide. SamSung's CDMA has built its leadership in the CDMA mobile phone markets and successfully developed a strong B2C mobile phone brand. In the future, its TFT-LCD technologies are expected to build another strong B2C brand for the LCD TV markets.

Another factor favoring SamSung is the rising of its brand awareness. SamSung has continuously spent much cash to generate its brand awareness steadily for the last few decades. As the brand positioning elevates, the brand awareness increases, and the brand value has raised several-folds. Acer is in the same situation. After the second reengineering, the brand positioning or the brand value has generated through the decrease of cost and the time-to-market.

Brand Value in the Auto Industry

Some brands rely on brand awareness to increase the brand value. In The Best Global Brands by Value for 2003, a survey by Interbrand, Mercedes-Benz ranked in the tenth place. Although Mercedes-Benz did not perform outstandingly in terms of revenue, its brand has been very famous. Mercedes-Benz vehicles are running on the road. The physical sightings enhance the brand awareness; even kids know the brand. Consumers buy Mercedes-Benz cars due to product quality as well as the brand image. Mercedes-Benz and BMW, also known as the "Double-B" cars in Taiwan, have extremely strong brand images in Asia, far above than another European car, Audi. Thus, the premium of the "Double-B" cars is much higher than that of Audi in Asia, and the premium difference in Asia is higher than that in Europe. Recently, Audi has produced some good car designs. With its image-boosting advertisements, Audi's image in Taiwan has gradually become stronger.

Among the three brands Audi, BMW, and Mercedes-Benz, the latter has shown weaker performance recently. There are two reasons: first, the Mercedes-Benz car design is aging and cannot attract the new young buyers. Second, Mercedes-Benz's cooperation with Swatch for the low-end Smart car has hurt its brand value. On the other hand, Toyota set up another brand Lexus, with a distinguished and independent brand operation. The new brand Lexus with a higher pricing and brand positioning will not pull down the brand value of Toyota.

The motor vehicle industry is different from the personal computer. There is evident product differentiation among cars — differing functional needs and social images. However, the image will change. Volvo had gained the consumer's consensus for its safety-oriented designs. But it is no longer popular since the difference from other cars is small now. Volvo has now changed its strategy to focus on young buyers. The recognizable square-shaped car has been changed to accommodate a younger style.

Simplicity is the Key to Value Creation

Simplicity is the key for brands. Take Coca-cola as an example. Although it has many products, the strongest product is Coke. One strong branded product is enough. Based on the same reason, Acer and BenQ each generated higher brand values after the separation. Now, both companies have their own marketing resources to build their own product images. Combining various products into a same brand will not only create a brand conflict but also delay product output, which are not favorable to the brand value.

Asian companies tend to have a diversified development, while U.S. companies, facing a big market scale and fierce competition, prefer to focus on a simple direction. The new Acer wanted to build a global brand. We could only learn from the U.S. companies, in raising the operation efficiency. Asian diversified cultures were initiated by Japan and Korea; in both countries the conglomerates own the most resources. The conglomerates usually own many diversified businesses and cannot create their brand values effectively. Initially, they use the same brand name in multiple applications. It seems the more you use the brand, the better the brand will be. In fact, most are the losing cases. I always say, if the Taiwanese food company Uni-President decides to sell electronic products, for sure it cannot do a good job.

Uni-President does not have the right brand image, and neither understands the business.

If one of the diversified products fails, the whole conglomerate will be influenced. While Acer had a deficit before, the other member companies in the Acer group had to claim their independence from Acer. For most people, they will relate any failure to the whole conglomerate company, as well as all the subsidiaries. The brand and corporate values will both be impacted.

Challenge of Building International Brands

I have many ideas on branding, many of which enterprise executives, consumers, readers have never thought of. I have learned many lessons from my branding operation processes in the past. My ideas may not be applicable to other countries or regions. Hong Kong, Japan or the Southeast Asia countries may have different reality environments. They may not agree with me, or they may agree with me but cannot implement it. They have gone on the road of conglomerate and diversification. They are not able to change.

A conglomerate system is good only in a non-free, not-yet-internationalized environment. Under the government's protection, the social resources are manipulated by a few conglomerates. There are such cases in Japan, Korea, and Southeast Asia. In Taiwan, as long as you are innovative, you are able to be the leader of the stock-price-per-share tomorrow. Everyone has a chance to gain the resources that is the same in the U.S. Therefore, there are so many emerging companies in the U.S. and in Taiwan.

In a worldwide competitive environment, even if one owns all the resources in Japan or Korea, there is always a bigger resource in the U.S. In a free competition environment, a conglomerate's diversified business is not the ideal way. Acer emphasized "focus and simplicity" during the second reengineering. Operating an enterprise means concentrating on one product to create ten times of value, instead of working on 10 products to sum up to the same total value.

Taiwan is a small market. If a company wants to get into the international arena, they must focus on one business only. The best example is TSMC. In the past, there were so many huge diversified conglomerates in Taiwan, but none have fared as well as TSMC who concentrated on the foundry services. In the future, these old conglomerates will be smaller than a dedicated TFT-LCD company, AU Optronics. This is the power of the simplified and focused approach.

The Taiwanese brand with the most potential to become a worldwide No. 1 brand should come from the food industry. The value of a brand can be generated by replication, including the replication of the same product or related products. Replication requires a big market. China's great population is a good one. In 1970, while I was visiting Thailand, Uni-President Enterprises had a product called "Mom Noodle" on the market. It has been thirty years already. Uni-President had to rely on the China market to become a worldwide top brand. The research and development of foods involve studying the local culture. The U.S. food industry had transformed the other regions to accept the American style to reach such a significant scale. That

is why Taiwan's food industry needs the Chinese market to become one of the top brands worldwide. However, China's food industry still has some way to go before establishing itself as a world leader.

China's Enterprises Making Their Mark

In reviewing China's local brands, the most promising brand is Haier in the home appliance industry. Haier is a leader of the white appliance (refrigerator and air conditioner) market. It has reached an economy of scale by lowering costs, plus there are not too many competitors in this arena around the world. Therefore, Haier is considered to have the potential to deliver its brand value internationally.

China's TCL group is also going for the international business aggressively. But, it bears a great risk. In November 2003, TCL and the French home appliance giant Thomason merged the companies' color TV and DVD businesses into a new company. In April 2004, TCL announced a joint venture (JV) with Alcatel for a new mobile phone manufacturing company. In both investment cases, TCL owned more than half of the shares. I think TCL should target the mobile phone business for the China markets. The international markets are not easy for them.

In the international markets, TCL's JV with well-known French companies can generate awareness immediately. However, the management problems will come out slowly. I doubt if they can create a premium in brand positioning. In the mobile phone domain, TCL has to face Taiwanese competitors who have OEM contracts with the most famous international brands, and can maturely operate the international businesses. TCL may not be competitive internationally.

I also doubt if TCL has the capabilities to manage those JV companies. Alcatel is very good in the wireless communication systems, but not the mobile phone. Thomason has many problems and burdens. These two JVs may become a negative brand value for TCL.

There is hardly any successful merger case in the worldwide IT industry, because dynamic changes are the nature of IT industries, leaving little time for companies to adjust and improve. The speed of decay is usually far greater than the improvement rate. Samsung's acquisition of the U.S. company, AST, was a lost case. Acer's purchase of the U.S. CounterPoint and Altos both failed. Neither did Acer have any success in Germany and Holland. Later, Acer bought Texas Instruments' (TI's) notebook PC business. The merger itself was not a successful case. However, TI's European team stayed with Acer and has created the market shares and profits for Acer.

Acer also had a chance to buy Siemens' PC businesses. I feel fortunate that the deal was called off. We did not have the international capabilities to merge those international enterprises. A successful merger requires not only the management capabilities but also the time to digest.

International Management Capability

Building a brand image is only a part of international management. Coca-cola and McDonald are successful not just because of their brand effectiveness. They have a strong international capability. The global brand value should be the sum of the regional brand values, as follows:

Global Brand Value = Sum of (brand positioning X brand awareness) in different markets

A brand value may be negative in some regions. A negative brand value will influence the brand values in the other regions. A regional branding can be created through localized management, which is a sort of international management capability.

According to the brand value formula, Acer has a positive brand value in Taiwan and in Southeast Asia. Acer's brand value in Europe is increasing. For the U.S. market, Acer has improved from the negative toward a neutral positioning. In China, the brand value is positive, but not high. Therefore, Acer has to focus on enhancing the developments in both the U.S. and China markets for a higher total brand value.

Chapter Nine

Foundation of a Sustainable Enterprise

Corporate Culture

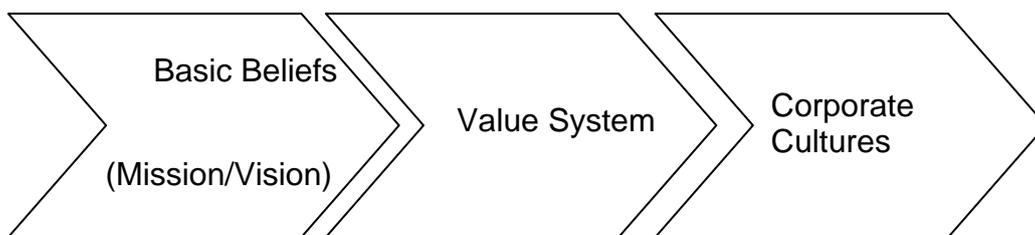
When I first started my business, there were many public media reports on the subject of corporate culture. Some famous books, such as Tom Peters' "In Search of Excellence" considered corporate culture as a critical element within corporate operations. I realized the importance of corporate culture and I have built Acer's corporate culture since the first day.

Building a Corporate Culture

Corporate culture, in a few words, is the value system accepted by most people in a corporation, which shows in their daily work behaviors. If a corporation does not intend to build a corporate culture, internally – the corporation will be impacted by the outside social culture. The social culture is not necessary what the corporate leader wants and can induce an ineffective operation. Thus, the leader has to aggressively build the corporate value and culture.

Corporate culture derives from values based on basic beliefs. There are two kinds of basic beliefs: one is the corporate mission to pursue the goals and the other is the operational approach, such as humanity management, profit-oriented, or social contributions (See Figure 9-1).

Figure 9-1: Establishing a Corporate Culture



The corporate mission does not have to be idealized. Some people emphasize that visions should be set high, and implemented gradually. That is not the point. I think a higher and farer vision will create a longer process to succeed the vision, and relatively, the success will be longer-term and more significant. If a vision is achieved within three to five years, a new mission and value have to be defined. In case there is a conflict between the new and original visions, it will become troublesome.

When the level of idealization is too high, sometimes there will be problems. For example, if there are too many items, there is the potential of neglecting some parts of the mission; if it is too idealized, the goal may not be approachable. Once you over-

Speak the vision, you will lose the support from the investors and the employees. And the corporation will not be able to sustain.

Acer's Corporate Culture

Not every corporate founder has enough thoughts about the corporate culture at the beginning. I had thought about it thoroughly from the first day of Acer, due to prior experience at Unitron and Qualitron. Acer has gradually developed its ideas and mission. During the last twenty-eight years, even during the reengineering periods, Acer has never changed the most basic beliefs and values.

My original thought was that the Chinese should not miss the opportunity of the second industrial revolution. Later I had hoped the Chinese could out-perform on the international high-tech stage.

In 1986, 10 years after I founded Acer, I proposed the thought of "Chinese Dreams Come True". At that time, the young people were well educated. Many of them went overseas for advanced studies and stayed there. What were the most meaningful things for those who remained in Taiwan? There were not too many job opportunities. The young people did not have too many choices. Therefore, my thought of "Chinese Dreams Come True" built a dream for them. When I discovered the potentials of microprocessor — along with my partners — we all thought that we should catch the opportunities of the second industrial revolution and generate the Chinese economic powers. Therefore, we set a mission for Acer, as the "gardener of the microprocessor" to make the microprocessor technologies available to all.

