

Lenovo: Competitive Strategies for Dominance In the Corporate Market

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Executive Summary

In recent years, the personal computer manufacturing company Lenovo has utilized unique competitive strategies to achieve a rapidly increasing share of the computer and notebook market. After acquiring the IBM brand name and laptop division, Lenovo soon became a major player in the corporate market, inheriting along with IBM's notebook division technology and executive staff a reputation and branding that allow Lenovo a 19% market share in the international corporate notebook computer market.

However, Lenovo is continuing to optimize their strategies for competing in a market dominated by major players Hewlett-Packard and Dell who account for 21% and 54% of the international corporate market, respectively. In the next year, Lenovo will be losing the rights to use of the IBM branding on their Thinkpad notebook series. This poses an interesting strategic problem: how can Lenovo continue to improve their share of the corporate notebook computer market once it has lost the IBM brand name?

In this paper, we attempt to address this issue and analyze Lenovo's outlook critically, making the following important strategic suggestions:

- Lenovo should concentrate effort on outperforming competition in the high-end market, maintaining the Thinkpad brand identity for quality products
- Lenovo should begin marketing mid-range laptops along with the Thinkpad to corporate clients, becoming a "one-stop shop" for a company's notebook needs, providing top of the line Thinkpads to executives, and a range of less expensive but similarly high quality products to lower spectrum employees.
- Lenovo should considering spinning off a company to market their high-end Thinkpad line under a brand name that might not raise suspicion about quality.

Introduction

Background

Lenovo Group is a Chinese person computer manufacturer that has grown to be the third largest personal computing company in the world. Since its acquisition of the IBM Personal Computing Division in 2005, Lenovo has been a player on the international stage, expanding operations rapidly and seeking to develop an international reputation for the Lenovo brand name. By 2006, Lenovo had acquired and set up significant investments and centers in the United States, and had begun marketing Lenovo branded products outside China for the first time.

An internal analysis of markets for both notebook and desktop sales shows that Lenovo continues to manufacture and sell about an equal number of laptops and desktops each year. Roughly half the sales of Lenovo products (including IBM branded products) continue to be sold in Asia, while the rest are relatively evenly split between sales in the Americas and in Europe.

In recent years, it has been the stated goal of Lenovo Group Chairman to “challenge perceptions of Chinese companies as mainly producers of cheap, low-end products.” Lenovo has begun marketing high-end models of notebooks under the IBM brand, like the ultra-thin ThinkPad X300. As a result, Lenovo has not rolled out a range of low-end products outside of China. However, Lenovo has plans to release a wide range of products, at both low and high-end levels.

International PC Market Viability

Despite the slowly growing PC market in the US, the corporate market continues to demonstrate a healthy growth rate. The total corporate market size in the US grew from \$664 billion in 2004 to \$778 billion in 2007. Dell, HP, and Lenovo have dominated the corporate desktop and laptop market with 87% of enterprises purchased their desktops and 84% of enterprises purchasing their laptops from these three manufacturers in 2006, and the trend is expected to be the same in the next two years.

Customers

Customers in the corporate PC span the range from small and medium-sized businesses to large enterprises. Desktops have dominated the enterprise computing arena for decades because they are cheaper, more powerful and easily upgraded and repaired. However, increased needs for mobility and rapid increase in laptop performance-to-price ratios have resulted in a recent upswing in the share laptops have in the corporate market. Even as performance and price remain priority, additional factors like energy-efficiency, size, weight, and noise have become increasingly important. The ratio of desktops to laptops evolved from 75/25 in 2004 to 70/30 in 2006 and desktop managers reported in 2006 that their laptop usage plans over the next two years were 1.5 times greater than their desktop usage plans.

Brief Competitor Profiles

Dell is currently the top enterprise desktop and laptop supplier in the world. Dell supplies both desktops and laptops to more than half of North American and European enterprises, doubling its closest competitor in both notebook and desktop PC sales. In North America, Dell is winning 60% of the desktop and 58% of the laptop market.

Dell's strengths lie in its low prices and product support. However, low R&D budget prevents Dell from producing new innovative products.

