

The leading pc manufacturer in china essay sample

[Economics](#), [Globalization](#)



Abstract:

The case describes in detail the various steps taken by Lenovo, the leading PC manufacturer in China, in its effort to go global.

The steps include changing its corporate name from Legend to Lenovo, sponsoring the 2008 Olympic Games and most importantly, acquiring IBM's PC unit.

The case examines the need for Lenovo to globalize and critically analyzes the efficacy of the above steps in the company's globalization plans. It also highlights the challenges faced by Lenovo in its path towards globalization.

Issues:

- » How innovation, differentiation and customization can be used as strategic and competitive advantages by a company, to maintain its leadership in the domestic market, and emerge as a global player
- » The need for globalization and the factors that must be taken into account when a company wants to go global
- » The measures by which a company can create a global brand
- » The challenges facing Lenovo in its efforts to go global

Introduction

In December 2004, the China-based Lenovo Group (Lenovo) announced that it had acquired the personal computer (PC) division of the US-based IT major

IBM. Industry analysts termed this as a major milestone for Lenovo in its efforts to globalize its operations. It was also perceived as an important step towards achieving the company's goal of becoming a Fortune 500 company by 2010. According to Liu Chuanzhi (Chuanzhi), the Chairman of the Group, "The purchase will make Lenovo Group the third largest PC maker worldwide with an annual revenue exceeding 10 billion US dollars." 2

Lenovo, formerly known as Legend, is Asia's leading and world's ninth largest PC manufacturer (Refer Exhibit I for top ten PC companies in the world). By the end of 2003, Lenovo had captured a 27 percent market share of the PC market in China. In the fiscal 2003, Lenovo manufactured around 4.5 million PCs including laptops and desktops. Lenovo has also diversified into other business areas including handheld devices and IT.

About 51.5% of its revenues came from the corporate segment, 33.5% from the consumer segment, 8.8% from handheld devices, 3.8% from contract manufacturing and 2.4% from IT services (Refer Exhibit II for Lenovo's business segments). For the fiscal year ended March 31, 2004, Lenovo reported a turnover of HK\$ 23.2 billion and a net profit of HK\$ 1.05 billion.

Lenovo started its business as a distributor of computer products for foreign companies including IBM, AST3 and HP. In 1990, Lenovo manufactured its first PC and within a decade it grew to become the leading PC manufacturer in China.

Introduction Contd...

In the early 2000s, Lenovo expanded into new business areas including the manufacture of mobile phone handsets and digital cameras, and management consulting. After its significant success in the Chinese market, Lenovo made plans to go global. In March 2004, Lenovo joined The Olympic Partner (TOP) to sponsor Olympics games to be held in 2008 at Beijing. According to analysts, this move would help Lenovo gain brand recognition globally.

Commenting on the benefits from this deal, an industry analyst said, “ For Chinese firms, like Lenovo, the Olympic Games provide an honorable opportunity to enhance their image and demonstrate their strengths in key technologies, products and services worldwide.”

4 In April 2004, the company changed its name from ‘ Legend’ to ‘ Lenovo,’ where ‘ Le’ stands for Legend and ‘ novo’ stands for novelty and innovation. Then Lenovo acquired IBM’s PC unit in December 2004. Commenting on this move, Leslie Fiering, an analyst from Gartner, a global research firm said, “ Lenovo aspires to become a major international player and a recognized brand, a company with the ability to sell into multinational corporations and be profitable.

This deal improves its chances, but the business is only going to get tougher over the next few years since the worldwide growth in PC sales will slow to about 2 percent a year from 2006 to 2008, less than half the projected revenue gains of 4. 7 percent a year from 2003 to 2005.” 5

Background Note

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Lenovo was originally called Legend Beijing, and was founded in 1984 by Chuanzhi along with ten colleagues at the Computer Technology Institute of the Chinese Academy of Sciences (CAS)⁶. With an initial investment of 200,000 yuan, the company was established with the aim of commercializing the research and development activities conducted at CAS...

The Reasons for Success

By 2000, Lenovo had emerged as the market leader in the personal computers (PCs) industry in the Asia Pacific Region except Japan (APEJ), with a market share of 11.3% (Refer Exhibit III for leading PC companies in terms of market share in APEJ)...

Losing Market Share

From the fiscal 2003 onwards, Lenovo started losing market share amidst fierce competition from both local and foreign players (Refer Exhibit VI for Lenovo's market share for the period 1996-2004). After China joined the World Trade Organization in 2001, custom tariffs on imports came down significantly, and this helped Lenovo's foreign rivals. The company faced aggressive pricing from foreign PC manufacturers like Dell and HP as well as other local players. Dell's market share in China doubled to 7.2 per cent between 2002 and 2004. Dell was particularly successful in selling PCs to corporate clients and government agencies. In November 2004, the Government of China awarded a US\$ 20 million contract to Dell over Lenovo.

Going Global

Lenovo's first foray in international markets started in 1991, with the establishment of Lenovo Germany. However, the company's major efforts to globalize came in 2001, when it started selling consumer PCs in Hong Kong for the first time, and laptops under its QDI brand name in Spain, Germany, Italy and Greece...

The Road Ahead

Lenovo faces tough challenges ahead in its plans to globalize successfully. Many industry experts felt that changing its name from Legend to Lenovo would not benefit the company. Bryan Ma, senior manager with IDC stated, "It is a shame they can't use the Legend name overseas, as it carries a lot of weight and brand equity."...

Exhibits

Exhibit I: Top Ten PC Companies in the World (January 2004 -September 2004)

Exhibit II: Lenevo - Business Segments Information(2003-2004)

Exhibit III: Market Share of PC Makers in APEJ

Exhibit IV: Top Five PC Manufacturers in China(2003)

Exhibit V: Lenovo - Five Year Financial Summary

Exhibit VI: Lenovo - Market Share in Chinese PC Market