

Room-3



Asia Case Research Centre
THE UNIVERSITY OF HONG KONG

Confidential

ALI FARHOOMAND

LENOVO: DISRUPTION OF THE PC INDUSTRY

In 2004 Lenovo announced the decision to buy IBM's PC business. By then most people thought the Chinese company would burn its cash and fail. Lenovo proved them wrong, and by 2010 showed clear growth momentum and steadily increased its market share in the PC industry. In early 2013, Lenovo's successful "protect-and-attack" strategy had forced Dell to trail behind and enabled the company to compete head-to-head with Hewlett-Packard ("HP") to become the world's largest PC vendor.

But IBM's leaving the PC industry proved the foresight of the world's oldest technology company. The PC industry was in the midst of a sweeping transformation, which started with the introduction of the iPhone in 2007 and culminated in 2010 with the launch of the iPad. By the end of 2012, over 212 million iPads and other modern tablets had been shipped, while PC shipments showed continuing decline for four consecutive quarters by the first quarter of 2013.¹

Case Issue

Would the company's "protect-and-attack" strategy still work in an industry in the midst of a structural change? Would it be able to sustain its competitive advantage in the new battlefield? How would the company be able to establish a global brand in the "smart connected devices" market?

¹ Melanson, D (March 10, 2011) "IDC: 18 Million Tablets, 12 Million E-readers Shipped in 2010," *engadget*, <http://www.engadget.com/2011/03/10/idc-18-million-tablets-12-million-e-readers-shipped-in-2010/> (accessed April 30, 2013); IDC (May 5, 2011) "Apple Shines, But Slumping Android Shipments Lead to Disappointing First Quarter for Media Tablets, According to IDC," <http://www.idc.com/getdoc.jsp?containerId=prUS23466712> (accessed April 30, 2013); IDC (August 2, 2012) "Strong Apple Shipments Drive Robust Tablet Market Growth in Second Quarter, According to IDC," <http://www.idc.com/getdoc.jsp?containerId=prUS23632512> (accessed April 30, 2013); Daniels, H. (November 5, 2012) "IDC - Android Tablets Gain Momentum During Q3 2012," *TechSmart*, <http://www.techsmart.co.za/features/news/IDC-Android-tablets-gain-momentum-during-Q3-2012.html> (accessed April 30, 2013); IDC (January 31, 2013) "Tablet Shipments Soar to Record Levels During Strong Holiday Quarter, According to IDC," <http://www.idc.com/getdoc.jsp?containerId=prUS239226713> (accessed April 30, 2013); IDC (April 10, 2013) "PC Shipments Post the Steepest Decline Ever in a Single Quarter, According to IDC," <http://www.idc.com/getdoc.jsp?containerId=prUS24065413> (accessed April 30, 2013).

W. H. Lo prepared this case under the supervision of Professor Ali Farhoomand for class discussion. This case is not intended to show effective or ineffective handling of decision or business processes.

© 2013 by The Asia Case Research Centre, The University of Hong Kong. No part of this publication may be reproduced or transmitted in any form or by any means - electronic, mechanical, photocopying, recording, or otherwise (including the internet) - without the permission of The University of Hong Kong.

Ref. 13 530C

This case is for use in the HSBC Business Case Competitions only.

Brief History – From PC to Smart Connected Device

The PC Industry

There might be disagreement on when the first PC was created and what that first PC was, but few would dispute that two decisions made by IBM in the early 1980s helped shape the industry for the next two decades by enabling the “WinTel” PC.² In order to capture as much market share as possible and to challenge the Apple II, IBM rushed to roll out the IBM PC in August 1981 by using non-patented standard components and Bill Gates’s MS-DOS operating system (“OS”), while allowing him to license the OS to third parties.³ This enabled the birth of IBM PC clones, which helped push the price down—its average price point dropped from around US\$2,500 per unit to around US\$500 each.⁴ This also introduced to the industry the soon-to-be-giant Microsoft; its Windows OS and Office applications created “sticky” end users. By 2004, PC sales had grown to over 173 million units a year. However, the price erosion implied margin shrinkage—the average net margin dropped to only 4.5% in 2003.⁵ The industry consolidated with only five brands occupying around 44% of the PC market of 2004—they were Dell, HP (which bought Compaq in 2002), IBM, Fujitsu (which merged with Siemens in 1999) and Acer.⁶

