

STRATEGIC ANALYSIS OF LENOVO COMPANY

Vinnytsia National Technical University

Abstract: *This report provides a comprehensive analysis of Lenovo's strategic journey, divided into distinct stages: its initial development, the pivotal IBM acquisition phase, and the current period. During its formative stage, Lenovo embraced diversification and multi-channel strategies to mitigate risks, diversifying into various industries. However, these moves led to financial challenges and diversion from the core PC business. In the subsequent phase, Lenovo's acquisition of IBM's PC business resulted in a dual-brand approach, emphasizing quality, and leveraging low-cost and differentiation strategies. This period marked a significant rise in brand recognition and profitability for Lenovo. The present stage witnesses Lenovo's adoption of a "protect and attack" strategy. The company aims to safeguard its core markets and explore emerging ones while emphasizing new business segments to maintain sales growth. These strategic shifts reflect Lenovo's efforts to adapt to changing markets, leverage core competencies, and maintain its competitive edge.*

Keywords: Lenovo, Strategic Analysis, SWOT Analysis, Core Competencies, Strategic Shifts, Business Development

Lenovo Group Limited was founded in 1984 with an initial investment of 200,000 RMB by the Institute of Computing Technology of the Chinese Academy of Sciences and 11 technology professionals. At that time, it was known as the New Technology Development Company of the Institute of Computing Technology of the Chinese Academy of Sciences. In 1989, Beijing Lenovo Computer Group was established. Lenovo primarily manufactures desktop computers, servers, laptops, printers, handheld computers, motherboards, mobile phones, and other products. In 1996, Lenovo's computer sales ranked first in the domestic Chinese market for the first time. On April 1, 2004, Lenovo Group changed its English name from "Legend" to the current "Lenovo." In the same year, Lenovo acquired IBM's PC division for 1.75 billion USD (1.25 billion USD and 500 million USD of IBM's debt) and obtained the right to use the IBM brand for five years, becoming the world's third-largest PC manufacturer. In May 2005, Lenovo completed the acquisition of IBM's Personal Computer Division, marking the birth of the new Lenovo. In January 2011, Lenovo announced a joint venture with NEC Corporation to form the largest personal computer group in Japan, with the group's sales revenue in 2010 approximately at 21.594 billion USD. In June 2011, Lenovo acquired German personal computer company Medion for 670 million USD.

Let's make a PEST Analysis of the company.

Political and Legal Factors.

China is a developing country that promotes development through technology. We are currently in the era of information technology, where countries worldwide are competing in the development of the information industry. The level of information technology development is used as a benchmark for the speed and scale of national development. Therefore, China has put forward the policy of "strengthening and expanding information technology," encouraging Chinese companies and research institutions to invest more intensively in the information industry. This environment is generally advantageous for Lenovo Group, as it fosters

growth. To stimulate domestic demand, China launched "home appliances to the countryside" and "trade-in old for new" activities in 2008 and 2009, which included computers. The government provided a 10% fiscal subsidy to the winning home appliance manufacturers and implemented energy-saving subsidies. These policies have eased Lenovo's path for development.

Economic Factors.

The impact of the 2008 economic crisis has gradually diminished, and despite ongoing economic turbulence internationally, China is maintaining steady development. Therefore, while Lenovo may face some impact, the protective measures in China are relatively strong, allowing Chinese companies to continue their stable development. In international competition, China's information technology industry has a significant gap compared to foreign counterparts, increasing competitiveness and threats for domestic information industry companies, including Lenovo, in overseas markets.

Social and Cultural Factors.

China's information industry is in the early stages of development, with the domestic market experiencing rapid growth in recent years. While it is somewhat saturated, China's large population and the increasing demand for information technology offer significant growth opportunities. The information technology industry in China has a large potential customer base, which is advantageous for Lenovo's growth and expansion.

Technological Factors.

China has made rapid progress in information technology in recent years, but it is still in the development stage. In various aspects, China's conditions are relatively weaker compared to international standards. The primary mode of development in this field is to absorb leading foreign technology, increase research efforts, and develop its own information technology that integrates with others. The Chinese government naturally hopes for China to have its high-tech information technology and will encourage the development of this industry, setting relevant preferential policies to support the development and research of enterprises in the information technology industry, such as Lenovo.

