

External influences on lenovo



The main purpose of this report is to show the way of Lenovo from just project to international corporation and to analyze their way using such methods as PEST and SWOT analysis as well as Porter's Five Competitive Forces.

Using PEST makes possible to determine the impact of external environment (politics, economics, society and technology) and indirect factors on company. SWOT reveals the strengths and weaknesses of given organization. Combining these two methods makes analysis even more precise.

In its turn, Porter's Five Competitive Forces helps to understand the competition within the industry.

Lenovo is a great example of a company which used innovation and creativity, obstinacy and communication with customer as a tool to make their way to the top.

Today Lenovo is one of leading PC vendors. They manufacture tablets, laptops, ultrabooks, All-in-One PCs, desktops, nettops and own accessories. Lenovo creates unique and durable products at really aggressive price point. And they are here to stay.

Introduction

Lenovo. The company was established in Beijing, China in 1984 by eleven members of the Computer Technology Research Institute, they called it the Legend Holdings. But in 2003, decision to expand outside Chinese market led to another one - change the name of the company. Legend changed their

name to Lenovo. Name of Lenovo is combination of “ Le-” (as part of Legend) and “ novo” Latin ablative for new. In Chinese it can also be understood as connected thinking or creativity. Despite the fact that current name of the company was introduced just in 2003, Lenovo already gained trust and loyalty of millions of customers.

The company has started from budget of 200 000 yuan commissioned Liu Chuanzhi (founder of Lenovo) by Chinese government in order to distribute computers which are made in other countries. Lenovo’s first office was about 17 square meters. Mr. Chuanzhi once said: “ It wasn’t easy. The lowest thing you could do in the early ’80s, as a scientist, was to go into business. China had a strict planned economy and there was barely room for a freewheeling company like ours” (Liu Chuanzhi for Asiaweek, June 13, 1997).

First major win was a circuit board which enabled IBM computers to process Chinese characters – Han-card. Later on Lenovo started to create and distribute computers using its own brand.

In May 1988, Lenovo looked for employees for the first time. They have placed ads on the cover of the China Youth News. Out of all respondents, 280 were selected to sit for a written exam. About 120 of the candidates were interviewed in person. Despite interviewers had authority to hire only 16 people, 58 were given offers. 18 people of these had graduate degrees, 37 had undergraduate degrees, and three students did not have university-level education at all. Their average age was 26. Future CEO of Lenovo Yang Yuanqing was among this group who introduced new name and expanded company on Europe and USA.

In 1994 Lenovo became a publicly traded company after listing in Hong Kong.

Later in 2002 Lenovo Group made partnership with Xiahua Electronics Stock Company, giving the start of Lenovo mobile phone business. In 2008 Lenovo has sold its mobile department but then would pay \$200 million to buy it back in November of 2009. Now Lenovo Mobile ranks third in terms of market share of mobile phones market in China.

On May of 2005 Lenovo Group announced the completion of the \$1.75 billion deal of acquisition of IBM's PC unit. That made company's annual revenue almost quadruple. Company which used to have \$3 billion in annual revenue now had nearly \$13 billion. They became the world's third-largest PC vendor, behind Dell and Hewlett-Packard. But revenues are not the only benefit Lenovo got from this deal. They have acquired the ThinkPad brand. ThinkPad is ultra-resistant due to special casing, special keyboard structure that let water drain through the laptop. Moreover it was one of first laptops with hard disk block system, which could turn on emergency brakes thereby save data from being just lost because of physical damage of the disk when laptop is dropped.

Later Lenovo would face the closest rival on their way to the top - Dell. It was a hard competition, it was a complex competition. The main problem of Lenovo back in the days was a bit more conservative way of making business. Dell used new and innovative methods to produce, distribute and promote products. They spent on ads twice as more than Lenovo, their

prices were lower and market share grew more and more. Dell even captured segments which used to be favorite ones of Lenovo.

To overcome the enemy Lenovo started to increase value of brand. That means they started to raise name awareness among the customers, they delivered maximum possible customer satisfaction. They are still using those principles as core philosophy of the company.

Nowadays, Lenovo has three main categories of laptops. ThinkPads are powered for productive work experience, uncompromised secured and ultra-reliable, solid and durable. IdeaPads are optimized for entertainment and multimedia. They have some enchantments in audio, video performance and possess both functional internal and beautiful external designs. The third lineup is Essential. These products have nothing unnecessary; they are always up-to-date, portable enough and reliable.

The tablets are also divided on Idea and Think lineups as well as All-in-Ones and desktops. The principal stays the same. Idea for creativity and entertainment, Think for business and work.

In 2012 Lenovo became the fastest growing company in the USA for 8 quarters in a row. Actually, they are the only one who has a growth.

In the third financial quarter of 2012, shipments of the company expected to reach 15.7 per cent of world-wide PC shipments. Lenovo would surpass Dell and HP.

