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歐洲個人電腦通路策略：宏碁個案研究

Channel Strategy in European PC Market:

Case study of Acer Europe

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Global MBA Program

Thesis

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Student: Shih-Cheng Chen
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ABSTRACT

Acer's remarkable success in European PC market last ten years can be attributed to its channel strategy. This thesis analyzes Acer's channel strategy, channel selection, and success factors based on several theory propositions. These propositions explain channel selection approach from seven points of view: Environment, Producer's Power, Partnership, Product-Technology Life Cycle, Internationalization Process, Organizational Structure, and Previous Experience. An inductive approach, using secondary data collected through internet and from journals is used to define the decision making approach and the strategy adopted by Acer. Other secondary data about European PC market will be analyzed together with the propositions to come up with the logic behind the decision making and the success of Acer's channel strategy. The result of this thesis not only develops the key factors that affect Acer's channel selection and success, but also provide other companies with some 'takeaway' to help them make their channel decisions.

Acknowledgement

So many unexpected events have occurred during 2008-2010. The most influential one is that I decided to join an exchange program in the Netherlands. This decision enriches my student life and globalization experience. But it also made me postpone the progress of writing this thesis. Furthermore, the financial requirement made me take a full-time job right after I came back to Taiwan. The balance between working and thesis writing became a big issue for me to complete this thesis. Luckily, with the assistance of many people, I can conquer all the obstacles and finish this study. So many people contributed valuable assistance in the completion of this thesis and deserve my appreciation.

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1. Introduction

1.1 Research background

Acer is a successful international brand and Taiwan's most recognized PC manufacturer, holding second place in global shipment of PC and laptops in 2009. The Acer Group owns four brands -- Acer, Gateway, Packard Bell and eMachines. Acer maintains a global workforce of 7,000 employees. Estimated revenues in 2009 reached $17.9 billion. The European market accounted for 50% of total income. 〔1〕 Acer holds second place in the European market with 19.9% market share and a growth rate of 37.1%. 〔12〕

In 2000, Acer underwent a dramatic reorganization, spinning off manufacturing operations and becoming a brand-focused company. To prove that the reorganization had been successful, Acer needed to demonstrate their ability to market and sell products better than before. Gianfranco Lanci the president of Acer Europe, had to find a way to expand market share and to raise Acer's competitiveness. He started to implement a new channel model in Europe, which between 2001~2009 achieved great success as Acer's PC market share in Europe grew from 3.5% to 19.9%. 〔12〕

Acer's channel strategy in Europe is worth investigating. The existing literature about Acer mainly focuses on its re-organization, globalization, or brand strategy while some of them mentioned the channel strategy as the supplement of those topics. None of the extant literatures sees Acer's channel strategy as the key success factor. This study analyzes Acer's channel strategy and suggests that the competitive advantage of Acer is actually generated from its channel strategy. We look into Acer's decision making approach behind their channel strategy and how this approach worked in the European PC market.

1.2 Objectives, aims, and questions of this study

The objectives and aims of this study are to define why Acer selected its channel strategy and how Acer's channel strategy succeeded in European PC market.

2. Research Methods

To achieve the objectives, an inductive case study is used to define the decision making approaches and the channel strategy adopted by Acer.

Using an inductive approach enables an understanding of the context in which the events under study were actually taking place. We can deploy inductive logic to infer principles, theoretical claims, and/or 'takeaway' from particular cases and other empirical evidence. However, the popularity of this approach does not ensure that the generalizations procured from induction are universally tested or even broadly supported. [30] This approach focuses on understanding why something was happening, instead of describing what was happening, which is more appropriate given the research questions of this study--- why Acer developed their channel strategy, and how Acer's channel strategy succeeded in European markets.

The methodology of this study also flows from the nature of the research topic. A topic on which there is a wealth of literature from which a theoretical framework and hypotheses can be defined lends itself more readily to the deductive approach. To study a topic which is new, igniting much debate, and explored by few existing literatures, an inductive approach may be more appropriate. [7] With no extant literature studying Acer's channel strategy, an inductive approach, rather than a pre-existing analytical framework, can help us further explicate Acer's channel strategy by understanding the context.

The deductive approach is less suitable for this study because of its requiring general ideas about why and how Acer's channel strategy succeeded in Europe. There are few general ideas due to the paucity of studies examining Acer's channel strategy in Europe. Even if there are generalized approaches to consider, their validity would be questionable on account of lacking rigorous supporting literature. Furthermore, a deductive approach may require a more rigid methodology that does not permit alternative explanations of what was going on.

The original objectives and design of the case study are predicated on several theoretical propositions, which are generated from research questions, set the scope for the literature review, guide the analysis, and rule out alternative explanations. They will be shaped with the literature review and compared with the empirical evidence to find the logic behind Acer's channel selection. The possible competitive advantages developed from the research results of Acer's channel strategy will also be compared with these propositions to find out how this strategy succeeded.

The research process consists of four steps: Literature Review, Data Collection, Analysis, and Conclusions.

(1) Literature Review:
Literature about channel strategy will be reviewed and used to develop the theoretical propositions. After the propositions are developed, further literature review will be carried out to test and complement the propositions.
(2) Data Collection:
The study uses a realism perspective towards the collection of evidence including both quantitative and qualitative data. The case study relying solely on single sources of evidence has bias to certain degree and is unlikely to be very convincing. Thus, this study will collect evidence from multiple sources, ensuring each source can be complementary to each other. The main sources are documentation and archival records collected from the internet, newspapers, journals, and the company.
(3) Analysis:
A general analytic strategy based on theoretical propositions is applied to fairly examine the evidences, to analytically develop persuasive findings, and to exclude additional interpretations. This process is the most preferred way to answer "how" and "why".〔31〕

(4) Conclusion:
The conclusions are drawn to answer the research questions.

Multiple resources will be used to achieve construct validity. External validity can be achieved through applying appropriate well-known theories. The validity of the theoretical proposition is accomplished by testing with the real situation. Reliability can be performed by accessing reliable information sources including independent research organizations.

3. Literature Review

3.1 Channel strategy

The marketing literature〔20〕states "Marketing channels can be viewed as sets of interdependent organizations involved in the process of marketing a product or service available for use or consumption" within a target country. The choice of channel is viewed from the strategic perspective of optimizing effectiveness and efficiency in reaching the customer. "Not only do marketing channels satisfy demand, they also stimulate demand by promotional activities of the units composing them." Indirect and direct sales channels are the two main channel alternatives.〔13〕

Earlier PC companies had used a single direct or indirect channel.〔21〕Since the beginning of the 1980s, the leading companies started to reorganize their single channel (either direct or indirect) and to form multiple channels (especially hybrid channels). Increasingly e-commerce was seen as an alternative to the brick and mortar channels and influenced the development of the overall channel strategies.

(1) Indirect Channels

Indirect sales channels mean that independent channel intermediaries are used to reach the end customers. This channel can have either a first-tier or second-tier structure. The first tier refers to the use of resellers or retailers to reach the consumers, whereas the second tier indicates the existence of an additional level, the distributors, between the sales subsidiaries and the resellers or retailers.〔13〕

Single Indirect Channels model:

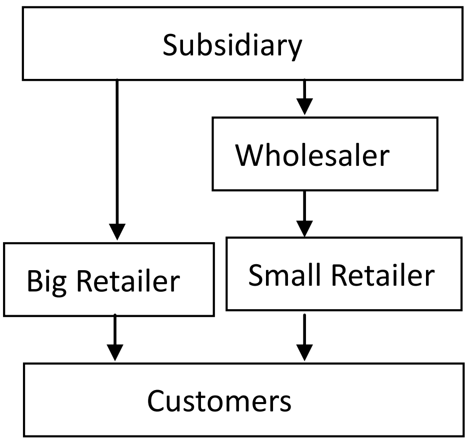

Figure 1

When Compaq started to enter European PC market, it used a single indirect channel model to fulfill the needs of its corporate customers. The resellers carried out a wide range of channel functions including sales, technical support, service, and demand creation.

