

# Key success factors for lenevo core competence of lenovo



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Lenovo has its own unique core competence generating Competitive advantages. If we carefully review the unique business development history of Lenovo, it is not hard to track that what are the sources of Lenovo's competitive advantages, and how these core competence have been built up, and to estimate if its competitive advantages are sustainable for its ongoing global expansion. In Lenovo's early stage, it has some advantages from its parent. ICT supported Lenovo by providing ICT's facilities free of charge; Legend used ICT's name for doing business and then gained the strong support of government. These can be seen as supportive elements for building core competence. (Liu, 2005)

### **The Ability of Learning**

Lenovo presents a significant ability of learning for capability development can be regarded as one of its core competence. An important source of learning was its customers. Lenovo learned from its customers through its direct contact with customers and its extensive PC distribution network. Apart from carefully observing customer purchasing habits, Lenovo actively sought out customer help to guide its product and service development. (Xie & White, 2004).

Another source of learning was from those multinationals. As mentioned earlier, even while it produces its own brand, Lenovo learned a lot from HP, IBM and Compaq such as marketing and management skills, personnel training, product design and customer services. (Xie & White, 2004).

The third source of learning is its internal R&D activities. They attained the awareness of that proper R&D activities should be combined with the

engineering, and manufacturing, instead of purely pursuing cutting-edge technologies such as large-scale integrated circuits and digital switches (Xie & White, 2004).

— A related view in terms of learning is that developing countries' MNCs develop their advantages through the accumulation of technology and skills. Tolentino (1993) claims the importance of the accumulation of technological competence in the expansion of firms from developing countries.

### **The Capability of Competing on Price**

Another core competence is Lenovo's super capability of competing on the basis of product price. An article in Wall Street Journal (1997) points out that the prices of Lenovo's products are only roughly two-thirds of those of foreign brands. Lenovo successfully maintained a lower cost structure than multinationals, (Liu, 2005)

Firstly, the management costs of Lenovo are lower than those of its competitor's especially foreign firms doing business in China. (Liu, 2005) .  
Second, owing to more foreign component producers such as Seagate (the no. 1 hard driver producer in the world) have established manufacturing operations in China, Lenovo and other Chinese PC makers benefited from cost savings of cheaper components purchasing. Apart from these above, Lenovo constantly concentrated on the cost reduction in all activities including manufacturing, R&D, marketing, distribution etc. and accumulated great experience in this field. (Liu, 2005)

## **The Ability to Establish and Manage Effective and Efficient Distribution Network**

Among domestic and foreign IT companies, in Chinese market, Lenovo can be awarded as the no. 1 company with the best distribution network management. Lenovo have approximately 50 authorized distributors in each of the seven regions in China, and each distributor has its own reseller network. There are over 2, 000 resellers in Lenovo's distribution network. Additionally, it has 130 " 1+1" PC specialty shops in major cities. (Liu, 2005)

To be compared, IBM has no more than ten main distributors in some major cities. It could be imaged t hat how hard to manage and control such a huge network. But Lenovo has cultivated a positive relationship with its distributors by implementing a win-win strategy. Many distributors had grown with Lenovo over years. (Liu, 2005) Even when Lenovo constantly increased the depth and breadth of its distribution network, it never encountered any big conflicts among its distributors. The huge and effective network gives Lenovo much greater geographic coverage than either domestic or foreign companies in Chinese IT market. (Liu, 2005) Therefore, the ability of building and managing such huge distribution network and constantly exploring the potential of the network can be seen as another source of Lenovo's core competence. (Liu, 2005)

To be concluded, the abilities of learning, cost reduction and building and managing sophisticated distribution network are supposed to be the core competence of Lenovo. Additionally, in Chinese market, the brand name-Lenovo is also an important core competence of Lenovo. But in the context of global scale, the brand of Lenovo is still waiting for customers' recognition.

