

# Sustaining Client Relationships in the Contract Manufacturer Own-Brand Building Process: The Case of a Smartphone Firm

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## Abstract

Whereas maintaining buyer–supplier relationships has been widely discussed in the literature, sustaining relationships with clients (buyers) while contract manufacturers (suppliers) pursue own-brand building has been relatively unexplored. This in-depth case study shows how an electronics contract manufacturer sustained its client relationships while building its own brand. The research framework consists of two subprocesses: competence leveraging and competence building. We argue that some of the strategies involved in these two processes can explain how a contract manufacturer can succeed in maintaining client relationships while pursuing own-brand building.

**Keywords:** Own-brand building, Competence, Client relationship, Case study

## 1. Introduction

Operating according to an original equipment manufacturing/original design manufacturing (OEM/ODM) (Note 1) model has made many Taiwanese firms successful and has positioned Taiwan as important in the global industry value chain. However, some Taiwanese contract manufacturers (Note 2) found that the added value from product design was also appropriated by their clients; they learned that only a brand owner can appropriate all of the added value. Hence, own-brand building is necessary for a contract manufacturer that has the intention and competence to pursue its own line of growth.

A literature review and the findings of case studies reveal that contract manufacturers with their own brands inevitably seem to compete against their clients (Lin, 2004, Arruñada & Vázquez 2006, Liu, Liu &, Lin, 2008). That is, the outsourcing relationship takes on a competitive nature (Hamel, Doz, & Prahalad, 1989), which in turn changes the relationship between the contract manufacturer and its clients. For example, Acer's brand building strategy backfired in 2000 when IBM cancelled a major order, reducing its share of Acer's total contract manufacturing revenue; Motorola also punished BenQ for its brand building efforts in the prized China market by shifting orders to rival Compal. The road to brand building is thus fraught with challenges, and there seems to be no single best strategy for dealing with this dilemma (Lin, 2004). Whereas maintaining buyer–supplier relationships has been widely discussed in the literature (Quinn & Hilmer 1994, Morgan & Hunt 1994, Kalwani & Narayandas, 1995; Gullen, Johnson, & Sakano, 2000), sustaining relationships while engaging in own-brand building has been relatively unexplored. Thus, this study analyzes a case study to investigate the “process black box” (Priem & Butler 2001) that underlies own-brand building in sustaining client relationships. We argue that contract manufacturers can follow an own-brand building process to sustain a competitive collaboration with their clients.

The methodological choices in this paper are guided by the objective to increase the in-depth understanding of the own-brand building activities. A longitudinal processual approach (Langley, 1999) is adopted to capture the evolving feature of this phenomenon, which may not be found in selective and cross-sectional data, and can only be obtained through the characteristics of qualitative research. We chose HTC, an electronics firm, for this

single-case study. HTC's own brand development was from the personal digital assistant (PDA) market to smartphone products. HTC does not adopt a "me-too" strategy and insists on not following or directly competing with its clients in the market. Its corporate strategy began with the OEM/ODM of handheld devices and wireless products and expanded to the launch of its own smartphone brand. In the process, its target clients changed from personal computer (PC) firms to mobile phone companies and global telecommunications operators. This change in product portfolio and target client was based on HTC's observations of and insight into industry and market trends.

The remainder of this paper is organized as follows. Section 2 introduces the key constructs of the process adopted in this study. In section 3 we explain the research method and data. The case findings are analyzed and compared with the existing literature in section 4. In section 5, 6 and 7, we draw our discussion, implication and conclusion. Finally, section 8 suggests some directions for further research.

## 2. Literature review

In the past, manufacturing competence has always been seen as an important factor for contract manufacturers to be able to collaborate with their clients. Due to the increasing complexity of products and global competition, it is not possible for every firm to give consideration to all activities in the value chain. The outsourcing of the engineering and manufacturing functions to these contract manufacturers have permitted international brand companies to focus their differentiation efforts on their businesses' front-end (marketing, design) and on their underlying platforms (systems, client-connected processes) (Ghemawat & Hout 2008). Under this type of collaboration, international clients have usually based their decision as to whether to continue to collaborate with their partners on cost reduction considerations. In turn, the contract manufacturers benefit from lower average costs per unit through manufacturing economies of scale.

