

A chinese multinational computer hardware marketing essay



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Lenovo Group Limited is a Chinese multinational computer hardware and electronics company with its operational headquarters in Morrisville, North Carolina, United States and its registered office in Hong Kong. Its products include personal computers, tablet computers, mobile phones, workstations, servers, electronic storage devices, IT management software and smart televisions (Wikipedia, 2012). Lenovo is the dominant supplier of computers in Mainland China; however, current economic system is transferred to be more globalised, integrated and interdependent. Thus for many enterprises or just like Lenovo, to have a plan on the international expansion strategies is of the essence. This report will analyse Lenovo PC business's marketing mix and marketing strategy through environment, target market, positioning, and 4P.

Brand History and Environment

1. 1 Brand History

In 1984, “ with an initial capital outlay of only RMB200, 000, (US\$25, 000) Lenovo's founding chairman Liu Chuanzhi, together with 10 like-minded colleagues, launches the New Technology Developer Inc” which was named “ Legend” at that time (“ Lenovo Company History,” n. d.). By 1989, now known as Hong Kong Legend has branded out into motherboard manufacturer and it has changed its name to Lenovo and launched itself on the Hong Kong Stock Exchange in 1994 (Malone, 2004). In 1996, Legend became the market share leader in China for the first time and introduced the first Legend brand laptop to consumers. In 2005, Lenovo completes the acquisition of IBM's Personal Computing Division, making it a new international IT competitor and the third-largest personal computer company

in the world (“Lenovo Company History,” n. d.). According to the data, Lenovo has become the world’s second largest supplier of personal computers during the third quarter of 2011, which held around 13.5% of the worldwide computer market as of October 2011 (Conn, 2011). Today, Lenovo is a global corporation with significant operations on six continents and operating in more than 60 countries and selling products in 160 countries (wikipedia, 2012).

1. 2 Internal Environment

Figure 1 Marketing Environment

Competitive

Economic

Macro-environment

Micro-environment

Political-Legal

Technological

Social-Culture

Competitors

Customers

General Public

Distributors

Suppliers

Internal environment

Men

Money

Machinery

Materials

Minutes

Started from a square room, only 11 individuals Lenovo Group, currently has more than 10, 000 employees. Facing with rapid development of the internet, April 2000, Lenovo Group restructured the whole company, from the division as the core system to a subsidiary of the core change in the system. Today, Lenovo has the most advanced technology in China, the high-level professionals, and abundant capital support, for example, its gross profit margin improved 11. 7 percent in 2011 (Lenovo, 2011). Meanwhile, the Lenovo Group's management level has been committed to developing the development strategy, implementing the management philosophy, maintaining and carrying forward the corporate culture, in order to make the Lenovo to become a long-term, large scale high-tech enterprise.

1. 3 Micro-Environment

1. 3. 1 Bargaining power of suppliers

PC belongs to sophisticated instrument; therefore, the worldwide major CPU vendors are only two: AMD and INTEL. So the CPU suppliers has a strong bargaining power. On the other hand, there are many hardware providers in Chinese mainland, so for Chinese PC market, the local brand Lenovo has obvious advantages.

1. 3. 2 Bargaining power of buyers

Because more and more PC brands can be chosen by consumers in global market, consumers have the ability to replace a company's products with the goods or services from a competing firm.

1. 3. 3 Potential new entrants and Threat of substitute products

Because the cost of entering the PC market is high and the PC industry require the patent as a basis to develop the company, the threat of new entrants can be moderate. Additionally, the product like smart mobile phone may become substantial product for PC. It has many functions like PC which bring the large value to the customer. However, in the short term, it has little impact on Lenovo's marketing strategies.

1. 3. 4 Rivalry among competitors

In China's PC market, Lenovo is the number one PC vendor, which occupies the largest proportion of China's PC market share. Overall, rivalry is moderate in China. However, facing with HP, Dell, and Acer etc. in global market, Lenovo has to enhance the function of its PC products and the quality of services in order to gain competitive edges in some specific

markets. Figure 2 illustrates the market share in U. S. PC market during the third quarter in 2012.