(2) Direct Channels

In a direct sales channel, the producer sells to end customers through its own sales force.〔13〕

Single Direct Channels model:

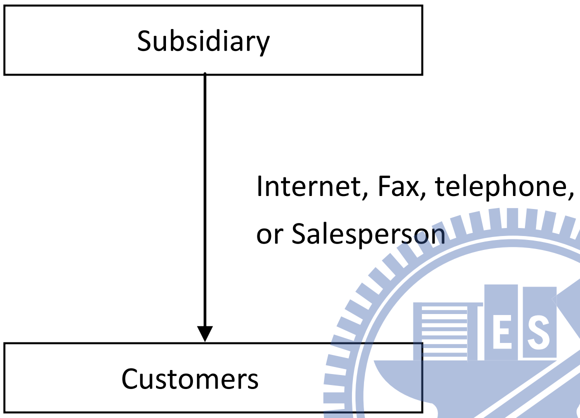

Figure 2

Having entered Europe, Dell used a single direct channel model, including salespeople who serve “relationship customers” (large public and corporate customers), the internet, fax, and telephone channels which serve retail customers and SMEs. With its unique build-to-order business model, Dell got cost advantage, driven by the disappearance of mark-ups from the reseller channel, close relationship with suppliers, inventory management and operational efficiency.

(3) Multiple Channels

In the PC industry, multiple channels are commonly used. One such structure is a dual sales channel, in which both direct and indirect sales channels are used simultaneously.〔13〕Another alternate structure is a hybrid sales channel, in which marketing functions are shared by manufacturers and channel intermediaries. Manufacturers handle promotion and customer generation activities, while the intermediaries is in charge of sales and distribution. The dual channel strategy is an adversarial channel strategy, whereas the hybrid channel strategy is based on cooperation and partnership.〔11〕

The Dual Channels model:

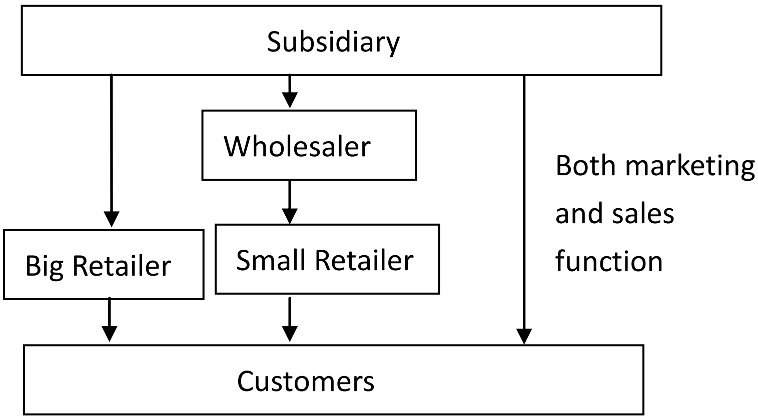

Figure 3

After Dell's successfully entry into European market with direct channel, HP started to develop its own direct channels and also maintained the original intermediaries. This was a dual channel.

The Hybrid Channels model:

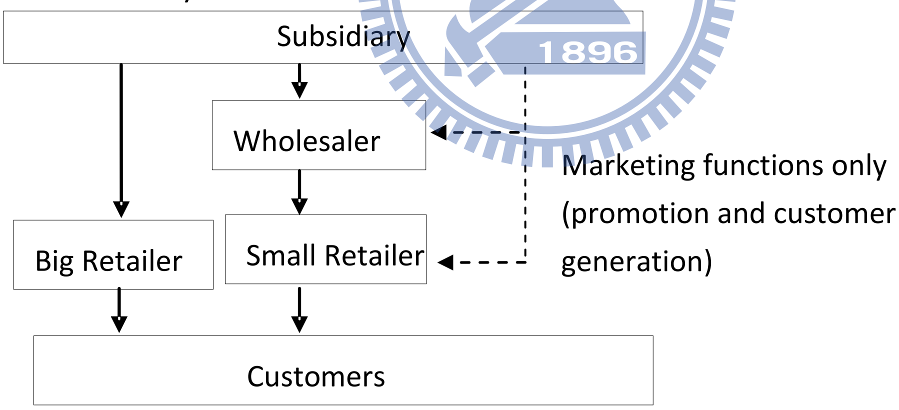

Figure 4

Most PC vendors, including Acer, sold PC only through the intermediaries to avoid the channel conflict with them. At the same time, those vendors used call center and advertisement to promote their products, to generate brand awareness, and to attract customers.

3.2 Channel Selection Approach

After the literature review, we refine seven most important issues related to channel selection and shape the seven issues into theoretical propositions. Each issue represents one proposition of channel selection approach, which will be used to analyze the research findings in the following chapters.

(1) Environment

According to the study of Saul Klein (1990), multiple (dual, hybrid) channels are more suitable in uncertain environments caused by competition and new technology (e.g. the Internet) than single (direct, indirect) channels.〔18〕This proposition is predicated on a Transaction Cost Analysis approach, which shows that market volatility and diversity have effects on the level of integration in distribution channels. A Transaction Cost Analysis can analyze the market issues more appropriately because microeconomic as well as sociopolitical issues are considered. We believe that this approach can explain the channel selection in European PC market.

In this article, all the market issues including external volatility and diversity, transaction volume, and internal uncertainty, are viewed as one proposition which summarizes all of them into the degree of market uncertainty.

Proposition 1: Multiple (dual, hybrid) channels are more suitable in uncertain environments caused by competition and new technology (e.g. the Internet) than single (direct, indirect) channels.

(2) Partnership

According to the work of Anderson (1988), higher partnership advantages encourages the use of intermediaries and makes indirect and multiple (dual, hybrid) channels more preferable. Higher conflict potential makes hybrid channels more preferable than dual channels. The channel relationship can lead to either partnership advantage〔4〕 or channel conflict. The advantages are created by the switching barrier and product differentiation caused by relational exchange. Relational exchange is the departure from the anchor point of discreteness that underlies a strong customer franchise (or, from a buyer's stand-point, a reliable team of suppliers), and emphasizes the shared benefits and burdens, communication (both formal and informal), as well as the joint efforts related to performances of both side. The obligations coming from promises are customized, detailed, and administered within the relation. The buyer-seller relationship can help to reduce uncertainty, to manage dependence, and to exchange efficiency. Foremost is the possibility of significant gains in joint payoffs as a result of effective communication and collaboration to attain goals. The buyer's perception of the effectiveness of the relational exchange is a significant switching barrier, and can be a potential competitive advantage for the sellers, which insulates them from price competition. 〔10〕

Combining the theory above, this study argues that the possibility of gaining competitive advantage from the partnership and the avoidance of raising conflict with the partners is the key reason for PC vendors to select specific channel model. The potential advantage gained from a partnership and possible disadvantage resulted from the conflicts can be assessed with a Transaction Cost Analysis to help the companies select the most reasonable channel models.

Proposition 2: Higher partnership advantages encourage the use of intermediaries and makes indirect and multiple (dual, hybrid) channels more preferable. Higher conflict potential makes hybrid channels more preferable than dual channels.

(3) Producer's Power

According to Dwyer's study (1987), high producer's power, which can minimize conflict, is required to adopt a dual sales channel strategy. Commitment and development of trust are required for adopting indirect or hybrid sales channel strategies. 〔10〕 A model of working partnerships has been developed by Anderson, James C. and James A. Narus to analyze the marketing channel relationship.〔3〕These literatures help us to understand the links among power, outcomes, and conflict in a channel relationship. The power over or influence on the partners can be described as a firm's dependence relative to the partner's dependence. It has a positive link to "outcome given a comparison level for alternative", a standard that represents the overall quality of outcomes available to the firm from the best alternative exchange relationship. Based on these literatures, the company gaining greater benefits from the alternative has lower dependence relative to its partner, and thus possesses higher power in the relation. In other words, the less the total costs caused by the loss of the relation, the higher the power possessed by the company over its partner, and thus the less the conflicts might happen in the relation. In addition, higher trust also can enable the firm to avoid conflicts.

In this thesis, we argue that the channel model of the market is most likely decided by the channel captain (dominant company in a vertical marketing system that controls the channel of distribution). The channel captain's partners will follow its strategy and avoid the conflict with it. This company can influence what products or services are developed and distributed throughout the channel. The other companies without this power can only select the channel strategies which create trust with the partners to avoid conflict.