Hobday (1995) found that the mode of subcontracting or OEM was an important mechanism for contract manufacturers to gain superior technology or knowledge by cooperating with ascendant firms. Many studies have also found that knowledge and the learning of techniques can be achieved through alliances or collaboration (Hamel, 1991, Inkpen 1996, Steensma, 1996). Learning seems to play a paramount role in collaborative relationships (Hamel, Doz, & Prahalad., 1989). Therefore, by continuously learning and grasping the lessons from prior experiences and the best practices of their clients (e.g., Collis, 1996, Zollo & Winter 2002, Hobday, 1995), the scope of competence of these contract manufacturers has developed from manufacturing to product design and development. As contract manufacturers' products begin to commoditize, they begin to undertake their patron's value-adding activities: R&D and marketing, thus giving them room to develop the capabilities they may later use to threaten their name brand clients (Liu et al., 2008, Arruñada & Vázquez 2006). There is no doubt that Taiwan's contract manufacturers will have the chance to step forward and have a go at manufacturing their own-brand products. Burmann and Zeplin (2005) also stated that firms have to stop rigidly focusing on short-term profits and concentrate more on long-term brand building.

By building own-brand, contract manufacturers can not only obtain higher profit margins from their own-brand business but can obtain more market information regarding product design and development (Kotler, 1996, Blackett, 1991). However, endeavors in brand-building have opened up opportunity for conflict in growth segments with the contract manufacturers' clients (Lin 2004, Liu et al., 2008). Once contract manufacturers decide to have their own-brand product which may be similar to previous low-end OEM products in the same product line, they naturally threaten and go against the interests of their clients so that their clients may no longer continue to cooperate with them and the contract manufacturers may lose the orders of their clients. Hence, contract manufacturers need to evaluate the competence and constraints they have before the decision to engage in own-brand building is made.

Contract manufacturing building own-brands sends a strong signal to their clients that the commitment to the partnership is weak. Nevertheless, we still can see many international companies that decide to maintain collaboration with some contract manufacturers who have own-brand building. This brings us to question what kinds of strategies these contract manufacturers have in place to maintain such a competitive collaboration. It now needs to be asked whether contract manufacturers have strategies in place to maintain their "attractiveness" to their clients and thereby avoid the risks associated with clients recalling orders and bringing the collaboration to an end while they decide to build own-brand.

In contrary to opportunity-based growth strategy, literature of competence-based view has suggested that firm heterogeneity lies in the firm's capabilities in managing both competence building and competence leveraging activities in a synergistic manner (Christensen & Foss 1997). Sanchez, Heene and Thomas (1996) also mentioned in their research that the firms must have two elements for sustaining the growth in a dynamic environment, including, first, competence leveraging, and, second, competence building, which means the firm must create new assets or capabilities by overwhelming learning to create new opportunities for its growth in the future. Only when it achieves the balance of competence between quantity and quality, it can contribute to a successful operation in business (Sanchez et al., 1996, Christensen & Foss 1997). Accordingly, contract manufacturer's own-brand building should involve two distinct steps: competence leveraging and competence

building.

Contract manufacturers should exploit opportunities for expansion by leveraging their existing competence as “stepping stone” to enter new markets in initial phase (Wernerfelt, 1984). The collaboration might be sustained in future own-brand building based on the avoidance of direct conflicts with existing clients in this phase. And then, the critical mission for contract manufacturers who leverage competence into new market is to search external resource including new client relationship and attractive market opportunities. In this phase, contract manufacturers should build competence which have superior benefits or value. By building new competence, the competitive collaboration with own-brand building would be sustained and developed if the clients perceive value in the collaborative benefits derived from the collaboration (Hamel et al., 1989, Morgan and Hunt 1994, Gullen et al., 1995). For example, the fast speed to introduce new products while other competitors may only provide one or two could attract clients to release more orders to contract manufacturers. In other words, we argue that only when contract manufacturer achieves the balance of competence between quantity and quality, it can contribute to a successful in own-brand building.

By studying recent developments in contract manufacturer brand building and reviewing the literature, we seek to answer the following research question:

- 1) The dynamic interaction relationships between own-branding strategy and client relationship.
- 2) What kinds of sequential strategies adopted by a successful own-branding contract manufacturer?