Figure 2 Preliminary U. S. PC Q3 2012 Market Share by Vendor

Chart by The Mac Observer from IDC data

1. 4 Macro-Environment

1. 4. 1 Political-Legal environment

In the 1980s, Chinese Academy of Sciences invested a lot of money when Lenovo needed financial support to develop itself. Indeed, Lenovo has a strong political background in China and it has been regarded as the birthplace of China's computer technology. Additionally, as a global company, Lenovo has to comply with unfamiliar laws and regulations.

1. 4. 2 Economic Environment

Figure 3 Lenovo R&D Center in ShenZhen With the increase income of Chinese consumers, people increasingly like to put money in hi-tech products, such as laptop, digital camera, and smart mobile phone. However, in global market, with the deepening of European debt crisis, the global economic are facing deflation and the unemployment rate are shooting up. Consumers will be more prudent to make decision in purchasing.

1. 4. 3 Technological Environment

Chinese Academy of Sciences which has 1, 800 talents in

From Wikipedia, the free encyclopedia the field of computer technology can provide efficient and effective support to Lenovo during R&D process (Wikipedia, 2012). A prevalent trend that some hi-tech companies have cooperated with PC firms, such as HuaWei and Cisco, improving the existing products and offering better customer service challenges the PC leader of China's market.

1. 4. 4 Social-Cultural Environment

To remain competitive, Lenovo must be sensitive to society's demographic shifts and changing values. However, in the global PC market, because the characteristics of the population, values and attitudes of consumers, and lifestyle are various, it is difficult to satisfy every consumer. Additionally, raising the awareness of consumerism is important to current companies.

1. 4. 5 Competitive Environment

The competition of hi-tech products is very fierce in global market. Lenove are facing with some outstanding company, such as Apple, HP, and Dell. The products from different companies with various distinguishing features attract consumers to buy, which increase the level of competition.

Furthermore, the indirect competition also has an impact on this market, such as smart mobile phone and iPad, because Wi-Fi makes the Internet available via radio waves and can be accessed at any number of public "hot spots".

Target Market and Positioning

2. 1 Target Market

Market segmentation is an inevitable trend in a mature market. The target market for a product is the specific segment of consumers most likely to purchase a particular product. Marketers should try to isolate the traits that distinguish a certain group of consumers from the overall market, in order to serve consumers and maximize the profit.

2. 1. 1 Geographic Segmentation

From 2009 to 2012, Lenovo divided the overall market based on mature market and emerging market. However, from January 2012 onward, Lenovo gave up this method of market segmentation, while Lenovo divided the global market into four parts: Chinese market, North American market, EMEA market (Europe, Middle East and Africa market) and Asia Pacific – Latin American market. In this four parts, Chinese market has a large number of population, which means great potential for profit growth. In contrast, North American market is relatively difficult to enter, because it is a mature market and consumers are loyal to former brands, such as Dell and HP. Overall, Lenovo combine its marketing efforts for countries and regions that share similar population and product-use patterns instead of treating each country or region as an independent segment.

2. 1. 2 Demographic Segmentation

Gender: the purchasing habit of women can not be overlooked in PC market, because most woman buyers focus the stylish appearance and lightweight

portable design rather than the computer performance, such as software and hardware.

Age: tweens and teens usually use their computer for study and online game, while Generation X use their computer for work and social contact.

Lenovo's two main PC products ThinkPad and IdeaPad are different.

Specifically, The IdeaPad design marked a deviation from the business-oriented ThinkPad laptops, towards a more consumer-focused look and feel (Jackson, 2008).

Income and Expenditure patterns: because the income directly determine the purchasing power of consumer, Lenovo PC products are distributed across low end market, mid-range market and high end market.

Figure 4 ThinkPad logo and IdeaPad logo

From Lenovo official website

2. 1. 3 Psychographic and Behavioural segmentation

Lenovo's marketers quantify aspects of consumers' personalities and lifestyles to create goods and services for a target market. For example, Lenovo products advertisements are different in Mainland China and America. Because consumers in China focus on the performance of the product while American consumers focus on the spirit that the product convey. Furthermore, most Chinese PC consumers like comparing goods before taking money from their wallet, while European consumers prefer to pursue high-quality product and to make decision quickly.

