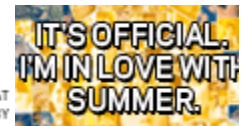


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Acer's Everywhere. How Did That Happen?

By [ASHLEE VANCE](#)

TAIPEI, Taiwan

ABOUT three months ago, Gianfranco Lanci flew into San Francisco International Airport, got off the plane and made his way to the passport control stations. As he pulled out his documents, the passport agent immediately recognized him as the chief executive of Acer.

"It was the first time in my life that has ever happened," he says.

Mr. Lanci may need to come to grips with his growing celebrity. After all, he has turned Acer, the personal computer seller based here, into a finely tuned organization that's obliterating some of the computing industry's longest-standing traditions and leading Taiwan's charge up the technology food chain.

This year, Acer appears poised to overtake [Dell](#) as the world's second-largest seller of personal computers, which would put a real dent into one of America's favorite dorm-to-empire business stories. And if this comes to pass, Acer would trail only [Hewlett-Packard](#); no computer company based outside the United States has ever climbed so high.

"That is a big achievement, and they have beaten the odds," says Roger L. Kay, a PC industry analyst and president of Endpoint Technologies Associates, a consultancy. "Acer is a real comer."

And so is Taiwan.

Giants like Foxconn and Quanta have turned this island into a manufacturing hub, producing most of the music players, video game consoles, cellphones and computers bought by consumers and businesses. But the companies that sell these products — H.P., Dell, [Apple](#) and others — have put immense pressure on these manufacturers to keep prices low.

So business leaders and the Taiwanese government are urging local companies to think bigger. As a result, many have set out to become household names around the world, to nurture their software businesses and to own more key intellectual property in fast-growing parts of the technology industry.

“Most of the companies in Taiwan are slaves to the boom-and-bust cycles,” says Tien-haw Peng, the director of strategic planning at Prime View International, a company in Hsinchu, Taiwan that makes displays for computing devices. “There’s a goal to smooth things out by finding a better spot on the value chain.

No Taiwanese company has done that faster, or more effectively, than Acer.

To reach the No. 3 spot in the global computer business, Acer went through a corporate reinvention that offers fodder for business-school case studies.

For close to 15 years, Acer suffered from a split personality. One part of the company built computers for other PC sellers that would then put their labels on the machines. Another part of Acer sold very similar computers under the company’s own brand.

The arrangement created obvious conflicts, Acer executives say, with the group responsible for the Acer-branded products competing against the customers of the manufacturing arm.

In 2000, Acer began cleaving off its manufacturing division. A year later it formed an independent company called Wistron to handle these operations. A smaller, nimbler Acer emerged, outfitted with a new logo and lofty, global aspirations.

With a clean slate, Acer made what looked like counterintuitive decisions. It decided to focus on laptops for consumers, and to sell them through partners and retailers, avoiding any kind of direct sales.

This approach placed Acer on a distinctly opposite path from Dell, which was the PC industry’s major success story in 2000. Dell had surged past rivals like Compaq, [I.B.M.](#) and H.P. through an ultra-lean direct sales model that hinged to a large degree on shipping desktop computers to big businesses.

In the subsequent years, however, computer retailing shifted in favor of Acer. Consumers now buy more computers than businesses do, and these buyers tend to prefer laptops to [desktops](#). The advantages that Dell once gained by mixing and matching components for customers at its factories have faded as consumers have flocked to stores to buy

preconfigured computers.

“When we split, we thought that if the PC is going to become more of a commodity, consumers will end up as the largest part of the business,” says Mr. Lanci, who became chief executive last year. “Going direct didn’t look like the right model for addressing that. After eight or nine years, it looks like we made a very good decision.”

ACER’S ascent has accelerated during the global economic slowdown. The company made an aggressive move into the market for netbooks — the small, low-cost laptops that have been a rare bright spot during the worst slump the PC industry has ever faced. Dell, which depends far more on PC sales to businesses, has struggled as companies have avoided buying new computers.

Last year, Acer’s market share grew by 3 percentage points, to 10.9 percent, while Dell gained just 0.1 percentage point, to 15 percent, according to the research company [IDC](#). Acer has continued to narrow that gap this year, claiming 11.6 percent of the market to Dell’s 13.6 percent through the [first quarter](#).

Mr. Lanci says he thinks that Acer can keep growing, especially in the United States and China — the two most prized regions for PC sellers. In addition, he’s steering Acer into cellphones, arguing that the growing similarities between smartphones and laptops play directly to Acer’s strengths.

“I think we have the know-how, and these two worlds are going to merge,” he says.

In the meantime, Acer has snatched the mantle of quick-moving, lean operator from Dell. Be it wireless technology or super-thin laptops with a long battery life, Acer often ships computers with new features before any other large PC maker. And when it spots a hot trend started by another company — netbooks, for instance, were the brainchild of Asustek, a fellow Taiwanese company — Acer follows in force, bombarding the market with low-cost products.

[Paul S. Otellini](#), the chief executive of [Intel](#), credits Acer with embracing its underdog role and taking big risks to disrupt the status quo. “They have done a spectacular job,” he says.

Acer’s quest comes with challenges, of course. Its low-cost operating structure leaves only so much money for research and development. H.P. knocks Acer as having a limited breadth of products and a dearth of the homegrown features that can command higher prices. And Dell has moved into retail, Acer’s home turf, while also releasing a flood of eye-catching new

designs meant to tempt consumers.