For the most part, our analysis of the data and our exploration of the literature were carried out concurrently. Our data analysis may point to relevant concepts in the literature, while at the same time the literature may aid us in the interpretation of the data. Therefore, the authors believe that the diversification process of competence leveraging can be captured by a sequential model. Our proposed conceptual framework highlights an integrated perspective linked to competence leveraging and competence building, described in a chronological order including cause and effect. It can be a mirror or model essay to any contract manufacturer while facing the same difficulties.

### 3. Methodology

A standard text for anyone wanting to do case study research is the book by Yin (1994). Yin (1994) suggested that case study is treated as a research strategy. He defined the case study research method as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used (Yin, 1994). In short, case studies allow the researcher an opportunity of explaining the causal links in real-life interventions that would be too complex for surveys or experimental strategies.

Eisenhardt (1989) suggested that a number between four and ten cases usually works well. However, Yin (1994) suggested that single cases are the stuff most qualitative research is based on, and can be very vivid and illuminating, especially if they are chosen to be critical, extreme or unique. In addition, Dyer and Wilkins (1991) also argued that the rigorous study of a single case can guide researchers to see new theoretical insights and question old ones. The generalizability of single-case research is often called into question because it is closely tied to a particular context (Kennedy, 1979). In fact, we could increase the generalizability of a single case by providing a rich and detailed description of the study and findings so that readers can compare their own situations with established types (Merriam, 1988). Hence, we choose HTC as our single case of study in this research.

This research focuses on HTC, the leader in the Taiwanese smartphone (Note 3) market. We chose to study HTC because this leading contract manufacturer has a long history of collaborating with international companies, has strong intentions and a strong asset base, and has the competence to invest in and support own-brand building.

The data in this study was obtained mainly from secondary sources (e.g., news, stocks and bonds business investigation reports, the company’s prospectus). The lack of interviews might be seen as an indication that the researchers had incomplete knowledge to make an accurate and detailed analysis. There was a risk that the researcher might misinterpret the influence of certain decisions on own-brand building. However, HTC is a well-known own-brand company in Taiwan, and the commercial media and researchers have published many interviews with key persons in the company. These extensive secondary sources of data, which were collected at different times and from different places, detail the incidents in question and provide the relevant information needed to unveil HTC’s process of own-brand building.

Pettigrew (1997) stated that process analysis should present a chronological sequence of steps that explain how something is done, how something happens, or how readers can do something. Process data therefore consist largely of stories about what happened, who did what and when- that is events, activities, and choices over time (Langley, 1999). In short, “Truth is the daughter of time” (Pettigrew, 1990), understanding the sequence and flow of events over time is a crucial requirement for the process analysis (Pettigrew, 1990, Van de Van & Huber, 1990).

When researchers face process data, they have two approaches to analyze them. They could plunge deeply into

the processes themselves, collecting qualitative data—often, but not always, in real time—and attempting to extract theory from the ground up (Langley, 1999, Pettigrew, 1997, Ven de Ven, 1992). On the other hand, researchers could address these dynamics by formulating a priori process theories and testing them using longitudinal time series and event history methods. Pettigrew (1997) stated that the “longitudinal” case study method has been suggested as a primary approach for process analysis. Since the literature of process model specifies that process could indicate the sequence of events that describes how things change over time inside the firm, we use a process to present the whole own-brand building path of the case company.

The data analysis in this study was conducted using the following steps. First, the data were grouped into several categories. The researchers carefully read all the information and then classified the information from the interview into themes. The main purpose of this step was to effectively organize huge amounts of data before moving toward an in-depth analysis. The second step was to use a “chain of evidence”, as argued by Yin (1994), to set up an event listing that involved insights into what led to what and when (Miles and Huberman, 1994). This step provides us with a chain of events. The final step was pattern-matching (Yin, 1994). In this step, all data were cross-checked to examine if each strategy was supported by adequate evidence.