2. 2 Positioning

From the view of laptop market structure, business market account for the largest proportion of laptop market share, especially in government, manufacturing industry, school and university, and financial industry. From the view of sales, mid-range market is the most important part while the sales in low end market increase rapidly. The target market selection of Lenovo PCs is based on market size, development prospects, business goals and competitive advantages. To maintain the leading position in the Chinese market, Lenovo PCs must be on the market for comprehensive coverage. Specifically, Idea-branded focus on individual and family consumer market with low price and stylish design, which targets to low end market. While Think-branded focus on medium and small business, not-for-profit organizations, which is committed to provide a stable, safe, and high-quality computer product. Furthermore, because of the acquisition of IBM's personal computer business, Lenovo have the ability to enter the high end business market. IBM PCs regard the high end of key account market as the target market. The distinct level of Lenovo's marketing positioning helps distinguish its products from those of competitors and provides a basis for marketing communications.

Marketing Mix Variables

3. 1 Product Strategy

Lenovo targets clearly its product strategy at the diversification development in such a new information era. Lenovo leads the PC industry in product innovation and it mainly focuses on PC business. Therefore, we divide products of Lenovo into two parts: laptop and desktop.

3. 1. 1 ThinkPad & IdeaPad

ThinkPad were originally an IBM product, which is line of business-oriented laptop computers known for their boxy black design (Wikipedia, 2012).

ThinkPad series is made up of T series, X series, L series, W series, and ThinkPad Edge and each of them has their own feature. Specifically, T series is the most popular ThinkPad because of its performance and portability; X series is the thinnest and lightest with the longest battery life; L series is the green choice for professionals; W series is defined as a portable workstation.

“ The IdeaPad line of consumer-oriented laptop computers was introduced in January 2008. The IdeaPad is the result of Lenovo’s own research and development” (Wikipedia 2012). IdeaPad consist of U series, Y series, Z series. Specifically, U series is a stylish choice for everyday use; Y series design for gamers, movie buffs and audiophiles; Z series has a balance of price and multimedia features.

3. 1. 2 ThinkCentre & IdeaCentre

There are two series of ThinkCentre: ThinkCentre Edge Series (stylish, business-class) and ThinkCentre M series (sophisticated space-savers, dependable business partners). ThinkCentre is a system that combines reliability with ease of use. The marketing concept of ThinkCentre is “ You name the challenge, we’ll bring the solution”.

IdeaCentre were described by HotHardware as being “ uniquely designed”, with users needing to “ gaze on each one to see which design would look best in your place”.(Willington, 2011). Indeed, IdeaCentre desktops come in

all shapes and sizes. There's the skinny all-in-one that hides its working bits, the tiny nettop no larger than a book, and the regular desktop that traditionalists will view with satisfaction.

Figure 5 Lenovo IdeaCentre 3. 1. 3 Service and Warranty

From hothardware. comLenovo services is various depending on different kinds of customers. For example, Lenovo offers a comprehensive portfolio of value-added services that support the full lifecycle of Lenovo assets to large enterprises while Lenovo offers warranty support services and accidental damage protection to personal and home.

3. 2 Promotion Strategy

Lenovo's prior goal is to create a new and successful international brand by the advantageous promotion of IBM; therefore, advertisement is the best option for this goal. Then promotional activities are also in effective and direct ways.

3. 2. 1 Advertising

Lenovo's personal computer mainly targets some individual clients made up of personal and home groups, and some small-and medium-sized enterprises. Therefore, the advertisement should be designed differently according to different segments. However, IBM aims at high-level computer market oriented to large organization for commercial functions. Therefore,

advertisement strategies for ThinkPad are designed in an orientation of commercial application.

Because consumers in China focus on the performance of the product while American consumers focus on the spirit that the product convey, the style of Lenovo advertisement is different globally.

