



Lenovo

Liánxiǎng Jítuán 联想集团

Lenovo (联想 *Lianxiang*) is the largest producer of personal computers (PCs) in China and the fourth-largest PC manufacturer worldwide behind Dell, Hewlett-Packard, and Acer. The company, which also sells supercomputers and mobile phones, gained worldwide attention in 2004 for its acquisition of IBM's personal computing business.

Lenovo controls roughly 30 percent of the Chinese PC market and about 7.4 percent of the global market. More than three-quarters of its twenty-five thousand employees are based in China. For the year 2006–2007 Lenovo reported revenues of \$14.6 billion. Lenovo's headquarters is located in Raleigh, North Carolina.

Founded in 1984 by Liu Chuanzhi (b. 1944), Lenovo began as ICT Co., a distributor and service-based provider of information technology (IT) products under the auspices of the Institute of Computer Technology of the Chinese Academy of Sciences. The company started with an initial capital investment of RMB200,000 (\$85,900). The company initially focused on installing and testing imported computers and training new users. In 1987 the company expanded into distribution of foreign brands, namely AST and Hewlett-Packard. In 1989 the company was renamed "Legend Group Co."

Lenovo's growth in the 1990s received a boost from

the then deputy minister of electronics Hu Qili (b. 1929), who told the company's management that "China should have its own IBM" (Ling 2006, 129). Having received its license to produce PCs in 1991, Lenovo (then Legend) began to manufacture and sell PCs under its own brand. The removal of high import tariffs in 1992 created an opening for multinational firms to gain market share; Lenovo responded with an aggressive strategy that included selling PCs with the latest technology, designing its computers specifically to suit Chinese customers, and competing in price.

Lenovo was listed on the Hong Kong Stock Exchange in 1994. A year later Lenovo produced 105,780 computers, surpassing the production of its rival Great Wall to rank first among Chinese PC makers. Also in 1995 for the first time the company's investment partners formalized their holdings in writing. The Chinese Academy of Sciences held 20 percent of the company, the academy's Institute of Computer Technology held 45 percent, and the employees' shareholder group held 35 percent.

During the 1990s Chinese consumers' purchasing power increased, but Lenovo faced a difficult market because of both tightening profit margins in the global computer industry and Chinese consumers' stagnant demand for personal computers. On 15 March 1996, "after countless setbacks, Lenovo's computers for the first time appeared on the marketplace as a serious contender" (Ling 2006, 241). By lowering its prices substantially, Lenovo successfully challenged multinational competitors for market share. Foreign brands' market share declined from 73 percent in 1993 to 40 percent in 1996.

Growth Strategy

By 1997 Lenovo had emerged as the most successful domestic computer company in the Chinese market, which itself had grown to be the second-largest personal computer market in Asia after Japan. In 2002 Lenovo initiated a plan to sell its PCs in markets outside of Asia. But Lenovo reassessed its approach after meeting renewed competition within China, and the company's top management adopted a strategy of growth through mergers and acquisitions. By 2004 Legend had formally changed its logo and English-language name to "Lenovo."

In 2004 International Business Machines (IBM) and Lenovo reached a deal for the sale of IBM's PC unit that totaled \$1.75 billion and gave IBM an 18 percent stake in Lenovo. Under the agreement Lenovo gained the right to use the IBM brand for five years and to use the Think Pad trademark as well as to access IBM's distribution network. The deal vaulted Lenovo from ninth to third place among computer manufacturers worldwide behind Dell and Hewlett-Packard. Under the terms of the merger Lenovo founder Liu Chuanzhi stepped down from his post as Lenovo chief executive officer but held the post of vice chairman of Legend Holdings, Lenovo's parent company. Yuanqing Yang became chairman of the board, and a U.S. citizen became chief executive.

Mixed Reviews

The sale of IBM's PC unit to Lenovo was viewed in China as a sign of the country's arrival in the global economy; some people in the United States, however, expressed caution at the acquisition of a major U.S. brand by a Chinese firm with government ties. The Commission on Foreign Investment in the United States (CFIUS) undertook a multi-agency review to assess potential national security implications of the acquisition. CFIUS eventually approved the acquisition. In 2006 the U.S. Department of State bought sixteen thousand desktop PCs from Lenovo, touching off a public debate that resulted in the department's decision to keep the Lenovo computers off of its classified network.

Lenovo's acquisition of IBM's PC unit has shifted the company's sources of earnings. Prior to the purchase a

majority of Lenovo's sales occurred inside China, with an estimated 50 percent of sales going to the Chinese government. By comparison, in 2006 Lenovo reported sales of \$14 billion total, with less than \$4 billion from China. Lenovo's corporate strategy includes building a supply chain outside China to be as effective as the one inside China and expanding its PC business market share beyond Asia.

