

Evaluation of the strategies adopted by lenovo marketing essay



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Strategy is based on the long term of a business and is the direction and scope of the organisation. It aims to achieve advantage in a changing environment through its configuration of resources and competences (Johnson et al, 2008).

Henry (2008) defined the competitive advantages refers to a company must be competent to outperform itself from its rivals by creating superior value to its customers and argues that the competitive strategy is regarded with the basis on how a company will compete in its selected market.

This report is set out in order to evaluate the strategies adopted by Lenovo to gain competitive advantages over their rivals in this ever-challenging PC industry and to provide recommendations for continuous development of the organisation.

1. Introduction

Formed by a China based technology giant, Legend Holdings's acquisition of the former IBM Personal Computing (PC) Division, Lenovo is a new world company that develops, manufactures and markets reliable, high-quality, secure and easy-to-use technology products and services worldwide (Lenovo, 2010).

The acquisition was heralded as a watershed event in global business with the potential for integrating two disparate East and West cultures, languages, processes and markets in the creation of a unified global PC leader with growing market positions in developed and emerging markets alike (Lenovo, 2010).

As indicated in Lenovo's report (2010), succeed with more than \$16 billion in annual revenue, Lenovo's market strength spans not only market geographies but also the world's consumer and business PC industries. Lenovo operates in more than 60 countries, selling its renowned THINKPAD® notebook as well as products carrying the Essential®, ThinkCentre®, ThinkStation®, ThinkServer®, IdeaCentre® and IdeaPad® brands, it has been dedicated to serving the needs of their customers in order to remain its competitive edges.

As part of Lenovo worked hard introducing PCs to households, and then promoted PC usage in China by establishing retail shops nationwide, has made Lenovo the largest PCs brand in China (PC World, 2010). It also developed the pioneering Legend Chinese Character Card that translated English operating software into Chinese characters, and achieved breakthroughs like PCs with one-button access to the Internet.

In 2003, Lenovo introduced a self-developed collaborative application technology, which heralds the important role Lenovo is going to play in the 3C era (computer, communications and consumer electronics). These and other market-leading personal computing products catapulted Legend to a leadership position in China for eight consecutive years with over 25% market share (Lenovo, 2010).

In this paper, we will study the strategies implemented by the Lenovo and to provide recommendation for further improvement.

2. Analyzing Competitive Market

2.1 Porter's 5 Forces

The original competitive forces model, as proposed by Michael Porter, identified five forces which would impact on an organisation's behaviour in a competitive market (Gronoos, 1984). Many organisations adopting this framework as they believed this framework will assist them to identify the attractiveness of an industry or sector in terms of competitive forces and the external factors impacting on their organisation. (Johnson, Scholes & Whittington, 2008).

Source: Adapted from Michael. E. Porter 1980, Competitive Advantage: Techniques for Analyzing Industries and Competitors, the Free Press.

Threats of new entrants

The first threat of entering new market is the existing loyalty to major brands (Hooley and Beracs, 1997). Companies in PC industry show a unique feature of vertical integration. Existing IT products companies have gained sufficient loyalty in maintaining their market share while preventing new players enters into their territory. Today, in China, Lenovo commands more than one-third of the PC industry, covering all segments. However, there is still long-way to compete with other PC companies in other region. In United States, DELL remains the most favourite Personal Computer (PC) brand, while Acer occupied the Number 1 PC brand in South East Asia.

It is challenging for new entrants to share a piece of cake or to have the economics of scale to be competitive. Moreover, investing on Research and Development for IT hardware and software require large capital & hence the

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threat of new entrants is less in PC industry. Hence, the barriers to entrants are high. This also explained why the IT products market is dominated by very few companies making it difficult for new companies to enter into the market from past few decades.

Bargaining power of suppliers

Majority PC's raw material suppliers came from Asia Pacific countries due its cheap labour cost and material cost. Other than computer processors and chips, other materials take a least important role. Those material suppliers are poor, fiercely competitive and usually rely heavily on their buyers.