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(Liu, 2005) These core competences sustain Lenovo's success in domestic market. However, Lenovo is undertaking its new globalization strategy. The question is that if they can generate sustainable competitive advantages for global competition and what are the challenges of existing in its globalization process. The next section is the case study of Lenovo acquiring IBM PCD (Personal Computer Division) and the objective is to challenge its international expansion strategy and its core competence in the context of global competition. (Liu, 2005)

### **Giant Step of Globalization: The Acquisition of IBM PCD**

Lenovo group ltd. has completed its \$1. 75 billion purchase of IBM's PC Division, creating the third-largest PC vendor in the world and giving IBM greater entree into the rapidly growing Chinese market. According to the agreement of the acquisition, Lenovo will gain control of IBM's Think desktop and ThinkPad laptop brands, as well as the thousands of IBM PC customers. Lenovo is allowed to use the IBM name for five years. However, the new Lenovo will have a strong IBM presence. Many of the top executives have moved over from IBM, including Stephen Ward, the former vice president and general manager of IBM's PC Division and now CEO of Lenovo. Yang Yuanqing, president and CEO of Lenovo Group Ltd, will become chairman. In addition, 10, 000 of Lenovo's 19, 000 employees are former IBM's employees, and IBM will continue to provide service and support for the IBM products. Lenovo's headquarters will move to Armonk, New York, and IBM also holds an 18. 9 percent stake in the new company. (Burt, 2005; Daniels, 2005; Khanna, 2005; Dowling, 2005)

## **The Lenovo's Strategy for Global Expansion**

Apparently, Lenovo realized that there are not so much potential of Chinese PC market after becoming the leading PC maker in China. And becoming a real global player is the Urgent mission for Lenovo. A common view of firm's internationalization process is that the internationalization is the process of accumulating experiential knowledge and market commitment in foreign markets (e. g. Bilkey & Tesar, 1977; Johanson & Vahlne, 1977; Chang, 1995). Firms tend to start their internationalization process by exporting to countries with similar culture. (Sharma & Blomstermo, 2003).

Lenovo chose the most efficient way (the acquisition) for its global expansion and foreign market entry. The founder Liu Chuanzhi has such a comment on the acquisition in an interview (Chandler, 2004):

“ We have a \$3 billion business with 27% market share in China. There's not much room to expand. The global PC market is \$200 billion, so there's still a lot of potential. IBM has all the things we need. This deal brings us market share, Management know-how, technology, and international reach.”

The strategy decision to acquire IBM PCD has been given careful considerations in Lenovo. In 2002, Lenovo almost refused the suggestion of the acquisition approached firstly by IBM since the top managers of Lenovo thought it was too risky. (Chandler, 2004) But they also saw this as a great opportunity to become a global PC maker. After one year's consideration, analysis and learning from big multinationals, they understood the opportunities and challenges related to this deal and decided to implement this acquisition. (Chandler, 2004)

As Liu Chuanzhi said in the same interview as above:

“ As discussions progressed, we gained confidence that many of the risks we’d feared could be distributed or controlled. For example, we worried about losing customers. So we worked out an agreement that would allow us to continue using the IBM brand, to keep the IBM salespeople, and even to keep the top IBM executive as CEO. That gave us confidence we could give customers the same level of service and quality after the acquisition”.

(Chandler, 2004)

—The main advantage of acquisition is that it provides the fastest way to enter foreign markets and rapidly build the firm’s presence in these new national markets. Through the acquisition, Lenovo becomes the third biggest PC multinational of the world from a little-known Chinese PC maker and then makes a giant step forward of internationalization. (Chandler, 2004)

— Furthermore, acquisition provides the great opportunity to acquire valuable resources of the acquired company. Through the acquisition, Lenovo attains the IBM’s global market share, global management skills, top PC technologies and the outstanding ability of R&D, experienced managers and other personnel, and as Liu Chuanzhi mentioned, the

International reach. (Chandler, 2004) Lenovo appears great confidence on their ability of learning for absorbing these merits from IBM PCD. (Chandler, 2004)

— For example, IBM PCD was commonly regarded as the sophisticated expert in serving corporate customers, while Lenovo was significantly good

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at selling PCs in consumer market. Such a successful combination of these advantages of both sides will definitely result in great performance.