HP maintained its solid No. 2 desktop supplier status and recently overtook Lenovo for laptops, supplying desktops to 27% and laptops to 21% of North American and European enterprises. HP has also improved significantly year-over-year, especially across laptops. It gained 6% in the North American enterprise laptop market and 5% in the European enterprise laptop market in the last year. These gains will continue, since HP recently refreshed its entire lineup of Intel-based laptops in 2007 with Intel's Santa Rosa release. However, HP is behind in product quality and product support, according to surveys of customer satisfaction.

Statement of the Problem

Lenovo faces major obstacles to dominance both in the strength of its current competitors as well as in its impending loss of the IBM brand name for ThinkPad products. In this project, we seek to analyze and optimize the utilization of Lenovo's current borrowed brand image and to offer plans for Lenovo's future to achieve an improved share of the corporate market for notebook computers over the next several years.

Porter's Six Forces

We can use Porter's Six Forces to analyze the state of the current international corporate PC market to get a better sense for the environment in which must approach our problem.

Threat of New Entry

With the growth of the PC corporate market, there are foreseeable potential entrances in this market. However, the entry barrier is relatively high – enterprises generally seem to be satisfied with their current notebook providers, with little incentive to look beyond their current suppliers. However, in technology markets, it is generally considered a constant possibility for a new company to leapfrog the competition with a new invention. As a result, existing companies are rigorous about attracting new engineering talent and attempt to use complementing to make major changes in IT providers unprofitable. This is a significant reason that Dell, HP and Lenovo maintain their dominant positions in the corporate market.

Buyer's Bargaining Power

The buyers' bargaining power in this market is relatively low in this market, since the customers are enterprises, which purchase bulk volume of PCs to their employees. The cost to switching to another PC suppliers is high to our customers, and the RFP process consumes too much of the office of the CTO's, PC sourcing analysts', and desktop managers' time. However, improving product and service quality, offering extra features and maintaining strong customer relationship is still key to success.

Supplier's Bargaining Power

This does not apply to Lenovo, who manufactures its own materials to a great degree – mainly, raw materials like boards and chips have reasonably standard prices.

Substitute products

The most probable substitute products are ultralight laptops and ultramobile PCs. Despite the heavy advertisement of these products in the media, enterprises don't see them as useful to their organization. These products tend to be produced as a fashion statement, which get more attention from younger customers. The consumer market is more promising for these products.

Rivalry

Currently, there are three major players in the PC corporate market, Dell, HP and Lenovo, which take up around 90% of the market share. According to the customer satisfaction survey, there are relatively few differentiations among these top three players in terms of product features and product quality. While Lenovo has the best product support and strongest business relationship with customers among the three, for Lenovo to catch up with the other two competitors, keeping the brand name is the key, especially when the IBM trademark rights are lost.

Complements

The complements for PCs include operating systems, software and hardware that will be used most by our customers. By integrating complements into their products, PC manufacturers are able to meet more customers' needs, increase satisfaction and potentially reach out for more customers.

SWOT Analysis

In order to get a better sense for Lenovo's outlook in terms of the corporate market and the impending loss of the IBM branding, it is helpful to analyze the company's strengths, weaknesses, opportunities and threats in terms of the problem. These key parameters are summarized here.

Strengths

Lenovo's major strengths lie in its current brand image and market share. On the international scale, Lenovo ranks third in corporate sales behind Hewlett-Packard and Dell. It shows tremendous capability for improvement, however, due to its clearly superior reputation for high quality, high end products inherited from IBM. In addition, executives maintained from IBM's notebook division provide the valuable experience that a relatively new foreign player normally would not have in the corporate (especially US) market. However, Lenovo already has a strong base in China, with a 29% share of China's PC market.

There is limited competition for existing IBM/Lenovo corporate customers, because of existing reputation and connections formed by transferred IBM staff. The historic brand image and continuing innovation in the high-end market makes products like the ThinkPad X300 a "must-have" for a CEO to show off and use. The strength here lies in the capability for creativity in producing a high-end product with all the bells and whistles necessary for a corporate executive.

