Case Study Lenovo

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About Lenovo

- Lenovo is a Chinese technology company headquartered in Quarry Bay, HK with its main operational headquarters in Beijing and North Carolina.
- Lenovo is a US$50 billion Fortune Global 500 company, with 63,000 employees and operating in 180 markets around the world. It has operations in more than 60 countries and sells its products in around 160 countries.
- Lenovo is the world's largest PC vendor, claiming a 24.7% market share for the third quarter of 2019, well ahead of HP Inc., Dell, and Apple.

Core Business Groups

1 The Intelligent Devices Group (IDG)

IDG encompasses the PC and Smart Devices business, including PCs, tablets, augmented and virtual reality (AR/VR), smart devices, software and services, and the Mobile business for smart phones;

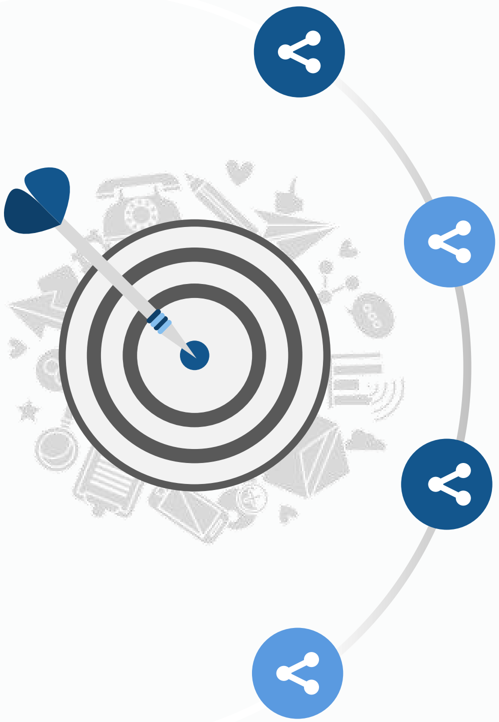
2 The Data Center Business Group (DCG)

DCG includes servers, storage, networking, software and services.

History

- In November 1984, Lenovo was founded in Beijing as Legend and was incorporated in Hong Kong in 1988.
- In 2005, Lenovo acquired **IBM's personal computer business** and agreed to acquire its Intel-based server business in 2014.
- In 2012, Lenovo entered the smart phone market and as of 2014 was the largest vendor of smart phones in Mainland China.
- In 2014, Lenovo acquired the American mobile phone handset maker Motorola Mobility from Google.
- In 2017, Lenovo acquired Fujitsu's personal computer business.

Acquisition of IBM PC Division



- Background
- Motivation
- Review of the aquisition process
- Challenges and Strategies
- Performance

Background

- International Business Machines Corporation (**IBM**) is an American multinational technology company headquartered in New York, with operations in over 170 countries. The company began in 1911, founded in New York and was renamed IBM in 1924. IBM’s total asset is about US$152.18 billion in 2019 (much higher than Lenovo). IBM produces and sells computer hardware, middleware and software, and provides hosting and consulting services.

- In 2004, **Lenovo** was a relatively unknown Chinese computer manufacturer and was not well-known in overseas market. The two companies were unbalanced not only in their market values, but also in many other aspects, such as brand recognition, corporate culture, organizational structure, and welfare. But Lenovo set its sights high: acquire the legendary IBM PC division.

Chinese “snake” swallows western “elephant”

Table 1. Selected characteristics for Lenovo and IBM

Characteristic	Lenovo	IBM
Country and year of incorporation[1]	China (1984)	USA (1911)
Operational age before acquisition	20	93
Market value at DoA[2]	46,009,788*	513,279,155**
Employees	Appx. 9,600	Appx. 10,000 (PCD)
Rank of Fortune at DoA[3]	NA	19^{th}
Rank of worldwide PC seller [4]	9 (2% market share)	3 (5.2% market share)
Key characteristics [5]	• Top and most recognized IT brand in China • Major customers are Chinese personal consumer and SMEs • Products: Desktop (82%) and notebook (18%) • Efficient operational platform and extensive retail network	• Premium Global PC Brand • Major customers are worldwide large and medium enterprises • Products: Desktop (40%) and notebook (60%) • Global network in sales, financing, and service support

Notes: 1 and 5. Annual reports and websites of the two companies; 2. Date of announcement (DoA) of acquisition on 8/12/2004; 3. Data from Fortune Global 500 of year 2004; 4. Reference: (Spooner and Kanellos, 2004); 5. *Calculation: HK$2.58 x 138,564,500 (shares) x 0.1287 (exchange rate) = US$46,009,787.967; 6. **Calculation: HK$96.65 x 5,310,700 (shares) = US$513,279,155.