#### 4. Case findings

##### 4.1 Case company

High Tech Computer Corporation (HTC) was founded by the VIA group on May 15, 1997, in Taoyuan, Taiwan. When HTC was founded, it was also the period that Microsoft planned to get into the field of handheld device operating system. HTC began by manufacturing handheld devices, focusing on PDAs. PDAs, which are small PCs, are attractive to businesspeople in the global market. PDAs were initially difficult to produce, and the demand for more functionality, such as Bluetooth technology and wireless Internet surfing, made the task even more challenging. When HTC entered the PDA market, Palm OS was the mainstream operating system on the PDA platform and was considered a mature technology. Trends forecasted that digital convergence and data connection between mobile handheld devices and PCs would play a vital role in the future. Microsoft dominated the PC operating system market and therefore could help users transfer from PCs to handheld products. Given the technology’s future potential and the interconnection between PCs and handheld devices, HTC passed over the popular Palm OS and instead chose Microsoft’s WinCE as its major technology for handheld devices. After HTC decided to adopt WinCE and put all its focus on developing this technology, it gradually gained the leading position in the global market.

Microsoft played a vital role in HTC’s strategy direction. HTC continued to cultivate and build the technology capabilities of both its handheld devices and wireless communication products around a Windows-based operating platform. Figure 1 shows the growth of HTC.

**Insert Figure 1 here**

##### 4.2 A contract manufacturer’s own-brand building process

Figure 2 depicts the contract manufacturer’s own-brand building process as consisting of two steps: competence leveraging and competence building. Our research framework is described below.

**Insert Figure 2 here**

##### 4.3 Competence leveraging

HTC’s core competence was its product research and development (R&D) capability, especially in the WinCE technology domain. HTC designed and produced the first WinCE-based Pocket PC, the first Pocket PC with wireless communication functionality, and the first Microsoft-based smartphone. This shows HTC’s great power for developing WinCE-based products. HTC’s experience developing handheld devices and wireless handheld products made it the ODM leader of the Microsoft Windows-based Pocket PC in the global market. It is important for a contract manufacturer who wants to leverage competence could remove its technology competence from the particular product configuration in which it was embodied. Because competence leveraging process involves both strategic and entrepreneurial elements, existing competence definition is especially important.

Buyers are always considering potential competition from the unveiling or replacing of new products; therefore, they tend to be cautious about selecting contract manufacturers that cooperate with only a few clients. Hence, the contract manufacturers that adopt OEM inevitably have concentrated client structures (Liu et al., 2008). In the original PDA market, HTC was operating according to an ODM model. In 1999, HTC had the opportunity to collaborate with PC giant Compaq (now HP) and the following year designed the iPAQ. This first Windows OS-based Pocket PC threatened the dominant market status of Palm. By the end of 2001, about 50% of Microsoft’s Pocket PCs were designed and manufactured by HTC. HTC’s target clients at this time were international PC firms; Compaq became its most important client and accounted for about 70% of HTC’s shipments. Although HTC had been successful in ODM, it was unavoidable that it would have some conflict with its original clients, including its OEM/ODM buyer HP and Palm, when it declared its own brand strategy in PDA market.

Firms are not able to translate all competence-based opportunities into product specifications or finished products. In 1999, the Smartphone was still in its infancy, but HTC anticipated its market potential. Actually, already in 1999 HTC had put technological resources into developing the Smartphone, even though its market potential was not clear then. At the end of 2000, HTC challenged the wireless communication domain for the first time. HTC collaborated with two European cell phone companies to launch the first handheld PC with wireless communication functionality. In 2002, HTC decided to enter the wireless handheld device domain and afterward introduced the first PDA phone. In doing so, HTC could leverage its competence in PDA techniques to the area of smartphone development (Mahoney & Panadian, 1992; Bettis, 1981) while minimizing the risk of original brand clients recalling orders in the PDA market. The wireless communication related industry had the potential for growth in future, and the related products were all highly value-added.

An IDC (International Data Center) report estimated that sales would increase from 9.33 million sets in 2003 to more than 62 million sets in 2007. Thus, when HTC launched its own brand in 2006, the market was growing and there were few major brands in the smartphone market. Because of its cooperative relationship with Microsoft in the PDA field, HTC continued to use WinCE as its main Smartphone technology.