Lenovo provides a highly versatile notebook product line, in addition to its high-end ThinkPad. As a "one-stop shop" company, Lenovo shows promise – its product lines covers mid to high end products, now supporting Linux products. In addition, in-house manufacturing specialization allows for lower marginal costs – this leads to a more competitive position for a price war.

Weaknesses

Since Lenovo is a new player in the international stage it has plenty of weaknesses in its outlook. In general, its team has less market knowledge than local experienced players in the US market like HP and Dell. Lenovo has just begun to develop its service team in the US – it still manages to provide top of the line customer service, but the system is not optimized.

Lenovo's major weakness, however, is in the stigma associated with Chinese products and companies with a reputation for skimping on quality to achieve low costs. A customer in the states is likely to mistrust the Lenovo brand in favor of the more well-known and trustworthy, American IBM logo. It is this weakness that Lenovo must overcome in the next year as the IBM branding disappears from its products.

Opportunities

With low marginal costs and a wide product spectrum, Lenovo has the opportunity to become a one-stop powerhouse in the corporate market, providing high-end executive computers with the IBM ThinkPad line, and high-quality, middle-spectrum computers for lower level employees on the corporate ladder. In addition, a developed electronics department allows Lenovo the opportunity for creating synergies between corporate add-ons like cell phones and Pocket PCs.

Threats

In general, the weakness of the US economy and the dropping value of the dollar might pose a threat to Lenovo's growth. Rivalry between Lenovo and other companies in the corporate market like HP and Dell already pose a significant challenge, but Apple is showing a growing strength in the corporate market that must be addressed as Lenovo seeks to become the dominant international corporate player.

Strategic Analysis: Competitor's Strategies

Dell Inc.

In 2007, Dell had a \$60 billion global business with a customer base and an installed base of more than 200 million units. Dell's major strengths lie in its direct order business model and in its current power in the market; with close to \$10 billion in cash and about \$1 billion a quarter in cash flow Dell is a world-renowned brand and is currently the number one choice of enterprises around the world. The direct order business model cuts costs for retailing and provides a highly customizable product. These features are ideal for marketing low and middle spectrum computers to companies, a strategy that has resulted in Dell's success

Dell's weaknesses, however, also lie in this direct order business model. Customers have no physical sense for the product they're buying, resulting in dissatisfaction with the often clunky, utilitarian look of new Dell products. It is this aspect that makes Dell's attempt at "high-end" computers susceptible to the ThinkPad brand – Dell's computers lack both the reputation and quality (number of features and reliability) that IBM's ThinkPad came to epitomize.

In recent years, Dell has attempted to capture the minds of IT professionals at corporations by providing services for data management, even though it seems to have been slow to react to demand. Dell has become a major reseller of VMware, the dominant brand of virtual machine software used to juggle operating systems and applications on a single server.

Hewlett-Packard Co.

HP's major strengths in the notebook market lie in its overall size and power as a company. Its dominance in the printer market and general knowledge of marketing and sales in the IT market should give it an advantage in developing complements, brand images. Compared to other companies, however, HP has been noted as weak in marketing, distribution speed, and costs. HP attempts to provide the latest technology available by keeping inventory low and making large orders as they come – as a result,

their costs are higher on average than their competitors for production of similar quality products.

HP's strategies in recent years have included the acquisition of struggling computer giant Compaq, making HP the largest consumer hardware company in the world. They have attempted to maintain and expand their market power by expanding into new markets (especially newly growing Asian markets) lobbying and working with other multinational corporations, NGOs, and governments to enhance their competitiveness both in the US and abroad, claiming in one of their press-releases to be "supporting free-market economies." Recently, HP announced plans to expand its operations to cover retail and manufacturing in over six-hundred Chinese Cities.

HP's most successful strategy in recent years has involved the interfacing of HP notebooks and computers with HP server systems through use of heavily marketed efficiency software that also is advertised to provide convenient tools for financial management and leadership. HP has also invested heavily in stylish ergonomics, following Apple's cue.

Apple Computer Inc.

Apple is an established and healthy IT brand in the international market today, with a loyal set of enthusiastic customers who advocate their brand strongly. Apple's strengths in the consumer market have begun to seep into the corporate world as well: in the corporate market, Apple makes use of their favorable brand perception for style, safety, and ease of use. Apple has been intelligent about providing solid technical support on which Lenovo's current system is modeled.