Following the company's basic beliefs, a corporation can generate value systems and build a corporate culture, both of which will dominate the business development as well as the behaviors of employees. Some corporate cultures will never change, while others need to be adjusted according to the company changes.

When a corporation expands in terms of its business and number of employees, the internal communication becomes tougher. It is necessary to simplify and revise existing corporate cultures. When Acer was ten years old, we conducted a high-level management meeting and reviewed the key points of our corporate culture. We developed a new statement of to describe Acer's corporate culture: the human nature is good at heart; be pragmatic and accountable; share the wisdom; and the customer is number one. Later we found that "human nature is good at heart" risked generating too many misleading messages, thus we revised it to "management based on human nature". These beliefs were changed again after the second reengineering.

I had aggressively built Acer's corporate culture while the company was relatively small; different from traditional ways since me too is not my style. For example, experience sharing is good; however, there is no environment to implement it. Most people do not have the confidence and therefore do not attempt to share their experience. In the earlier stage, I worked very hard to build such an environment to promote experience sharing and communicate the values among employees. The questions I raised, for example, were: who should be responsible for training the talents for the society? What did you feel when the trained talents moved on to other companies? In my view I was willing to train the talents and contribute to the society;

even if they might move on to other companies. This is the value of experience sharing to make the training effective. This value focuses on training more talents for Taiwan.

Effectiveness of the Corporate Culture

In the process of building a corporate culture, it usually becomes relatively ineffective at the end. This is natural. As the number of employees increase, the corporate culture needs to be simplified — like a slogan — for better communicate. I used to do the training on corporate culture myself. Then, the responsibility was shifted to Acer's human resources and education training departments, even though they might not clearly understand the nature and history of Acer's corporate culture. John Wang, current vice president of Acer Foundation, is one of the people who can introduce Acer's corporate culture very well. However, I am the only person in Acer who can explain exactly the development of each process as well as the background of the thinking logics, and the very deep level of emotion.

The influence of culture is related to the power of a nation. A powerful nation thinks its culture is good and everyone believes in the culture. On the other hand, a weak nation will continuously review its culture. The same situation is applicable to a corporation. The effectiveness of a corporate culture often depends on the business performance. In the early nineties, the business operation of IBM was at a downside. IBM's corporate culture was criticized by the public. Acer's thinking of "the human nature is basically good". When our business performance was good, people attributed the main reason to the corporate culture. And when Acer's performance was poor, people also attributed it to the same reason. Indeed, every institute has both the positive and negative sides of corporate cultures. When an institution is powerful, people usually see the positive side of corporate cultures and the negative side will be diluted.

The Right Time to Build a Corporate Culture

The best timing to build a corporate culture is when the company size is small. It will take a longer and become increasingly more difficult when the scale becomes big.

When the business performance is good, employees will naturally believe in the corporate culture. The corporate culture becomes powerful. If an institute has no corporate culture or the corporate culture is not good, the leader must construct new ones.

To change the corporate culture, a company must explain clearly the reasons of its new values and new beliefs. The most effective way is to award or punish the behaviors based on how they fit in with the new values. Then, the corporate culture can be promoted.

Timing is equally important. In a transition period, it is hard to build a new corporate culture. In the early nineties, I had discussed with the Japanese branch of McKinsey & Co. on this issue. They told me the employees would have a hard time to believe in new the corporate culture while the company was in a transition period. Therefore, we continued our discussion two years after the second reengineering.

After the new corporate culture was set, we promoted the values in many ways. We announced the best performing business unit and gave the rewards during the quarterly meetings. Praising employees is important. By recognizing those who have implemented the corporate values, we help other employees to realize the importance of the corporate culture.

Passing-On the Corporate Culture

Corporate culture has to be passed-on among the employees so that it can be implemented in the daily behaviors. Since I can only influence a limited number of people, the corporate culture has to be illustrated by the middle managements at various levels. If I can influence one hundred people; each management at my subordinate level can influence 50 people; those at the following level may have a weaker impact. In the third and fourth levels, those managers interpret the corporate culture through their behaviors, instead of through talks.

I have pointed out that the management at each level has to catch the basic concepts of the corporate values and demonstrate them in their own ways. Corporate culture is built slowly by cultivation. There is no fixed mold to transform everyone. Some industries, say the beauty salon, request employees to wear uniforms and recite the slogan loudly every day. The corporate culture is cultivated from the appearance. Acer does not request consistent appearances, since a high-tech company is based on the brainpower in the research and development.

Surely, by letting each individual management to interpret the corporate culture may induce some deviation. The subordinates of a management, whose behavior is against the corporate value and culture, will be impacted. Then, we will need to find out the root of the problem. If the management's problem is due to a lack of experience, we will need to enhance the training and communication. If the management does not support the corporate culture, we will prefer to let go of the management.

I cultivated the corporate culture since the first day. Little by little, I gained so much feeling of achievement because I was making histories. I felt the same in conducting corporate reengineering. On the other hand, I do not feel as intensely my achievement while the company is running smoothly and earning profit, due to the lesser challenge to my life. The breakthrough in a hardship makes me feel that I have gained a greater accomplishment.

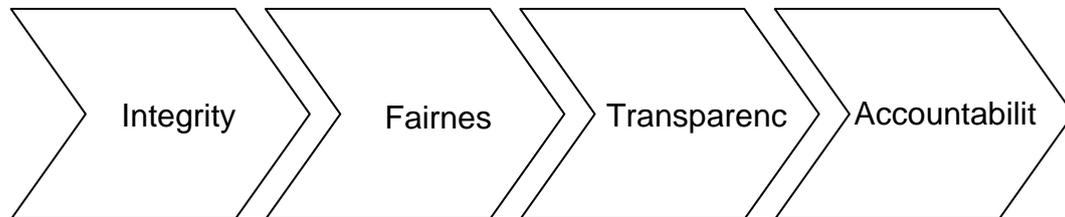
Corporate Governance

Myth: the person in charge of the company perceives that he or she owns the company. It is logical to hand over the operation to his or her children.

My thinking: the person in charge is only one of the shareholders. Unless he or she owns one hundred percent of the company, one should not consider it a "family company". It is unfair to pass the operation ownership to the children of the person in charge. The children are not necessary the most capable persons to manage the company. In addition, this will block other candidates' opportunities and will not necessary be favorable to the company.

The case of Enron in the U.S. made the public realize the importance of corporate governance. I think corporate governance is a part of corporate culture. Corporate governance is based on governance culture. I use four words to illustrate it: integrity, fairness, transparency, and accountability (See Figure 9-2).

Figure 9-2: Acer's Corporate Governance



Integrity

The importance of integrity is well known. However, there are still so many unfair practices in the society. For example, decision-making in favor of personal interests in a corporation is a common practice in Taiwan, even though we have been educated that such behavior is wrong. If we treat those integrity-lacking behaviors as acceptable, the whole governance culture will have many problems.

To avoid this situation, I clearly separated my personal interests from the company's interest. For example, I will not handover the operation rights of Acer to my children because the company is not mine. Although I am the founder and the biggest shareholder, there are still so many other shareholders. I cannot treat the company as my personal property. This is my value system. I think a company should start from the corporate value and culture, and then solve the issues of corporate governance.

Integrity problems usually occur among employees, business partners, and consumers. To truly promote integrity requires execution capability and experience. In case there is a problem of integrity due to poor execution, companies should not cover it up and should admit the mistake frankly, then try to improve it. If employees do not carry out the principles of integrity, they will create a bad operational situation, which will result in far worse consequences.

Fairness

The second element of corporate governance is fairness. Most fairness issues occur among shareholders and employees. Employees include everyone under the CEO. In many companies, even the chairperson is considered as an employee. Although the chairperson is the representative of shareholders and not considered as an employee by the government, in practice, the chairperson or CEO is the highest-level person, who is a manager and also an employee. Among employees, fairness is critical. If one employee takes a kickback, this will be unfair to the other employees.

Fair practice is important among shareholders too. The company should elect the board of directors based on the size of their shareholding. The chairperson represents all the shareholders. When I talk about fairness, I mean that all shareholders must be treated equally, whether he or she holds only one share or several hundreds of shares.

Otherwise, people will suspect if the big shareholders can gain inside information and profit from it.

Leveraging inside information is unfair. However, people always think those big shareholders will profit from having inside information. On the other hand, big shareholders believe that they should take those profits since most people have the same perception. Again, this is a social culture issue.

Why can no one change this culture, if it is wrong? This has something to do with governance culture. In this type of society, you must insist the value of fairness and practice fairness. Sometimes, my thinking will conflict with the others; since, to solve a problem, I always think about the other people first then consider if it is fair for me. I recognize and practice the value of fairness.

To implement equality, I prefer to discount any benefits I might have as the company's biggest shareholder, where applicable. As the company chairman, I have to be responsible to all shareholders. If my decision can protect the small shareholders, my shares and benefits can be protected too. Benefits for the small shareholders are as important as those of the big shareholders. This is my attitude on corporate governance.

Transparency

The third key element in corporate government is transparency. The decision-making process in a corporate must be transparent. I usually ask my colleagues' opinions before I make any decision in the board meeting or other business situations. For example, details of employee rewards and bonuses are confidential. However, the human resource department has a very clear methodology of how the decision is made.

During the process of decision-making in a board meeting or for the company, the key to implement fairness and transparency is to avoid the conflict of interest. People should not get involved in the decision-making that are related to their own benefits, and the process of decision-making must be transparent. For example, my second son Eric Shih owns a sports-marketing company that collaborates with Acer. Although the project is small, I still avoid the process of the decision-making and business discussion.

Until now, my children have never worked in Acer. I have never wanted to hand over the company to them either. I think it is unfair to the company. My children may not be the most capable persons to manage the company.

I see the partnership between Eric and Acer a mutually beneficial case. My son has no intension to work in Acer and the partnership case is only one of his businesses. He cannot and will not rely only on Acer to develop his new business. From Acer's point of view, my son's expertise in sports marketing has a big help to Acer. Therefore, this is a win-win partnership. Because of my relation to Eric, I never involve in the decision-making. J.T. Wang, President of Acer, will lead a team to work out the content of this agreement.

Accountability

The fourth element in corporate governance is accountability. There are various and different levels of accountability. The biggest one is that I, as the person in charge of the company, must lead the organization. I should initiate reengineering whenever called for. I have to find the solutions whenever the board of directors or foreign investor has some different opinion on business operation. When the company does well, those high-level managements usually gain more performance rewards and bonus. Therefore, when the company performance is not good, the low-level employees should be protected; the high-level managements should take the responsibility, such as to cancel their rewards.

Implementing A Governance Culture

I think corporate governance is related to the corporate culture. Chairman of TSMC, Morris Chang, and I are on the committee of corporate governance for the Asian Business Council (ABC). Together we drafted a guideline on corporate governance. We provided the draft to the ABC as references for others. Corporate governance is a kind of culture and differs in every country or environment. The guideline we drafted would be hard to fit in every nation.

The key to sustainable corporate governance is the high-level managements and decision-makers. Only the CEO can cultivate a governance culture and use his or her value system to influence the whole organization. It requires both visible and invisible rewards to build corporate culture and let people know what kind of behaviors and values are recognized or disapproved by the CEO. Therefore, the managements who work against the four principles—integrity, fairness, transparency, and accountability—must be punished; while those managements working toward the principles should be awarded. Whenever I conduct the board meetings, I do not spend much time on the formality. If there is any issue worth to discuss, I will ask the interested party to explain and let everyone express his or her thought. In addition, I will watch out if there is any unfairness to anyone or if anyone should be responsible for anything. It is important to implement corporate governance, but not a common culture in Taiwan.