Shijia Zhou and Xueli Huang, “How Chinese “snake” swalows western elephant:a case study of Lenovo's acquisition of IBM division”, Journal of International Business and Economy (2014) 15(1): 23-50

Motivation

Why did **IBM** decide to sell its PC division?

- Continuous loss and lower sales
- Relatively high cost and low profit in personal computer division

*Instead of put more capital in researching and developing the PC products in the fierce competition environment, it is a better choice for IBM to sell the PC division and get the capital to develop other business.

Motivation

- What Lenovo lacks:
  - ➢Core technology
  - ➢Global marketing leads to low product awareness...
- What they might obtain via acquisition:
  - ➢Efficient marketing and promotion system
  - ➢More advanced technology
  - ➢global sales channels and operation teams
  - ➢Professional and highly competent employers
  - ➢IBM’s brand reputation and worldwide recognition...

Review of the whole process

- In December 2004, Lenovo stated the acquisition of IBM PC division at the price of US$1.75 billion.

- In 2005, Lenovo acquired IBM's personal computer business, including the ThinkPad laptop and tablet lines. Lenovo's acquisition of IBM's personal computer division accelerated access to foreign markets while improving both Lenovo's branding and technology. Lenovo paid US$1.25 billion for IBM's computer business and assumed an additional US$500 million of IBM's debt.

- This acquisition made Lenovo the third-largest computer maker worldwide by volume.

Challenges

- Cultural distance
- Administrative and political distance
- Geographical distance
- Economic distance

Challenges

◆ Cultural distance

- From a cultural perspective, there's a huge gap that exists between American and Chinese business practices. The American society is more outgoing and people prefer to express their own opinions, while Chinese society is relatively more restrained and people like to listen.

- This led to worries that many of the senior managers at IBM would leave the firm. However,Lenovo's hands-off approach, trusting the senior managers in the USA with the continued development of the firm, ensuring a smooth transition and stability within the organization.

Challenges

◆ Administrative and political distance

- Administrative and political distance is due to the nature of Chinese companies as well as the relationship with their respective governments.

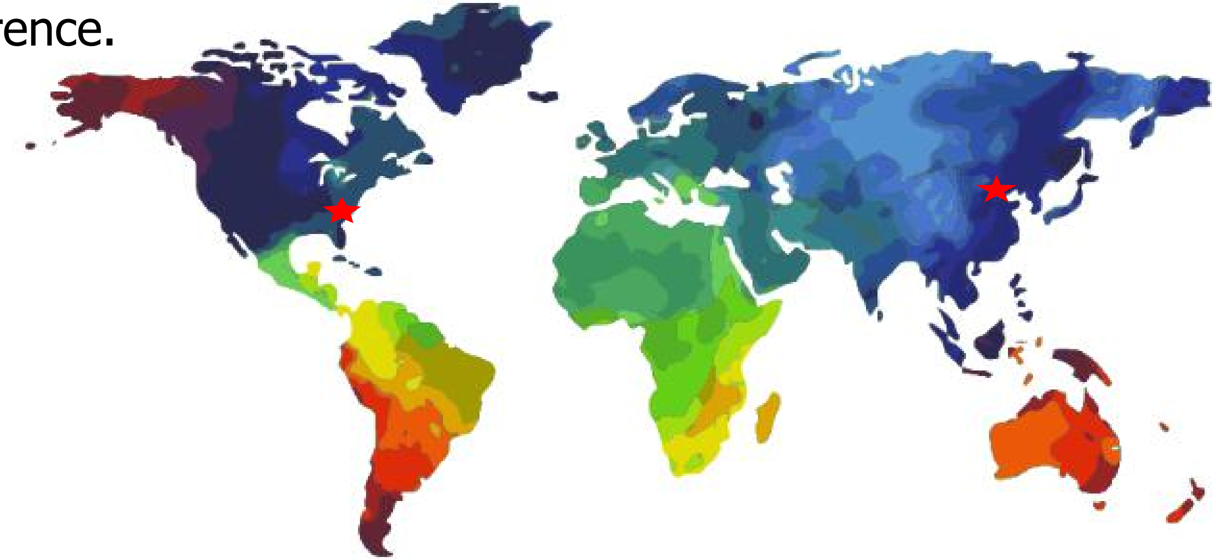
- Lenovo managed to overcome the initial challenge to the deal by the US government worried about a Chinese company having access to US technology, since IBM had many contracts with the government departments and access to sensitive data of the US.