Apple's weaknesses in the corporate market lie in a reputation as a consumer product, filled with flashy multimedia applications that slow down the computer and are unnecessary for an executive's business computer, and counterproductive for lower level staff. The Apple system is still not optimized for use with the Windows operating system, and is thus not as easily used with the majority of applications published today. Most importantly, Apple has yet to penetrate the corporate market significantly. Current

barriers to entry put up by Lenovo, HP and Dell may prevent Apple from taking a significant bite out of the current market.

Recently, however, Apple has sought to attack the corporate market through the marketing of complements that work better with Apple notebooks, featuring the iPhone as a replacement for the traditional executive's Blackberry.

Strategic Analysis: Responses and Competition for Lenovo

Product Differentiation: Wider Quality Spectrum

Lenovo has the opportunity to provide a broad spectrum of services to the corporate market. With a reasonably high-quality, low cost series of computers in the Lenovo 3000 line, **Lenovo can attack the same niche in the corporate market that allows Dell more than 50% of the market share:** providing not only high-end notebooks and computers for executives, but also mid-spectrum machines for non-executives; people who don't need to use the top of the line ThinkPad. In doing so, Lenovo has the potential to become a "one-stop shop" in the corporate market. At the same time, however, Lenovo needs to continue to focus on providing the most features in their high-end machines, ensuring that they maintain the reputation that the high-end ThinkPad series has built. An executive purchasing a computer is less likely to worry about a hundred dollar difference in prices than about the number of features a computer provides.

Apple's response to Lenovo's top-end products seems to have been to provide a lower cost product on purpose (undercutting) but only by skimping on quality. The MacBook Air, for instance, is intentionally priced at \$100 less than the similarly lightweight, but more feature-intensive ThinkPad X300. Since Lenovo's target is the corporate, rather than individual consumers this should be to our benefit. A worst case scenario in response to this suggested attack of the mid-spectrum market results in a price war for this market. This is difficult to avoid – by minimizing marginal costs, Lenovo can hope to "win" the price war and hurt its competitors in the process. Lenovo's in-house manufacturing expertise will serve to give them the upper hand against a company like Dell in providing

to the less-than-high-end corporate need. It is this advantage in marginal costs and the existence of Lenovo's lower end 3000 line computers that makes this attack a wise choice.

Complements to Compete with Apple and HP

HP and Apple have begun to demonstrate success in the marketing of complements in server interfacing technology and efficiency equipment, respectively, in the corporate market. It is likely, however, that if Lenovo were to **partner with IBM to produce a complement with IBM server technology**, both companies would stand to gain: while it is not in IBM's interest to make their servers solely compatible with Lenovo products, cooperation to optimize interfacing makes both products more desirable for customers. HP demonstrated that the software interfacing they introduced for their server systems increased productivity and popularity of their product in the corporate market. This same model, if applied to an IBM-Lenovo cooperation, might result in both continued positive brand identification for Lenovo, and an increase in popularity for both products – IBM already has a significant brand name for its server technology, on which Lenovo would likely be riding. While it is a much vaguer suggestion, Lenovo should also attempt to use their significant base as an electronics manufacturer and retailer to develop complements to their products that appeal to executives, modeling efforts after the ease with which Apple's iPhone interfaces with Apple computers.

In both these instances, we must hope that Lenovo's complement is more attractive or cheaper to executives than competing products – otherwise, such attempts are likely to fail to a similar extent that HP and Dell attempts at products like PDAs have failed. An improper method of complementing the device that makes the device is most likely to cause the synergy to fail. The device might be too dependent on purchase of a Lenovo notebook, resulting in an inability to generate widespread demand for the product making it an ineffective draw for Lenovo products, or not dependent enough on such a purchase, resulting in an ineffective pairing.