Let's make a Porter's Five Forces Analysis

Threat of New Entrants to the Industry

The development of electronic computing tends toward high-end technology, with increasing demands on technology, scale, brand, and operations. Only companies with significant strength in electronic computing technology can establish a foothold in this field. As major electronic computing groups engage in price wars, continuously lowering prices to expand their consumer base, this reduces the enthusiasm and proactiveness of new entrants to the industry. Therefore, the threat of new entrants to the industry does not greatly affect Lenovo.

Bargaining Power of Suppliers.

For component suppliers, Lenovo has agreements similar to Dell's model. They reach agreements with component suppliers to establish factories near Lenovo's production units and collaborate in a way that allows components to be acquired on demand, sharing storage costs and risks. As for software suppliers, competition between Intel and AMD in dual-core technology in 2006 gave significant downstream giants in the electronic computing industry more choice. This represents a shift of power towards electronic computing companies in their game with upstream software monopoly enterprises. In other words, Lenovo's bargaining power with its PC suppliers has increased. However, in the mobile internet business, its "LePhone" software operating system relies heavily on Google, resulting in weaker bargaining power.

Bargaining Power of Buyers.

Currently, there are two distribution models in the three major electronic computer companies: direct

sales and distribution.

Consumers: The characteristics of end consumers in the electronic computer industry have shifted from primarily enterprise usage to personal consumption. Personal consumers have high demands for product personalization, price sensitivity, and product quality and details. Knowledge about electronic computers among Chinese consumers has not yet reached a widespread level, making standardized and professional services more critical to Chinese consumers. However, with the recent development, the personal consumer market is gradually approaching saturation, with slowing consumption growth. Additionally, the emergence of 3G smartphones and tablet computers has expanded consumer choices, increasing their bargaining power over time.

Distributors: Distributors, as specialized retailers, have a keen and deep understanding of the market. They also share a mutually beneficial relationship with electronic computer manufacturers and take on the sales risk for them. Due to this relationship, distributors have more significant price negotiation abilities compared to regular end consumers.

Threat of Substitute Products.

Considering the current level of technological development, there are no electronic products that can entirely substitute electronic computers. However, from a global perspective, Lenovo and other established PC companies face a trend where the entire PC market may gradually be replaced by tablets and smartphones in the coming years, resulting in a continuous decline in profitability. The presence of 3G mobile phones and tablet computers has expanded consumer choices, increasing their bargaining power.

Intensity of Competitive Rivalry.

In the early days of the electronic computer industry, there were dozens of enterprises producing related products with significant scale. Notable domestic brands in China included Lenovo, Tongfang, Founder, Great Wall, Acer, Asus, Hasee, TCL, and 7Up, among others. According to IDC data for the second quarter of 2011, Apple's sales in the Greater China region exceeded Lenovo's for the first time, with sales of Apple products, including iPhone, iPad, and Mac computers in China, reaching 3.8 billion USD, a six-fold increase from the previous year. Although Lenovo has been the fastest-growing company in the PC industry for nine consecutive quarters, it still lags behind Apple.

Apart from Apple, established companies like Dell and Acer pose significant threats to Lenovo's market share. Acer, based in Taiwan, has been making strategic moves, such as acquiring the mainland Chinese PC brand Founder PC and hiring mainland executives, to challenge Lenovo. The latest IDC data shows that Acer jumped to second place in sales ranking in the Asia-Pacific region in the second quarter of 2011, surpassing HP and Dell, with a market share that increased significantly from 8.3% in 2010 to 11.9%, closely trailing Lenovo. Furthermore, Dell's direct sales business remains competitive. Dell has also strengthened its investments in tablet computers, servers, and IT services. As Dell's second production line in China, Chengdu Computer Systems Production Base, and customer service center began full operations in 2011, and the establishment of a new marketing center in Xiamen, Dell's total investment in China is expected to exceed 100 billion USD in the next decade, potentially becoming the leader in the Chinese PC market. Moreover, experts believe that HP, even though it is splitting and divesting its PC business, does not mean that PCs will disappear from HP's hands. In the next 2-3 years, HP remains Lenovo's most formidable competitor.

Let's Analyse of Competitive Advantages Environment

Firstly, Lenovo acquired a significant amount of advanced electronic computer production technology through its acquisition of IBM's electronic computer business, providing a substantial boost to its

information and technology assets. Secondly, Lenovo's joint venture with NEC and the acquisition of the German PC company Medion expanded its market share. Lastly, Lenovo has its own substantial and powerful research and development team for product research and development, providing Lenovo with a technological edge compared to other companies.