Because they should according to other company's business order to produce products and then the whole supply chain also control by giant PC companies. In US market, DELL and HP always leading the PC market material revolution rely on their long enterprise history background. For the labour source supplier in other countries haven't any advantages compare with Lenovo in china market. It could be challenging for Lenovo if to develop its market in other countries as Lenovo cannot solely depend on its local China market resource due to WTO high standard entry law and other countries' local brand protect law. Therefore, although IT raw material labour source suppliers have low power, it might not benefit Lenovo to entry other market.

Competitive Rivalry

From the industry point of view, the competition of PC industry has being more intensive and competitive due to the increase the number of rivals such as HP and its co-brand Compaq, Dell, Acer, Apple, Toshiba, Fujitsu,

Sony, Samsung and other PC manufacturers. These companies have shared <https://assignbuster.com/evaluation-of-the-strategies-adopted-by-lenovo-marketing-essay/>

the PC market together and therefore, no dominant PC Company in the market. These companies depend heavily on the latest Information Communication Technology (ICT) in order to maintain their operations and competitive edge. They become industry competitors among existing firms, because every company would expect various powerful suppliers with low switching costs (or opportunities costs) to ensure most up-to-date ICT is available for their businesses. These IT businesses also have a little difference between competitors' products and services, mainly the sub-technologies as bundled to the PC, Laptop or IT appliances.

Bargaining power of buyers

The strength of buyers is also consolidated by their loyalty brand (Gronroos, 1984). Once they have their favourite brand, it means that there is very difficult to persuade them switch to another brand because a loyal brand is made by the favourite taste and long term of consuming.

IT product buyers or customers are the factor which has the most important role in IT product market and the number of PC users is increasing definitely. PCs have now being a basic necessity of almost of all mankind behind day to day life. Their power comes from the switch cost from a IT brand to another ones is very low and PC is just one kind of modern tools, they love use PC but they can live well without only one brand for a period of time. As a player Lenovo should know that HP and DELL not maintain long stage as market leader, because in this industry consumer loyalty not very high if they can provide more reasonable product price under the similar quality in US market. Moreover, almost customers in PC market are price sensitive, therefore they can easily switch to which one has lower price.

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Threats of substitutes

Today, PCs still dominate the IT industry. They are the most important IT appliances in both personal-use and commercial-use markets. However, increasingly alternative appliances are now reducing their critical roles. Substitutes for most of the products are easily available at a lower price. Although most of the customers still look for quality and brand name, some of the IT parts they need are purchased from these substitute providers at a lower cost. For example, if a customer cannot afford to buy the entire PC system from Lenovo, then s/he might buy the CPU from Lenovo while assembling monitors, keyboard, mouse and modem from some other company.

Nevertheless, customers can even switch to other IT product, such as PDA, E-PC, Tablets and even Cell phone. Looking at the rapid development of ICT, there is no object the trend of these appliances will be significantly upward in very near future.

In order to remain the customer's retention, Lenovo should try every possible strategy through its ever-lasting promotion and advertising activities, educating markets with its products technology and development and particularly its after sales services provided to the customers, i. e. extended warranty for buying Lenovo's products.

2. 2 The Theory of Business-level Strategy

Competitive advantage is a company's ability to perform in one or more ways that competitors cannot or will not match (Philip Kotler, Gary

Armstrong, 2007, p182). Jack Welch said “ If you don’t have a competitive advantage, don’t compete.” (Jack Welch, John A. Byrne, 2001, p317).

Thus, how to obtain the competition advantages is the key print in the Strategic Business Unit (“ SBU”) competition. Especially, choosing the certain business-level strategy is the critical way to differ from other SBU (Michael E. Porter, 1998, p302). Business level strategy is an integrated and coordinated set of commitments and actions the firm uses to gain a competitive advantage by exploiting core competencies in specific product markets (MCC n. d.).

As the Michael Porter’s theory, there are three different business-level strategies, namely, “ overall cost leadership”, “ differentiation” and “ focus” (Gerry J., Kevan S., Richard W., 2008, p224). According to the different customers’ demand, this theory can be interpreted as five competition strategy options. They are price-based strategies, differentiation strategies, hybrid strategy, focused differentiation and failure strategies (Gerry J., Kevan S., Richard W., 2008, p225).

2.3 The Competitive Strategies of Lenovo

In view of Lenovo’s sustainable competitive advantage, it has been doing well in Price, Difference, Hybrid, Focus strategies respectively. After own the IBM’s PC trademarks and its existing market share, Lenovo has switched for more efforts in building its own brand.