3. 2. 2 Personal Selling

The marketing strategies for individual users and large enterprises are different in requirements to sales person. As for individual users, what sales person need are a full set of materials of new products, like specific introductions, on-site demonstration disc, some certifications, and some samples. In addition, the training offered to salesperson is necessary including sales technologies, products knowledge, and company's regulation. In contrast, for the large enterprises, Lenovo's salespersons play pivotal roles in promotion. Because they do not only promote products, but also perform necessarily in public relations, sales, training, commerce and customer services.

3. 2. 3 Sales Promotion & Public Relation

Because of two different product orientations, they will be differentiated in promotional activities. Personal and home groups consumers will mostly buy from stores or agents, and their purchasing behaviors are readily influenced by promotional activities. Therefore, users promotional activities are more effective for this type of users. However, ThinkPad goes oppositely since its users are mostly large enterprises commercially, and they unlikely go into

some stores to buy a ThinkPad. Therefore, promotional activities will not work the same effectively as individual users do. Thus some special activities will introduced, such as inviting them to products exhibition or new products training, trial for new products for VIP clients, or organizing some member club to promote new products by conference, traveling, or sightseeing to enhance brand images and improve the knowledge or ThinkPad products.

It is worthy mentioning that Lenovo was an official computer sponsor of the 2006 Winter Olympics in Turin, Italy, and the 2008 Summer Olympics in Beijing. In July of 2012, Lenovo and the National Football League (NFL) announced that Lenovo had become the NFL's Official Laptop, Desktop and Workstation Sponsor.

3. 3 Pricing Strategy

The objective of Lenovo is to capture a substantial market share and attract more and more buyers to buy its products. Lenovo pricing strategy is based on offering the consumers high quality at low price as well as competitor pricing. Lenovo has always maintained a product mix such as bread and butter products like 3000H series and high end products like ThinkPad and ThinkCentre, which helps Lenovo develop a vast range in its prices. The pricing of some models in America market are as follows:

Lenovo Y Series Laptops are priced from \$600- 1000

Lenovo U Series Laptops are Priced from \$500- 800

ThinkPad X&Z series are priced from \$1000- 2000.

Obviously, the laptop price is so competitive in current commercial situation that it should be considered at the first place of production based on a short lifecycle in high-technology industry. Therefore, perception value pricing of Lenovo is adapted to gain an acceptable profit. The middle and high-level Lenovo products are priced to compete in market, therefore, the price of these products should be referred to competitive products. Indeed, “ For comparable products, Lenovo priced its products at about two-thirds of foreign-made PCs” (Xie, 2004, p. 412). In order to maintain the largest share and leader position in Mainland China and remain competitive in global market, Lenovo is a market follower after Dell and HP and this pricing strategy can allow them to ensure values as well as the optimal price of the products. Additionally, Lenovo constantly offers discounts on its products through its showrooms and online purchases which are often in the range of 25-30%. Also there are many coupon codes and promotional codes available on all product models which add to the total discount.

3. 4 Place Strategy

3. 4. 1 R&D Center and Marketing Center

Because HongKong is a global center of intermediary trade, it has a more perfect and more complete market in information channel than Chinese mainland. So Lenovo established the R&D center and marketing center in Hongkong, in order to acquire the timely market information and technology information and thus shorten the product development cycle and closely follow the international trend.

3. 4. 2 Wide Coverage

A direct marketing strategy is implemented to target the new industry and new big organization. However, the combined channel modes of retailers and agents are basically applied in individual buyers. The market Lenovo targets is not only China, but also other countries. The scope and extension it covers is featured to be in large quantity, wide distribution, and diversity of channels. Therefore, Lenovo choose intermediate channels like provincial retailers or regional wholesales in order to occupy a greater market.

3. 4. 3 Outlets and Sales Channel

Most PC buyers purchase their products through retailer. Lenovo find that Internet buying is convenient for customers to compare products, specifications, prices and after-sales services. Some loyal customers like to buy products in Lenovo specialty shops. Today, Lenovo has the excellent distribution channel consist of 6, 000 retail outlets in China that nearly impossible for foreign and even most domestic competitors to replicate.

