

# Background and marketing strategy assignment

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**LENOVO COMPANY HISTORY** Lenovo Group Limited is today the largest information technology enterprise in China and the third largest computer company in the world which has an 8.6 per cent share of the PC market, after Hewlett-Packard at 15 per cent and Dell of the US at 16.8 per cent. During its first 20 years, Lenovo evolved from a small distributor of imported computers into China's leading computer firm and in 2005, it purchased IBM's division. Lenovo has been the market leader for seven consecutive years, commanding a 27 per cent share of the domestic PC market.

It is also the market leader in the Asia Pacific region (excluding Japan), with a market share of 12.6 per cent. Lenovo produces desktops, laptops, servers, handheld computers, imaging equipment, and mobile phone handsets.

Lenovo also provides information technology integration and support services, and its QDI unit offers contract manufacturing. Lenovo also offers Internet access through its FM365.com portal. Its executive headquarters are located in Beijing, People's Republic of China and in Morrisville, North Carolina, USA.

It is incorporated in Hong Kong. The Lenovo Company was founded in 1984 by a group of eleven engineers, headed by Liu Chuanzhi, in Beijing.

Originally known as Legend Group Limited and New Technology Developer Incorporated (NTD). With an initial capital outlay of only US\$ 30,000 they launched the NTD Inc. funded by the Chinese Academy of Sciences. NTD set up shop in a small concrete bungalow in Beijing with a mandate to commercialize the Academy's research and use the proceeds to further computer science research.

NTD generated early revenues by distributing imported computers such as IBM PCs to government agencies and large state-owned companies. The company initially began as a reseller, distributor and later CM for foreign brands, including IBM, entering the Chinese market. IBM Portable Personal Computer introduces its first portable computer in 1984, that it weighing 30 pounds. Then, IBM PCD introduces its first laptop computer in 1986, known by IBM PCD 5155 Model 68 that consists of a lightweight case with a carrying handle containing a built-in.

In 1987, IBM PCD announces the Personal System 2 Personal Computer (PS 2). The PS 2 was IBM's second generation of personal computers and was created in an attempt to recapture control of the PC market by introducing an advanced proprietary architecture. The company first original product was the Legend Chinese-character card in 1987, which translated English-language operating systems into Chinese. This also included a popular "association" feature that allowed users to form common Chinese phrases by typing in just a few Chinese characters.

Unlike competing software product, the Legend card was a piece of hardware that attached to PC motherboards, thereby saving valuable hard drive space. NTD bundled the Legend card with the imported PCs it distributed, achieving substantial first year sales of the card, which accounted for 38 per cent of company revenue and 46 per cent of profit. By the time Legend card popularity gave a boost to the PC distribution business and the firm won several new contracts, including one to distribute HP PCs in Chinaccc.

In 1988, Legend card receives the highest National Science-Technology Progress Award in People's Republic of China. In 1989, NTD was renamed Legend Computer Company. In the early 1990s, Legend started to manufacture and launched its own brand PCs into the market and selling 2,000 units that first year and 17,000 units by 1992. Legend then pioneered the home computer concept in China, introducing a line of home PCs and a retail network in 1993.

The Legend PC business division was formally established through a 1994 reorganization that coincided with the company's listing on the Hong Kong Stock Exchange. At age 29, Yang Yuanqing, graduated from Shanghai Jiao Tong University was appointed general manager of the new PC division. Yang eliminated the direct sales force in favor of a network of hundreds of local distributors. The reorganization significantly improved inventory turnover. Yang also slashed PC prices by 30 per cent to just above cost. By 1995, Legend was the world's fifth-largest manufacturer of motherboards.

In 1996, Legend introduced its first laptop model and marketed PCs carrying Intel's Pentium chip in China, undercutting prior generation competitor prices. Increased sales volumes brought down costs dramatically, allowing Legend to make a profit while overtaking IBM as China's PC market leader with 7 percent market share. In 1997, Legend signed an intellectual property agreement with Microsoft and formed an alliance with IBM for the distribution of IBM software products in China, allowing the firm to sell PCs with pre-installed IBM software.

By 1999, Legend was China's PC market leader with 21.5 per cent share. In addition to exporting Legend PCs, the firm continued to distribute foreign-branded PCs in China, and the combined sales made Legend the number one vendor of PCs in the region. Its 9.1 per cent market share for PCs topped IBM's and Compaq's share in Asia. The company was forced to change its English brand name from Legend to Lenovo in 2003, because the former had been registered in various sectors in many countries, making it difficult to promote the brand overseas.

The new name, combining the Le of Legend with the universally recognised Latin prefix signifying newness, is intended to build an innovative image for the group worldwide. Lenovo made a first attempt in internationalization in 2001, opening of seven overseas offices. Three years later, overseas sales accounted for less than 3 per cent of total revenue, whilst share of the domestic market slipped from more than 30 per cent to 27 per cent. In early 2004, the company announced its decision to concentrate on the domestic business, disguising a retreat from the international markets.

In a surprise move later in the same year, the company made the strategic choice to expand abroad and bought IBM's PC division for USD1.75 billion in cash, stock and assumed liabilities in order to facilitate this transition, forming a USD13 billion startup capital. The acquisition of IBM's ThinkPad brand represented a shortcut to brand building for Lenovo and provided the firm with an unprecedented global presence and access to new technologies and designs. The company had become the biggest PC manufacturer of domestic and distributed third party products through its wholesale business.