The rise of Lenovo and firms from other industrializing countries to corporate multinational status marks a growing trend in international business. "Being newcomers in the global competitive race, these firms have found niches others ignored and have conceived innovative strategies others disdained but that are, in fact, better suited to an interconnected world and volatile new markets" (van Agtmael 2007, 6). Lenovo became the first Chinese company to sponsor the Olympics with its backing of the 2008 Beijing Games. Lenovo's successful acquisition of a major U.S. brand is also notable compared with the unsuccessful acquisition by China National Offshore Oil Corporation (CNOOC) of the U.S. oil company Unocal in 2005.

A new labor law imposed by the Chinese government in 2007 may have a significant impact on Lenovo's cost structure. The law sets minimum wage and severance pay for workers and creates open-ended terms of employment for employees who have completed two terms of service.

Nevertheless, at the beginning of 2008, Lenovo launched its IdeaPad notebook computers in the United States, France, Russia, and South Africa. But with the onset of the global financial crisis at then end of the year, Lenovo, as well as other companies in the IT business, faces significant challenges.

Matthew E. CHEN

Further Reading

- Barlow, J. (2004). China boots up. *Interface: The Journal of Education, Community and Values*, 4(6). Retrieved January 16, 2008, from <http://bcis.pacificu.edu/journal>.
- Engardio, P. (Ed.). (2007). *Chindia: How China and India are revolutionizing global business*. New York: McGraw-Hill.
- Ling, Zhu. (2006). *The Lenovo affair: The growth of China's computer giant and its takeover of IBM-PC*. (M. Avery, Trans.). Singapore: John Wiley & Sons.

Discussions with Lenovo CEO Yang Yuanqing

Here are highlights from a 30-minute interview with Yang at Lenovo's Morrisville headquarters.

WHY LENOVO IS LOSING U.S. MARKET SHARE: It's not losing ground in its prime market: large U.S. corporations. The problem is that corporate giants have slowed their spending—making the consumer segment, as well as small and mid-sized businesses, more important than ever. Unfortunately for Lenovo, those markets play to the company's weaknesses. Indeed, it only entered the U.S. consumer market last year. "That is why, overall, we lose market share," Yang said.

THE STRATEGY FOR REGAINING SHARE: "Speed is the key," Yang said. "In each function, you should measure what is the previous development cycle. That must be speeded up. What is your shipment time? That must be speeded up. What is your time to prepare a marketing campaign? If previously we have to spend three months, right now I wish we could cut that to just one month or a couple of weeks."

"That's why we have a COO here," Yang added. "He will help me with the daily operations."

ON BECOMING CEO AGAIN: Although some have interpreted the management shuffle as a demotion for Yang, he said he prefers being in an operational role.

Moreover, he said he instigated the return of Liu Chuanzhi as chairman so that he could focus more time on the business and less on the board of directors.

ON ACQUIRING IBM'S PC BUSINESS: "I think it was the right decision," he said. "If we didn't have this deal, I think Lenovo today would be [in worse shape]. We would only be a local player." Smaller computer companies, he added, are losing market share to the top 5 PC makers.

THE GLOBAL PC MARKET: "We are dependent on the overall macro-economy. I believe this year will still be tough. Maybe the overall PC market will be flat or even shrinking. But in some markets, I am . . . more optimistic, like in China and some emerging markets."

ON HIS DECISION TO LIVE IN THE TRIANGLE: "We have a big operation here. I already understand our Chinese business very well. To come here, to live here, will help me to understand not only our global business, but also our team here . . . I have learned a lot over the past three or four years."

Source: Ranii, D. (2009, February 17). Lenovo CEO says U.S. remains key: After a major restructuring, Yang Yuanqing says the computer maker aims to regain American market share in PCs. *The News & Observer*. Retrieved February 25, 2009, from <http://www.newsobserver.com/business/story/1408395.html>

Liu Chuanzhi. (2007). Lenovo: An example of globalization of Chinese enterprises. *Journal of International Business Studies*, 38, 573–577.

McGregor, J. (2005). *One billion customers: Lessons from the front lines of doing business in China*. New York: Free Press.

Popkin, J. M., & Iyengar, P. (2007). *IT and the East: How China and India are altering the future of technology and innovation*. Boston: Harvard Business School Press.

Sheff, D. (2002). *China dawn: The story of a technology and business revolution*. New York: Harper Business Press.

van Agtmael, A. (2007). *The emerging markets century: How a new breed of world-class companies is overtaking the world*. New York: Free Press.

Xie, Wei & White, S. (2004). Sequential learning in a Chinese spin-off: The case of the Lenovo Group Limited. *R&D Management*, 34(4), 407–422.