#### *4.4 Competence building*

After choosing a target market, a firm must acquire new, complementary competence to respond to the attributes and demands of the new market (Dannel, 2002, 2007). When it entered the PDA phone market, HTC cooperated for the first time with global telecommunications operators. In the second quarter of 2002, telecommunications operator O2 launched a PDA phone designed by HTC, which represented a milestone for HTC in the wireless handheld device field. With this model, HTC became the whole system integration provider and involved itself more directly with its collaborative telecom clients in the mobile wireless communication market. This model was different from previous models because HTC's new role replaced mobile phone firms in the supply chain and allowed it to provide products directly to telecommunications operators. This new business model brought HTC much more value. Moreover, by cooperating with telecommunications operators, HTC received market information more quickly, had more flexibility with its future strategy, and therefore became much more competitive in the market. This innovative business model also set up a high barrier for future competitors based on HTC's strong technology capability and its relationship with telecommunications operators (Drucker, 1985). Moreover, cooperating directly with telecommunications operators enabled HTC to better understand various local areas and respond to markets more rapidly.

Building more and diverse client relationships enabled HTC to accumulate needed knowledge. In ODM businesses, product design and development competence was displaced by more market-driven or consumer-driven competence. Thus, HTC further expanded its product design competence in the area of product modularization (Sanchez, 1996). That is, HTC used its competence in product design to develop unique or special products to meet end clients' (consumers') requirements.

The OEM or ODM business model results from contract manufacturers' more prominent manufacturing or R&D capability than market capability in terms of market knowledge or information. Although manufacturing or R&D competence may be identified for possible leveraging across multiple applications, market-related competence can be highly problematic for contract manufacturers. In June 2006, HTC announced a acquisition with the Asian smartphone brand Dopod. Dopod International Corporation, which was founded in July 2002, produced a smartphone brand focusing on the marketing, sales, and customer services of mobile wireless communication devices. Dopod was the leading smartphone firm in mainland China, Malaysia, Singapore, and Taiwan and occupied the second position in the Hong Kong market. Dopod also extended into Indonesia, the Philippines, and Australia. By acquiring with Dopod, HTC gained marketing knowledge through Dopod's existing overseas subsidiaries, including those in mainland China, Hong Kong, Singapore, and other Asian-Pacific countries.

For contract manufacturers that want to build their own brands, entering into a new geographic market provides an opportunity to develop their own context-specific competence in product design. They can learn how to form consumers' brand perceptions, how to instill brand loyalty, and how to market to consumers. Similarly, Acer used distance arbitrage (Ghemawat 2003)—in which exploiting similarities often calls for targeting clients similar to the company's home base—to focus sales in East Asia, where its name brand clients would be at a cost disadvantage. This strategy was used particularly in mainland China, where its factories are located.

When it declared its own brand strategy, it was unavoidable that HTC would have some conflict with its original clients, including its OEM/ODM buyer HP and Palm, distributors, and even telecommunications operators. However, many clients still collaborate with HTC. For example, the German telecommunications operator O2 still releases orders to HTC. In June 2006, HTC cooperated with NTT DoCoMo, the leading telecommunications firm in Japan, to launch a 3G smartphone with the brand hTc Z. It was the first product with HTC's own brand name in Japan and marked the first time HTC had entered the Japanese market.

## **5. Discussions**

This study used the competence-based view to analyze the case of HTC. Compared to analyses of the external environment, the competence-based view focuses much more on the internal resources or capabilities of a firm.

This view states which competence firms should possess and which competence they must develop to get higher returns (Wernerfelt, 1984). Moreover, firms should understand that some important competence need to be acquired in the outside environment rather than inside the firm.

Once a contract manufacturer decides to have their own-brand product which may be similar to previous low-end OEM products in the same product line, it naturally threaten and go against the interests of its clients so that its clients may no longer continue to cooperate with it (Lee & Chen 2000). That is, the contract manufacturer may lose the orders of its clients. De Chernatony (1991) also stated that the brand leader will adopt a plan of attack as he finds his market eroded by certain brand followers. Mahoney and Pandian (1992) stated that a diversification strategy is the way that firms can adapt to the pursuit of growth. In general, applying existing competence to different end products is what is referred to as a related diversification, which seems to be an easy and less risky way for firms to pursue growth. This is because launching new products through the utilization of existing competence will not only be seen as the management of a strategically similar business by dominant logic (Prahalad & Bettis 1986), but it will also preserve the value of current resources or competence by transferring that competence to other product lines that are less similar to the original product lines (Mahoney & Panadian, 1992; Bettis, 1981), hence minimize conflict with original clients in future brand building. Therefore, we argue that contract manufacturers who pursue own-brand building have to diversify into different product lines by exploiting existing product design and development competence in first phase which in turn can not only avoid fairly high costs of creating new competence but also conflicts with clients that have the same product lines in future brand building.