Why does corporate governance not form a part of Taiwanese culture? It is due to the ways of family-run companies. While I worked in Qualitron, there were problems of corporate governance. The chairman of Qualitron made a loan to support his family-owned textile factory. The result was that the textile factory lost heavily and hurt Qualitron. Without good corporate governance, the minority will impact the benefits of the majority.

Therefore, let me be the first one to break the wrong value. I always believed in challenging difficulties, breaking through bottlenecks, and creating values. For the last twenty-eight years, I insisted on the principles of corporate governance and implemented governance cultures. I successfully gained the trust from every member of the board, even during the toughest business crisis.

Roles of External Board Members

Some people treat external board members as an important index on corporate governance. I think this is too superficial. Usually, external board members are carefully selected by the chairperson so that they will not criticize and say anything to damage the authority of the chairperson. Unless the board members are mostly from outside of the company, like only two members on the board of Applied Materials are employees, the outside board members can express their thoughts. Especially when they have a different opinion, they can speak about it frankly.

However, it is hard to do that in Taiwan. The board members in Taiwan have to be harmonious with the others, unless the company leader really respects and values the corporate governance. Back in 1984, Acer invited the founder of Continental Engineering Corp., Glenn Ing, to become a board member. In the earlier years, external members had to own some shares. In 2002, the new laws allowed anyone to be an external board member, also known as an independent board member.

Chairman Morris Chang of TSMC also pays much attention in corporate governance. TSMC invited many famous foreigners to become external board members to generate a higher confidence for foreign investors and favor their listed ADR in the U.S. These foreigners are Lester Thurow of MIT, and Peter Bonfield, emeritus Chairman of British Telecom. I am also one of the external board members. Michael Porter of Harvard Business School is an independent auditor of TSMC.

The external board members cannot guarantee the success of the corporate governance. I think the most effective way ensure diversity in the background of the board members. I have separated Acer's board members in three groups: major shareholders, management team, and external board members. In the early years, I also asked the senior managements in Acer to represent the minor shareholders. Although they are not on the official list of board members, I call them "board member candidates" and let them express their opinions. Their participation at the board meetings represents the transparency of our decision-making.

Every board member, with various backgrounds, must give up his or her own interests and work for the benefit of the company. In Taiwan, some union representatives in state-owned companies ask for the seats in board member in order to fight for employee benefits. This is not a right way. The purpose of having board members with diversified backgrounds is to keep a level of fairness and transparency in decision-making, and prevent each interest-group to fight for their own advantage. The board has to consider the maximum profit potential for the whole company.

This is exactly what I do and the results are effective. For example, I was against several investment cases, such the TI-Acer semiconductor business and in Taiwan Cellular Corp., while most board members approved of the two investments. So I had to listen to the majority; I could not do whatever I wanted. Another investment case for a lottery company was in a similar situation. I was worried about Acer's image being associated with gambling. Later, I agreed on the investment with one condition—donate some profit to charities.

These three cases were very significant investments in Taiwan. Most companies would not reach the final decision by this kind of process. I completely through away my positioning and respected the majority opinion. If a decision is made without the other board members' opinions, there will likely be some blind spots.

I feel good if a company decision is made through a transparent and prudent process. As chairman of the company, I am accountable for the results of our decisions, and I will never regret this role, even if the outcome is not positive.

Financial Planning

Myth: when a company is facing a financial crisis, the person in charge should first protect his or her own assets and benefits.

My thinking: companies should share risk and responsibilities among all shareholders. All losses should be absorbed by shareholders only, rather than by the banks or account-payable creditors.

The financial plans must be adjusted for an "ordinary day" from periods of change management. A financial plan for a "normal" period is relatively simpler, emphasizing on a sound financial structure, high ratio of one's own reserve, and multiple accounts in different banks. For an independent financial operation, the fund-raising should be diversified including both domestic and foreign capitals. Meanwhile, considering the timing and cost, the company should well utilize various financial tools, such as cash injection, convertible bond, and GDR. In a growth period, the goal of financial planning is to generate the cash to match the development need of the company.

Within the last 28 years, Acer experienced two major financial difficulties; both were related to TI-Acer. In 1991, we were suddenly caught within many changes all happening simultaneously, including the U.S. market deficits, the losses of TI-Acer, and the declining margin of the PC business. Then, the second time was purely related to the financial problem of TI-Acer.

I will never transfer any company deficits to any banks. According to the corporate laws, the deficits have to be shared by all the shareholders, instead of account-payable creditors or banks. To make this work, a high percent of owner's equity is necessary before any loan. This is my concept of financial planning and also an important spirit of corporate culture. In Taiwan, many people protect only their own money and benefit when the companies in a crisis. Not too many people can do as what I do. I have done my best and made it workable.

To solve the financial problems, I always seek the answers from myself. My first option would be to find cash from internally, such as through disposal of real estate and stock shares. The second option would be to postpone all spending plans, such as long-term investments, and follow-up investment plans. And thirdly, request banks for a longer supports. It is hard to convince the banks that I will return their money with priority; while the company is in a financial crisis.

When Acer had the first financial crisis, may be only Kuo-Shu Liang, Chairman of Chiao-Tung Bank, had any confidence in Acer. Although he did not provide any new financial support, he said that Acer could solve the problems. The comment helped to stabilize other banks' confidence on Acer.

Acer's Financial Planning after the Second Reengineering

After the second reengineering in 2000, we started to phase out the non-core businesses and divest the stocks of the non-core investments. There are three principles to our financial planning:

First, focus on the investments on core businesses. Currently, the cash needed for this purpose is not much. Under the New Channel Business model, the cash needed for expanding sales is quite limited.

Second, return money to the shareholders. We have a relatively higher and more stable annual cash dividend.

Third, buy back our own stocks when the price is low and reduce the capital. Since 2003, we have done this on several occasions. Our purpose of buying back stocks at low prices is not to maintain the pricing in stock trading, but to drop the cost of reducing capital and increase the earning per share (EPS). This is favorable to the shareholders.

Buying back the stocks at the right timing is a frank strategy for the best interests of the company as well as for the shareholders. Since we do not need so much capital at this time, reducing capital is the right thing to do. If we need money after three to five years, we will do cash injection with new issues then. If we do not utilize those spare cash at hand, we can gain only one percent of interest from the banks, which is much less than the target of our return on investments (ROI), say 15%.

This is hard. Most people cannot give up the right of exercising cash at hand. I have done many things that are both against and fitting to the human nature. For the example of full empowerment, I gave up my right; this action is against human nature. However, it fits totally with the other side of human nature—to gain more power. I am able to think in reverse, not just for operational management, but also for financial planning.

Chapter Ten

Looking Ahead at Taiwanese Industries

The Competitiveness of Key Components

The competitiveness of Taiwan's high-tech industry largely depends on the key component industry.

Based on statistics, IT products exported from Taiwan over the past thirty years consisted of roughly 50% in component products and 50% in finished products. Among those finished products, the majority of them are from local suppliers. The statistics prove the international competitiveness of components as well as their important role-play in Taiwan's high-tech industry.

Most products that Taiwan IT companies export to China are components too. Based on the current laws, Taiwan cannot export finished products to China. Therefore, components are shipped to China, assembled into finished products, and then sold around the world.

Generally, the added value of a component is higher than that of a finished product by two to three-folds. Some components are capital-intensive with high gross margin and net profit; a typical example is the integrated circuit (IC). The key components of Taiwan's high-tech industry are the IC and liquid crystal display (LCD).

In terms of finished goods, the notebook PC and related products are the most prominent items. Taiwan is the number one maker of notebook PCs, motherboards, graphic cards, and network card products — in volume. In the future, there will be more products in the communication domain, such as the cellular phone. In the Taiwan market, Taiwanese brands/makers still lag behind Nokia, Motorola, and Samsung. Another big market is the digital home, in the near future.

Components have high importance and greater added value, and cannot be ignored by Taiwan. There are all kinds of components in Taiwan. We can continuously apply a variety of components to design and create the new products, such as using key components in digital home products or digital products in general. Japanese enterprises successfully won the consumer electronics markets in the past, due to high brand awareness and the ownership of key components.

There is no limit in the creation of digital products. The two key elements for all the creation are software and IC, which are the soul of a whole product. There maybe the need for some input/output devices such as the LCD, and some storage devices such as the DVD. The forthcoming digital products will basically adopt these kinds of combination. Taiwan is quite strong in the domains of the IC, LCD, and DVD.

Design is another key element on the product package, which includes both the internal circuit design and external industrial design. The former belongs to the electronics domain and the latter falls in the mechanics domain.

Key Government Projects in Taiwan

Taiwan's industry shall advance in two directions: first, continuously invest and develop in the two key components, IC and LCD; second, develop new applications of digital products based on these two key components.

The Ministry of Economic Development of Taiwan has several key projects, among which the IC and LCD industries are expected to each reach annual revenues of NT\$100 billion. Since both are capital-intensive industries, they will be the bases of Taiwan's high-tech industry.

To enhance the competitiveness of both the IC and LCD industries, we need to develop more applications, in addition to the lead in manufacturing. The development of IC application has to rely on the companies of IC design, while LCD applications must include the various screen sizes in different product designs. Applications for the LCD are also related to IC designs since a LCD contains many ICs. Adding more ICs equals to inputting more intelligence and more innovative applications.

From B2B to B2C

In the future, Taiwanese enterprises will still base around the business-to-business (B2B) model, rather than a business to consumer (B2C) model, due to the nature of the key component business. The finished products for export are also based on the B2B model. Taiwanese enterprises will continuously leverage the domestic IC and LCD industries to create new digital products and rely on ODM and OEM for exploring the global markets. Taiwanese enterprises shall learn how to leverage the production capabilities in China and control the global markets, while also managing the key components.

For sure, original brand manufacturing (OBM) or B2C are also important, but Taiwan lacks the advantage in this arena. Once Taiwanese enterprises learn to effectively operate the China markets, they will have the capability of developing B2C businesses. Otherwise, it will be a tough job to run a global B2C business with a market size of Taiwan only.

Taiwan's image has been recognized by most international businesspeople. For most information products, "Taiwan Inside" is an un-described fact. To make Taiwan's creation well known, there are two ways: one is to build the branded products and businesses; the other is, like Intel, to promote that products with "Taiwan Inside" represent the design excellence. If "Taiwan Inside" can reach a visible status, it will impress the general consumers.

Changing from B2B to B2C is not an easy job. When Intel started the project of "Intel Inside," Acer resisted initially then accepted it without other choices. Branding is not easy for a Taiwanese enterprise. We should consider promoting an image of the united industries of Taiwan. For example, the Taiwan government wanted to emphasize Taiwan's "innovalue" and created the slogan "It's Very Well Made in Taiwan". However, some vendors did not want to associate their products with the image of Taiwan. With a promotion budget less than Acer's, it was hard to bring too much benefit internationally.

Acer started its B2C branding right from the beginning, and this has been Acer's fate. But I dare not suggest that everyone should practice like Acer. Maybe we have to wait until the China markets are treated like the local markets in Taiwan; China markets can be the internationalized B2C bases for Taiwanese enterprises.

Establish the Global Industry Standards

For most foreign and Taiwanese enterprises in China, there are three main barriers:

1. Non-custom barriers — There remains the value-added tax (VAT) barrier after China entered World Trade Organization (WTO)
2. Local credit-checking
3. Localized management capabilities

Taiwanese products do not gain any advantage. Currently, PCs and television products are led by Chinese vendors. The mobile phone business has shifted from foreign vendors directly to the Chinese vendors; Taiwanese vendors cannot get a sales license and have to collaborate with Chinese vendors. Therefore the hope for Taiwanese vendors is on digital products.

In the near future, Taiwan's competing nation is Korea, who controls many key component technologies, such as the LCD, DRAM and CDMA. Korean vendors are more competitive since its major companies, like Samsung and LG, dominate the key components; while Taiwanese enterprises are discrete, like the company structure of Silicon Valley in the U.S.