- Lenovo guarantees ensured that this problem was overcome within a year, which further ensured successful integration.

Challenges

◆ Geographical distance

- Lenovo was based in Beijing, while IBM PC division was based in North Carolina. The long distance and different time zones make it extremely difficult to engage in direct communication within normal working hours.
- Lenovo skillfully avoided any form of micromanagement of its new acquisition. Most communication between the two firms could be dealt with email and online conference.



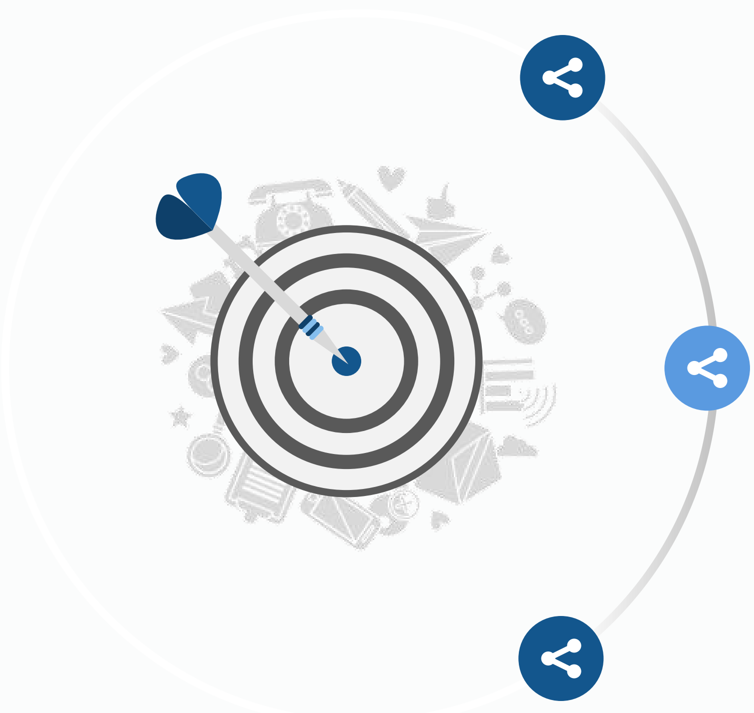
Challenges

◆ Economic distance

- Chinese economy has been growing rapidly but in the income per capital, there is still a great gap with developed countries. Lenovo catered to more low and middle income consumers and was relatively unknown in the worldwide market before this acquisition. IBM was famous for its advanced technology and the image of its products is high-end and high quality.

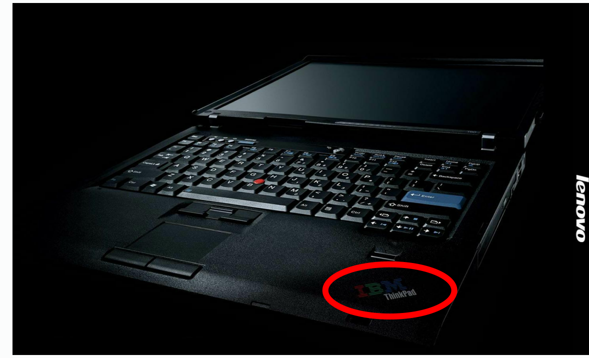
- By putting the two brand names together on the new product, with the IBM’ s brand reputation, Lenovo successfully overcome this problem and transform itself into the leading PC manufacturer.