Lenovo began developing dealers nationwide in 1994 and realized that the requirements for channel management through specialty stores were strict and not solely reliant on financial incentives for long-term collaboration with franchisees. New methods were needed to ensure that franchisees fully cooperated with Lenovo's development. As a result, Lenovo established a relatively comprehensive distribution system in its subsequent channel construction, ensuring that franchisees received technical support from Lenovo headquarters in real-time. Franchisees could also attend free courses organized by Lenovo Group to receive technical guidance and store management instruction, strengthening the relationship between Lenovo and distributors. This allowed consumers to obtain the latest product information and detailed usage instructions from any Lenovo retailer.

The current situation in the information technology industry is as follows: the global information industry is developing rapidly, with increasing demands on technology and growing competitiveness in the sector. Therefore, expanding into global markets poses a new challenge for Lenovo. Lenovo has established its production facilities in various countries worldwide, reducing production costs through local manufacturing, which also helps in promoting Lenovo locally. The reason for Lenovo's internationalization strategy is as follows: the Chinese market is limited, and foreign companies continue to enter. To find new growth points, Lenovo must expand its sales scope and promote the Lenovo brand internationally.

Lenovo's internal environment analysis shows that Lenovo's core competency is its marketing channel strategy. The development of Lenovo's marketing channels has undergone two significant transformations. The first transformation was from a direct sales model to a channel model similar to international standards. Initially, Lenovo's profitability declined, and conflicts between Lenovo and its agents became increasingly evident. To address this issue, Lenovo eventually abandoned direct sales and established a channel model similar to international standards. In this model, commercial computers are distributed through a chain of manufacturers, primary agents, secondary agents, and end-users. Lenovo classifies agents into gold, silver, and regular agents and nurtures core partners based on this classification. The second transformation involved transitioning from the traditional distribution model to the present service-oriented model, creating a community where Lenovo and its partners jointly share risks and integrate partners into Lenovo's sales, service, training, distribution, and information systems. The core of Lenovo's channel transformation is to enhance customer satisfaction by focusing on customer-centric value addition.

Lenovo's unique marketing strategy and channel structure are hard to replicate, and both transformations aimed at meeting customer needs, making it a competitive force in the computer industry.

A value chain is a strategic collaboration of activities that a company conducts to meet long-term market objectives and common interests throughout the entire chain. Value chain analysis involves dividing a company's activities into a series of strategically relevant actions with the purpose of cost analysis and identifying differentiators. An enterprise's competitive advantage lies in its ability to manage these strategically important activities better than its competitors.

Lenovo has a vast production system that is not easy to control and manage. Lenovo's management needs to establish a detailed quality assurance system from initial production to retail, making the right decisions to improve the quality of Lenovo products.

The purpose of setting up chain organizations is to reduce transaction, inventory, and transportation costs. Lenovo should consider optimizing resource allocation and utilization, avoiding unnecessary losses.

Protecting mature markets is a strategy to sustain Lenovo's core personal computer business in the face of slower market growth. Lenovo aims to expand its leadership position in the personal computer market and enhance profitability. At the same time, it's expanding into server and workstation businesses to protect its core personal computer business in China.

In attacking new markets, Lenovo is focusing on emerging markets, making efforts to gain more market share. They are also actively developing mobile and digital home business. The company's retail market strategy aims to accelerate its sales growth. Simultaneously, Lenovo is striving to explore new opportunities in small and medium-sized enterprises (SMEs) and promote a relationship-oriented business model.

Conclusion

This report began with an introduction to Lenovo, followed by an analysis of its internal and external environment, company strategy choices, and an analysis of those strategies. The main purpose of this analysis was to understand Lenovo's current position in the market by examining its strengths, weaknesses, opportunities, and threats.

A thorough understanding of the company's internal and external factors, along with its strategies, is crucial for making informed strategic decisions. The analysis aims to provide valuable insights that can help Lenovo align its strategy with its goals and address challenges effectively.

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Ji Sichen – Master student of Management 073 at Vinnytsia National Technical University, Email : 170733971@qq.com

Scientific supervisor: Yepifanova Iryna – doctor of Economic, Professor, Vice-Rector for scientific work