The Chinese vendors have the capabilities of making finished products, but lack of a solid base without the key components. While the advantages of Japanese companies on key components are replaced by Korea and Taiwan. The U.S. still has two core competences: the CPU and software. For the storage device business, originally led by the U.S. vendors, IBM sold its business to Hitachi due to the declining profit margins. The U.S. has another critical advantage on industry standards. Many industry standards are developed from U.S. organizations, such as in the academia and IEEE.

Taiwan is not qualified to set industry standards; while China wants to gain the command positioning. In 2003, China set a security standard, WAPI, for the wireless local area networking, it was opposed by the U.S. However, China and the U.S. soon reached an agreement to postpone the implementation date, originally set in June 2004, to an indefinite time. Industry standards are political issues. In the past, Japan set up its own personal computer standards and controlled the home market. Japan lost its global competitiveness. Later, the Japanese wanted to set the global standard for high-definition TVs, but the ambition was killed by the European Commission and the U.S. To set the industry standard is not an easy job, and right now, it is not necessary a good thing for Taiwanese enterprises to embark on.

China has no problem to set its standards. The issue is whether it is good or bad for China. Currently, most fundamental technologies and patents have been developed. Even if China sets some standards, it can only follow and not replace the international

standards. The added value of setting new standards to favor the local vendors for the domestic markets is worth to investigate.

Technology-Based Service Industries

Besides the key component, there is another significant business: the technology-based service industry. In a knowledge-based economy, the knowledge has to be continuously applied and utilized for innovations. It is not necessary to have the originality of creation. The meaning of a knowledge-based economy is to apply the knowledge and generate higher added values.

The innovation and applications within service industries have more room for development than in the manufacturing sector. In an economy system, the value for the service industry is about two thirds, while the value of the manufacturing industry occupies only about one third of the total. The scale of the service industry is bigger with much room for further growth.

Take an example of a supply-chain management. There are many segments of service industries, such as information technologies for controlling the whole supply chain operation, global logistics for every material, and the effective arrangement and adjustment for cash flow. The money saved in the supply chain management is much higher than that in the manufacturing processes.

For PC vendors, there is no difference in materials and manufacturing now. The competition is located on the right-hand side of my Smiling Curve, i.e. the services of channel and logistics. Both Dell's direct-sales model and Acer's New Channel Business Model are winning in an effective integration throughout the whole business process.

The large-scale industry of high-tech digital products is usually faced with low-margins, to challenge this tendency one has to leverage the global service industry systems to improve the effectiveness of the channel and logistics. The apparels and footwear industries, such as Nike, have effectively maximized the effectiveness of the channel and logistics to lift its competitiveness.

Employ Fresh Technologies and Replicate the Know-how

Service industries can increase significant profits due to the applications of technologies, especially information technology. For example, UPS uses technologies to control the distribution processes. The similar situation exists for the credit card business in the financial industry, and for micro-payments through a mobile phone.

Medical service is another example with high potentials in terms of market expansion. Technology can be used to improve the quality and efficiency of medication like for the electronics instruments and information systems; in addition, the medical management may be replicated and applied to other regions to expand the market scale.

Currently, doctors use the medicine database for online information enquires; the health examination data can provide a statistical comparison for patients.

The medical industry is a kind of knowledge-based industry. The supporting medical-information system is the same. If we can replicate the systems, such as medical management and hospital management, and apply them in China, we can explore the China markets as they gradually value the medical service following economic developments. They will benefit from this replication of knowledge too.

Replication of the know-how for service industries often relies on information systems. For example, the services in a convenience store are mainly the know-how of logistics, instead of the cashier. The service industry requires people to provide the services. The trainings for the service attendants for enhancing the service quality have to leverage technical tools to accommodate large volume and deliver fast result. Then, a service of high value per price will be possible.

Through technology, service industries can meet the requests of localization and grow internationally. Generally, the services have to localize and serve local corporations. This is a kind of replication of knowledge, with a higher added value and economic benefits than the replication of hardware.

Internationalization of the service industries requires competitive management capabilities, including the management of local employees, and leveraging local service systems. These are similar to that in the manufacturing industries.

With technologies, services can generate the entry barriers as the know-how increases. Therefore, application of technology is also an important direction to upgrade the service industry.

Service requires integration. With technologies, the integration can be easier. Services are applied to people with the localized culture. Compared to hardware, services usually have no standards; instead, they have more variables and are harder to integration. For integration, services have to be standardized, modularized, and applied with the technologies in the service systems as much as possible. This will make the services quantified and easier to integrate. This is an immediate challenge for Taiwan in the next wave. If one can challenge the difficulty, break through the bottleneck, then a high-value can be created.

China is a huge emerging market for the service industry. Currently no company has an absolute advantage. The practices of Taiwanese service enterprises may fit very much the Chinese needs, like when Uni-President brought in the more suitable system of 7-Eleven from the Japanese, instead of from the U.S.

Positioning Taiwan as the Second Silicon Valley

There is another road for Taiwan's industries: positioning Taiwan as the second Silicon Valley.

The meaning of a Silicon Valley – to me - is not just the creation of technologies, but also the creation of venture capital, the spirit of entrepreneurship, and gathering the most excellent human resources from around the world.

Taiwan has no barrier in entrepreneurship or venture capitals, and is developing the technologies in IC and LCD continuously. We need to attract the outstanding global talents to create their businesses in Taiwan, publicly list their companies in Taiwan and become wealthy in Taiwan. We cannot just hire those capable people since they may leave Taiwan and create their own businesses somewhere else. We should let those global talents find the opportunities to elaborate their intelligence and entrepreneurship in Taiwan. They may create the companies in Taiwan or partner with Taiwanese entrepreneurs.

Creating Win-Win Situations with India

My first target in attracting international talents is from India. The corporation between India and Taiwan will be a win-win situation. Taiwan needs the software development, which Indians are very good at. On the other hand, Taiwan can provide India the hardware manufacturing. The co-operation can integrate the resources of both China and India. Based in Taiwan, one can integrate the human resources in China and India through outsourcing. Silicon Valley only focuses on the markets and resources in the U.S.

The majority of human resources in IC design industries in the U.S. are Indian and Chinese. Some say that "I" and "C" stand for Indian and Chinese! Similarly, I hope to drive the corporation of Indians and Taiwanese in developing new IT applications. To me, "I" and "T" represent the Indians and Taiwanese. Of course, we need more international talents and shall not limit ourselves to only Indians for cooperative opportunities.

Beijing and Shanghai may want to be the second Silicon Valley too. There are many non-Chinese teams, coming from the U.S. and Europe, creating their businesses in Shanghai. These teams have the experiences in information technologies, communication and networking. They choose Shanghai as their base since it is close to the markets in China. Relatively, Taiwan has a better environment but needs to create the markets. Taiwan has to position itself as part of the Great China markets to gain the benefits.

It is not hard to find the opportunities for cooperation for Taiwan. We need a living environment to attract the foreigners to stay and base in Taiwan. Take India as an example. I had proposed an Indian ambassador to build an Indian Village in Acer's Aspire Park. They expressed the initial interest. I wanted to test if we could build a living environment for the foreigners first in a smaller scale.

Surely, Indians may prefer to stay in the U.S. However, the competition is much higher in the U.S. For them, Taiwan has plenty more room to develop since the future of IT applications is unlimited.

Issues of Direct Transportation between Taiwan and China

Silicon Valley has been famous for more than three decades now. It took only 20 years to build Silicon Valley. In the coming 20 years, the markets in China and India will be greater than the U.S. markets and cannot be ignored by Taiwanese enterprises.

Therefore, I treat China as a new continental of economy. The U.S. was a new continental geographically when explored. China represents a new territory with much potential – a new economic continent.

There are still some non-economic factors to impact Taiwanese enterprises in developing the China markets. For example, there is no direct transportation between Taiwan and China. If the shipment of merchandize can be carried out first, the benefits can be seen right away. Later, passenger travel will bring the most advantage. The direct transportation definitely helps the implementation and execution of many projects crossing the Taiwan Strait.

From the economic development point of view, any prosperous area must be able to communicate with the neighborhood areas, say within a four-hour direct flight. The domestic development relies on highways; while the regional and international developments have to rely on direct flights. This is true for all the cities in the U.S. and Europe.

We can review the positioning of Taiwan from three aspects: people, money, and materials. Taiwan has gathered many technical talents and needs to attract more international talents or multinationals to set up their regional offices in Taiwan. In addition, Taiwan needs to provide a better transportation for them, such as direction flights to China.

As for money, Taiwan has been a capital market, but the banking requires improvement. The local finance activities are very active, but not internationalized yet. The communication of the banks between Taiwan and China should be enhanced. Taiwan should loosen the restrictions on financial activities one step further.

The third is material. Taiwan has the components. Currently Taiwan's components are distributed to the other places, such as China, assembled, and then sold to the other markets worldwide. Hopefully, in the future, there will be more materials shipped to Taiwan and assembled in Taiwan, and sold globally. This can generate more material flow volume for Taiwan.

Overall speaking, if the Taiwan government wants to develop Taiwan as an Asia-Pacific operation center, we need first the direct flight to China followed by internationalized finance regulations. All the other items are minor.

Taiwan has faced a threat of potential isolation. Many foreign companies have moved their regional offices from Taiwan to China. In the past, the foreign high-tech companies had moved to Taiwan from Singapore due to talent shortage. Now, they move to China due to the consideration of the markets. Plus, without direct flights, the transportation between Taiwan and China is long. This is another reason for them to move.

Most people consider the direct flight between Taiwan and China will damage the value of real estate in Taiwan. However, from another point of view, most Taiwanese businesspeople can come back Taiwan for the weekend via direct flights. The critical factors to determine whether the future development is good or bad are based on our overall objective social environments, including living standards and political stability.

Integrating Chinese Resources

Among various global Chinese societies, Taiwan is equipped with relatively better conditions for the development of globalization. These conditions include the gaining of capital, command on the markets, gathering of talents, mature industrial clusters, and the experiences of internationalization. Our experiences of internationalization absolutely exceed the Chinese in the U.S. and China.

Global integration is the current industrial trend. In addition to innovation, Taiwan needs the capability of integration. Taiwan, with abundant international experience in B2B business, is the best candidate to integrate global Chinese resources, followed by integrating the global resources.

Taiwan has to integrate the talents and technologies in the U.S., the talents and markets in China, and the talents, capital, and the capabilities of commercialization and internationalization in Taiwan. Venture capital has played a role in the process of Chinese integration. If the resources in India can be integrated, Taiwan's advantage can be advanced further. The U.S. will have some difficulties in integrating India and China, due to the long geographic distance. The U.S. has the language advantage in integrating with India; while Taiwan has both advantages of the geographic distance and language in integrating China.

Conclusion

Taiwan should pursue the industry goal to get involved in the technologies, innovation, and promotion of most digital products. The technologies are mainly the key components; the innovations usually come from applications; and the promotion is to build the images of "Taiwan Inside", "Taiwan Design" or "Taiwan Innovation". I had proposed in leveraging the image of Taipei 101 – currently the world's tallest building. The 101 digits should represent the "Island Of Innovation." This can build the image and create the added value.

With limited markets, it is impossible to develop the mass-production of product in Taiwan continuously. Obviously, Taiwan should increase its industry added values without any doubt. Taiwan should adopt a few conceptions: invisible products are more important than visible products; value is more important than quantity. These two ideas seem to hollow out the industry; however, they indeed will generate high-value industries, with higher added values.

To create a high-value industry Taiwan needs more foreign talents. Before, we imported foreign labors to fulfill the developing industry needs. Now, we need only those with skills. Those people without skills may lose their jobs with the industry hollow-out.

The word of "high-value" can be interpreted in two ways: one is the added value of a unit price is high; another indicates the volume is large, the total volume of added value is high, or the market share is high. For example, if Taiwan owns more than one half of certain global product value, this industry can be defined as a "high-value" industry.