Figure 6 lenovo specialty shop

From File Photo/ China Times

3. 4. 5 Transportation and Stock Level

Modern logistics is important to Lenovo, that is say, Lenovo transportation is based on customer needs, carrying the products form supplier to demand side with the most economical cost. From 1995, Lenovo began to implement SCM system (Supply China Management). In 2004, Lenovo carried out VMI mode (Vendor Managed Inventory), thus almost 90% inventory were outsourced to Third-party logistics firms.

4. Cohesive Marketing Mix

The 4P's strategies of Lenovo forms a cohesive marketing mix in an effective and innovated way. Lenovo is transcendent in a vision of its market orientation and products innovation. It develops a systematic strategy with a good combination of two different brands in different levels. By definition, Lenovo improves its products designs and quality to reach an international level in order to meet the requirements of PC users all around the world. Regarding to its market orientation, Lenovo covers low level, medium level, and high-level products, targeting various users ranging from individuals to large enterprises. The pricing is also tactically different in different levels, so that Lenovo products can reach different users from personal utility to commercial application. In addition, it also optimizes different distribution channels and lowers the cost of producing by different segmentations of personal computer users by an application of direct market penetration to individuals and combined marketing channels to those large enterprises. Therefore, the promotion should also be designed in a different ways, from advertisement to salesperson training. The market mix of Lenovo successfully integrates product, price, place and promotion strategies in its market orientation and its maximum profits. Only in this way, can such a growing Chinese brand enter an international market to compete with its innovation and creation.

5. Target Market and Marketing Mix Variable

There are many methods to segment the overall market. After that, the company will choose the appropriate market as their target market. As to Lenovo, from 2009 to 2012, Lenovo divided the overall market based on

mature market and emerging market. However, from January 2012 onward, Lenovo divided the global market into four parts: Chinese market, North American market, EMEA market (Europe, Middle East and Africa market) and Asia Pacific – Latin American market. Specifically, in mature market like North America, Lenovo covers low level, medium level, and high-level products, targeting various users ranging from individuals to large enterprises. Additionally, Lenovo is a market follower after Dell and HP and this pricing strategy can allow them to ensure values as well as the optimal price of the products in North American market. In contrast, Lenovo attack emerging market, such as Kenyan market, with cheap PCs, and the product range is fewer than American market. Furthermore, The Group's PC business across the mature markets are facing challenges in the retail channel due to significant slowdown in consumer demand. On the other hand, Lenovo begin to set up more specialty shops in Africa and Latin America, because people there don't adapt to online shopping and the demand from enterprise and government is low. Overall, Lenoovo's target market will be considered when making decision about the four marketing mix variables.

6. Positioning Strategy

Facing the volatile market and ever-shifting needs of customers, Yang Quanqing (2001), Chief Executive Officer, said that " Our ' Protect and Attack' strategy is working and will continue to guide our execution". Lenovo aims to extend the leadership position and increase profitability in China and relationship business in mature markets. In contrast, in emerging markets and transactional sales in mature markets, Lenovo's focus will be on capturing growth. Although in recent years, Lenovo aims to extend the

business beyond the traditional PC arena and to capture opportunities globally in the rapidly growing areas including mobile internet, smart TV, etc., the PC business remains as the Lenovo's core business and Lenovo consistently accelerate the growth and expand market share by delivering quality products to customers around the world.

Lenovo outgrew the worldwide PC market in unit shipments, and gained market share across all geographies, products and customer segments, making it the world's fastest growing PC company. Lenovo divides its PC brand into two parts: Idea-branded and Think-branded. Specifically, Idea-branded focus on individual and family consumer market with low price and stylish design, which targets to low end market. While Think-branded focus on medium and small business, not-for-profit organizations, which is committed to provide a stable, safe, and high-quality computer product. The positioning strategy of Lenovo PC business is very effective. The company saw a record high in sales and market share despite an ongoing downturn for the overall PC industry. Based on data from IDC, Lenovo held 15.7 percent of the global PC market by November 2012, its highest market share ever.