Proposition 3: High producer power which can minimize conflict is required to adopt a dual sales channel strategy.

(4) Internationalization Process

According to the work of Johanson, J. and J.Vahlne (1977), companies' internationalization path follows the sequences of no-regular export, selling product through agents and then through subsidiaries, and finally establishing production subsidiaries.〔16〕The internationalization process model recognizes two main groups of marketing operation--- Export Operations, and Sales and Marketing Subsidiary Operations. The mainstream path is to start sales and marketing activities through Export Operations first and expand through Subsidiary Operation later. Export Operations include three stages--- indirect export mode, direct export mode, and own export mode. In indirect export mode, companies located in the home market are responsible for the export activities. In direct export mode, the producing company exports the products directly through the intermediaries in the target country. Own export mode exists when the producer involves in sales activities to reach end consumers by e-sales or mail order.〔25〕 As the company expands and becomes more experienced in the target market, it may establish a sales or marketing subsidiary to reduce the risks and uncertainty. The channel strategies may be direct, indirect, or multiple in this operation mode.

To explain the effect of internationalization on channel selection, this thesis combines the theories of both market entry strategy and channel strategy. If the subsidiary takes care of all the selling and marketing activities by itself, the channel is direct. If the subsidiary carries out the role of distributor and uses resellers or retailers to reach the end consumers, the channel is indirect. Multiple channel exists when both direct and indirect channels are used by the subsidiary. Therefore, we argue that the sequence of channel selection for a company entering a foreign market is as follows:

1. Introduce through indirect channel (indirect export mode, direct export mode);
2. Expand through multiple channel (own export mode);
3. Choose one channel model from all options to fit the local market (Sales and Marketing Subsidiary Operations).

Proposition 4: In indirect export and direct export mode, indirect channel is the only choice. In own export mode, multiple channel is the most likely option. In Subsidiary Operation mode, all three channel strategies (direct, indirect, and multiple) are possible.

(5) Organizational Structure

According to the study of Heenan and Perlmutter (1979), multinational corporation (MNC)'s organizational structure varies with the diffusion sequence from local, regional, to global organization. With the diffusion sequence, organizational structure evolves into an ethnocentric, polycentric, geocentric〔15〕, or heterarchical organization.〔14〕

In this thesis, we combine the theory of the diffusion sequence and channel strategy to establish a link between channel selection and organizational structure. In each stage, the preferred channel strategy changes depend on the different strategic priorities. In an ethnocentric stage, companies choose a single sales channel in order to minimize the risks and standardize the channel strategy, which could be either direct or indirect channel. The polycentric stage is expected to lead to a dual sales channel because the subsidiaries have the freedom to select the appropriate sales channel for their local market. A heterarchical stage is expected to result in a hybrid channel because the organizational functions are dispersed into several different business units. Cooperation with channel partners becomes very important in this stage.

Proposition 5: In an ethnocentric stage, companies choose a single sales channel. The polycentric stage is expected to lead to a dual sales channel. A geocentric stage or a heterarchical stage is expected to result in a hybrid channel because the organizational functions are dispersed into several different business units and cooperation with other companies is more important.

(6) Previous Experiences

The organization's positive experiences of a particular channel strategy either in their home country or in other foreign markets will increase the probability of choosing a similar one in a new market.〔11〕

In this study, given that there are no dominant local PC vendors in Europe, we argue that the foreign PC vendors are most likely to copy their own successful experiences from their home countries or other foreign markets to Europe. Besides, personal successful experience of a specific leader is also a possible factor for channel selection.

Proposition 6: The organization's positive experiences of a particular channel strategy either in their home country or in other foreign markets will increase the probability of choosing a similar one in a new market.

(7) Product-Technology Life Cycle

According to the work of Geoffrey A. Moore, (1999), product-technology life cycle model describes the stages through which a product-technology cycle passes.〔24〕In each stage of a product-technology life cycle, the target customers are different with varying preferences.

In this article, we view the total PC market as one product-technology cycle, and combine Moore's life cycle with the channel strategy theories. We argue that the companies tend to use different channel strategies in each stage to reach and satisfy the target customers. The introduction stage, targeting innovators and early adopters, is expected to use a single channel to satisfy their need. The growth stage, targeting early majority customers, is expected to result in a dual channel to provide availability to all customers. In the maturity stage, focusing on late majority customers, companies use multiple (dual, hybrid) channels to serve the customers with gradually decreasing prices. Finally, in the decline stage, targeting laggards, companies use hybrid or single direct channels to further lower costs and prices.〔23〕

Proposition 7: The introduction stage is expected to result in a single channel. The growth stage is expected to result in a dual channel. In the maturity stage, companies use multiple (dual, hybrid) channels. In the decline stage, companies use hybrid or direct channels.

4. Research Results

4.1 Decision making context (in 2000)

4.1.1 PC Industry

The personal computer industry has a fiercely dynamic market, characterized by intense speed of competition and consolidation, high scale and learning advantage, globalization and cost pressure, and short life cycles for both technology and product. Moore's law, which initially stated that technological development would enable the PC's central processing unit to double in processing speed every two years for the same price〔8〕, has been revised to incorporate even faster development. Prices of PCs decreased annually by some 20% to 40% in the 1980s, and the decline further intensified in the 1990s. Product life cycle lasted approximately one year in the mid-1980s but had shrunk to about three months by 1999. This market situation has led to constantly decreasing unit prices and margins in the PC industry. As a solution to this problem, it is extremely important for PC companies to increase their sales, constantly to benefit from economies of scale and compensate for lower margins.〔11〕

4.1.2 European PC Market

European PC shipments totaled 35.3 million units in 2000, an increase of 6 percent over 1999. In 2000, the leading five PC companies in Europe accounted for almost 50% of the total PC units versus only 30% in 1990. IBM had lost the lion's share that it had had since the beginning of the 1990s and slipped to fifth, as Compaq, Fujitsu Siemens, Dell, and Hewlett-Packard in that order, bypassed it. HP recorded the highest growth rate among the top-tier vendors, nearly four times the industry average. IBM and Fujitsu Siemens posted negative growth rates, while Dell and Compaq showed modest growth over 1999 (Table 1). As a result, HP passed IBM to become Europe's No. 4 vendor. Acer, still considered a minor player, had a 3.5% market share in Q2 2001.〔12〕

European Personal Computer Shipment for 2000 (Thousands of Units)

	2000		1999		
Company	Shipments	Share(%)	Shipments	Share(%)	Growth(%)
Compaq	5,242	14.8	5,081	15.2	3.2
Fujitsu Siemens	3,336	9.4	3,574	10.7	-6.7
Dell	2,812	8	2,725	8.2	3.2
HP	2,543	7.2	2,064	6.2	23.2
IBM	2,454	6.9	2,536	7.6	-3.2
Others	18,930	53.6	17,344	52	9.1
Total Market	35,317	100	33,324	100	6

Table 1

Source: Gartner Dataquest

*Acer has only 3.5% market share and is part of "Others" in this table

4.1.3 Channel Strategies in European PC Market

The channel strategies in European PC market are different among the PC vendors. Most companies, such as Compaq, IBM, and Fujitsu, used an indirect sales channel strategy and let resellers carry out a wide range of channel functions in the beginning. After PCs became popular, they developed a hybrid channel by setting up call and support centers to provide pre-sale advice and sales support. This strategy helped them to avoid channel conflict with their intermediaries. Dell used direct sales channels along with its unique build-to-order business model. Its market share grew fast with the increasing number of internet users and changing buyer behavior.