Currently, computer industries do not compete in innovation. The key factors of competition are critical positioning and scale. Taiwan is in a critical positioning, in that most global vendors have to procure notebook PCs in Taiwan to be able to compete internationally. In addition, the competition in high-tech industries is also dependent on the scale. The real high-tech has only a very niche and small market. Most so-called high-tech industries request a significant production. Operational performance requires a large scale. Expanding on the economy of scale and increasing the operational efficiencies can lower costs. Intel is in such a situation, so are TSMC, AUO and Foxconn. They must continuously expand to reach the largest scale worldwide.

-----*Part Three*-----
Stride Forward & No Looking Back- Stan's Final Scorecard

Chapter Eleven

Lead the Concept, Lead the Action

Since I founded Acer 28 years ago, I have made many other contributions in addition to being the Chairman and CEO. I founded several businesses, such as BenQ, and Multiventure Investment Co., the first venture capital in Taiwan. I proposed and carried out many innovative conceptions and actions, including branding business, employee stock bonus, decentralized management, and corporate culture of experience sharing. I served as Chairman of the Taipei Computer Association and Chairman of the Brand International Promotion Association. In addition, I had cultivated a lot of talents for the society through on-job trainings – the Microprocessor Training Center and Aspire Academy.

Reviewing what I have done, I believe I have gotten many first prizes. The overall performance should be rated as excellent. I have kept the spirit of "challenge the difficulties, break through the bottleneck, and create values." I am proud of myself, my enterprise and my society.

Employee Stock Bonus

Acer was founded with a limited capital. We adopted a group-entrepreneur system, by which all the managements could subscribe the stock and gain their dividends accordingly. Later, we opened the system to all employees. The maximum quota was about one half of the year-end performance bonus, plus ten percent of the monthly salary. It would take about two years to pay the full amount of the subscribed stock shares. We did this to share the profits with the management and the employees, not for the purpose of public listing.

Before 1987, we thought the market value was the net book value without the concept of premium. This meant people could get a share by investing NT\$10 to express their commitment and involvement to the company. Now, the situation is different. People do it only for making money.

Before, Acer employees had to own the shares first, before gaining the profit sharing; later Acer distributed the shares as the bonus. Before Acer launched its IPO, I allocated the bonus money as company expense to avoid some tax. After Acer launched its IPO, I transferred the profit sharing to Acer stock and gave the shares to the employees.

According to company laws, all the profit-distribution rules have to be put in writing, clearly. For the benefit of the board members, usually the industry standard was about 1% of net profits. As the industry grows, the benefits to each board member can become very high, say NT\$10 million. The benefit percentage for the board was no longer fixed as one percent.

Most companies did not declare clearly the profit-sharing ratio for the employees. The statement might record only a minimum percentage; say more than 0.1% or

0.01%. However, to attract the talents, some high-tech companies set the employee profit-sharing ratio at 10%, or even 20%. Now, the most popular figure, like for Acer, is from 8% to 10%.

The format of profit sharing has changed. Before, many companies needed capital for growth; they would perform a cash-injection, transferred the money into stock shares, and distribute it as profit sharing to the shareholders as well as the employees. All bonuses were in the form of stock shares. Now, capital is not needed. Many companies distribute cash to stockholders and stock shares to the employees.

To encourage employees to stay with the company and maintain fairness to the stockholders, Acer distributes both cash and stock shares to employees and stockholders. Unless the situation of the Taiwan industries change, the first company that stops paying stocks bonus and replaces the profit sharing with cash to employees, will risk the loss of talents.

This unique employee stock-bonus model in Taiwan's high-tech industry has become a significant factor and generated the current worldwide recognition. I believe most companies or publics do not know clearly the spirits and the unique background. Morris Chang of TSMC tried to conduct the American stock option model. The result was not good. Robert Tsao of UMC emphasized the advantages of the Taiwanese stock bonus. I think these two models fit into different situations. While a company is at a peak, stock option is not a high incentive due to the growth limitation of stock prices. The stock option is only suitable when the company has just founded or is at a poor situation. It focuses on using the difference of the stock price to gain the compensation, which is a short-term profit. On the other hand, the stock bonus is a kind of investment behavior, for the long-term development. The stock bonus has to pay the tax of the face value; while stock options have to pay for the difference between the granted value and the market value. I think the system of stock option in Taiwan will phase out.

Decentralized Management

A centralized management is more effective in traditional industries, such as the construction industry. Usually they are mature industries, and follow the conventional ways of getting things done. Since each decision-making may involve a huge scale of resource, centralized management can simplify the process and create a more effective management.

On the other hand, in the high-tech industries, a decentralized management is more effective. There are two reasons: first, high-tech industries are very dynamic and with many opportunities. Most employees realize the overall situations, and in comparison only a few people understand the reality in the traditional industries. Decentralized management for a high-tech industry is more effective.

Second, not only can the highly educated employees in the high-tech industries make a better judgment on their jobs than their managements, but also they want empowerment and autonomy.

In 1995, in a communication meeting for the Acer Group, I repeatedly announced the decentralized management and explained the meaning of it. Then, I decided to enjoy the empowerment of my determination.

The decentralized management is similar to the network management of a computer system, such as the client-server. In the earlier stage, only the host computer had the computing power while all the other terminals had to wait every computing result from the host. It was a centralized management system, controlled by a mainframe computer. Now, each personal computer has the computing power, while the various servers in the background are used to assume different supporting functions and form an intimate and flexible framework. In a contemporary corporate organization, every knowledge-based employee must think and act independently. Therefore, empowerment can let them go as far as they can. For a further decentralized company, the organization should be operated and managed in a way similar to the Internet. I called it the Internet Organization.

Corporate Culture: Human Nature Is Basically Good

An organization is consisted of people. Usually, the bottleneck that organizations face is how to make employees build on their talents and create values. This is a challenge that the leader of an organization has to face. Many companies set up the codes to prevent their employees doing something that might hurt the companies. But I believe that the human nature is basically good. I trust the employees. I empower the employees. Although there may be some disadvantage and deviation from this culture, the point is to carry out the positive effects and results.

In the earlier years of Acer, this corporate culture played a critical role. First, "human nature is basically good" lets each employee feel respected, empowering the management in the IT industries. Second, employees felt a sense of honor. Third, the corporate culture was quite unique at that time in Taiwan. Hence, Acer created a distinct reputation and fame.

A Corporate Culture of Experience Sharing

Experience sharing was another corporate culture to challenge the traditional thinking. It is human nature to keep secret of personal knowledge to protect self-competitiveness. Even now, many people still hold this kind of thought.

However, in the knowledge-based economy, promoting experience-sharing has two levels of meaning: first, in the corporate level, the corporate culture of experience-sharing expects all the management do their best to cultivate the subordinates, pass-on the domain knowledge, and let the organization operate effectively. Acer's experience-sharing culture has brought up many talents.

In the society, experience sharing will make progress for the benefit of the whole world. For example, disclose all the patents and let people know the most recent innovation; meanwhile, all the patents will be protected and paid for usage. Thus, we can encourage people to do experience sharing.

It seems that the culture of experience sharing is better accepted in the U.S. than in Japan. Therefore, the U.S. is more advanced, and more competitive. Several thousand years ago, many management studies in China were very progressive. The technology level in China was very high too. However, due the conception of keeping the families' secret formulas, the whole society lost the power to move forward. Otherwise, the current global leading nation may be a different country.

People sometimes still do not respect the intellectual property (IP). Many people use my theories of the Smiling Curve without mentioning my name. I now will write to those people to explain that they should respect my IP and should state clearly the source of reference.

Acer had provided many creative concepts and practices for the references of the peer companies. For example, after launching the IPO, we formed a training unit to assist the other enterprises regarding the IPO and stock bonus.

Intrapreneurship

Intrapreneurship started in the U.S. And it has been carried out successfully in Acer here in Taiwan.

U.S. companies usually want to have dominant control on new businesses. Although several big companies, like IBM and 3M, allow the internal team to do research and create some innovative technologies and products, the parent company will merge any successful internal team for an overall control. Then, the entrepreneurship is gone, with no more creative effectiveness. For example, IBM's personal computer business was started independently. It was merged into IBM headquarters after the PC business took off. Now, IBM's PC business operation is very tough.

The U.S. enterprises are very good at creating a company externally. The progress of U.S. industries relies on those newly developed enterprises. Even a big company, if not competitive, will be weeded out or merged. A company may sell out those non-effective divisions and merge the others too. They create the effectiveness through splits and mergers.

Acer has successfully implemented many cases of intrapreneurship and thus influenced the developments of many other Taiwanese enterprises.

Acer controls a new company of intrapreneurship through people. Acer usually drops the shareholding to less than 50%. I hope the new company can be independent, think about their best interests, and will not be controlled by me. Since these people come from the Acer management and are trained by Acer, they enhance the chances of success. This is the way we successfully develop new businesses.

Some domestic studies showed that, among Acer's subsidiaries, the most successful ones were developed from within Acer and with original Acer managements. I think this is due to the ease of getting Acer's resources if the managements were from Acer. For those subsidiaries conducted by outside talents, the models were not as successful.

The Branding Business

Creating a brand business has been my mission, and maybe it is also a target of many other Taiwanese. The purpose of creating a branded business was for both the reputation and profitability that we had seen in the international markets. In Taiwan, the branded businesses had only succeeded in reaching profitability or gaining a reputation, but could not win in both. This is what I wanted to break through.

Acer has been fighting for the branded businesses in the most competitive IT industry. In the past, the effectiveness of branding was low. Acer won in some regions and lost in other regions. However, Acer has always remained within the top-ten worldwide PC vendors. This was not an easy job.

Acer is now at a status where it is receiving both reputation and profits. Acer has created a long-lasting and profitable brand. It is the biggest international brand from Taiwan. I think I am doing well in branding.

Another significant meaning for Acer's branding work is to encourage and help the other domestic brands, such as BenQ and Asus, through Acer's experience sharing and lessons-learned.

Industrial Design

I was one of the first people in the Taiwan IT industry who promoted industrial design at the very beginning level. From my very first job, I stressed the concept of industrial design for the first desktop calculator in Taiwan. However, there was no one in the company who had knowledge of creative exterior designs. I tried to work with those in the advertisement agents. But, they did not have any training in machinery design and their designs were too odd to fit in the needs of mass production. Industrial design needs to satisfy the conditions of achieving low-cost, durability, and able to be mass-produced. At that time, there was no concept of industrial design in Taiwan.

Industrial design is the critical element for innovation and cost-control. Acer relied on the income of my industrial designs in calculators, electronic watches and pen watches during its first year of founding. Around 1988~1990, I co-founded another company for industrial design. In 1997, I proposed the X Computer (XC) concept for the computer with a special purpose. In 1998, I visited the Art Center of Pasadena in the U.S. and provided some budget for the students to design XCs. I have done many things to implement and show the importance I placed on industrial designs.

I knew that the competition for PCs would be determined by industrial design sooner or later. So far only Apple Computer can elaborate the advantage of industrial design and create the values. In 1995, Acer's Aspire computer put industrial design as its key marketing message and gained the attention. Although the sales were not successful due to the other reasons, we never gave up the important role-play of industrial design and continued to promote the second and third generations of Aspire computers. In consideration of inventory management and material handlings, we delivered the best industrial designs without any sacrifice of the technical standards.

Then, in the next wave, Acer conducted an Empowering Technology to make products more user-friendly and fit with the needs of our customers.

The project started from studying the user interface (UI). For example, we added an Empowering Key on the new style notebook PCs. By simply pressing one button, the user could reach an easy-to-operate interface. Acer has been working on the UI for years. Now we have gained the rights from Microsoft to expand the industrial designs, from pure hardware to UI, and to integrate the software operation, and gave me the idea to implement the concept by one step further.