7. SWOT Analysis

7.1 Strengths

Lenovo is the leader in chinese PC market, accounting for over 30 percent market share. Under the support and protection of government policies, Lenovo can focus on product research and marketing. There are about 6,000 Lenovo retail outlets in China that nearly impossible for foreign and even most domestic competitors to replicate. Globally, after the acquisition of IBM

PC division, Lenovo brand image has been enhanced. More and more overseas customers are willing to purchase Lenovo PC products. Lenovo has the excellent distribution channel not only in china but also all over the world.

7. 2 Weaknesses

Globally, the single marketing channel leads the products and services mainly sold by monopolized stores. Lenovo does not has its own core technology and it has to follow Intel trend. Too many staffs lead to the overstaffed orginzational structures. The human resource, technology, and capital need to be intergrated after the acquisition of IBM PC division.

7. 3 Opportunities

PC market is dynamic. prompt response to market changes and solid execution with a

clear vision are crucial to continued growth of Lenovo. There is a potential for great development in Chinese market and other emerging markets.

7. 4 Threats

Acer, Dell and HP are the main competitors in global PC market. Today, there are too many cheap PC products appearing in the world and the market protect in some countries is strong. In addition, some smart mobile phones like iPhone can become the substitute.

8. Conclusion

8.1 What Is the Company Doing Well

Liu Chuanzhi (2011), the chairman of the board, stated that “ we will continue to invest in innovation, marketing, and branding to protect our core business and drive growth through attacking”. Four parts have been considered in making decision in Lenovo: credibility, differentiation, product life-cycle, and evolution. Specifically, first of all, Lenovo is the leader in Chinese PC market, and the brand recognition and traditional reputation of Lenovo are very good in China. In global market, from 2005 to 2010, the Group used IBM logo optimally to build brand “ Lenovo”, which led “ Lenovo” to be known by overseas customers. Second, the differentiation of PC products in performance, style, and services make Lenovo have the ability to deliver the high quality, reliability and durability to meet various of customers demand. Third, every product has its own lifecycle. Facing with this problem, Lenovo delicates some new product strategies in light of the lifecycle as follow: improve products design and products innovation, decrease of product costs and optimize the distribution, and integrate service system and develop the service quality. At last, The PC market is expected to experience more and rapid evolutions in the future. Lenovo continues to leverage spirit of innovation and history of technological breakthroughs to into new product categories and drive future growth.

In addition, Lenovo actively took step in asserting its position as a global leader by launching its new global branding campaign. Known as “ Lenovo: For Those Who Do,” the campaign captures the essence of who we are as a company, and the customers we serve. Lenovo does more than just build

technology; it creates engines for the world's doers and the mind-blowing things they create. The Group's breakthrough products are made to serve people on the quest to build what's next.

8. 2 Suggestion

Lenovo do not have its own core technology in PC business, which means Lenovo have to highly rely on CPU vendors like Intel and AMD. Therefore, in order to maintain market share and competitive advantages in global market, Lenovo should allocate more money to technological innovation and product upgrade. Other than that, Lenovo can copy Dell success model, which Lenovo can invest in special computer for certain industry, such as financial industry, education industry, in order to expand the coverage of the products.

Lenovo pricing strategy is based on offering the consumers high quality at low price as well as competitor pricing. However, in recent years, more and more individual and family buyers reflect that there is price discrimination existing between Chinese market and North American market. Chinese market is Lenovo's test bed. Most new products will be evaluated in Chinese market before selling abroad. However, Lenovo can not use its leadership in PC market to make money, regardless of consumers' profit.

In mature market, the Group's PC business are facing challenges in the retail channel due to significant slowdown in consumer demand; therefore, Lenovo should set up online-sale network and develop and maintain the relationship with the suppliers, distributors, and large enterprises.

Although the brand image has been enhanced in recent years, especially after the acquisition of IBM PC division, Lenovo should continue to emphasize the global concept of product design and implement “ Protect and Attack” strategy which protects the core business in China and relationship business in mature markets while attacking high-growth opportunities in emerging markets.