Strategies after acquisition



- Branding strategy
- Employee Turnover
- Technology transfer

Strategies



◆Branding strategy

- Drawing support from the famous brand of IBM, Lenovo can promote their own brand in a fast way by using their unique strategy.To enhance brand recognition, Lenovo adopted “**dual-brand**” strategy.

- Relying on IBM‘s brand that is worldwide famous, Lenovo strengthened its own brand by putting the two brand names together on the new product. Although these two brands are positioned at different target customers, its brand integration was very successful.

Strategies

◆Employee Turnover

- In the initial stages, Lenovo adopted a “**parallel management**” model for the acquisition, essentially treating the companies as two independently run branches. The only departments that were quickly integrated were those with functional purposes, such as HR and Finance. These efforts created a sense of security and continuity in the firm, which encouraged employee retention.

- In the first year after the acquisition, 2006, with further integration in the Raleigh, North Carolina office, the company did have to execute some lay offs, which impacted 1,000 of the 21,400 employees at the time. These cuts were spread equally across all of the company’s geographical operating regions.

Strategies

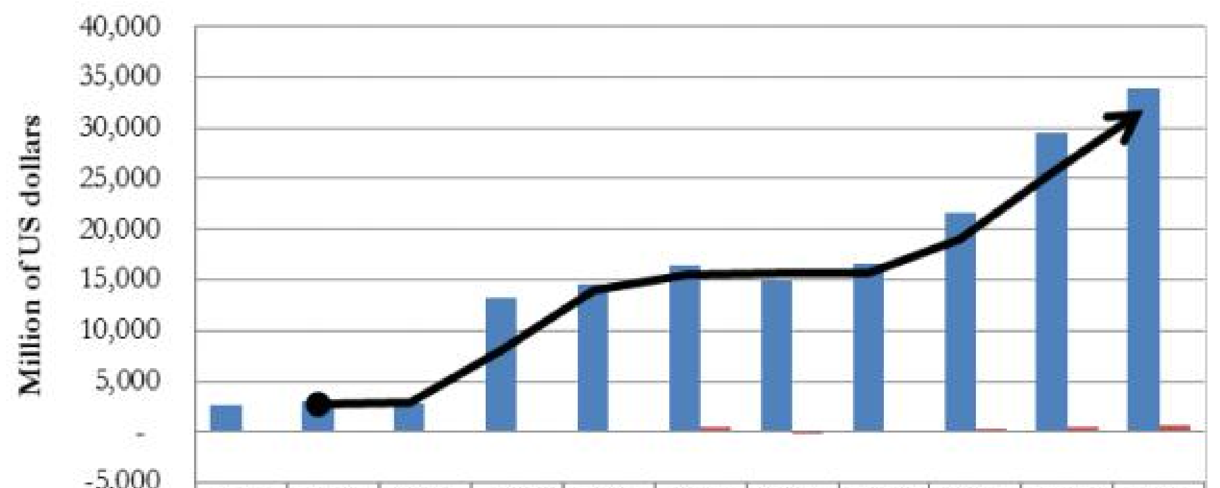
◆Technology transfer

- Besides the major integration, Lenovo also pay much attention on transferring superior technology. When Lenovo purchased IBM, Lenovo also got its total IP (intelligence property). That made the technology transfer very smooth. And Lenovo have created new global R&D center to analyze these technologies and develop new products.

Performance

- Lenovo's annual income in 2005, five months after the acquisition, was around US$2.9 billion which has slightly improved compared to average of the two previous years. This may indicate that Lenovo has successfully controlled and stabilized the initial transition stage.