4.1.4 About Acer

Development

Originally named Multitech, Acer was founded with US$25,000 in capital in 1976 by Stan Shih (施振榮), his wife, Carolyn Yeh, and a group of five others. Multitech was eventually renamed Acer and went public in 1987. Initially, it was primarily a distributor of electronic parts and a consultant in the use of microprocessor technologies, but over time began to grow as a PC manufacturer. In 1996 the company expanded into consumer electronics, introducing a host of new and inexpensive videodisc players, video telephones, and other devices in order to boost its global market share. In 1997, Acer purchased Texas Instruments' mobile PC (laptop) division. By 1998, Acer claimed that it was the world's third-largest PC manufacturer and seventh-largest PC brand.〔22〕 In 2000, Acer spun off its manufacturing operations as the Wistron Corporation in order to focus itself on the branding business. The firm's global headquarter is located in Hsinchu City, Taiwan. After this dramatic reorganization, Acer had 3900 employees in early 2001. Acer's consolidated sales in 2000 were $ 4.7 billion and profits $2 million. 〔1〕

Organization

Through the 1990s, directed by Stan Shih, Acer's organization underwent several changes, including downsizing and decentralization to create a flat organization. Shih implemented a "client-server organization model," in which, he described, Acer's headquarters acted as a "server" that deployed its resources(finance, personnel, intellectual property) to support client business units, which controlled key operating activities.〔6〕 In 1998, the Acer group was divided into five subgroups〔27〕, among which the Acer Information Product Group was the largest. Other subgroups included Acer Europe and Acer America. In 2000, Shih expounded the Internet Organization(iO) Model. Each company within the Acer Group operated individually, listed publicly, and targeted their core competencies in their respective lines of business. The Acer headquarters, which did not control their activities but rather acted like a "virtual HQ"〔29〕, had only minority shares in most of its subsidiaries. In December 2000, the Acer group announced a dramatic reorganization. Hundreds of employees were laid off, contributing to Acer's workforce shrinkage from 5300 in 1999 to 3900 by the end of 2000 and the substantially reduced size of their US operations. The new group consisted of three divisions: Acer Brand Operations (ABO), Design and Manufacturing Service (DMS), and Holding and Investment Business (HIB). The reorganization attempted to reverse the decentralization of the 1998 restructuring, to avoid competition among subsidiaries and to promote smoother internal communication. In May 2001, Acer spun off DMS into a new company, Wistron Corporation, while ABO would become the flagship business of the Acer group by outsourcing all its manufacturing and concentrating exclusively on marketing and sales for Acer's own branded products. 〔22〕

Product

After reorganization, Acer cut down the variety of products sold in countries where its market share was relatively low. Whereas Acer used to have hundreds of different PC models globally, after the reorganization it would sell only six different own-branded desktop models and three or four notebook models. Acer's leading product lines were notebooks (60 percent of revenue), desktop computers (12 percent), and computer motherboards (5 percent). In places such as the United States and Europe, Acer was known as a "discount" brand, recognizable by consumers, but only able to command prices that were discounted by 20 percent to

25 percent lower than those of leading branded players.〔22〕

Globalization

Acer has operated internationally from its infancy when Acer sought superior international business performance from the application of knowledge-based resources to the sale of products in multiple countries.〔19〕 In the mid- 1980s, Acer began to sell outside of Taiwan and , in 1990, organized its sales business in four regional divisions: Europe, North America, Taiwan, and ALAP (Asia, Latin America, and Asia-Pacific). The US market became a focal point in Acer's global strategy in the mid-1990s. By the late 1990s, the focus was beginning to shift to China and other Asian markets. By 1999, Taiwan accounted for only around five percent of Acer's total sales. In 2000, Acer announced its new business strategy, "Global Brand, Local Touch," meaning that it aspired to become a world-renowned brand and hoped to achieve this through products that were customized in accordance with local needs.〔22〕

Acer Europe and the leader

In 1985, Acer established its European subsidiary in Dusseldorf, Germany. In 1997, following acquisition of Texas Instrument (TI)'s notebook division, Acer's headquarter in Europe was relocated to Italy, where TI's management team was located. All the acquisitions were to provide an operational competency to compensate for Acer's lack of experience in European markets. Acer expected to exploit local employees' abilities to operate local businesses. Among their businesses, TI's notebook division was the most profitable one and expected to yield synergy with Acer's notebook business.

Gianfranco Lanci was born in 1954, and joined Texas Instrument (TI) straight after graduating from the Polytechnic of Turin. He became the country manager at the age of 35, and successfully led TI to become the leader in the Italian laptop market in 1996. Following Acer's acquisition of TI's notebook division, Gianfranco Lanci joined Acer as a managing director of Acer Italy in 1997, and built up a strong organization by extending and consolidating relationships with channel partners at all levels, an effort which made Acer the leading name in the sector in Italy. In 2000, he was promoted to serve as President of Acer Europe.

4.1.5 Acer's channel selection

With the collected information above, we can analyze Acer's decision-making approach to figure out the key factors. After comparing the factors with the channel selection propositions, we can find out the logics behind its decision making. This analysis helps us to answer the key question of why Acer chose the channel strategy.

(1) Environment

Because of the uncertainty resulted from competition and new technology (especially the surge of internet usage), the market volatility and diversity are both high in European PC market. Therefore, the higher economies of transaction size make multiple (dual, hybrid) channels more suitable than single (direct, indirect) channels in Europe PC market.

(2) Partnership

The partnership advantages for PC vendors and the intermediaries are created by the shared benefits and burdens, smooth communications, and joint efforts related to both sides' performances. The intermediaries tend to maintain long term relationship with the vendors for three reasons: reducing the uncertainty, improving operational efficiency, and providing better customer service. By fulfilling these needs with effective communication and collaboration, the vendors can create significant switching barriers and competitive advantages which insulate them from price competition. 〔10〕A good relationship with the resellers can also make the products more likely to be displayed on better places of the shelves and to be recommended to consumers. Therefore, the partnership advantages in PC market tend to be high. Furthermore, after Dell's successfully entry into European PC market with direct sales channels, the intermediaries started to be aware of the competing threats from the PC vendors. Dell's rapid growth also made itself a common rival for the other vendors as well as the intermediaries. Acer's channel partners would be more likely to maintain good relationship with the vendors in order to reduce channel conflict and fight together against Dell (shared benefits and burdens). This situation made the partnership advantage even higher and encouraged the use of the intermediaries.
In light of these developments, indirect and multiple (dual, hybrid) channels were more preferable in this circumstance.

(3) Producer's Power

Given no PC brands dominating Europe, the power of distribution is one of the keys to succeed in Europe. In 2000, Acer had limited power over or influence on the partners and much higher dependence relative to the resellers' dependence. The resellers can easily switch to the alternative PC producers because of Acer's slim market share of 3.5% and limited loyal PC users. The little power made the conflicts easily occur in their relationship. 〔10〕 Therefore, Acer had to build up trust and adopt indirect or hybrid sales channel strategies to avoid conflicts.

(4) Internationalization Process

Acer Europe was at the stage of "selling products through subsidiaries" in its internationalization process. 〔16〕 After several successful acquisitions, it expanded in many countries and became more experienced in Europe market. The establishment of the subsidiaries helped it to reduce the risks and uncertainty in those countries. At this stage, all three channels could be used.

(5) Organizational Structure

Acer Europe's organizational structure was in a heterarchical stage. 〔14〕 After the reorganization, the organizational functions were dispersed into several different business units, assets were distributed throughout the company, and every subsidiary had a different role. Before 2000, Acer's regional subsidiaries operated independently. Since 2001, they had become sales and marketing units which only focused on sales and marketing functions while the headquarter was responsible for other management functions including procurement. To achieve the only goal, increasing sales revenues and market share, cooperation with channel partners had became very important and a hybrid channel was the most preferable in this stage.

(6) Previous Experiences

Acer's channel strategy in Italy of extending and consolidating relations with channel partners is one of its most successful experiences in European market. Promoting the managing director of Acer Italy, Gianfranco Lanci, to the president of Acer Europe clearly showed Acer's intention --- copying this experience to other European countries.

(7) Product-Technology Life Cycle

The rapid growth rate indicated obviously that Europe PC market was in a growth stage. PC producers were expected to use dual channels to provide products to all customers in European market.

With the comparison with proposition above, we develop two tables: one is the European PC market's situation for all PC vendors' channel selection (table 2); another is Acer's situation for its own channel selection (table 3).