Additionally, Lenovo hopes that combining Lenovo's price advantage with IBM's engineering will deal with Dell's formidable threat (Forelle, 2005).

### **The Necessity to Form the Strategic Alliance**

Lenovo was known as one of China's most promising companies in the early 1990s, with its sales more than tripled between the year 1994 and 1998, and Asia's leading PC vendor outside Japan at the end of the 1990s (Lau, 2004a). However, before the declaration of the alliance with IBM, the company had encountered with obstacles for its further expansion and development. (Lau, 2004a). Though Lenovo is the largest PC maker in China with more than a quarter of the market share, it does little business outside the country. The increasing fierce competition from aggressive foreign rivals such as Dell and HP in the past few years in Chinese market has put further pressures on Lenovo's margins. (Lau, 2004a).

— Rather than just continue to concentrate on the domestic Chinese market, the decision to go global is a necessity for Lenovo at that critical time. Under these circumstances, Lenovo decided to form the deal with IBM to acquire its low profitability PC business with US\$1.75bn. According to the terms of the agreement, Lenovo pays US\$650m in cash and up to US\$600m in shares (which later changed to US\$800m and US\$450m share value), giving IBM an 18.9 per cent stake as well as shouldering US\$500m in debt; and IBM will become the Chinese PC maker's "preferred supplier" of support services and customer financing. For Lenovo's part, the acquisition

quadruples its sales to more than US\$12bn and expands its sales market  
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globally; besides being given the ownership of the Think family trademarks, Lenovo also gains the right to produce IBM-branded PCs under a five-year licensing agreement (FT reporters, 2004; Simon, 2004).

## **Motives toward Lenovo & IBM's Strategic Alliance**

Lenovo's takeover of IBM's PC division has been described as "snake ate the elephant", and the deal pulls Lenovo from the eighth-largest PC maker in the world to the third-largest just behind Dell and HP (Buetow, 2005; Ling, 2006; London, 2004).

— The motivations that drive the formation of the strategic alliance between Lenovo and IBM can be analyzed from two perspectives. For Lenovo's aspect, though Lenovo is the largest IT Company in China, its products are mainly within China. Michele Mak, an analyst at ABN Omro, once commented that "Lenovo's distribution network is its biggest problem, and it is not well adapted to serving the small and medium-sized companies who usually buy directly" (Lau, 2004a). Thus, in the first place, with an intention to expand its business globally, the firm needs a well-developed worldwide distribution network, which happens to be the advantage of IBM. As what has been announced by Lenovo, the agreement between the two firms includes broad-based strategic alliance under which Lenovo's products will be integrated into IBM's global service offerings, which also became the impetus to the deal.

— Secondly, as a world-leading company like IBM, it has specialized and advanced skills in sales and marketing functions, for Lenovo, the sales and marketing support, as well as the R&D support are significant and of a

necessity in its way to a multinational enterprise, which is also part of the agreement (Lenovo. com, 2007c).

— Thirdly, the use of IBM's globally recognized brand is an impetus to accelerate the alliance, and also perceived as a sweet victory for Lenovo. The local brand 'Lenovo', formerly known as 'Legend', will become more valuable in the market after its association with the 'ThinkPad' series of laptops. And also, Lenovo's right to use the IBM brand on the computers for five years adds more value and trustworthiness to the brand, as despite the fact that Lenovo is the largest PC maker in China and Asia, it is little known elsewhere in the world, even with the ownership of ThinkPad family trademarks, it can hardly divert the loyal customers from IBM to Lenovo (London, 2004). Furthermore, analysts said that the deal could enable Lenovo to cut procurement costs (Guerrera and Dickie, 2004).