For instance, Lenovo spent high advertisement and promotional cost in order to introduce its new laptop products – Essential series and IDEAPAD series.

These series without any IBM’s THINKPAD characters and has lower cost yet <https://assignbuster.com/evaluation-of-the-strategies-adopted-by-lenovo-marketing-essay/>

higher performance. Although, using Lenovo brand itself and give up IBM brand which is already more successful in the world area will waste the huge market source especially in brand image, distribution channel, customer perception and market share, but it could be the best way can maintain product value chain and market complete advantage for the benefits of whole organisation. It's also a part of long-term strategy let Lenovo target entry level and middle level customer. Obviously, for Lenovo using Lenovo brand easier than using IBM's THINKPAD Series to achieve this market goal because IBM deserves to high end level PCs in general market perceptions.

Both Lenovo Essential series and IDEAPAD series have showed its leadership very well on Price Differentiation, Image Differentiation, Support Differentiation, Quality Differentiation and Design Differentiation. Lenovo Essential series were labelled as Basic and everyday computing PC while IDEAPAD series targeted customers keen on entertainment and light weight.

Implementation of business level strategies shall be careful or it will affect the long-built relationship with customers, distributors and even will mislead customer perception with negative effect of long term development.

2. 3. 1 Value Chain Analysis

Value chain analyses have been developed by major organisations in developing low-cost as well as differentiation strategies (Porter, 1998). These strategies are efficient in developing the competitive advantage by creating stakeholders' value, climb ahead of competitors and lead to organisation success.

Porter (1998) noted in their works that value chain analysis has various activities which come along with the same in helping a company win competitive advantage. These primary activities as noted by Porter (1998) include establishment of appropriate infrastructure of the organisation. The infrastructure includes organisational structure, company culture, and control systems.

Combining both Legend's and IBM's infrastructures and strengths in technology development, Lenovo has established itself well in its productivity and increase its value to outdo other competitors in the industry. With appropriate handling of such activities, Lenovo has improved the overall efficiency in operations of the organisation and to help it to eliminate unnecessary processes, hence developing cost effectiveness. Porter (1998) noted that when all activities are worked out efficiently, they easily come alive for the organisation and it is able to win the competitive advantage across the markets and thus can be excellent and highly productive compared to others within the same field.

2. 3. 2 Positioning

Competitive positioning is the degree of difference in choice of product or service against the competitor (Lynch, 2003). The competitive positioning approach used by Porter, argues that the position of an organisation is successful if it places itself towards the environment (Campbell, Stonehouse & Houston, 2002).

The THINKPAD series brand has been so famous to IBM or being treated as its golden sign in the PC industry. Obviously, rush to replace IBM and its

THINKPAD series by LENOVO's home built PCs, by all means run off because the market isn't ready to know what is LENOVO at the very beginning. In order to get market share in new area as much as possible, building a strong brand image is essential. Therefore, Lenovo after acquisition of the IBM has to enhance its home-built PCs series while minimising the customer influence of the brand in the IBM trademark usage term.

The steps Lenovo implemented include:

Firstly, replace "IBM, THINKPAD" by "The THINKPAD of IBM, Made by Lenovo" in the IBM trademark usage term for 5 years.

Secondly, after 2.5 years they use "THINKPAD, Lenovo"

Finally, finishes the process that brand Lenovo replace IBM & THINKPAD. So use many brands to develop the biggest limit to reduce to the negative of the THINKPAD series brand.

2.3.3 Brand Strategy

In the early decade, there are many consumers trust the brand of IBM not Lenovo. Today, Lenovo has built its very strong reputation in the market that its products as same quality as the origin IBM or even better.

As THINKPAD serves as the high end product for its quality and performance, Lenovo has made use the THINKPAD as the "bridge" to increase the brand value of Lenovo in the international market. The very impressive internationalisation strategy by made use of the Olympic game in Year 2008 as co-sponsor while releasing its latest & high quality products has

successfully burst the strong brand name of Lenovo to the world. However, its local brand strategy is different.