European PC vendors' situation in year 2000:

Issues	Multiple Channel		Single Channel	
	Dual	Hybrid	Direct	Indirect
Environment	☆	☆		
Partnership		☆		☆
Product-Technology Life Cycle	☆			

Table 2

Acer's situation in year 2000:

Issues	Multiple Channel		Single Channel	
	Dual	Hybrid	Direct	Indirect
Producer's Power		☆		☆
Internationalization Process	☆	☆	☆	☆
Organizational Structure		☆		
Previous Experience		☆		☆

Table 3

As the tables show, Hybrid Channel could be the best choice because it matches all the consideration for Acer's own situation. Two of the propositions about the whole market also suggest consistent results. Only the issue of Product-Technology Life Cycle shows different results. Acer would need to compare the disadvantage caused by this issue with the advantage created by all other issues to infer whether Hybrid Channel is the reasonable choice.

Based on the analysis of Product-Technology Life Cycle, the disadvantage would be the lower availability of the products to all customers. Customers' willingness to purchase through internet, however, heavily depends on the familiarity with the brand and company. 〔28〕 With Acer's low brand awareness and small market share in 2000, we expect that the availability lost due to channel conflict is greater than that gained from direct channel (especially internet). Therefore, we argue that Acer can ignore the disadvantage caused by this issue and chose Hybrid Channel as its channel strategy.

4.2 Acer's channel strategy

Acer's final decision is consistent with our analysis--- Hybrid Channels, an indirect channel model without any engagement in direct sales. To enhance the advantage of indirect channel, it stopped owning shops and transformed three-tiered distribution structure into two-tiered formula (Figure 5), through which the company saved overhead cost, which in turn provided Acer rooms for pricing competition and directly benefited its distributors and end-users. Owning to the competitive pricing, Acer's distributors were more capable of serving a large number of dealers and Value Added Resellers (VARs), which added services and software to the PC products. The enlarged number of cooperating retail stores helped Acer to maximize the availability without any direct channel. Acer shared the profit with its partners by providing special discount, an incentive for them to enhance Acer's product visibility. Acer ensured its exposure rate on the shelves by directly putting it in the contract: "Demo product must be used for display or demonstration purposes and maintained for a minimum of three months, otherwise entitlement to further demonstration unit discounts may be withdrawn," written in the description of Acer Partner Program.〔1〕 Consequently, the distributors' strong support for Acer's products contributed to the negative effects on its competitors such as HP and Fujitsu.

In June 2001, a spin-off project, called Acer Connect, was scheduled in order to support the new channel strategy. This is a multi-actor extranet application characterized by: segmentation of the users into a hierarchy of user roles; different access privileges and information visibility to roles; one centralized and several local administrative roles, which were able to perform advanced administrative and monitoring tasks; several group-tailored Web applications (e.g., sales, marketing) targeting contents to corporate-specific or partner-specific communities; a security model for managing group and individual access rights on single pieces of contents; full-fledged content personalization. The first version of Acer Connect was deployed in Italy and UK in December 2001. After six years, Acer Connect was rolled out in 25 countries, delivering content and services to a community of over 80.000 users.〔2〕 This new system helped Acer to enlarge the advantage derived from partnerships, First, the communication barrier between Acer and channel partners were broken down and Acer was able to get the real-time information and to allocate its promotional resources to the right partners. Second, the supply chain management became extremely efficient and minimized the inventory by pushing it to the channel partners with the real demands. Third, by assisting the more profitable channel partners to sell the products, Acer can further consolidate the partnership with them.

Acer's channel structure in Europe

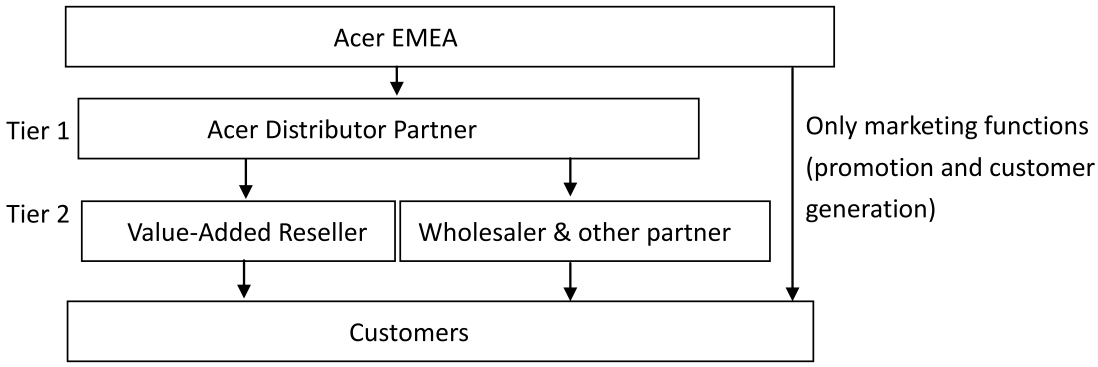

Figure 5

Source: MIC Report, 2005

4.3 The results of Acer's channel strategy (2001~2009)

Since 2001, Acer has grown considerably. Of all the regions Acer conducts business, EMEA market accounts for the majority of total sales (Appendix A).Until 2009, Acer held second place in the European market with 19.9% market share and a 37.1% rate of growth (Table 4). To find out its success factors, we do a research on the evolvement of European PC market and the competitions from 2001 to 2009, the nine years after the implementation of the new channel strategy. Again, we make an analysis of Acer's channel strategy and the market changes with the theoretical propositions to conclude the possible logic behind its success. Furthermore, we make a suggestion on Acer's future channel selection based on the results

Preliminary EMEA PC Vendor Unit Shipment Estimates for 4Q09 (Thousands of Units)

Company	4Q09 Shipments	4Q09 Share (%)	4Q08 Shipments	4Q08 Share (%)	4Q09-4Q08 Growth (%)
Hewlett-Packard	6,012	20.3	6,170	21.6	-2.6
Acer	5,888	19.9	4,295	15.0	37.1
Dell Inc.	2,716	9.2	2,642	9.2	2.8
ASUS	2,389	8.1	2,017	7.0	18.4
Toshiba	1,730	5.8	1,732	6.0	-0.1
Others	10,927	36.8	11,773	41.1	-7.2
Total	**29,663**	**100.0**	**28,629**	**100.0**	**3.6**

Table 4

Source: Gartner Dataquest

4.3.1 The evolvement of European PC market

Since 2004, the consumer market had showed mixed results, with desktop's weaker-than-expected growth but notebook's very solid performance. "In the fourth quarter of 2004, the EMEA market experienced a weaker-than-expected desk-based consumer market," Mr. Atwal said. "However this was balanced out by strong demand for notebook PCs from business users. Recently, due to price erosion and mature wireless technology, notebooks have no more been considered as commodity rather than high-tech product. The fact that notebook sales accounting for 40% of total PC sales in Europe was 15% higher than that in America indicates European consumers preferred notebooks rather than desktops. The replacement demand dominated the market gradually after 2008. Notebook has played a significant role in the growth of PC market in Europe. In 2009, Mini-notebook was the popular growth platform. The mobile consumer market kept the Western Europe PC market going through the growth of mini-notebook shipments, with total mini-notebook volumes representing more than 20 percent of the total EMEA mobile PC market. 〔12〕

The price cut continued to be the main driver for sales growth while there was no advent of any new technology and no other market impetus. Although European laptop market was promising, the tough competition and stagnant revenues growth due to decreasing prices would remain big challenges for global vendors.

4.3.2 Competition

Until 2009, the top three PC vendors in EMEA region were: HP, Acer, and Dell, the only three vendors remaining on the top five since 2001 while the other two changed from IBM and Fujitsu to ASUS and Toshiba. Among them, Acer was the only one growing constantly and sharply for all the nine years. (Appendix B)

HP/Compaq

After merging with Compaq, HP continued the low-price strategy which Compaq used to employ to gain market share. As to distribution strategy, although HP mainly relied on distributors for a large portion of business in Europe, direct sale over internet was getting emphasized and concrete to serve business sectors, which, therefore, raised conflicts with intermediaries. This is the so-called PartnerONE program HP planed to serve worldwide market in the first place (Figure 6). However, this US-based distribution structure seemed not fitting in Europe without considering European market characteristics. Along with the shift of company strategy to profit maximization and cutting back rebate for distributors, HP lost both distributors and market share in Europe.