### **The Performance after Acquisition**

— The fiscal report combining two months after the completion of the acquisition truly shows a magic turnaround of PCD (Ramstad, 2005) with a profit of \$33 million, while the PCD recorded a pre-tax loss of \$149 million before joining Lenovo. (Liu, 2005) Further, the latest fiscal report (The First Fiscal Quarter Report 2005/2006, Lenovo) reported on 11th Aug 2005 illustrates a great performance of Lenovo Group Ltd., with revenue up 234% from organic growth in emerging markets and PC business acquisition, EBITDA up 135% to HK\$829 million, pre-tax profit increased 54% to HK\$515 million, and profit attributable to shareholders up 6% to HK\$357 million. (Liu, 2005)

— However, this turnaround remains some strong arguments. Ramstad (2005) argues that

Lenovo gives no evidence of the sustainability of the turnaround and there are some accounting differences. Nevertheless, the fact is that Lenovo has achieved the first step of

Success. (Liu, 2005) The time will answer such questions such as whether the acquisition is successful or not, how Lenovo efficiently and effectively manage the global business, and

What is the final result of this acquisition? (Liu, 2005)

**From the reports in Lenovo's archive, the following critical success factors were identified in planning stage:**

1) Top management support: Believed to be critically important in the early stage to engender commitment, provide direction and resources. CEO of Lenovo and senior managers decided to implement ERP project in 1998 and invested 30 millions RMB in the project. (Tang, 2007)

2.) External expertise: In the planning stage, technology support and management consultancy was received from 38 vendors and consultants. Regarding to implementation plan and SAP process. Deloitte and SAP Corporation were participated in planning Lenovo's ERP system. (Tang, 2007)

3.) Project management: Detailed project plan was developed with the help from ERP vendor and consultants. Before the implementation, Deloitte

supplied with 'FastTrack' solution, business process re-engineering and module designing for Lenovo's ERP project. (Tang, 2007)

4.) Clear Goals: Project objectives and staged implementation developed. From senior manager's statement presented earlier, the goals of ERP implementation are support rapid business growth, address data sharing issues, and obtain a competitive advantage and new management techniques. (Tang, 2007)

5.) Balanced project team: Mix of IT professions and senior management. Project team consist consultants from SAP Corporation and Deloitte, IT professionals in Lenovo and heads of other departments (SCM, finance, sales and productions). (Tang, 2007)

## **Organizational System-Knowledge management**

— Lenovo Group puts priority on knowledge management, and established specific knowledge management department in 2003 to conduct planning and implementation of knowledge management of the whole group.

Cultivation and introduction of knowledge-type workers also achieve notable effect, and recruited a lot of talents acquainted with knowledge management knowledge and software.(Ming, \_ \_ \_ \_)

— At the beginning of 2004, Lenovo integrated knowledge management, information management and flow management to the flow management department. This integration makes knowledge management more executable not only more authoritative, but also practicable with feasible means, because the flow management department takes charge of deciding

posts, deciding flow and deciding organization, and enjoy authoritativeness within the company. (Ming, \_ \_ \_ \_)

When knowledge management and information system are integrated, knowledge management becomes more practical and feasible, and this orientation has made knowledge management play a more important role in the company. Because knowledge management and business execution are combined together, i. e. knowledge comes from business and should feedback to business, the flow requires that knowledge be turned over, then the authoritativeness is represented. As index management of the flow, including deciding posts, deciding responsibility and review, knowledge management is closely related with unfolding of various items of work of the company, not confined to simple knowledge management. (Ming, \_ \_ \_ \_)

## **System Design**

—Lenovo carries out knowledge management in four steps. The first step is the definition of knowledge. Lenovo has many business flow links or activities, the first step is to tidy up the business flow of the company, identify activities in the flow, find knowledge hidden behind various activities to form a knowledge map and expose the hidden knowledge(Ming, \_ \_ \_ \_)

— The second step is to conduct efficient classification over knowledge. Behind each post there contains corresponding contents of organizational management, once posts are set, the flow has been decided and it is hard to modify. Of course, this is based on alignment of knowledge. (Ming, \_ \_ \_ \_)