Empowering Technology is a leading idea worldwide. It is the product of what I have been pushing for—challenging the difficulties and breaking through the bottlenecks. I wanted to break through Acer's bottleneck as well as the bottleneck of worldwide IT industry that was confined to Wintel (Microsoft Windows and Intel CPUs). It requires long-term efforts. I will never give up.

Venture Capitals

In 1984, I set up Multiventure Investment Co., the first venture capital (VC) in Taiwan. At that time, my partner Glenn Ing of Continental Engineering Corp. was willing to provide cash to help the young generation and create a new situation for Taiwan. I was thinking if I could provide the new entrepreneurs with a better stage and environment. We set up the VC but the results were not successful. There were several reasons: first, Acer intrapreneurship was successful since all the managements had worked with me for at least three to five years, or even longer. VC was a kind of external entrepreneurship. The external entrepreneurs were not necessary equipped with practices and experiences, even though they might have the spirits. The internal managements had more chance to share my experiences and win.

Second, we counted every penny since collecting the funds was tough. Right now, most entrepreneurs do not value the money as we did. Many Internet companies raised much money immediately but the bubbles burst very quickly.

Therefore, I separated the VC and the post-incubation services. I will help those dedicated entrepreneurs to solve the difficulties. As for the capital, the entrepreneurs have to go through venture capital reviews to raise the funds.

Multiventure Investment Co. had invested in two representative companies: Quasel and Suntek. Although both cases were not successful, Acer had some indirect gains and human resource development. The Suntek investment helped train Johnny Shih and Thomas Chen. This led Acer to beat IBM with 32-bit PCs. That was the added value of investing in Suntek.

The added value of Quasel was to bring Ronald Chwang, K.L. Lee and Chin Wu to Acer. The establishment of Quasel also induced indirectly the establishment of TSMC. There were two other memory design companies in addition to Quasel, built by Chinese — Vitelic and Mosel,. They did the design in the U.S., but had no money to build the plants for production. They had to ask Japan's Oki for manufacturing. Because of their Chinese background, they came to Taiwan for the manufacturing services. At that time, the key administrators K.T. Li and Yao-Tung Chao both

agreed that Taiwan should assist those Chinese design companies in solving the problems of the foundry service. Later, they came up with the concept of a "central kitchen". Taiwan administration would build a central kitchen for the production of these memory design companies. TSMC was born under this kind of concept.

However, the successful of TSMC was not due to the businesses from these three memory companies. TSMC succeeded the business of Philips. With regular orders and technologies from Philips, TSMC could stand well and expand its territory. ALI was the first domestic company to place an order to TSMC.

Innovative VC Models

I had adopted many innovative VC models. For example, in 1997, I set up the 21st Century Fund. I raised US\$60 million from foreign and domestic investment banks. The targeted companies were mainly Acer's spin-off companies. When a subsidiary formed in Acer, initially the company would be supported by Acer internal funds; then supported by the 21st Century Fund after spin-off and become independent from Acer. In April 2004, this fund closed. The internal rate of return (IRR) was 17% for the investment on Acer's spin-off companies. This result was outstanding, compared to those investments on external entrepreneurships.

Following Ronald Chwang's post as President of Acer America, he took charge of a venture capital fund of US\$40 million and delivered outstanding performance. In 2000, Acer raised IP Fund One, of US\$260 million, in charge by Ronald Chwang and Bill Lu for investments in the U.S. and in Asia respectively. I believe the performance of IP Fund One was one of the best among the VCs at the same period, when most Internet enterprises collapsed. The investment returns for those investments in the U.S., one half of IP Fund One, were normal. The returns in Asian countries, including Taiwan, China, Singapore, and India, were various, and the overall in Asia was very good. Investments in Singapore had the worst results since the people lacked entrepreneurship. India, where the investment returns were fine, was far away from Taiwan; we would adopt a partnership with the local VC. The investments in Taiwan had the lowest risk and good returns. Investing in China had a higher risk, with very good returns.

After my retirement, I will put more efforts on iD SoftCapital Group, with VC as one of the main businesses. There are five companies under the parent company, iD SoftCapital Inc.:

- iD Innovation: in charge by Wu-Fu Chen, the main business is to build up the enterprises with those invested team. The number of case will be small, with bigger funding and deeper involvement
- iD Techventures: in charge by Bill Lu located in Taiwan for general VC businesses
- iD Techventures China: in charge by Bill Lu and York Chen, located in China
- iD Ventures America: in charge by Ronald Chwang, located in the U.S.
- iD Reengineering: in charge by Teddy Lu, to assist enterprises in conducting reengineering.

Besides Wu-Fu Chen, the other managements were all originally with Acer. iD SoftCapital will demonstrate an important concept: in the past, the development of economy relied on finances; in a knowledge-based economy, the development needs both finance and wisdom flow. The name iD SoftCapital represents our hope in VCs to play a new role, i.e. to provide higher added values, wisdom and knowledge, to those invested companies.

International Merger

The purposes of an international merger were to enhance Acer's management capabilities in internationalization, especially to bring in international talents. In fact, the goals were not reached very well. Among the merger cases of CounterPoint, Altos, and TI's notebook PC business units, only the European team of TI's notebook PC business unit stayed with Acer and have played a key role in Acer's second reengineering. Any developments of a merger case cannot be predicted. It needs to continuously weed out the bad and keep the good, in order to benefit the company.

Public Listing in a Foreign Market

The purpose for Acer to publicly list in a foreign market is the same as international merger, to enhance the management capabilities of internationalization. In 1992, Acer developed an international strategy "global brand, local touch" to conduct the overseas joint ventures with the local partners, and then to become publicly listed. The concepts included local majority shareholding and "21 in 21". This strategy is no longer valid now.

The execution results of "global brand, local tough" are one public-listed company in Singapore and Mexico respectively.

The operation in Singapore was excellent since the managements were from Taiwan. However, the incentive programs were not good and the stock option program was not powerful in a stable stock market. The only option was to increase every employee's base salary continuously, which was not a good way.

There were many other joint ventures (JV) under the Singapore subsidiary, located in India, Thailand, Philippines and Turkey. Each JV had some problems and would be hard to go public. For example, the JV in Turkey faced the national economic issues. The JV in Thailand indeed had become publicly listed, but collapsed in the 1997 Asian financial crisis; influencing Acer's account-receivables.

We bought the Singapore JV back in 1998, when we integrated all the regional and strategic business units into the global business units.

The listed JV in Mexico initially had an outstanding accomplishment, as the leader in the market. Later, the U.S. branded PC started to enhance its Latin American markets, with competitive pricing to clean inventories. This became a big pressure to Acer.

The local Mexican JV was fighting for its personal benefit, instead of Acer's overall profits, and gave up the markets when the profit margins were low, faced with the powerful competitions in the U.S. Acer had to continue the businesses, but the

management capabilities were worse than those local people. The deficits kept increasing and the business scale shrank. Now, Acer is almost out of the markets.

Handover the Operations to Professional Managements

I did not agree with the concept of a family-owned company and announced very early that I would not pass-on the operation to my children. As long as there is another shareholder, this company is not wholly owned by me. I make the decisions for the company simply because I am given the rights by the shareholders.

In Acer, I have two identities: one is a big shareholder and chairman as the representative of all the shareholders; the other is CEO, empowered by the board or the shareholder meeting, as the person in charge of operating the company.

After my retirement, I will no longer involve with the daily operation. I can transfer my shares to my children anytime. I hope my children can one day become the board members and continue to support the operation team, as the important power for stabilization.

As for the post of CEO, I have passed on the job to the professional managements.

The Second Generation of Taiwanese Entrepreneurs

The possibility of passing on an enterprise to the children depends on the characteristic of an industry. The first wave of Taiwanese entrepreneurs conducted most in traditional industries. They can hand over the businesses to their children and maybe their children will have a better performance. I am in the second wave of Taiwanese entrepreneurs, dealing with a larger scale and more famous high-tech industry. The difficulty of operation is higher, with faster changes and tougher competitions, than those in traditional industries. The children of the second wave generation of Taiwanese entrepreneurs are not necessary capable to handle their parents' businesses.

From another aspect, the first wave of Taiwanese entrepreneurs can control the businesses, as long as they control the resources. Their children can easily continue the operations. The second wave of Taiwanese entrepreneurs has to be knowledgeable to command the talents. If they cannot handle those highly educated talents, their children cannot run the businesses smoothly. Wang Computer was an example.

Business Successors

It takes a long time to find a successor for the post of the CEO. This is a very practical issue. The successor must be capable and accepted by most executives.

In Acer, I had equally cultivated many executive candidates. Among the second-generation managements, the younger and most outstanding candidates were Michael Tsai, Bill Lu, Johnny Shih, K.Y. Lee and Simon Lin. J.T. Wang joined Acer later. Johnny Shih was the most the candidate with the most potential but he went to Asus.

Bill Lu and Michael Tsai were both expatriated to Singapore and the U.S. respectively and left the core of Acer.

I divided my enterprise into three portions. J.T. took over Acer, K.Y. took over BenQ, and Simon took over Wistron.

I founded BenQ in 1984. As Chairman from 1984, I delivered the post to K.Y. in 2002; as President of BenQ, he had performed very well. I handed over BenQ to K.Y. without any hesitation.

Wistron, originally Acer's research and manufacturing business unit, had been independent since the year-end of 2000. Simon had been in charge of the research and manufacturing for me for years. It was natural to give this territory to him.

After the second reengineering at the year-end of 2000, I focused on the Acer branded businesses. I asked J.T. to become President of Acer. After two years, he made a successful branded business and proved his capability. I decided to handover Acer to him and let him succeed the post of the Chairman of Acer.

Chapter Twelve

Success of My Entrepreneurship

Acer has gone through many changes since its founding 28 years ago. Tracking the developments of Acer, I have found that a successful enterprise shall always operate for the future, instead of the past, and adjust along the changes of the environmental needs.

Acer's territories and image have changed. Acer started from a service-based company to a manufacturing-based industry, and then came back to the service industry. In addition, there have been many re-organizations. Acer contributed to the society, such as cultivating talents. I had several public services, such as Chairman of the Taipei Computer Association, to contribute my efforts for the whole industry development.

Back to the Service Industry

With limited resources, Acer started as a service company, with its main business in consulting and trading. In 1981, Acer set up a manufacturing site, Acer Computer, at Hsinchu Science Park and entered into the manufacturing industry. Acer Computer was our first investment enterprise in manufacturing.

After ten years, we had five subsidiaries: Acer Sertek for domestic markets and agents; Acer Computer for producing personal computers which later became the group headquarters; BenQ dedicated to OEM works, later focusing on peripherals; Acer TWP for software and publishing business, later merged into Acer; and Multiventure Investment Co. The total revenue of the Acer group reached NT\$8 billion in 1986.

For years, Acer had continuously developed in various upstream and downstream of the PC industry. Acer had become a manufacturing-based, diversified, and dedicated IT group.

After a significant change, Acer is back to a service-based company. Acer separated the manufacturing business from the Acer branded businesses, and adopted outsourcing strategies to enhance the competitiveness. Indeed, Acer is the last PC vendor in the worldwide top 10 to outsource production. Acer is ready to run a service company equipped with technologies.

At the year-end of 2004, the Acer Group had transformed and divided into three "ABW" groups: Acer, BenQ and Wistron with total revenues of NT\$750 billion, a beautiful achievement (See Table 12-1).

Table 12-1: ABW Family Members

Acer Group		BenQ Group		Wistron Group
Acer, Weblink, Sertek, Lottery Tech, Acer TWP, Apacer, eLifeMall, HiTrust...		BenQ, Darfon, Daxon, AUO...		Wistron, AOpen, NewWeb, Netxus, Wistron ITS...
Providing marketing services in the IT industries. The core businesses are IT products, e-Services, and the channel business.		Design, manufacturing, and marketing BenQ branded digital products, and OEM businesses.		Design and manufacturing of IT and communication products.