Figure 1. Historical annual revenue and net profit of Lenovo during 2003-2013



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenue	2,594	2,974	2,89	13,27	14,59	16,35	14,90	16,60	21,59	29,57	33,87
Net profit	129	130	140	28	161	485	-226	129	273	475	632

Sources: Company financial reports from 2003-2013

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Performance

- In 2006, Lenovo entered into a stage of comprehensive integration. Its annual revenue jumped to US$13 billion, mainly contributed by the newly merged PC Division of IBM which was approximately US$9 billion before the acquisition. This represents about 448% growth rate on annual income due to its great success in accessing overseas market through acquiring IBM's existed marketing channels.

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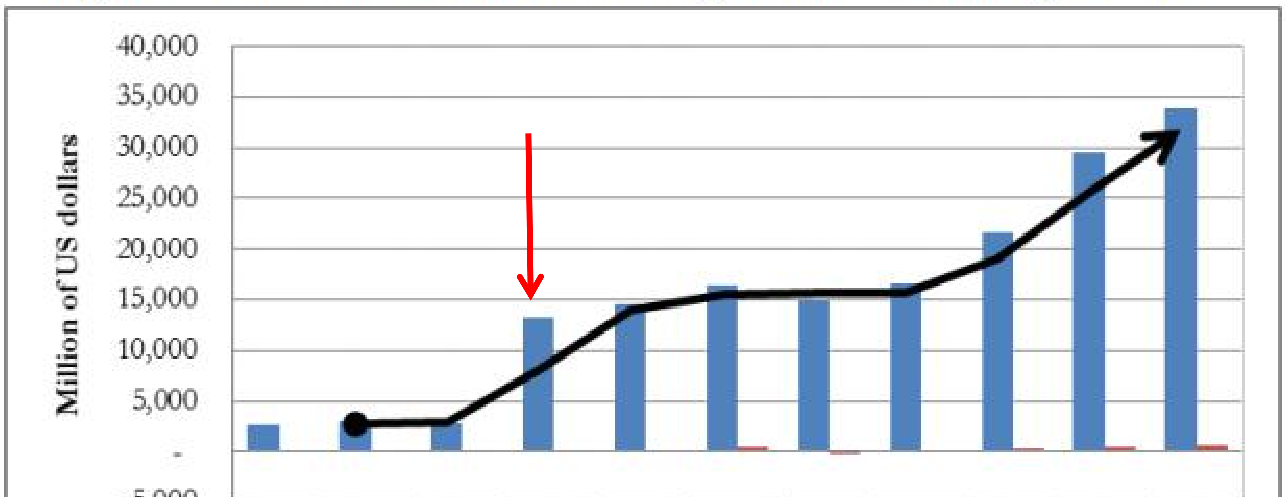

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Other Acquisitions

1 Medion

In 2011, Lenovo announced that it planned to acquire control of Medion, a German electronics manufacturing company. Lenovo said the acquisition would give it 14% of the German computer market, making it the third-largest vendor by sales. The deal, which closed in the third quarter of the same year, was the first in which a Chinese company acquired a well-known German company.

Other Acquisitions

2 Motorola

In January 2014, Lenovo announced the acquisition of Motorola from Google. Lenovo said that it decided to purchase Motorola due to its long-standing relationships with cellular network operators in the United States and the United Kingdom. The deal includes smart phone lines and free licenses to all the patents retained by Google.

Other Acquisitions

3 IBM's x86-based server

In January 2014, Lenovo announced plan to start acquisition of IBM's x86-based server business. In October 2014, Lenovo closed its acquisition of IBM's server division, with the final price put at $2.1 billion.

Summary

- Along with China's integration with global economies, Lenovo, as one of the top Chinese multinational corporations, not only struggle to survive intense competition, but also hunt for new opportunities in the global market. Lack of internationalization experience and resource, Lenovo faced various problems and challenges in acquiring western large-sized, long history and world-famous company, IBM. But with the proper strategies, Lenovo succeeded in this acquisition eventually.

- Lenovo expanded significantly in 2005 after its acquisition of IBM's personal computer division. This acquisition made Lenovo the third-largest computer maker worldwide and can be considered as the most important step for Lenovo to spread global market. And by 2019, Lenovo has grown into the world's number one PC maker.

- The cross-border mergers and acquisitions can provide multinational corporations with access to the foreign market, advanced technology, brand value and other merits, as well as risks and challenges.

Thanks for your listening!