Leading companies with strong brands and market share (e.g., Motorola in the mobile phone market and Dell in the computer market) can outsource large orders to contract manufacturers. Once a contract manufacturer loses an order like this, it is difficult to replace. A concentrated client structure is the main constraint for contract manufacturers that decide to launch their own brand products. This is because having fewer sources of product knowledge and information results in weak competence in terms of product design, which in turn leads companies to produce a product similar to that of their clients rather than developing a unique or special product (Liu et al., 2008). Contract manufacturers that receive such orders acquire specific knowledge related to only one type of product, including its design and function, which in turn limits the extent to which they can learn techniques for product design and development. In fact, OEM/ODM suppliers have the capacity to capture complex requirements from multiple clients and transform that data into a format that is usable by their generic processes. The contract manufacturers could start to offer a broader range of services, and attract enough business for economy of scale by leveraging their existing competence such as manufacturing into new product markets. In other words, competence leveraging could help a contract manufacturer reduce uncertainties and increase the variety of its orders, which in turn would enhance its cost positioning in different product markets.

While HTC leveraged its competence from the PDA market to the smartphone market and tried to strengthen its technology ability, it tried to form new external network resources in the new product market, including relationships with global telecommunications operators and technology partners. On the one hand, these external network resources made HTC's technology more powerful, which increased its technology lead. On the other hand, external network resources shaped by cooperation or alliances need to be accumulated over a long period of time; therefore, they were very difficult for other firms to build up in the short term and were another barrier for competitors, which was a competitive advantage for HTC. In the meantime, such diverse client sources lowered the risk of the ODM/OEM model, and the appearance of HTC's designed devices in the market also increased when its different clients launched their new products in the global market.

The acquisition of Dopod, which will result in the phasing out of the Dopod brand, is intended to anchor HTC more firmly in Asian markets as a consumer brand. Such acquisition targets, though they have smaller brand equity, may prove to be valuable for the additional design capabilities and distribution networks they provide. These opportunities can result in the development of new capabilities that may be applicable to both old and new products and, by extension, the evolution of the firm's strategic configuration (Teece et al., 1997). In addition, the small sizes of these firms make for easier acquisition and may make them more palatable in terms of the amount of capital required.

By building new competence from new product markets, cross-functional integration between marketing, R & D, and manufacturing would have impacts on new product development (Gupta, Raj, & Wilemon.,1986; Song & Dyer, 1995). Furthermore, if the potential alternative application of existing competence (either manufacturing or R & D competence) is highly valued by clients (Ritter, 2006), clients might commit themselves to establishing, developing and rendering new opportunities for the contract manufacturers even they have own-branding (Gulati, 1999).

## **6. Implications**

It is common for a firm not to know exactly what competence it has even when it wants to engage in competence leveraging. In particular, the transfer of knowledge of product design and techniques of product development come from the international buyers and represents the main learning source for contract manufacturers who

normally focus only on manufacturing activities. In such instances, an identifying-by-doing process might be needed to protect the corporate leaders or senior managers from misidentifying their firm's existing competence. Even if the corporate leaders or senior managers know exactly what competence they have, they might still fall into a competence trap if they do not account for rapid changes in the competitive and technological environments (Leonard-Barton, 1992). In fact, competence leveraging can also provide opportunities for a contract manufacturer to define and clarify the boundaries and attributes of its competence in the competitive marketplace by diversification.