Organizational Separation and Consolidation

Acer has gone through several organization separation and consolidations.

Seven people founded Acer initially. To gain the talents and capital, we partnered with the other people and built Acer America, as well as the companies in Taichung and Kaohsiung. In 1983, we merged all these companies.

In 1984, I set up BenQ for an order from ITT, based in the U.S. Now, BenQ has become a group in the domains of information and communication.

In 1989, to solve the problems of memory shortage in Taiwan and upgrade the domestic semiconductor manufacturing process, I established TI-Acer.

In 1988, after Acer launched IPO, we started to promote intrapreneurship and even proposed to have 21 publicly-listed companies in the 21st century worldwide, hence, "21 in 21". In 1990, the intrapreneurship was then discussed in the U.S.

The intrapreneurship with Acer can be divided into three waves. In the first wave, there were Acer TWP, Ambit, and ALi; in the second wave, there were Acer NeWeb, APacer, and Weblink; then in the third wave, there were many Internet companies such as Acer Internet, Acer CyberCenter, and Pagic.net. Some of these companies were publicly listed.

Strictly speaking, TI-Acer and Ambit were JVs, instead of splitting from Acer; however, Acer took the lead of the establishment. For those Internet companies, Acer invested in the outside companies, with only a few companies from within the Acer group. Internet was another new domain for Acer. We had more talents in manufacturing and created more companies in manufacturing earlier.

After the second reengineering in 2000, we merged Acer TWP and Weblink, merged the Acer branded businesses with Acer Sertek, separated the manufacturing business into Wistron, and sold Acer Semiconductor to TSMC. BenQ conducted a merger of Acer Display Technologies and Unipac into AU Optronics. In 2003, we sold Ambit to Foxconn; in 2004, we sold ALi to MediaTek. Facing the ever-changing industry, we may need to conduct further reorganization.

The separation and consolidation at Acer were not driven by external factors. Instead, I was the person who pushed it through. In the Chinese history, the administration has always played a repeated drama of separation and consolidation. In the western society, splits and mergers will usually impact the development of a corporate. I initiated the re-organization to enhance Acer's corporate strength and phase out the non-competitive portions. I was willing to change so that Acer fades into history.

In 2000, I set up the principle "strengthen the core business; phase out the non-core businesses". For me, this was a big conceptual change. Before 2000, I could not agree with most foreign investors who treated Acer's indirect investments, such as BenQ, Acer Sertek, Ambit, TI-Acer, as non-core businesses; my colleagues and I worked hard and treated those indirect investments as our own companies. I even said that those selling Acer stocks would be regretful.

Until 2000, I came to accept the concept of international capital markets and no longer treated those indirect investments as core businesses. For me, it was a journey of mind and also a kind of growth. I no longer resisted the various perceptions from outsiders. Instead, I commanded the best directions for my best benefits by continuous adjustments. Acer now only focuses on the core businesses.

I have reminded the managements of BenQ to beware of the same traps Acer fell into. BenQ's stock price has fluctuated, influenced by the business of its subsidiary—AUO.

I treat the entire pan Acer group (See [1] in Chapter One) companies as my own businesses. Therefore, I am qualified to say I have contributed toward the sum of the revenues of all these companies. The total revenue of the entire pan Acer group is the highest among all the high-tech companies in Taiwan. The profit rate is very good too.

Honors

Both Acer and I myself, personally, have won many domestic and international recognitions, awards and honors (See Table 12-2).

Table 12-2: Highlights of Acer's Awards and Media Honors

Year	Awards
2003	"Best Exporting IT Product Award" at Computex Taipei for the Acer TravelMate 800 notebook PC
2003	Winner of London International Advertising Award for the Acer TravelMate C100 Convertible Tablet PC commercial film
2002	"Best Notebook PC" at Computex Taipei for the Acer TravelMate C100 Convertible Tablet PC
1996	"Innovation 96" in Winter Consumer Electronics Show of Las Vegas, US, for Acer's Aspire multimedia desktop home computer
1996	First prize of the US Industrial Design Excellence Awards for Acer's Aspire desktop home computer
1994	First prize for Environmental Protection by Germany's BUND
1993	"Personal Computer Milestone Award" by <i>CommonWealth Magazine</i> and Intel for Acer's developing PC products in Taiwan
1992	First prize of the first National Innovation Award in Taiwan
1985	"Most Outstanding Product Design Award" by Taiwan External Trade Development Council for Acer's fourth-generation Chinese computer

1984	“Most Outstanding Product Design Award” by Taiwan External Trade Development Council for Acer’s MicroProfessor III
1982	“Taiwan Premier Award” for Acer’s MicroProfessor II
1980	“Taiwan Premier Award” for Acer’s Chinese terminal products
Date	Media Reports
May 17, 2004	U.S. <i>BusinessWeek</i> : Acer: Riding A Hot Streak
September 9, 2002	U.S. <i>BusinessWeek</i> : A Proud Papa Called Acer
July 25, 1996	<i>Far Eastern Economic Review</i> cover story: No More Cloning Around
July 1, 1996	US <i>BusinessWeek</i> cover story: Acer: Taiwan’s Global Powerhouse
October 30, 1995	U.S. <i>Fortune</i> : Acer’s Edge: PCs To Go, an 8-page report about Acer
May 1995	<i>Asia Business News</i> : Acer’s rating exceeded Sony, Toshiba, and National
January 2, 1995	<i>San Jose Daily</i> (California): Acer: the hottest name
December 1994	<i>Time</i> : Acer as the company with the highest international fame in Taiwan
December 1, 1994	<i>Wall Street Journal</i> : Acer: Global PC Power and Asian Pacesetter
March 1994	<i>World Executive’s Digest</i> cover story: the Fourth Internationalization Model
June 28, 1993	U.S. <i>BusinessWeek</i> : Acer: Up From Clones — And Then Some
April 22, 1993	<i>Far Eastern Economic Review</i> : Acer: An Ace Up Asia’s Sleeve

As earlier as in 1976, I was elected as one of The Ten Outstanding Young Persons in Taiwan. I was also awarded by different institutions in very broad domains, including management and technology. In 2000, *AsiaWeek* chose me as one of "Asia's Top 25 Digital Elite." Before my retirement, the U.S. *BusinessWeek* chose me as one of the “25 Stars of Asia”, among which I was the only one from Taiwan. That was a very meaningful retirement gift for me (See Table 12-3).

Many Acer colleagues have also been awarded for various honors (See Table 12-4). The phenomenon shows that Acer has cultivated many talents, who are developing their reputation and recognitions. This is the Acer culture.

Table 12-3: Highlights of Stan Shih’s Awards and Media Coverage

Year	Award and Honor
2004	Taipei Computer Association (TCA) and Taiwan External Trade Development Council (TAITRA) honors Shih for bringing Taiwan's Computex Taipei to become a global top-three IT trade show
2003	Taiwan Ministry of Economic Affairs presents Shih with the "Outstanding Contribution to Brand Building in Taiwan" award
2001	“Chang-Lin Tien Distinguished Fellowship Award”, a program of The Asia Foundation
1999	The third annual "Industry Hall of Fame", Computer Reseller News & The Computer Museum
1999	Academy of International Business selects Shih as the "1999 International Business Executive of the Year"
1997	The "1997 International Award for Business Excellence", Marshall School, USC
1997	“Chiang's Technology Achievement Award”, Chiang Industrial Charity Foundation
1997	Honorary Doctor of Technology by The Hong Kong Polytechnic University
1995	"Emerging Markets CEO of the Year Award" — International Monetary Fund (IMF) and The World Bank's annual meeting
1994	Honorary Dato, State of Penang, Malaysia
1993	Honorary Award, by Taiwan BusinessWeekly Magazine
1992	Honorary EE Ph.D., National Chiao-Tung University in Taiwan
1990	"Outstanding Alumnus" of National Chiao-Tung University in Taiwan
1988	"Engineering Medal Award", Chinese Institute of Engineers

1988	"The Management Medal", Chinese Management Association
1987	"Chinese Engineer Outstanding Achievement Award" by American Chinese Engineer Association
1983	"One of the 10 Most Outstanding Young Persons in the World" – the first International Jaycees
1981	"Young Model for the Founding of a Business in Taiwan"
1981	"The Most Outstanding Young Engineer in Taiwan"
1976	"One of the 10 Most Outstanding Young Persons in Taiwan"
Date	Media Report
July 12, 2004	One of "The 25 Stars of Asia" who care deeply about societies and want to make a difference, U.S. <i>BusinessWeek</i>
March 2004	Crossings, documentary that traces Shih's life story, <i>Discovery Channel</i>
May 24, 2001	Cover story, <i>Far Eastern Economic Review</i>
2000	"Asia's top 25 Digital Elite", <i>Asiaweek</i>
December 8, 1997	Cover story, "Asia's Wealth Creators Confront a New Reality", <i>Fortune</i> , Dec. edition,
November 7, 1997	"Business Hall of Fame", <i>Asiaweek</i>
July 25, 1996	Cover story, <i>Far Eastern Economic Review</i>
July 10, 1996	Cover story, U.S. <i>BusinessWeek</i>
January 8, 1996	One of "The 25 Top Managers of the Year", U.S. <i>BusinessWeek</i>
July 1995	"The Best Managers of the Past 15 Years", <i>World Executive's Digest</i>
June 20, 1995	"International Chief Executive Officer of the Year", <i>Financial World</i>
Fall 1989	"25 People You Ought to Know for Doing Business in Asia", <i>Fortune</i>
November 15, 1989	"CEO of the Year", <i>Asian Finance</i>

Table 12-4: Award List for Acer Management

<p>"Outstanding Alumnus" of National Chiao-Tung University in Taiwan George Huang (1996), Simon Lin (1996), Ken Tai (1998), Fred Lin (2000)</p>
<p>"One of the Ten Most Outstanding Young Persons in Taiwan" Ken Tai, Johnny Shih, Rick Lei</p>
<p>"Outstanding Chief Financial Executives" — Awarded by the R.O.C. Financial Executive Association Philip Peng, Howard Chan, Frank Lin, Eric Yu (with BenQ)</p>
<p>"Ten Outstanding Managers" — Awarded by the Chinese Professional Management Association Johnny Shih, K.Y. Lee, Simon Lin, T.Y. Lay, Dixon Cheng, Rick Lei, Harvey Chang, Honda Huang, Vincent Cho, Jim Wong, Donald Huang, Scott Lin</p>

Public Services

I had assumed the responsibilities for several public services, such as an advisor to the R.O.C. Presidential Office, Managing Director of the Institute for Information Industry, Managing Director of the Industrial Technology Research Institute, and Governor of the Asian Institute of Management. The most meaningful public services are: Chairman of the Taipei Computer Association and Chairman of the Brand International Promotion Association.

Chairman of the Taipei Computer Association

When I founded Acer, there were not many Taiwanese computer companies. Most of the companies were branches of foreign companies. The domestic computer association could not adjust for the needs of the industries and was not representative.

Later, I assumed two terms, a total of 6 years, as Chairman of the Taipei Computer Association (TCA). I set up an office suite next to Acer and the office was supported

by Acer staffs. With the assistance of the successive chairmen who followed my term – Timothy Lin, Jeff Li, and Enoch Du – we built a solid base for the TCA.

The TCA was different from other industry associations. We always acted to fit the new needs of the industry. The member companies were very cohesive. I was willing to let every member participate in the development of the TCA.

We held many computer shows for the member companies. In 1981, Taipei Computer Exhibition was just a domestic show, with a small scale. In 1984, while assuming the post of Chairman of the TCA, I decided to co-work with the Taiwan External Trade Development Council and turn the show into an international export show. I coined the English name of the exhibition as Computex Taipei. We charged a very low rate for exhibition, even free of charge to those software companies for a certain period of time. In 2004, at the 20th anniversary of Computex Taipei, the TCA awarded me for giving the name and positioning "Computex Taipei" 20 years ago. Computex Taipei is now as famous as CeBIT in Germany and the Comdex Fall in the U.S., as the top-three computer show worldwide.