In 2005, IBM’s strategic decision to exit the PC industry led to Lenovo’s entrance on the global PC stage.⁷ After a bumpy ride from 2005 to 2009, Lenovo managed to beat Dell and competed head-to-head with HP for the top PC vendor spot by the end of 2012,⁸ only to face the harsh reality that the PC industry had already been completely reconfigured, and the company was competing in the battlefield of smart connected devices.

The Smartphone Industry

The term “smartphone” generally referred to the merging of functions of a feature phone and a personal digital assistant (“PDA”), along with some features of a personal computer.⁹ The first smartphone recorded sales of a mere 0.3 million units in 2000.¹⁰ By 2012, a total of 675

² “WinTel” PCs ran on Windows OS and Intel’s microprocessor. Webopedia (2013) “Wintel,” <http://www.webopedia.com/TERM/W/Wintel.html> (accessed April 30, 2013)

³ Belhs, M. (2013) “Putting Microsoft on the Map. History of the MS-DOS Operating Systems, IBM & Microsoft,” *About.com*, <http://inventors.about.com/od/computersoftware/a/Putting-Microsoft-On-The-Map.htm> (accessed April 30, 2013). According to this article, IBM allotted the contract to write the operating system for the company’s PC to Bill Gates due to the refusal of Mrs. Gary Kildall, wife of the writer of the most successful PC operating system by then with 600,000 copies sold, to sign a nondisclosure agreement with the company.

⁴ Dedrick, J. and Kraemer, K. (2006) “The Impacts of IT on Firm and Industry Structure: The Personal Computer Industry,” *California Management Review*, 47 (3), pp. 122-142.

⁵ *Ibid*

⁶ Wikipedia (February 15, 2013) “Market Share of Leading PC Vendors,”

http://en.wikipedia.org/wiki/Market_share_of_leading_PC_vendors (accessed April 30, 2013). Vance, A. (May 1, 2002) “It’s Official: HP Acquires Compaq,” *PC World*, <http://www.pcworld.com/article/97944/article.html> (accessed April 30, 2013); Wikipedia (February 2, 2013) “Fujitsu Siemens Computers,” http://en.wikipedia.org/wiki/Fujitsu_Siemens_Computers (accessed April 30, 2013)

⁷ Lemon, S. (May 2, 2005) “Lenovo Completes Purchase of IBM’s PC Unit,” *PCWorld*, <http://www.pcworld.com/article/120670/article.html> (accessed April 30, 2013).

⁸ King, R. (January 13, 2013) “IDC: HP Is Still Top PC Vendor Worldwide Amid Soft Q4 Sales,” *ZDNet*, <http://www.zdnet.com/idc-hp-is-still-top-pc-vendor-worldwide-amid-soft-q4-sales-7000009673/> (accessed April 30, 2013).

⁹ A smartphone should generally have had an OS, been able to download and run some applications on top of the built-in software that came with the manufactured phone, have had internet access, have had a standard QWERTY keyboard layout (either physical or software touch screen format), and have had an ability to handle and sync with its owner’s personal or even professional e-mail accounts. Cassavoy, L. (2013) “What Makes a Smartphone Smart?” *about.com*, http://cellphones.about.com/od/smartphonebasics/a/what_is_smart.htm (accessed April 30, 2013). The QWERTY keyboard layout was the most common modern-day keyboard layout. The name came from the first six keys appearing on the top left letter row of the keyboard and read from left to right: Q-W-E-R-T-Y. Wikipedia (April 23, 2013) “QWERTY,” <http://en.wikipedia.org/wiki/QWERTY> (accessed April 30, 2013)

¹⁰ eTForecasts (2013) “Worldwide PDA & Smartphone Forecast,” http://www.etforecasts.com/products/ES_pdas2003.htm (accessed April 30, 2013)

million units were shipped.¹¹ The huge sales revenue of smartphones came with much higher profits than that of a feature phone. This was reflected by Apple's iPhone claiming 72% of the mobile phone market's profit in the fourth quarter of 2012 with a 9.2% share of the mobile phone market.¹²