— The third step is to encourage staff contribute knowledge. In order to establish a knowledge management incentive system of vigorously  
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promoting staff passing on knowledge, Lenovo Group sets knowledge management as an index of assessing staff performance. Lenovo's knowledge management system includes assessment tools, using every piece of information of knowledge, the user shall have to give a score of appraisal. (Ming, \_ \_ \_ \_)

To a certain stage, Lenovo will conduct statistics to form a statement. In this way, according to the latest and most valuable knowledge ranking of every month or every week, staff members with most knowledge contribution will be awarded corresponding material incentive. (Ming, \_ \_ \_ \_)

## **Process of Implementation**

In the concrete process of implementation, Lenovo divides the whole process into four stages as follows: pilot & demonstration stage, knowledge integration & summarization stage, optimization & sharing stage and business audit stage. (Ming, \_ \_ \_ \_)

— First stage: pilot demonstration. Select pilot units and implement knowledge management. Explore problems and resistance arising out of the process of implementation of knowledge management and seek corresponding solutions, endeavor to pose a demonstrative effect on whole group upon knowledge management in pilot units. (Ming, \_ \_ \_ \_)

— Second stage: knowledge integration. Based on experience from pilot stage, divide the group into many teams and many project teams to swiftly promote various departments set up their own knowledge system. The main work is concentrated on effective classification, integration and issuing of current knowledge. This stage is not intended to pursue optimization of <https://assignbuster.com/key-success-factors-for-lenevo-core-competence-of-lenovo/>

knowledge system, and the key is to establish the primary knowledge system of the whole group as soon as possible. (Ming, \_ \_ \_ \_)

— Third stage: dynamic sharing. Operate knowledge management flow, realize dynamic running of knowledge database, and optimize incessantly the established knowledge system in the dynamic updating process. Promote learning sharing and help others solve problems, conduct knowledge quality assessment in the process of sharing and application, and implement knowledge contribution incentive measures. (Ming, \_ \_ \_ \_)

—Fourth stage: knowledge audit. Carry out audit over validity of each link of activities of the whole flow, and provide programs of improvement and promote management improvement. (Ming, \_ \_ \_ \_)

Lenovo recruits expertise of two types as map retrieving operation and flow management to conduct appraisal and testing over the system, and arrange quite a lot of human resources to update and maintain knowledge database. Each piece of knowledge has a valid period, and the system will retrieve automatically after the valid period to ensure constant updating of knowledge. (Ming, \_ \_ \_ \_)

## **Innovation and Entrepreneurship in Lenovo**

Lenovo, a prestigious IT company in China, is a shining example of entrepreneurship in China. It has achieved sustainable development in the highly competitive high-tech industry in the past decades. However, the development of Lenovo is zigzag but forward moving. (Bao, 2 \_ \_ \_)

— Lenovo developed the software and the Chinese character card, which helped the company to accumulate the necessary capital for its further development. In its eveloping period (1987-1988), Lenovo took up the most market share of the product through further research and development. Meanwhile, it began to act as the agent for the other international famous PC brands. In so doing, it learnt advanced international technology, and established its sales network. .(Bao, 2 \_ \_ \_)

— Then the company entered the third period (1989-1996). Both its software business and agency business achieved steady growth. Meanwhile, it started to develop the overseas market. Thus the company has become a company with technical industry, manufacturing industry and trade industry.

But soon, it faced the worldwide IT restructuring, its overseas sales declined, but Lenovo made a quick change. It started to manufacture the PC with its own brand instead of other international famous brands. This innovation brought rebirth to the company. .(Bao, 2 \_ \_ \_)

— In 1996, the company took up 10% of the market share and ranked the first place in China. The company smoothly entered the forth developed period (1997-2000), during which its PC business continue to enjoy steady growth. .(Bao, 2 \_ \_ \_)

According to the IPC market survey in August, 1998, Lenovo ranked one of the top three in Asia pacific area and its sales volume of household computers ranked the first place in the area. In 1999, its total sales volume reached RMB 9, 000 millions. All this indicates that Lenovo has developed into a large international IT company. .(Bao, 2 \_ \_ \_)