The Mission and Vision of Lenovo

Mission is the main goal, beliefs which push company to develop into new something more than just business. Mission is the reason why company does actually exist.

Lenovo's origins are in China; their name has meaning so their mission is strong and inspiring as well.

Lenovo has a desire to become the leading company of new world that is respected for break-through innovation and award-winning designs, quality, to be loved for an ecosystem of devices, services. Become recognized as one of the best, most trusted and most well-respected companies to work for and do business with. And they are on the right way to reach the goal.

Company strives to be one that creates extraordinary, innovative and exceptionally great PCs for its customers. They do not have formal restrictions and bonds which could distract or interfere from manufacturing best possible machines. Lenovo claims that they design exciting and innovative products, services to meet customers' needs. And sometimes they even manage to exceed level of the expectations.

Lenovo wants to do business from their own global point of view, own perspective and own commitment to building great technology for people who view technology as a tool to accomplish fascinating things.

By having few categories of products, Lenovo does not put any effort on useless departments therefore does not waste resources and time.

David Schmoock, President of North American Lenovo department said: "What I want to do is get to number one and be sustainable as number one".

At the very basic level of the company there is one core principle that is extremely important: "We do what we say and own what we do."

So far the main goals company wants to reach are serving customers, trust and integrity, innovation and entrepreneurial spirit.

Lenovo. New World, New Thinking

PEST Analysis

PEST analysis in general measures a market, its potential, indicates growth or decline, thereby market attractiveness. Actually, PEST analysis helps to determine SWOT factors.

PEST analysis is a model that can be used for describing the framework of macro environmental factors that a company should have in mind forming its long-term strategic plans. Of course, the external factors may vary in significance to a given company based on the products and services that it produces and also on the industry it is in.

For any company which wants to win in the competitive marketing, such methods of analysis of the external factors and environment are the way to succeed.

In this report PEST will be used in order to focus on analyzing external environment of the Lenovo Corporation and try to foresee major influence of those external factors in their business environment.

The letter " P" stands for political factors influencing company's market. Those are level of bureaucracy, laws and regulations, legalization and policies, rule of law, freedom of press, tariff controls and trade.

Nowadays, computers are tightly linked with peoples' life. From the last century computers were used in business and other areas and help factories, hospitals and other structures to increase production and interest. At the same time, new technology caused some new problems such as pollution of the environment, health and energy consumption. Considering these problems European Union, China and other countries encourage the Green IT. That means computer must not produce noise pollution more than specified, energy consumption must be no more than required. In Lenovo groups, the isopsophic index is lower than 30dB. Therefore, Lenovo has achieved in noise pollution section. Since China has a population of one and a half billion, there is more than enough labor and payment would not be too high. That is the reason why many of assembly lines are Chinese, so Lenovo placed factory in China as well. When China joined WTO in 2005, the export tariff for IT products has decreased to 9. 1%. So these policies are encouraging business organization developing to global.

Next one is " E". It stands for economic factors such as interest rates and inflation, disposable income, labor cost and supply, impact of globalization.

Letter " S" is for social culture. It is social studies and education, lifestyle attitudes and choice, population growth rate and age profiles, etc.

And the last letter is " T". That is for technological factors such as impact of energy technologies, increase in remote working, and current level of

technological development, impact of technology on the work process and productivity.

For economic, influence by the 2008 economic crisis, the world economic tends to going down. But in the worst time, Chinese government published the new economic policy which was positive financial policy and loose and comfortable monetary policy. The government also offered four-hundred million RMB stimulates economic development (The Marketing Surveillance Center of China, 2008). For China's IT industry, this is a great opportunity to develop them. Then change the focus to the economic development. In 1950, the total trades of China include import and export was 11.3 hundred million dollars, but in 2008, it enhanced 25616 hundred million dollars. Also at home, the GDP increased with a high speed:

So according to this chart, it very clear that China's GDP has achieved satisfactory level and the disposable personal income has increased also (stats, 2009). So the demand of products will increase with the economic enhancing. In the other words, the IT market becomes bigger and Lenovo also has strength to competitive the market share because Lenovo not only produce computers, mobile phone also produced by them.

For society culture, the population growth, lifestyle choice and attitudes, population health, education, social mobility and attitudes are influence the demand of high technology products. 60 years ago, 80% people in China were illiteracy, but under the new government value, in 2008, the Einschulungsrate f. of different education level has achieved a satisfactory level:

It is clearly that the education level has increased and the demand of high technology products also enhancing (Communist Party Learning, 2009). This situation also offered a huge market for Lenovo. On the other hand, because the globalization and influenced by the developed countries' lifestyle, the Chinese people also become more international which live with a high level life and influenced by the education level, the lifestyle of Chinese people become more out-going and open enough (Human Geography Research Center, 2003). So the consumption custom of modern Chinese people also offers a good developing environment to Lenovo. Also in the next five to ten years, this situation will be increase. At the same time, the social culture of China has changed from traditional feudalism to modern lifestyle which is more science and high technology in life.