3. Findings and Recommendations

From the research and study on Lenovo's strategies, we have no doubt that the company is doing well and served a key player role in the PC industry. The report below will further explain how Lenovo can keep their strengths and turn their weaknesses into strengths.

3.1 Continuous development

To sum up, with high threat of rivalry in PC industry, Lenovo's business level strategies are strength in focus innovation and design to create the high quality and differentiation of its products, reinvestment in research and development activities, improving combination and close relationship with involve sectors to take cost advantage and reducing price to win in price war.

Lenovo should see that it should maintain the strengths it has in the long run by using cost effective strategies to reduce the costs and share the cost benefit with the customer. With its strong alliance in labour and material, Lenovo should make full use of those cost leadership advantages and using double brand strategy but more focus on Lenovo not IBM. The company should not only focus on what it has gained but also focus on the continuous development and improvement of the products and services in order to strengthen its competitive edge in the market. Thus, Lenovo should focus more on the development of the products in such a way that the production is more cost effective which can be done by operating form the countries

from where the products are more cheaper to make, while not jeopardise its quality.

In overall, Lenovo is doing a very well in managing its resources in being cost effective, productive, and producing profitability for the organisation.

3. 2 Customer Service to Customers' Trust

Losing customers is bad news for any businesses; not only today's sales will be lost, but future earnings will also be scarified. (CIM, 2004) Obviously, if we dissatisfied our customer, he or she will generate bad word-of-mouth publicity. This can be very persuasive! It might cost the organisation in losing existing customers or even potential customers!

According to Lewis (1990), service quality is a measure of the degree to which customer expectations matches the experience of the service delivered. Thus, innovative organisations trying every efforts seek to understand the value from the view of customers and enhance the value in a way that if advantageous to both parties. Maintaining a closed-relationship with customers will lead to sustained competitive advantage because winning customers' loyalty drives sales turnover via continuous purchase and word-of-mouth referrals to potential customers (Woodruff, 1996). The referral power is much effective promotion tool in creating the " superior-brand name" for all organisations, whilst also reducing the marketing promotional activities cost.

This awareness leads to an emotional reaction that is obvious in the satisfaction or dissatisfaction of the products or services being purchased

Being spontaneous in customer service and decision making comes out alive and to the advantage of the service provider, and it gives a customer the confidence they want to a provider (Grant, 2005). In order to develop trust-based relationships, Lenovo Sales team should be transparent enough to customers, supplying them with honest and open information. Thus, we will be able to reciprocate with their trust and even continuously buying our products neither in the present nor future. Thus, it generates a competitive advantage for the particular company compared to the others.

To win the customers' advocacy in long-run, Lenovo products must also maintain the highest quality that always exceed and meet the standards of demanding customers and industries or else they will not hesitate to choose for a better product from our competitors.

3. 3 Human Assets and its impact on Customer

There is a positive correlation between satisfying employees and meeting external customers' needs. A good employee is an essential part of the business success, for their contribution in product development, research and development, marketing and even customer services. For better productivity, we need productive employees. Without productive employees, the organisation can't develop further. Thereby, the need to maintain and retain the right labour force is, similarly, a most important goal of organisation.

A culture of 'reward related to contribution and performance' should be practiced. It makes clear that people will be paid not simply or on basis of 'time worked' but on the basis of 'performance', 'contribution' and '

participation' in the organisation. Johnson (1993) even mentioned that: "Employees who are not treated correctly cannot be expected to treat external customers differently". Reward systems increase individual's motivation. Employees perceive that their efforts and performance will be justly rewarded. Hence, motivation theories which underlie remuneration and reward strategies, is an important consideration for management.

While PC industry has been so sensitive, its development is heavily based on human's creativity. Organisation shall encourage its staff to participate in its processes and to contribute their ideas and experiences for product and service improvement and development. With enhanced products and services, customers will enter into long-term relationships and likelihood the customers' loyalty increases.

As conclusion, organisations such as Lenovo has built its name in PC market, product and after-sales service quality excellence will be the only key to retaining their customers' loyalty. Competitive advantage can only be realized if Lenovo ensure that its products are competitive enough to fulfil the greedy demand of ICT technology; efforts in marketing strategy while not jeopardize services to meet the customers' expectations. The best approach is to ensure the overall aim of Lenovo to work towards the improvement of rate of customer retention.