MANAGEMENT DECISION CASE: A Newcomer Competes in the Global Computer Business

Yang Yuanqing was not content to be chairman of Lenovo, the largest computer company in China with over 35 percent of the PC market. He envisioned being a worldwide leader in computers and, almost overnight, Yuanqing transformed Lenovo from a $3 billion Chinese computer company to a $13 billion global technology giant with the acquisition of IBM's personal computing business in 2005. Now with headquarters in Beijing and Raleigh, North Carolina, he is chairman of the world's third-largest computer company behind Dell and HP.

Blending an upstart Chinese company that is much smaller than the American business icon (IBM) it acquired has been a challenge. Yang realized the need for Western management skills to help run the company and hired William Amelio, former head of Dell's Asian markets, as president and CEO. The two have a complex managing relationship with Yang focusing on marketing and distribution while Amelio concentrates on supply chain, a critical area as it targets new markets, including the United States.

The company believes its success in China can be replicated around the world. As Yang states, "We want to extend the business model that was so successful in China out across the world." Its home market represents its most profitable market, not unlike many other companies with worldwide operations. However, Lenovo's strong position in China is under attack by competitors. Over the past several years, Dell has invested $16 billion in China, building factories and creating an efficient supplier network. Dell's investment in China has been more than Lenovo's entire revenue over the same period. At the same time, Acer, the No. 4 global computer company based in Taiwan, is aggressively closing in on Lenovo. It has developed an aggressive strategy in emerging markets such as China and India while also targeting the U. S. market using agreements with Wal-Mart, CompUSA, and Circuit City to market its products in the United States.

Lenovo struggles to generate significant profits outside China and, despite the rights to use the IBM brand and "Thinkpad" for five years, sales have actually declined in the U.S. market. Building a global brand takes time, so Lenovo is leveraging the IBM brand while it builds up its own brand and product line. Three years after the IBM purchase, the company is transitioning away from the IBM brand in its advertising. Also, the company has introduced its two lines of notebook computers in the United States, the 3000 and Ideapad series. Targeting business users, the core IBM market for many years, the company is going head-to-head with Dell and HP in the United States. Lenovo believes that a strong global brand is the result of a customer-focused product mix and good customer service. The company's focus on expanding beyond its home market puts it at the forefront of Chinese companies seeking to turn their local success into a global brand.

Another weakness in the U.S. market is the supply chain. Lenovo's success with Chinese suppliers has not translated easily in the United States. Amelio wants to make the U.S. supply chain more efficient while maintaining the quality level associated with IBM products. In retail, Lenovo partners with Best Buy (in its Best Buy for Business centers).[46]

Initial Question from a Marketing Management Perspective:

- What are some of the key issues that Lenovo faces as it moves into the global marketplace from a Marketing Management perspective?

Q&A Response One by K.S.

Question: Discuss the "Management Decision Case: A Newcomer Competes in the Global computer Business "case on page 93-94? What are some of the key issues they are faced with?

Answer:

The first issue I discovered was that Lenovo was transitioning away from the ThinkPad. It is going to take Lenovo a while to build up their new brand and it won't have the name recognition in U.S. markets. It is going to take a long time for U.S. consumers to buy a product from a brand they aren't used to. They might end up not even buying into that brand at all the end. Also, the strategies and tactics Lenovo uses to market the products in the U.S. are going to be different. Lenovo should have developed an entry strategy. An entry strategy is the framework for entering a new global market. Choosing the right strategy is very important because it is very costly and difficult to change. Lenovo should have successfully focused on exporting, contractual agreements, strategic alliances and ownership. Also, when Lenovo moved into different markets, they should have been aware that it is hard to target those consumers who have different needs, preferences, and product usage demands.

Please provide a response with your thoughts and comments to the feedback provided above.

Q&A Response Two by C.G.

Question: Discuss the "Management Decision Case: A Newcomer Competes in the Global computer Business "case on page 93-94? What are some of the key issues they are faced with?

Answer:

Lenovo is faced with many issues. Some issues are a direct result of the decisions made my top management at Lenovo and their push to be a market leader. Other issues are external to Lenovo and their focus, but still remain large issues that must be overcome for them to reach their goals.

Initially, Lenovo must overcome the problems that are created by the company's incredibly fast-paced growth. Transitioning from a small, Chinese brand to a worldwide leader in the computer business with the acquisition of IBM is a major change. As noted in the case study, Lenovo is already experiencing supply chain issues in their US market. Their established, Chinese supply chain has been developed over years and seems to serve this market well. However, in the US, a new supply chain is required which may entail looking at new methods of sourcing materials and distributing finished goods.

In their quest to become a world leader in their industry, Lenovo must also now face the rest of the giants of the industry. HP, Dell and others are not willing to give up market share to anyone – each company will must continue to come up with new ways to grow their business and ensure current accounts are not lost to the new competition.

Also, by phasing out the ThinkPad line of computers and replacing it with their own brand, Lenovo might be hurting themselves (at least in the short-term) by removing a well known and trusted brand name from their product line-up. US markets that have used and liked the ThinkPad line for years may not be willing to automatically switch over to Lenovo's new line without at least looking at all options available to them as consumers – which also includes models from Dell and HP.

Please provide a response with your thoughts and comments to the feedback provided above.