Magid (2002), a technology columnist from Los Angels Times, mentioned that HP-Compaq lost market share to Dell and overall sales declined soon after the merger. In 2003, HP terminated PartnerONE program and re-evaluated its distribution channel to get rid of any remaining confusion.〔32〕 Then, the termination was followed by a series of restructuring, including enhancing rebate for distributors, delimiting coverage between distributors and direct sale, lowering qualification of distributors and increasing “Build to Customer Order” (BTCO).

HP Worldwide Distribution Structure (PartnerONE program)

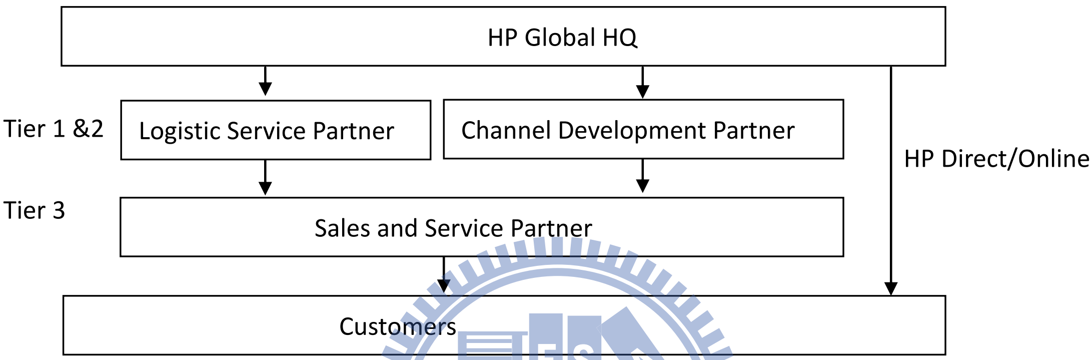

Figure 6

Source: MIC Report, 2005

Dell

Dell used direct model together with strategic alliance to aim at the corporate sector in West Europe. Through cooperation with American MNCs and local alliance partners, Dell successfully served its corporate customers. Moreover, Dell cooperated with local alliance partners to serve large enterprise, governments and education institutions to expand its market share, which totally differed from direct model and the fact that Dell itself served end-users directly in home country. Because the notebook took up 70% of market shares in European corporate sector, Dell's notebook sales were benefited by this concentration strategy.

However, Dell's business model did not work well in consumer market because brick-and-mortar stores remained the main interface to sell products in that segment. Besides, branding and product design mattered in European PC consumer market, which made out of place the low-cost and low-style approach of Dell's direct model. 〔17〕 Furthermore, in East Europe, where IT infrastructure was underdeveloped and consumers were not used to direct model in comparison with counterparts in

West Europe, Dell needed to adopt different business model. A conventional distribution model was used to serve customers through Dell Authorized Service Providers (Figure 7). Doing so, to some extent, Dell solved the problems of low brand awareness and immature direct model in emerging markets.

Dell Worldwide Distribution Structure

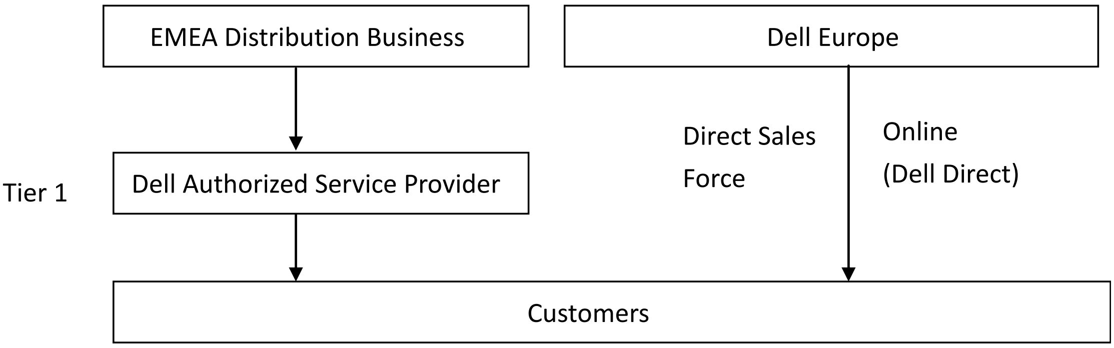

Figure 7

Source: MIC Report, 2005

4.3.3 Factors key to Acer's success

According to the study from Personal Computing Industry Centre (PCIC) in 2006, competitive advantage in the PC industry derives from high volume of sales, a completed distribution channel and good customer relationship rather than product innovation.〔26〕

Before 2000, Acer was a company with vertical integration which pursued the synergy among R&D, production, and marketing functions. However, the inefficiency and high production costs were caused by the lack of competition for R&D and production parts. Therefore, after the re-engineering in 2000, Acer implemented "multiple suppliers" strategy, which sought for the best suppliers. From owning 100% share to less than 1% share, Acer gradually withdrew its investment in the original supplier-Wistron. By cooperating with the suppliers which can really provide better quality and lower prices, Acer saved a huge amount of production costs and was capable of lowering the price for both channels and consumers.

Given that the raging price war has derived from high degree of competition in the PC industry, the trend which happened to desktops once was shifting to notebooks and leading them quickly to head toward commodity.〔5〕 Because consumers preferred to try notebooks as well as other consumer electronics in the physical stores, the company with better physical channels had better opportunity to access those laptop users. Acer was one of the vendors benefited most from this trend. Among all product lines, the sales of notebooks had been very outstanding and accounted for 75.1% of total sales in 2004 (Appendix C).

As a whole, given the market-wise issues mentioned above, the competitive advantages of Acer included the low pricing strategy, the ability to develop notebook, and the channel strategy focusing on partner relationship. Given that the competitors such as HP and Dell were also able to implement low pricing strategy and develop notebook, the key advantage that enabled Acer to outperform was most likely to be its channel strategy.

Again, by analyzing the theoretical propositions which may affect Acer's channel selection, we check the result respectively and test the validity of the propositions:

(1) Environment

According to our previous analysis, the market uncertainty made the channel integration in European PC market more difficult. Both Acer's sharply growth and Dell's modification of direct channel model prove our proposition. Multiple Channel is the suitable choice for most of the PC vendors.

Furthermore, the uncertainty caused by competition and internet has made the market volatility and diversity higher during these years. Until now, multiple (dual, hybrid) channels become even more suitable than single (direct, indirect) channels in European PC market.

(2) Partnership

According to our proposition, Acer can obtain more advantages from its partnerships through hybrid channel strategy. The results of much faster growing market share and enhancing cooperation validate our analysis.

Since both HP and Dell had implemented dual channel strategies (both direct and indirect channels), which raised the channel conflict, Acer's channel partners tended to maintain stronger relationship with Acer to compete with HP and Dell, a situation which also enhanced the advantages derived from Acer's hybrid channel strategy.

Besides, all the partnership advantages were further strengthened by Acer: more benefits were shared with the partners and better communications were built through new systems. The possibility of channel conflict was minimized. This situation made the use of intermediaries even more preferable.

(3) Producer's Power

According to our previous analysis, the use of hybrid channel should minimize the conflict in light of Acer's low producer's power in 2000. The enhanced cooperation and trust with the channel partners prove our proposition.

With the rising market share and the switching barrier built by enhanced relationships, the producer's power of Acer became stronger. This made dual channel strategy (use of both direct and indirect channels) a possible option to reach more customers and achieve higher profitability. However, the potential benefits of this change must be compared with the negative effects caused by raising channel conflict. The consequential channel conflicts may put Acer in the risks of losing trust and partnership advantage built by the hybrid channel strategy.

(4) Internationalization Process

According to our previous analysis, the use of hybrid channel by Acer was to fit the local market. Again, our analysis is verified by the growing market share and enhanced cooperation with local partners.

During these years, Acer's internationalization process has been at the same stage (selling through subsidiary) in which all channel models are possible.