As of October 31, 2008, 50.4 per cent of Lenovo is owned by public shareholders, 42.3 per cent by Legend Holdings Limited, 6.6 per cent by Texas Pacific Group (TPG Capital), General Atlantic LLC and Newbridge Capital and 0.7 per cent by the directors. Because the Chinese Academy of Sciences, a Chinese government agency, owns 65 per cent of Legend Holdings, effectively the Chinese government owns 26 per cent of Lenovo and is the largest shareholders. IBM became the owner of 18.9 per cent of Lenovo in 2005 as part of Lenovo's acquisition of the IBM personal computing division.

Since then IBM has steadily lowered its shareholding in Lenovo. In July, 2008, the IBM shareholding went below the 5 per cent reporting disclosure threshold. Lenovo acquired rights to the IBM brand for five years. It is relocating its world headquarters from Beijing to Armonk, New York, and will be responsible mainly for design, sales and service. Thus, Lenovo acquires a world-class brand name, whilst IBM is free to concentrate on its high-end computer business.

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## MARKETING STRATEGY

In formulating global marketing strategies, the marketers of the company must be keenly aware that consumers in different countries and parts of the world may have different cultural values, living conditions, and ways of purchasing and using products. Failure to do so may lead to strategies that are ineffective. Lenovo use the which relies on how their business customers view and rate their products. This strategy helps the company to get constant feedback about their product, and then try to achieve customer's

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requirements and give products the support needed in order to establish a strong support system.

This strategy also helps to strength the relationship between the company and client. Branding Strategy Lenovo in the field of development of brand image use some marketing tools such as increasing communication spending, improving quality control, emphasizing corporate social responsibility visibility and by seeking a partnership through mergers/acquisition with successful foreign brands. Lenovo became a “ corporate brand and a master brand” (Kotler and Pfoertsh, 2007).

In May 2005, it selected Ogilvy & Mather to handle worldwide brand advertising for Lenovo for a campaign of integrated marketing communication that would include online ads, event sponsorships and TV in addition to print. They are also using one worldwide tagline “ New World, New Thinking”. In March 2004, Lenovo joined the Olympic Partner Program of the International Olympic Committee (IOC) as the first Chinese company to become the computer technology equipment partner of the IOC for the period from 2005 to 2008.

A Beijing 2008 Olympic partnership will give Lenovo a tremendous opportunity to communicate to billion of TV viewers on a par with prestigious global brands such as GE, McDonald, Samsung, Panasonic or Kodak. The charismatic personality of Mr Yuan Yuanqing, elected “ 2004 Man of the year in Asia” by China Central Television (CCTV) will promote the image of the brand through a macro-marketing process.

Yang Yuanqing has implemented the transfer of technology to build a global brand through several spectacular actions: ??? Launching advertising campaign with the combination of corporate names of Lenovo and IBM and retaining the ThinkPad and ThinkCentre brands. ??? Appointing the head of IBM PC and then switching to Dell former Asia VP Amelio, as CEO of Lenovo. ??? Designating English as Lenovo's principal language for business communications within Lenovo. ??? Establishing the world HQ of Lenovo in the USA at the headquarter (HQ), of the former IBM PC division.

The senior executives team was composed of a mix of Chinese and American citizens. As *The World is Flat* puts it: " would you call that an American or a Chinese company or just a global one? " (Friedman, 2005). ??? Strong quality requirements aiming at zero defaults as testified by Vladimir Djurovic, CEO of Labbrand brand image consultant from Beijing (Fontaine, 2007). ??? Sport sponsorship in another component of the communication strategy of Lenovo. They now sponsor the Washington Redskin hockey team in the USA, a baseball team in Japan.

The technology transfer that Lenovo has benefited after IBM ThinkPad acquisition has also helped some other Chinese computer manufactures as an illustration of the horizontal spillover theory (Wang IV and Zhao, 2008). Lenovo's global branding strategy uses the four characteristics with quality requirements as the " physical" characteristic, CSR as the " intellectual" aspect giving satisfaction to the users that they make a good choice, brand images as the " emotional" element and finally the three previous components link together by an aggressive communication policy. Internal and External Environment The SWOT Analysis | | | Strengths | Weakness | | <https://assignbuster.com/background-marketing-strategy-assignment/>



National image (China) | Poor brand perception (Global) | | Strong sale position in mainland (China) because of 90 per cent | No pure electronic sales | | sale from it | Low inventory turnover | | Market leader in China as Lenovo is learning more revenue from | After-sales services ??? Not adequate | | the mainland | Limited knowledge of global market | | Low production cost | | Event sponsoring | | Good marketing and distribution strategy | | | Strategic alliance with suppliers | | | Distribution channel | | | Strong research and development | | | Mass manufacturing capability | | | Quick responsiveness | | | Knowledge about local market | | | | | Opportunities | Threats | | PC sales are expected to grow | Competition threats from local and international competitor | | Fast growing international market | Price war | | Signing of memorandum of understanding with USA | Maturing market | | Specialty shops providing one stop platform for distribution | International competitors forming alliance with local competitors | | Import barrier | Threats of price competition with clone PC makers | | Increasing global demand | Heavy competition | | Internet boom | Industry reaching maturity | | Growing wireless PC market | Software piracy and clone market | | Government's association | Little firm's growth | Market Segment Strategic Alliance Analysis [pic]