For technological, Lenovo was set by 11 scientists who worked in Chinese Academy of Science which is a governmental organization. So this situation offered a good technology support. In 2005, Lenovo has finished the purchase IBM, so the technology transfer from IBM also helps Lenovo make the Research & Development activities and produce high quality products with high technology (Lenovo, 2005). At the same time, with the technology development, the communications costs and increased remote work can help the different corporations share their techniques and also good for Research & Development activities. So all of these technological factors can help Lenovo increase their competitive ability in the next five to ten years and the marketing share of IBM also belongs to Lenovo.

For the legal section, here just mention two articles which can support Lenovo. Firstly, in light of article 6, People's Republic of China Consumer <https://assignbuster.com/external-influences-on-lenovo/>

Protection, the government encourages and supports every person and organization supervises the illegal action which damages the consumers' legal power (National People's Congress, 1993). So this law can reduce other organizations use illegal method to competitive in the marketing and it's also a protection for Lenovo. On the other hand, in light of article 6, People's Republic of China Law on Product Quality, the government encourages apply scientific management method, advanced science and technology, support the products achieved or beyond the industry standard or international standard. And give the award to the organizations whose products achieved or beyond the international standard (National People's Congress, 1993). So as an international corporation, Lenovo links the technology of IBM, they will produce the high quality products and received the government supports from the legal.

Finally, for the ethical, because the increased of education level, the people's diathesis also enhanced. So protect the legal power has become normal in the modern society. Then if the organization make illegal actions, it will be ejected from the market by customers, such as never buy their products. Also for an organization, the ethical problems are faith, fair and good service. As Lenovo, their value are serve consumers, innovation, faith and fair (Lenovo, 2005). So this entire ethical development tendency is good for Lenovo's business environment in the next five to ten years.

In summary, the policies which about green IT from European Union and the export tariff which from Chinese government are good for Lenovo's improvement; at the same time, the economic development of China and the increased disposable personal income also offering a big market to Lenovo's

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development in the future; as the modern society, the population of the world was achieved 67-hundred million in 2007 (Unctad Report, 2008). It offers a huge number of customers; also because the education increase, the lifestyle of modern customers is tend to high technology and high quality. On the other hand, the purchase of IBM also offers the technology transfer and the development mechanics of communication saved the communications costs and it's good for international Research & Development activities and international cooperation. At the same time, the law of Chinese government also supports and the ethical factors in the modern society are good for Lenovo's improvement. So based on the analysis, in the next five to ten years, the likely major influences in Lenovo's business environment are environment protection, international cooperation, the economic development, technology communication and Research & Development, legal protection and ethical problems. But all of these tend to good for Lenovo in the future. So if the strategy department managers based on the external environment to make the strategic planning, Lenovo will take a great leap for their business in the next five to ten years.

The PEST analysis is a model for reviewing and surveying a company's strategy or its position in the market. It measures the market, along with its competitors from the viewpoint of a particular business. It is also used to describe the framework of macro environmental factors that a company should regard and take into consideration. Of course, the external factors may vary in significance to a given company based on the products and services that it produces and also on the industry it is in.

Political factors

Economic factors

Economic factor relates to the economy of the country itself, as well as market and trade cycles. Over the past years Walmart has had a stable economic condition and had 11% growth totalling in \$6. 5 billion.

Why Walmart's figure has been doing so well so far is because it takes into account not only the economy of the company, but also of the country's economy in which they are setting up their business. Another reason for its success is that Walmart prefers to first check the economical factors of the county before actually doing any business there. The main economical factors that are worth considering are economic stability and people's purchasing power. It's crucial to acknowledge these factors for doing business in the third world countries because any change in economy can increase the actual price of the goods and services, which the company offers to its customers and of course the demand for these products will go down.

Social Factors

Social factors are made up of lifestyle trends, major events and various influences, religious and ethnic factors. Walmart has a tendency of evaluating and measuring social factors, just like economic factors, of a country they have chosen to do business in. Social values and frugality are also quite important factors. Walmart appeals to consumers with a rather low income, nevertheless, it ensures that the goods, products and services that they provide are appraised and accepted by their customers. It is a known fact that Walmart doesn't supply its stores with goods that are likely to

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cause various complaints from the clients and customers. The company makes good relationships with its customers in engaging and taking part in various public activities.

Technological Factors

Technological factors generally include various factors like maturity of technology, global communications and innovations, as well as technology legislation. Nowadays technology plays an immense part in the whole society. As a matter of fact, technology hugely improves quality of the products, however it tends to decrease the amount of time to promote and advertise the goods and services. Walmart was quick to accept new technology and to make effective and best use of it. It operates most of its logistics with the usage of a modern system called hub-and-spoke of its distribution centres.