(5) Organizational Structure

According to our previous analysis, Acer's Hybrid Channel was the best choice in a heterarchical stage to achieve best efficiency of different business units. Cooperation with channel partners was very important in this stage. The continuing enhanced cooperation and resulting sales growth both prove our analysis.

Acer Europe's organization structure changed considerably after the reorganization in 2000. However, it maintained a heterachical structure in which hybrid channel was still the most preferable choice.

(6) Previous Experiences

As Acer successfully copied the Italian experience to other European countries, the use of hybrid channels was reasonably maintained and implemented in more areas.

(7) Product-Technology Life Cycle

In the previous analysis, even though the proposition supports the use of Dual Channel, we argue that Acer should not use it amid its low awareness. The result of surging sales growth suggests that our argument is right. The availability created by Acer's channel partners was greater than that it could gain from building direct channels (especially internet).

In 2009, the shipment of PC products declined in European market for the first time (Appendix D). Notwithstanding the effects of severe economic situation, this declining also shows a downward trend of PC product life cycle. European PC market has already gone through growth stage, maturity stage, and finally to decline stage. Companies used multiple (dual, hybrid) channel in the maturity stage to serve the customers and hybrid or direct channels in the decline stage to decrease the costs. Acer's use of hybrid channel met both stages.

By checking the propositions with the reality during year 2001~2009, we confirm our analysis to be correct. Furthermore, we make suggestions on Acer's future channel selection by developing following two tables:

European PC vendors' situation in 2010:

Issues	Multiple Channel		Single Channel	
	Dual	Hybrid	Direct	Indirect
Environment	☆	☆		
Partnership		☆		☆
Product-Technology Life Cycle		☆		

Table 5

Acer's situation in 2010:

Issues	Multiple Channel		Single Channel	
	Dual	Hybrid	Direct	Indirect
Producer Power	☆			
Internationalization Process	☆	☆	☆	☆
Organizational Structure		☆		
Previous Experience		☆		☆

Table 6

Most parts of the tables still support the original result--- Hybrid Channel. Only the issue of Producer's Power indicates an option of Dual Channel. Acer reasonably ignored this option because it already made efforts to build firm relationships with channel partners, which created Acer's competitive advantages. A dual channel strategy would have caused channel conflict which may damage those advantages. Acer had no reason to take the risk of making its previous effort in vain. Therefore, we argue that Acer should maintain Hybrid Channel as its channel strategy.

4.4 New situation and challenge in year 2010

The EMEA PC market has experienced weak growth recently. The corporate market is now experiencing the ripple effect of the economic slowdown as all business markets were affected. The consumer market was the least affected of all the segments, with mobile PCs driving growth. However, this was in part driven by the continued rollout of mini-notebooks as vendors Acer and Asus were joined by Toshiba, Dell, HP and Samsung.

In 2007, the first mini-notebook was launched by Asus as a new product with fairly low price to fit the need of customers. In spite of the influence of financial crisis in these two years, the product has been welcomed by consumers significantly. Different competitors, including Acer, Dell, and HP, have also entered into the market with similar products, which resulted in server competition. In 2008, HP posted impressive growth in consumer mobile, especially in France. In contrast, Acer had to reduce inventory level as demand from the channel waned in these uncertain times. "ASUS exhibited the best performance year-on-year with 67.9 per cent growth (Table 7), primarily driven by continued demand in the mini-notebook market," said Mr. Atwal.〔12〕 In the fourth quarter of 2009, mini-notebooks were still the dominant growth platform. The mobile consumer market kept the Western Europe PC market going through the increased volume of mini-notebook shipments, with total mini-notebook volumes accounting for more than 20 percent of the total EMEA mobile PC market.

Preliminary EMEA PC Vendor Unit Shipment Estimates for 4Q08 (Thousands of Units)

Company	4Q08 Shipments	4Q08 Market Share (%)	4Q07 Shipments	4Q07 Market Share (%)	4Q08-4Q07 Growth (%)
Hewlett-Packard	6,459	21.2	5,742	19.8	12.5
Acer	4,998	16.4	4,682	16.1	6.8
Dell Inc.	2,762	9.1	2,748	9.5	0.5
ASUS	1,937	6.4	1,154	4.0	67.9
Toshiba	1,735	5.7	1,339	4.6	29.6
Others	12,539	41.2	13,349	46.0	-6.1
Total	**30,430**	**100.0**	**29,014**	**100.0**	**4.9**

Table 7

Source: Gartner Dataquest

While its channel partnerships enables Acer to provide new-launched products to end consumers efficiently with better visitability, the key to success still depends on the product itself. Acer’s new challenges are not only from the original and new competitors, but also from its ability to continuously catch up with the market trend. The new product and innovation, such as Netbook, and competitions will continuously challenge Acer’s status in the future. Apple has already created new trends of smart phone (iPhone) and tablet (iPad). “Apple's iPad is just one of many new devices coming to market that will change the entire PC ecosystem and overlap it with the mobile phone industry. This will create significantly more opportunities, as threats, for PC vendors as well," said Ranjit Atwal, principal analyst at Gartner. 〔12〕

5. Conclusions

This research will end in this chapter where findings and conclusions will be presented following the previous chapter. In addition, the limitation and recommendation of this research will be drawn up in the end.

Why did Acer select its channel strategy?

The logic behind Acer's channel selection can be shown in the tables of the issues related to channel selection (table 2&3). As the tables show, **Hybrid channel** is the preferable selection for Acer considering factors in Environment, Partnership, Producer Power, Internationalization Process, Organizational Structure, and Previous Experience. Only the factor of Product-Technology Life Cycle suggests different selection. Acer's decision making was consistent with this finding--- Hybrid channel was chosen. We can conclude that Acer chose the channel strategy under the consideration of all the consistent factors mentioned above. Acer also believes that the advantages brought by its channel strategy are greater than the possible disadvantage caused by Product-Technology Life Cycle issue.

How did Acer's channel strategy succeed in European market?

The conclusion of Acer's factors of success in channel strategy can be drawn from the analysis of the same issues affecting Acer's channel selection. All the factors prove that our analysis is correct and support the use of hybrid channel.

Besides, Acer's success is also attributed to the evolvement of European PC market--- evolving to the direction which benefited Acer's Hybrid Channel Strategy. Another factor is Acer's efforts to enhance the relationship with channel partners--- it maximizes the advantages generated from Acer's channel strategy and enables Acer to outperform in the intense competition during the 10 years.

6. Limitations and Recommendations

This research only addresses Acer's channel models and the related context in Europe. It excludes other marketing and strategic elements related to the company's performance given that Acer's success in European PC markets is significantly related to its channel strategy. Particularized information related to industry and enterprises is charged, making it relatively difficult to obtain, especially in relation to business confidentiality. As a result, this study heavily relies on sources from Gartner, a well-recognized market research firms with great reputation in IT industry, along with data from Taiwan's Industry and Technology Intelligence Service (ITIS). Again, since the study is primarily dependent on secondary data, there has been a need to look into this issue. According to Dunsmuir and Williams〔9〕, conducting secondary research has the following advantages. Firstly, the data can be gathered via a cost-effective and accessible source. Moreover, the data is often the only resource, historical documents for instance. Last but not least, data is viewed as the only means to scrutinize large-scale trends whereby the researcher can well realize conditions and concepts that require further study. On the other hand, the authors list the disadvantages of secondary research as well. Possible biases and inaccuracies resulted from author's point of view cannot be investigated. In addition, published statistics usually raise more questions than they intend to answer due to vague contexts. Last, the authors wonder if any data can be completely separated from its context.

For the limitation mentioned above, a further study based on the data collected from within Acer is needed. Interviews with the managers and employees who really involved in implementing new channel strategies in Europe can provide essential information to test the argument of this research. Information about Acer's sales in specific channels will be very useful—even though it is normally confidential and hard to get. Furthermore, since this study notes the importance of channels in PC markets, to what extent PC retailers can affect consumers' purchasing behaviors is another issue needed to be addressed.