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— The fourth developed period laid a good foundation for the fifth period—the renovation period (2001-2007). With the competition of PC market becoming more and more fierce, the profit is getting smaller. Accordingly, Lenovo made some adjustment of the company structure. On one hand, it continued to do the PC business to achieve its scale merit; on the other hand, it developed the business in the fields of servers, mobile phone, IT service and e-commerce to seek new profit growth. Thus, Lenovo achieved phenomenal growth in this period. (Bao, 2007)

— Mr. Liu Chuan Zhi, the president of the company, made different innovations in different periods of the development of the company. In the starting period, he adopted “a layer structure”, a flat organization through which the company can enjoy rapid development. In the developing period, he changed the structure into “a ship structure” to adapt to the increasing scale of the enterprise. In the developed period, he adopted the “united fleet structure” for the company. And accordingly, he changed his leading style from centralization to cooperation, decentralization and coaching to meet the needs of the different periods of development of the enterprise. (Bao, 2007)

Mr. Liu projects his vision of the future and adopts both steady & forward moving strategies, through which Lenovo has won a lot of market chances. Besides, he shows his upbeat attitude at critical moments. (Bao, 2007)

— In 1992, the business of the company was not satisfactory in overseas market. Mr. Liu

Changed his strategy and focused on the market in China so that the company still achieved growth in difficult times. In 1999, the company failed temporarily in its transformation into an internet company. At the critical moment, Mr. Liu made a quick change and entered e-commerce field with the existence of former software business, which has proved to be a success. (Bao, 2002)

What's more, he is very strong in coaching, for he has successfully left his managing position to his successor. All this indicates that it is the entrepreneurship that led the company to one success and another. (Bao, 2002)

### **Strong lure of Brand opportunity**

Lenovo is a good illustration of the strong lure of brand, opportunity, and purpose. Its acquisition of IBM's personal computer operations, in 2005, made it the third-largest personal computer company in the world. (Ready, Hill & Conger)

— The IBM acquisition produced something of a halo effect for Lenovo, and Chinese workers felt pride that China had been able to buy part of an American business icon. Lenovo's brand was and is attractive to ambitious young workers with dreams of their own-people who are building careers and not simply looking for jobs. (Ready, Hill & Conger)

— Lenovo was an early standout for these rising stars. Lenovo also built a global perspective into its brand promise; to become a great company it would have to expand beyond its home market. That meant opportunity.

(Ready, Hill & Conger)

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— President and CEO Bill Amelio describes his company as a “stage without a ceiling for every employee”- worldwide. In a truly global spirit, Lenovo’s top-team meetings rotate among Beijing, Hong Kong, Singapore, Paris, and Raleigh, North Carolina. (Ready, Hill & Conger)

— Lenovo’s brand promise credibly communicates that nationality doesn’t matter; if an employee demonstrates capability and vision, there are no limits. The playing field is level. (Ready, Hill & Conger)

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— What makes Lenovo’s talent-tracking process work, however, is that the career maps are linked to key slots across the globe and accountability for the entire process rests squarely with line leadership, not with HR. Its employees are ambitious, and Lenovo needs to demonstrate that it is serious about developing their careers. (Ready, Hill & Conger)

6) Lenovo’s PCs can be priced competitively to those of Dell and HP without sacrificing quality or any features. Lenovo’s low cost advantage is never based on cutting R&D and low quality. (Ready, Hill & Conger)

Lenovo have improved its manufacturing efficiency by centralizing production in China where most of the components are made which will eliminate shipping cost before assembly. Further, as mentioned earlier, Lenovo can maintain a low cost of overhead. For example, before the deal, IBM PCD can achieve 24% of gross margin, but the net profit was negative

owning to its high cost of overhead. Meanwhile, Lenovo only has gross margin of 14% but with a net profit of 5%.(Ready, Hill & Conger)