Customers that shop at Walmart stores get the most benefits out of it.

Walmart believes that by introducing natural products on the market, it can have a big and positive impact on the atmosphere around us and the world's natural resources.

Walmart exploits the newest technology such as brand new cash register and security system. In short, Walmart keeps up with technology innovations and adjusts very well to the changes in the world.

Porter's Five Competitive Forces

Porter's Five Forces model is generally used in order to understand better the context of the industry in which the company is operating in and to see the attractiveness of an industry structure.

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By using this model we can see that Walmart is a strong independent company that has a stable growth, professional management and reasonably competitive prices. This model helps to look into the company more closely by assessing the potential threat of new entrants, the competitive rivalry within already existing companies, the threat of substitute products and goods, the bargaining power of suppliers and finally, the bargaining power of customers.

Threat of new entrants

There's always a possibility of new companies coming into existence, however in order to compete with such strong company as Walmart they will need a relatively large capital. Walmart is expanding rather fast and it practically leaves neither chance nor room for other new companies to enter the competitive market. Above anything else, Walmart has excellent distribution systems, for example hub-and-spoke system that I mentioned before, as well as good locations and an enormous capital to be actually able to compete with new entrants.

Competitive rivalry

Walmart is a much larger and more profitable company than its competitors, so the competition inside the retail industry poses no threat whatsoever to it. However, there are a few other strong competitors such as Target, which can bring out some fair competition to Walmart. To sum up, Walmart is generally ahead of its competitors; it is a global leader in the retail industry and has a firm position in the competitive market.

Threat of substitute products

There aren't a lot of direct substitutes to Walmart, because stores in the retail industry sell products for everyday use mostly. However, there are some substitute products that can be a threat to the sales of branded products. Another threat can be put from specialized retail stores like electronics and various garments.

There are stores such as Carrefour and Target, which can offer same goods at a similar price or even lower. Still, when it comes to Walmart, there aren't many other stores that can actually replace its convenience and attractively low prices.

Bargaining power of suppliers

Walmart is a huge customer to its suppliers and, thus, it has a lot of power, because in case it decides to switch to a different supplier, this would create a very scary tactic for its suppliers. It also has an option to purchase goods from many various suppliers so if they decide to drop out some, this won't make a significant difference.

Walmart definitely takes advantage of being one of the largest customers to such international companies as Kraft Foods and Gillette. Because of its strong position in the market, suppliers are more than willing to satisfy Walmart's requirements, as well as provide them with favourable terms of payment and various discounts. We can see this good relationship between Walmart and its suppliers through its enhancing success.

Bargaining power of buyers

The customers will surely always be a threat to Walmart mainly because there are so many competitors. The buyer's decision tends to be based on the price and quality of the product, and also on the convenience. Usually consumers are price sensitive and their decisions are based mainly on the price itself. And if products are similar this will increase the rivalry in the industry, which will lead to lower prices and thus, lower profit.

Also, Walmart is not in a monopolistic market, but a competitive one, so the goods it offers can be replaced or substituted by its rivals. However, the company strives to please its clients by making the prices of their products and services similar to those of their competitors. Its profitability has proved that consumers are pleased with the chain's reasonably low prices and its very convenient locations.

Conclusion

The purpose of this report was to analyze the external factors that have a certain impact and influence on Walmart. There are some significant factors that became clear after the PEST analysis and Porter's Five Competitive Forces analysis have been made. I found out that Walmart is one of the global leaders in the retail industry, which has a great influence on various sectors. Walmart is still expanding to new locations and it is a growing strong company that has a firm position in the domestic market in the US and abroad as well.

Unfortunately, Walmart, just like any other organization, isn't protected against the negative influence from various environmental factors, which

may decrease the company's total revenues or even weaken the popularity of the whole company. However, despite all of the negative factors mentioned above, the positive impact of the external factors is much greater. Walmart's intention "to help people save money so they can live better" moves the company on the top position in the retail industry and makes it more attractive and appealing to existing and future consumers.

Recommendations

In my personal opinion the future success and survival of Walmart will depend on changing its attitude and becoming even more customer focused, as well as building even closer relationships that would broaden the product range and competitive prices. The company should take into consideration that the market is still rather new to foreign companies and that other retail stores are also expected to appear in the nearest future, which will probably result in reduction of clients

Walmart is considered as one of the international leaders in the retail industry and I think it will keep its position for a certain period of time.

However, I have to make a point that the company should also consider its promotion and shouldn't rely in the fact that they are one of the best in the market.

What's more Walmart should take into consideration that the market is still rather new to foreign companies and that other retail stores are also expected to appear in the near future, which will probably result in reduction of clients.