Strategic Analysis: Currently Successful Strategies

Marketing

There are two main focuses for marketing to the corporate market, both seeking to address the major concerns of corporations in computer purchases: functionality and need for service. These are addressed through the relationship model and transaction model for marketing. The relationship model involves retaining customers with continuous innovative products and satisfying customer service – by maintaining a solid customer base and providing them with consistent quality and support, Lenovo will build a reputation that will earn it more customers. IBM consistently did this in the past, so Lenovo's first concern is **maintaining the same standard of quality, innovation and service** that IBM provided.

The transaction model involves making new business deals by spreading to new potential markets. In this sense, Lenovo uses China as its base for expansion, capitalizing on the low cost of manufacturing as well as the fast-growing market which allows the company to create enough revenue to support development in markets around the world. While companies such as Dell and Hewlett-Packard are trying to penetrate the Chinese market, Lenovo is trying to break into the international market out of an established base in the wide Chinese market.

Management

Lenovo's major move to provide proper organized and experienced involved hiring a large number of IBM's former notebook executives in order to transfer the culture and structure of IBM in their company. Chairman Liu Chuanzhi is known for having a thorough approach to decision making. His management team studies other leading firms and reads foreign management journals. There is a strong commitment to learning and copying successful techniques within the company that should lead to a versatile company in future climates.

IBM Branding

Lenovo has made full use of the IBM name, barely associating themselves with the IBM product until very recently. This may have set them up for failure once their rights to the IBM title expire at the end of this year and they lose their brand recognition, but while it was used, the IBM name helped Lenovo maintain its solid base with customers in the corporate market. Recently, Lenovo has emphasized the brands “ThinkPad” and “IdeaPad,” establishing these as the definition in high-end products, separating them from the IBM name as much as possible. Once Lenovo can no longer brand their product with the IBM name, they may depend instead on recognition of the ThinkPad and IdeaPad.

Customer Awareness

Lenovo makes an effort to make sure that the Lenovo brand is well known and trusted as it continues to grow and produce computers in the international market on their own name. Co-branding, where two companies work together to create marketing synergy, can be used to great effect here – Lenovo’s sponsorship of the Winter Olympics in Turin and the Summer Olympics in Beijing have served to continue to establish the Lenovo name as one that is trusted in general, just as the IBM name was.

Conclusion: Lenovo Should Split and Diversify

In order to help maintain the positive brand identity of Lenovo’s, we therefore suggest that Lenovo not only begin to provide a wide spectrum of qualities of product but also that they form two separate companies for the marketing of these different products. The main focus of this diversification will be to attack the mid-spectrum corporate market and provide a wider spectrum of solutions for corporate customers, making a direct play for the products that have made Dell dominant in the market. It is likely, however, that an association of lower-quality Lenovo products with ThinkPads will diminish the ThinkPad reputation and lose customers in the long run. In order to attack the Dell market safely, without diminishing existing profits in the high-end corporate market, the ThinkPad should be marketed through a spin-off company centered in Silicon Valley – the reputation of such a company centered on marketing the ThinkPad would hold up much

better than the current apparent strategy of marketing both Lenovo and ThinkPad products under the same brand after the loss of the IBM brand name.

We also concluded from our research that the American corporate market is a slow growing market to focus on. While we chose the corporate market as the focus of our project because of IBM's reputation for providing high quality notebooks for corporate executives, a much more rapidly developing and high-potential market is the **Asian consumer market**. Lenovo already has a significant base in the Chinese consumer market, but Apple, Dell and HP are all moving into this and other Asian markets rapidly. Recently, Lenovo stole several of Dell's Asia executives to prevent competition for the market, and the introduction of Dell's IdeaPad system, a high quality ThinkPad like notebook that rivals Apple for multimedia and personal uses seems to be Lenovo's strategy for the consumer market. Lenovo brands new IdeaPads and ThinkPads with neither the IBM nor the Lenovo logos, though new users have already complained that the IBM logo is conspicuous in its absence on these new systems.

In the corporate market, Lenovo therefore should focus on attacking Dell's main source of corporate income by providing a more desirable mid-spectrum product under the Lenovo branding, and maintain its high quality executive reputation by continuing to provide the most features under a ThinkPad branding kept separate from the Lenovo image. While the corporate market in America may revitalize with the end of the current recession, Lenovo should also focus on expanding in the Asian consumer market, which seems most ripe currently for notebook sales.

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