After choosing new product line by leveraging competence, the company must know that they have to acquire some complementary competencies normally demanded by that new product when applying its current competence to produce other products. By building new competence from new product market, cross-functional integration between marketing, R&D, and manufacturing would have impact on new product development which is the main thrust of a stream of literature (Gupta et al., 1986, Song & Dyer 1995). Morgan and Hunt (1994) stated that if firms deliver superior benefits that are highly valued, partners will commit themselves to establishing, developing, and maintaining relationships. Gullen, Johnson and Sakano (1995) also argued that the partners' commitment will develop if the partners perceive value in the collaborative benefits derived from the collaboration. Hence, contract manufacturers who want to build own-brand should capitalize on these external network resources, collaborating more deeply with its partners to form other cooperation or alliance interrelationship (Gulati 1999). This capability can not only make contract manufacturer who want to build own-brand advance its technology capability much more, but also it may be helpful for these contract manufacturers to implement the expansion strategy more effectively but with less resources input. HTC's product partnerships in early product development with the likes of Microsoft, Intel, Texas Instruments and more recently Google, appears to have smoothened the contract manufacturer's transition to a name brand firm.

Although the introduction of own-brand strategy made some of contract manufacturers' clients change their relationship and look for new suppliers instead of them, which decreased their revenues in the short run. Our proposed conceptual framework highlights an integrated perspective linked to competence leveraging and building, described in a chronological order including cause and effect. It can be a mirror or model essay to any contract manufacturers who want to build own-brand. Therefore, the proposed model provides a map to other contract manufacturers to understand how own-brand building could take place. It is expected that the percentage of OEM/ODM business would continue to decrease while the ratio of own-brand products will keep on raising in the future if the contract manufacturer can learn from this paper and know how to overcome these issues. Arruñada and Vázquez (2006) described contract manufacturing relationships as being marked by promiscuity, infidelity, and betrayal. It is tempting to extend this description to HTC as a name brand firm where it continues to develop Smartphones for Palm, Microsoft and Google—unforgiving competitors in the competitive Smartphone market.

## 7. Conclusions

As contract manufacturers transition to owning their own brands, they are often challenged by brand-owning companies doing the outsourcing as brand-owning companies fear they are helping potential competitors (Arruñada & Vázquez 2006). Some of strategies involved in this process can explain how contract manufacturers can succeed in maintaining client relationships while pursuing own-brand building. This is key issue was the main focus of this study. In the first phase of its own-brand building, the most important strategy decision for HTC was to leverage its existing competence into a new product line. Leveraging competence into new and potential product markets that do not overlap with those of its existing clients was less risky, because it enabled HTC to avoid competing directly with its existing clients when it later built its own brand. In the second phase, HTC created and accumulated external resources. These network resources were based in HTC's history and helped it grow and develop its global brand. Contract manufacturers that have no experience in own-brand building should acquire or accumulate marketing competence when building a brand in a diversified business (Penrose, 1959). They should pay more attention to gaining "user experience." For example, they could learn why a product design will be popular with consumers or why a product function is necessary for consumers. That is to say, contract manufacturers can learn how to design products from a market-driven rather than production-driven point of view. This accumulated knowledge and ability will influence their importance in clients' minds and will influence the extent of existing collaborations, which in turn will give them the chance to collaborate more deeply with clients to pursue other forms of cooperation or alliance.

As we observed in case finding, HTC created and accumulated its technological competence with Microsoft's WinCE, making this technological competence become a competitive advantage in the market. Furthermore, the external network resources cultivated through the firm's technological competence also transformed to become the firm's specific resources, which then would be beneficial for the firm to implement its future strategy. Combining both of technological competence leveraging and external network resources building, the HTC owned more powerful weapons to carry out the organization strategy and face the intense competition in the market. In other words, while contract manufacturers leverage competence into new product markets to avoid conflict and accumulate competence, there is no doubt that they can build their own brand. Nowadays, HTC

could concentrate on building and developing its global brand to enhance opportunities for success and reduce the uncertainty of brand development in the market.

### 8. Future Research

During HTC's periods of growth, its partners included not only hardware companies (e.g., many European and U.S. telecom system providers) but also a major software company (i.e., Microsoft). HTC chose to cooperate with Microsoft from the beginning, and this relation helped it grow and become the leader in WinCE technology. It would be interesting for future research to consider the relationship between HTC and Microsoft. Because HTC is growing faster and faster, researchers may try to determine whether the relationship between both companies will remain the same or whether Microsoft will rethink HTC's lead in the global market. Moreover, it may be interesting to determine how HTC's other cooperative relationships (e.g., with Google, a major Microsoft competitor) influence its relationship with Microsoft.