I also improved the finance of the TCA by aggressively providing services to the members, such as computer data entry, and word processing examination. Later, the TCA was able to buy a permanent building, cutting the membership fee into half, and paying for the exhibition cost of those software companies in Computex Taipei.

In 1986, the TCA proposed a reference document regarding "Software Copyright Laws", which was accepted by Taiwan Legislation Yuan without changing a word. This prevented software being treated as general publication.

This also illustrated my positioning as Chairman of the TCA. I put aside all personal interests and showed an objective image so that the administration people could trust me easily.

Chairman of the Brand International Promotion Association

I had built several solid foundations for the Brand International Promotion Association (BIPA). We charged a high membership fee and accepted the government grants. I planned the "Taiwan InnoValue", held CEO round table meetings, and led visiting groups to Japan and the U.S. for the local big companies, such as Landor Associates. In addition, I also won over a bank guaranteed loan for the member companies, and personally conducted and taught many training classes.

The cohesion among the member companies did not turn out to be strong in the BIPA. They were from different industries with various backgrounds, business scales, and diverse benefits. Many board members who were the heads of big companies often could not attend the board meeting. I could not collect a broad idea from all the member companies, as I did at the TCA.

Talent Cultivation

I had thought through the issues of demand and supplies of human resources. It takes time to cultivate the talents for a new industry. As a new market grows, there will be

a shortage of talents. Until the industry matures and the market becomes saturated, there will be the issues of an oversupply of talents. We then have to find new jobs and the new stages for those talents.

Talent cultivation is the responsibility of the people with grand visions, of the people with high-level positions, and of the talents themselves. People with grand visions foresee the needs of talents. People with high positions plan the human resources and their developments. In addition, every talented individual has to make efforts to catch the right opportunities.

Many talents left Acer due to various reasons; some started their own businesses or assumed management posts in other companies. They may also contribute to the industry and the society.

Acer valued the development of talents. Acer had a training center and cooperated with the foreign management studies in conducting high-level talent cultivations. Acer had conducted a few significant projects, such as Microprocessor Training Center, General Manager Development (GMD) programs, and the Aspire Academy. GMD was an internal training. The other two programs were open to the whole industry.

Acer set up the Microprocessor Training Center early on, while the technology was still unfamiliar to those domestic engineers. We taught the applications of the microprocessor in designing the products and trained 3,000 engineers within four years.

The earlier GMD program was aimed at cultivating one hundred general managers within the Acer group worldwide. I lectured around the world, with the main topics on "business sense". My teaching contents were some simple concepts and actions, such as inventory management, account receivables, and human resources management. I reminded them some key points and also taught them about risk control.

I worked very hard to cultivate the talents in a big scale, such as the Microprocessor Center and GMD programs, for the industry needs. As the industry matured, we started to cultivate on the critical talents through Aspire Academy and expand the programs to the outside IT industries.

Aspire Academy

Aspire Academy, founded by Acer Foundation in October 1999, is a non-profit organization. The positioning of Aspire Academy is to cultivate the middle and upper levels of talents, needed by Taiwan, including the areas of international management, technology management, and leadership. The training on leadership is very broad; related subjects are organization, and change management. We first brought in some foreign courses, and then worked with the University of Thunderbird for the EMBA classes. In 2004, there were three EMBA classes.

Thunderbird dedicated its interests in international managements, and was founded around 50 years ago to enhance the international capabilities of Americans.

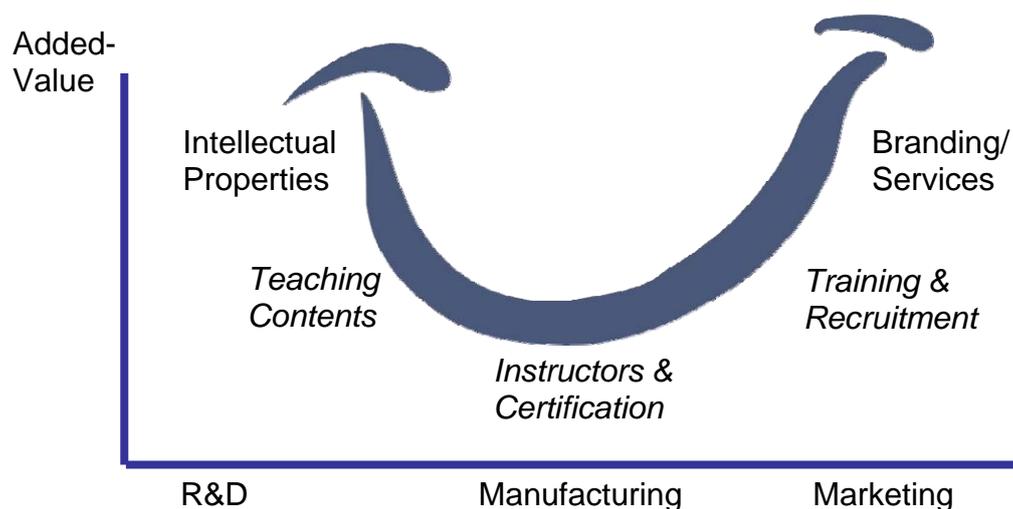
Thunderbird is the leader in the domain of international management. Acer had sent many executives for trainings and gained very good results.

From the beginning, I had set Aspire Academy as a non-profit organization. I hoped the institution could be self-supportive or make profits for investing more resources.

In 2002, former President of Aspire Academy, Arthur Yeung, and I, decided to industrialize our trainings, according to my Smiling Curve.

The so-called industrialization must equip with standards and can be effectively quantified, usually with consistent specification and quality. Education is a service industry, with some issues on quantification to be resolved. For the educational sector, the upper stream is intelligence properties, including teaching materials and lecturer guidelines; the middle stream is training the lecturers to behave as a master; the down stream is product brand, such as "Sino Master Series". The same "Stan Shih's Smiling Curve" can be applied to cultural creative industry and service industries (See Figure 12-1).

Figure 12-1: Smiling Curve for Education Industry



The competition in an industry requires a brand name. Aspire Academy is a general brand. "Sino Master Series" is one of the sub-brands. One of the classes is "Change Management," taught by Arthur Yeung and I. The different contents can be put into various classes, with the other sub-brand names.

We designed several mostly two-day class course modulus. For example, there is a finance course for non-finance background managements. This course provides some general finance knowledge. Once they have the basic financial concepts, they can contribute more effectively to the companies as well as to the whole industry.

Another course called the "Moment of Truth" was licensed from IBM. IBM designed the course when they planned to transfer from a technology-based company to a service company. There are many stories to illustrate the transition process and to teach the employees how to change their behavior models. We localized the contents and trained some instructors for the trainings.

The responses for these courses have been excellent. Every course can reach a certain volume; say 50 classes, with outstanding quality, easy implementation at reasonable prices.

We designed the teaching materials and instructor guidelines for each course to train the instructors and for quantification. The teaching materials are in English but the instructors teach in Chinese for the best results. These instructors can be the embodiment of the master in the classes. Some instructors, like John Wang, can teach many courses, while the others may teach only one or two courses.

The wisdom taught by a master can be applied globally. With localization, it can fit the needs of the Taiwanese. After standardizing the teaching processes, with good training and facilities, the instructors can become a teacher like the master. We used a similar model over 20 years ago in the Microprocessor Training Center. At the beginning, the classes were taught by the college professors. Later, we trained a group of young lecturers, like Max Wu who just graduated from university, who had read the teaching materials and had the training, and became a very good lecturer.

Talent cultivation is not limited within the classroom. The consulting services from iD SoftCapital Inc. are also important. The two main subjects for iD SoftCapital are post-incubation and change-management. Both are about experience sharing and related to talent cultivation.

The post-incubation program targets the small and medium high-tech enterprises; it will offer advice with standard courses and project planning to the enterprises before they become publicly listed. The implementation is through talent cultivations. In terms of change management, the most important thing is the new concept. For an ambitious team wanting a change management, we can provide new concepts to them. This is another kind of talent cultivation.

Conclusion

A Long and Fruitful Journey

I have been the Chairman and CEO for 28 years, since the founding of Acer. Among all the global IT companies, I am the longest serving CEO, and this is because I've continuously reengineered myself to sustain in the corporate life.

The sustainable life of Acer does not change my determination about retirement at the age of 60. I want to give more people the opportunity to play and build a role model, by completely "letting go" of my power. I will step aside and let J.T. Wang, K.Y. Lee, and Simon Lee to perform their best in their own territories.

The only duty I will carry with me after my retirement is to divest Acer's non-core businesses. I will take care of all the indirect investments within three to five years, through my job in iD SoftCapital Inc. Then, I will be able to say that I have handed over my power completely.

My Retirement Plans

Upon retiring from Acer, I will dedicate my time to iD SoftCapital, and to non-profit organizations related to the knowledge-based economies, such as the StanShares.com website, Aspire Academy, which are related to talent cultivation.

I expect iD Soft Capital to integrate the global Chinese resources and assist the Chinese to play a key role in the worldwide knowledge-based economies. I hope the Chinese may become more influential in each local economic development, which is something I have always dreamed for.

For talent cultivation, Aspire Academy surely will play a key role. In addition, there are some projects for the public welfare. For example, I had donated money to three schools I had attended and set up three subjects: "happy children", "experiment and creation", and "social service" for Lo-Jin Elementary School, Changhua High School, and National Chiao-Tung University, respectively. I donated NT\$50 million in five years to National Chiao-Tung University and set up "Stan Shih's Social Service Fund" to encourage those students from poorer families to participate in the social services and public-welfare activities. These activities reflect my values. I am collaborating with the National Chiao-Tung University on a project to break through the digital-divide. We hope to design an effective operation model, which can be replicated in Taiwan, and even worldwide.

After my retirement, I will also pay more attention toward my personal interests: my health, and to help my children with their choice of interests. I will not ask my children to succeed my businesses, and neither will I offer them a lot of money for their new businesses. Instead, I will offer my advice to them. In addition, I hope to travel with my wife and work with her on several public-welfare activities.

Create the Life-Value Again

My experience within Acer has been a long and fruitful journey. It has been a meaningful part to my life, and to society.

My journey comes from my breakthrough achievements. I had the opportunities to challenge the difficulties and break through the bottlenecks, and create the business peaks. I have been fortunate to be at the right time, in the right industry and in the right nation to be able to achieve so many things.

Nowadays, the new generations may pursue a different life. I had been working for a better economic development for a stronger nation. However, the younger generations have different views about their lives. The economic development for this country has reached a stage where it has become reasonable for the young people to desire for various enjoyments in life.

I have contributed my efforts in the prosperous development in Taiwan. I have not made the contributions that I should to devote to China. China is a new economic continent and worthy to explore. Perhaps, through iD SoftCapital, I can do something and create a bigger contribution to the global Chinese communities.

I have been lucky to be acquainted with so many important people in my life. Those who have changed my life are my teachers: Yu-Lin Ho from elementary school; Chan-Chi Tsai from high school; and the professors and senior classmates from the National Chiao-Tung University, such as Andrew Chiu and Glenn Ing. I also want to acknowledge the volunteers who participated in the projects break through the digital divide. It is a tough job to do.

I am deeply grateful for my happy family life. My mother, who has passed away, and my wife have always been very supportive. As I become older and my health becomes weaker, I feel it is a reasonable price to pay for a rewarding career. Overall, I feel fortunate in all aspects of my career, family and health.

After my retirement, I will continue to leverage on my limited resources and time to make contributions. I will need more wisdom to leverage the power and success from others to create more visible and invisible resources. Then, with fresh resources, I can challenge for further advancement and deliver more success.

Although I will retire from Acer, I do not plan to retire from the society. I will continue to create the values for my personal life as well as for the benefit of our society.