“I think Acer is just one more competitor that doesn't focus on anything other than public relations to win in the marketplace,” said Todd Bradley, the head of H.P.'s computer business.

Such comments, however, come as H.P.'s revenue from the PC business has declined 19 percent in each of the last two quarters. Dell's decline has been even more severe, with desktop sales falling about 30 percent each quarter. Acer's overall revenue has fallen as well, but only 7 percent and 8 percent, respectively.

“We are still able to manage even during these tough times,” Mr. Lanci says. “I don't believe the competitors will be able to match us.”

UNLIKE its more diverse rivals, Acer directs all its attention toward one goal: selling computers. Such focus has helped Acer establish what analysts regard as the lowest cost structure in the industry.

The company is free to pick and choose among manufacturers to obtain the lowest prices, and prides itself on having almost no inventory.

“We collect the order from the customer, place the order with the manufacturer and they ship it,” Mr. Lanci says. “We don't touch the goods.”

Last year, Acer relied on about 6,000 employees to hit \$16.6 billion in revenue and a profit of \$358 million. While the company probably produces more revenue per employee than its rivals, it does so on the back of less profitable products. Its operating margin of 2 percent is about half that of H.P. and Dell, placing it in a profit category below even some retailers, said A. M. Sacconaghi, a securities analyst at Sanford C. Bernstein & Company.

“There is a tradeoff between growth and profitability in the PC industry,” Mr. Sacconaghi says.

Acer's strategy has played well during the PC industry downturn, as cheaper computers have proved more popular. The company has been willing to scoop up as much of this business as possible, while Dell has walked away from sales that would depress its profits.

Mr. Lanci says Dell, which declined to comment for this article, could lower its costs only if it were willing to take drastic measures. “It would require big layoffs,” he says.

These forceful remarks trickle out of his mouth in a subdued, matter-of-fact way.

The unassuming Mr. Lanci, who was born in Turin, Italy, commutes back and forth between his home in Milan and Acer's European offices in Lugano, Switzerland. Once a month, he makes camp at a hotel here for meetings, conducted in English, at Acer's headquarters.

Mr. Lanci's predecessors, including Acer's founder, Stan Shih, and its chairman, J. T. Wang, engineered much of the company's sweeping strategic shift. But longtime watchers of the company argue that Mr. Lanci's mastery of the European market fueled Acer's belief that it could stretch out as a successful global brand.

After joining the company in 1997 as the managing director for Italy, Mr. Lanci turned Acer into the country's leading laptop seller in a matter of months. Three years later, he was put in charge of Acer's European business and began executing a familiar strategy. He lavished attention on smaller partners and large retailers alike, making sure that Acer computers appeared in just about every store possible.

And without any agenda for direct sales, Acer ingratiated itself with retailers — instead of competing against them.

Other Taiwanese companies are copying Acer's playbook. Asustek is one of the fastest-growing PC brands in Europe. HTC used to produce cellphones for other companies but has seized some of the spotlight for itself with the first device to run [Google's](#) phone software. And BenQ, an Acer spin-off, has hit it big in China with tiny projectors and slick displays.

Many of these same companies have pumped money into software start-ups in the United States, hoping to add [iPhone](#)-like gloss to their products and generate larger profits. The big manufacturers have followed suit, bulking up their software divisions, while the Taiwanese government has poured money into software development, hoping to create a wave of start-ups with programs aimed at the Web and mobile devices.

Earlier this month, Prime View signed a deal to acquire E Ink for \$215 million, giving it the leading display technology used in electronic reader devices like the [Kindle](#) from [Amazon.com](#).

As for Acer, one of its immediate challenges is organizing the large stable of products it has assembled.

Over the last two years, it has acquired brands like eMachines, Gateway and Packard Bell. It

itches eMachines as its most affordable brand, while Acer-branded products cater to the mainstream. The Gateway moniker covers more expensive, flashier computers in the United States, while the Packard Bell brand serves the same purpose in Europe.

The four-front branding assault adds a thick layer of complexity to the company's ultimate goal of establishing a consistent image around the globe. But Mr. Lanci says PC makers must follow the lead of automobile companies and the likes of [Procter & Gamble](#) with a brand for every occasion now that consumers make up such a large part of the computer business.

"One brand is almost impossible, if you want the right product and precision for the right customer profile," Mr. Lanci says.

Focusing on such details may not be an art, but it's what makes many successful businesses hum. And analysts are quick to say that Mr. Lanci is, indeed, a details man.

"Gianfranco's not a very flashy guy," says Mr. Kay, the industry analyst. "Ultimately, he's an old-fashioned marketing guy."

Mr. Lanci now has to take on even bigger challenges. Acer intends to improve its sales in the United States by stealing thunder from H.P. and Dell, and to best Lenovo in China. Acer already ranks as the second-largest PC seller in Europe, behind H.P., according to IDC.

The unusual international structure and diverse management of Acer are seen as a plus, given the global playing field of the industry.

"It has Taiwanese engineering combined with a European business sensitivity," says Jen-Hsun Huang, the chief executive of [Nvidia](#), the graphics chip maker. "I think they have a flexibility and ability to adapt that is very unique."

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