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#### Notes

Note 1. OEM (original equipment manufacturing): Here, the manufacturer follows the buyers' sample specifications and details of design to assemble all parts into a product and then conducts the transaction with the assigned shipping mode (Lee and Chen, 2000). ODM (original design manufacturing) supply: A type of contractual supply relationship which the contract manufacturer can provide manufacturing outsourcing services and product design and development as well (Chen, 1997)

Note 2. Contract manufacturer: In this paper, a contract manufacturer is defined as a manufacturer that has an OEM or ODM business.

Note 3. The basic definition of Smartphone means the handheld device which combines both the PDA (Personal Digital Assistant) and cellular phone technology. One important function of Smartphone is that it possesses the licensed operating system, users could use the application software to do some simple documents operation and processing on the device, just like on the personal computer. Smartphone is also a wireless terminal device that could send data services like pictures and images.

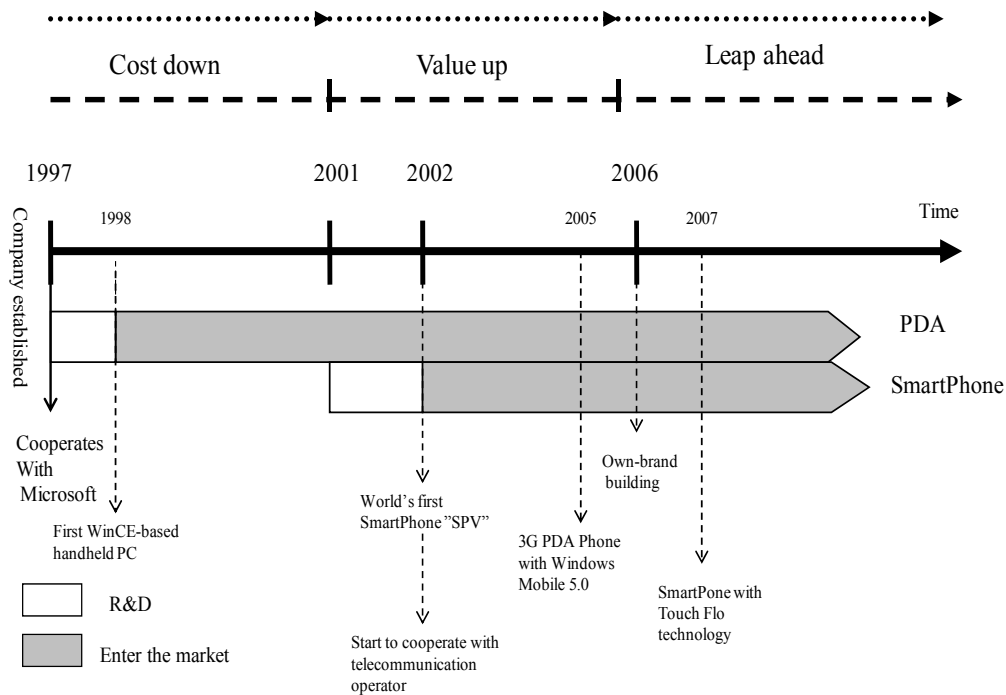


Figure 1. Key Events of HTC Growth

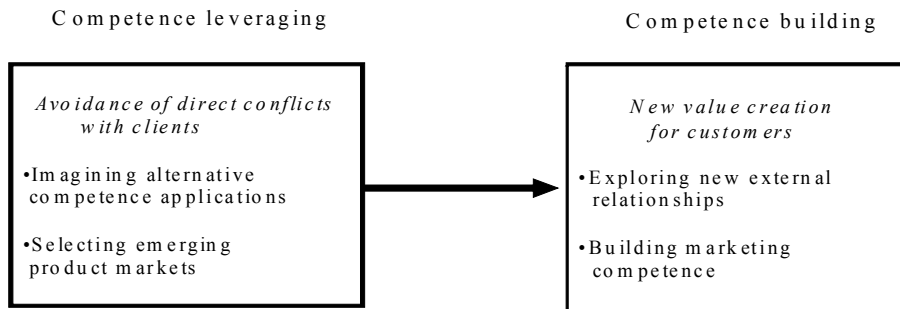


Figure 2. A contract manufacturer's own-brand building process