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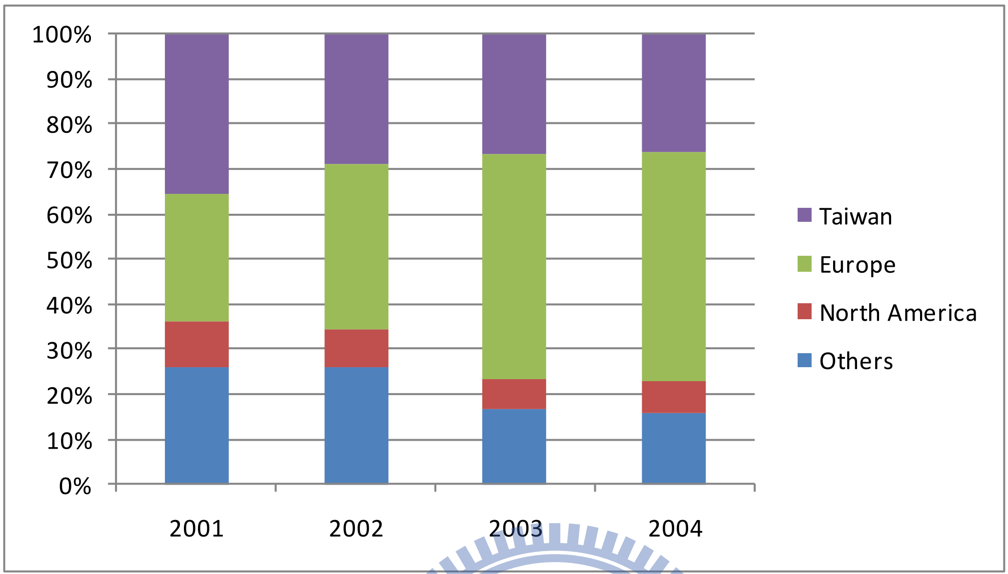
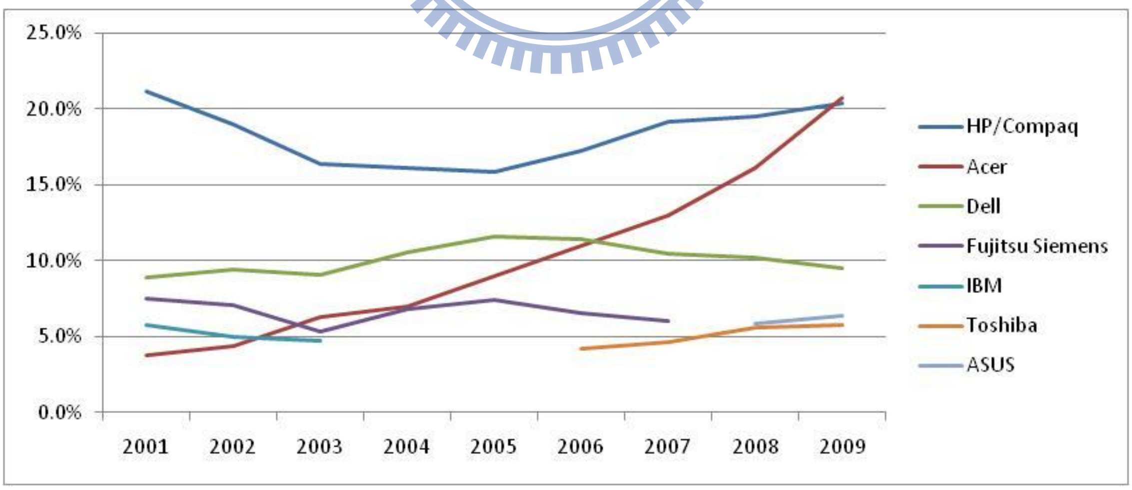
Appendix A: Contribution percentage of Acer Inc. regional business units



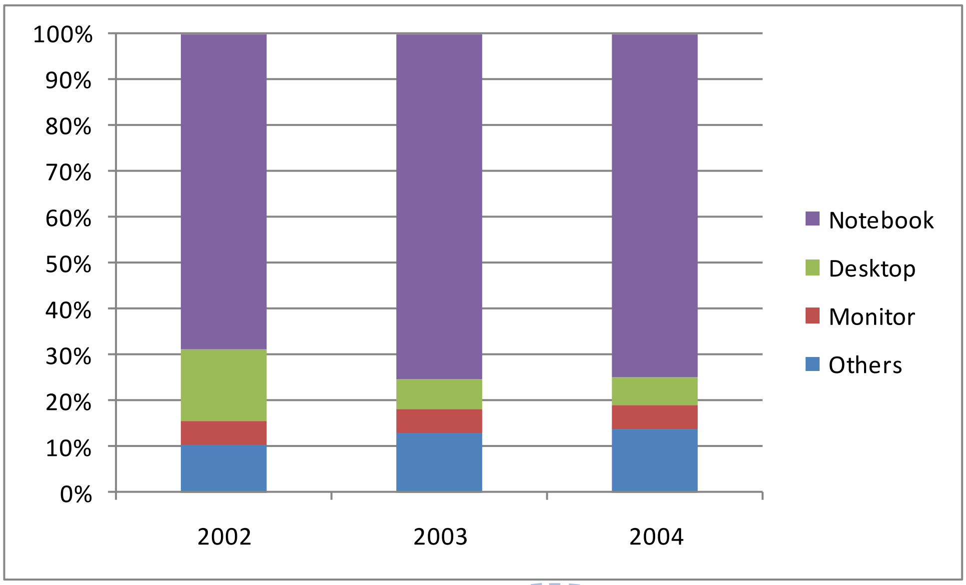
Source: MIC report, 2005

Appendix B: EMEA PC Market Share trend (2001~2009)



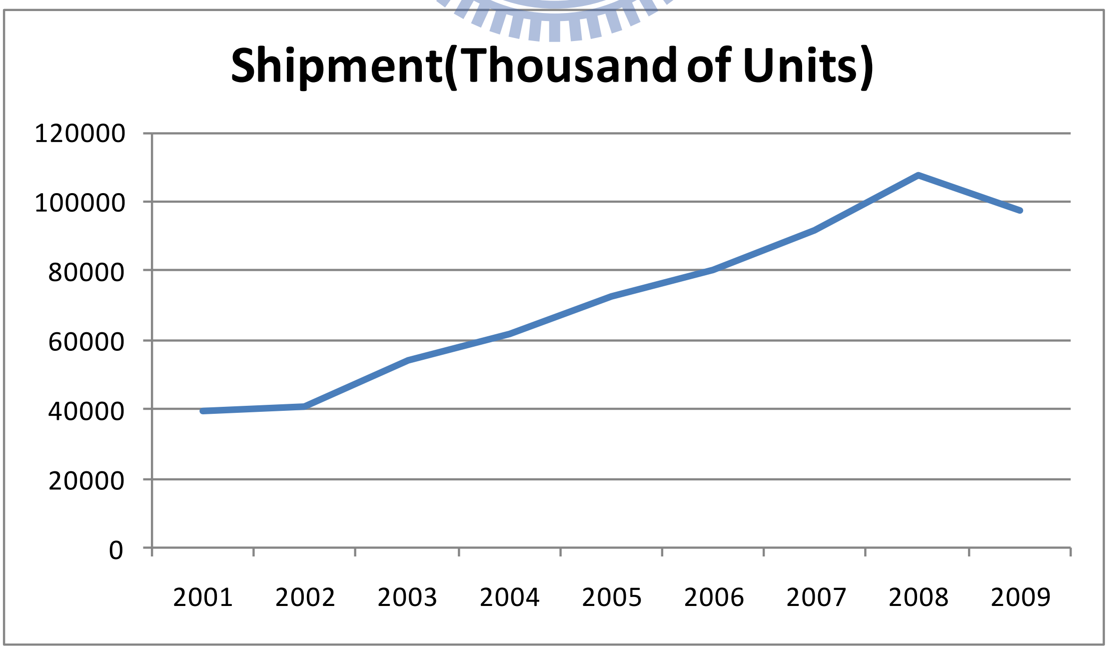
Source: Gartner Dataquest

Appendix C: Revenue Contribution Percentage of Acer's product lines



Source: MIC report, 2005

Appendix D: The PC unit shipment of EMEA (all the vendors)



Source: Gartner Dataquest