

Building brands the Taiwan way

BY CHINTU SAMUEL ABRAHAM (Recently in Taipei, Taichung and Tainan) / 22 December 2007

IN THE last few decades Taiwan has earned the reputation of being the super factory of the world for electronics, IT, and communication products. Taiwan's products are ubiquitous globally. But, Taiwan's technology brands do not enjoy matching visibility. Taiwan is determined to change this reality.

Taiwan's technology brands lag global brands from the US, Japan, and Korea in brand recognition and sales. This is the legacy of Taiwan's focus on the OEM (original equipment manufacturer), ODM (original design manufacturer) and other models of contract manufacturing for other major global brands. The contrast between Taiwan's dominance of global notebook manufacturing and the lack of it in the brand segment is sharp. In 2006, 82.6 per cent of the global shipments of laptops were made by Taiwanese companies. Compared to that volume, just two notebook brands from Taiwan, Acer and Asus, make it to the top 10 list in global notebook PC shipments.

According to figures released by the Ministry of Economics and Bureau of Foreign Trade of Taiwan, the nation's exports of electronics, IT and communication products together reached approximately \$61.5 billion for the period January - October 2007, despite an 8.9 per cent negative growth in IT and communication product exports. Thanks to its manufacturing exports, the country also sits upon foreign exchange reserves of more than \$250 billion, the third largest in the world.

The country's OEM and ODM-led business model is facing significant challenges, especially for products such as laptops. Margins are getting squeezed and competition is increasing from across the mainland and Southeast Asia. Major companies are under pressure to enhance their brand business and drive profits. The government has unleashed a 'Branding Taiwan' campaign to encourage local companies to establish global brands. Taiwanese companies are now focusing on brand building like never before. And the way to achieve that goal is an unrelenting pursuit of product innovation.

Brand consultancy Interbrand's 'Best Global Brands 2007' top 100 list has eight companies from Japan, including two in the top 20 — Toyota at seventh position and Honda at 19th. Among technology companies, Sony, Nintendo, Panasonic and Canon make the grade from Japan. From South Korea, Samsung at 21st position, Hyundai, and LG make it to the top 100, while none of the Taiwanese brands do. According to the list of 'Top Taiwan Global Brands 2007' announced in July, the number one brand in Taiwan by brand value is Asus, valued at nearly \$1.2 billion. Compare this with the \$16.8 billion brand value of Samsung and it makes a compelling case for creating more brand value and further product innovation by Taiwanese companies to catch up with their global peers and to justify their ambition of being recognised as global brands. In fact, the least valuable of the Asian brands in Interbrand's global top 100, Korea's LG, is valued at \$3.1 billion, more than twice Asus's brand value.

The focus on brands has resulted in major spin-offs involving the separation of the contract manufacturing and brand businesses into different companies. One of the first companies to take that course was Acer, which has now shot up to the number three position in global laptop sales. The company's spin-off involved the formation of a contract manufacturing arm, Wistron, and a mobile phone and monitor business, BenQ. Network equipment maker D-Link also spun off its OEM-ODM business and the company is now focusing on servicing its customers. Early next year, Asus, the world's largest producer of motherboards, which also has a significant presence in laptops, will also follow the same path with the parent company becoming a purely branding firm. While the Asus brand business will retain the original name, the PC-related manufacturing unit will be known as Unihan, and the and non-PC contract manufacturing unit will be named Pegatron.

The companies need the spin-offs to avoid conflict of interest. They found themselves in situations where their own brands were pitted in turf wars with the brands of customers. Asus, for example, was ranked number one globally in the ODM category by market research firm iSuppli. But as Jonney Shih, Chairman and Chief Executive of Asus told *Khaleej Times*, "We are trying very hard to drive our brand name. With the success of our brand, there has been more and more concern from our (ODM) customers. That is why we convinced ourselves that this is the right time for the spin-off." JC Liao, president of D-Link, cites another conflict — involving internal resources. Up to 80 per cent of the company's resources were focused on OEMs. Spin-offs free more resources that can be utilised for brand building.



Asus is pinning its brand strategy on innovative products like the Eee PC.

Younger companies like the 10-year-old High Tech Computer Corporation (HTC), a manufacturer of portable devices and smartphones, have also jumped onto the brand bandwagon. Shedding its behind the scenes existence as a largely ODM company, it is now selling its own brand products worldwide. It started to commercialise HTC products in Asia with the acquisition of Dupod. The Dupod acquisition was seen as part of a strategy to build HTC as a consumer brand. HTC's Chief Marketing Officer John Wang told *Khaleej Times* that the company is now selective about its ODM projects.

The cornerstone of Taiwan's brand strategy is innovation. Taiwanese like to tout what marketing guru Philip Kotler highlights about Taiwan's approach — that IT in the country also means 'innovation technology'. In the Taiwanese scheme of things, innovation and marketing are inseparable. Jonney Shih of Asus told *Khaleej Times*, "Innovation is so important to us. We always believe that product innovation and marketing should go together. Without innovation marketing would be far less effective."

At HTC, the chief marketing officer John Wang himself leads the innovation group of the company called 'MAGIC Labs'. HTC does not believe in the money-draining method of brand building by focusing solely on advertising. "HTC recognises the difference between brand recognition and brand value," says Wang. He cites the examples of 'differentiators' which people associate with successful brands; Apple with simplicity, BlackBerry with mobility — especially the mobile e-mail, Sony with quality, and Palm with affordable PDAs. They created an inflection point — a new category. Wang sees HTC carving out that kind of a position with its key product, the HTC Touch. He claims that

tomorrow there will be a new category of phones, the touch phone, and HTC and Apple would be synonymous with touch phones.

Asus has reworked its strategy for the brand business with innovation as the fulcrum. The company had been following what it calls the Giant-Lion Strategy in the past. Lion representing the leading position the company strives to achieve in the market leveraging its R&D capabilities and innovation. In a standardised industry like the OEM-ODM industry, scale is important. Asus has to drive volumes and market share, which the 'Giant' part represents. Now with the spin-off, the company is following what it calls the 'Giant-Lion Squared' strategy. As the focus shifts to the brand name, innovation becomes more important. The 'Lion Squared' part signifies the doubled importance of innovation. Even then the volume is important — it is dangerous to be small while driving innovation. Asus claims that it is taking a big step in spreading its brand with its new portable notebook, the Eee PC.

For the new Taiwanese brand strategy to succeed, the nation's technology companies have quite some distance to travel before they even reach the levels of the Japanese and Korean brand giants. The Taiwanese have rightly identified product innovation as the key to brand success. Producing intuitive products for Apple based on the design, specifications, and architecture given by the American company is easy. But, coming up with such quality on their own is the challenge that Taiwanese brands face. For the relative success of an Acer there is a BenQ misadventure. Industry experts are keeping their fingers crossed as Taiwan bets its money on product innovation to complete the transformation from super factory of the world to super brand factory of the world.

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