In 2000, the top three mobile phone manufacturers were Nokia, Motorola and Ericsson; in 2012, the top three smartphone players were Samsung, Apple and Nokia.¹³ Microsoft, after struggling for more than a decade to make an impression in the smartphone industry, had formally established a strategic alliance with Nokia in 2011.¹⁴ These changes were the result of changing competitive dynamics. On top of entity-centric competition between carriers and between mobile device manufacturers with an emphasis on each brand's core strength of mobile design and features, there was the additional OS ecosystem-centric competition, that is, competition organized around OSs that controlled a host of complementary applications, software and services to create total value for smartphone users. There were only four OS ecosystems in 2012: the market leaders were Google's Android-based ecosystem that accounted for around 70% of the market and Apple's iOS-based ecosystem that claimed almost 20%, leaving a small portion of slightly more than 10% in which Microsoft's latest release of Win 8 OS and Research-in-Motion's BB10 OS were struggling to grow their market shares.¹⁵ Besides the usual battlefield of phone features and phone sales, the competition in the industry also saw head-to-head competition between the iOS and Android ecosystems for creating better customer lock-in effects, thus claiming market share of smartphone OSs, and between the former's App Store and the latter's Google Play in attracting more app developers' attention and resources.

Device manufacturers
- Carriers
- OS
Combing

The Industry of Smart Connected Devices

The term "smart connected device" was likely first formally used to describe an industry by an international research company starting in 2012 when it combined the markets of PCs, notebooks, tablets and smartphones and reported on them as one.¹⁶ The publication of regular market benchmark data by an internationally respected research company formally marked the redefinition of the competitive landscapes of the four market segments of the devices.

¹¹ The sales volume of smartphones in 2012 was compiled from the following sources: Lunden, I (May 12, 2012) "Gartner: Q1 2012 Phone Sales Declined 2%, Dragged Down by Asia-Pacific. Samsung Leads All," *TechCrunch*, <http://techcrunch.com/2012/05/16/gartner-phone-sales-declined-2-percent-in-q1-2012-dragged-down-by-slow-sales-in-asia-pacific/> (accessed April 30, 2013); Lunden, I (August 14, 2012) "Gartner: Global Mobile Sales Down 2%, Smartphones Surge 43%, Apple Stalls as Fans Hold Out for New iPhone," *TechCrunch*, <http://techcrunch.com/2012/08/14/gartner-global-mobile-sales-down-2-smartphones-surge-43-apple-stalls-as-fans-hold-out-for-new-iphone/> (accessed April 30, 2013); Lunden, I (November 14, 2012) "Gartner: Android Accounted for 72% of Smartphone Sales in Q3, Overall Sales of Mobile Handsets Down 3%," *TechCrunch*, <http://techcrunch.com/2012/11/14/gartner-samsung-widens-its-lead-over-apple-in-smartphones-in-q3-but-overall-sales-of-mobile-handsets-down-3/> (accessed April 30, 2013); Gartner, Inc (February 13, 2013) "Gartner Says Worldwide Mobile Phone Sales Declined 1.7 Percent in 2012," <http://www.gartner.com/newsroom/id/2335616> (accessed April 30, 2013).

¹² Elmer-DeWitt, P (February 6, 2013) "Apple Took Home 72% of All Handset Profits Last Quarter," *CNN Money*, <http://tech.fortune.cnn.com/2013/02/06/apple-samsung-profit-share/> (accessed April 30, 2013); Gartner, Inc (February 13, 2013) "Gartner Says Worldwide Mobile Phone Sales Declined 1.7 Percent in 2012," <http://www.gartner.com/newsroom/id/2335616> (accessed April 30, 2013).

¹³ IDC (January 24, 2013) "Strong Demand for Smartphones and Heated Vendor Competition Characterize the Worldwide Mobile Phone Market at the End of 2012, IDC Says," <https://www.idc.com/getdoc.jsp?containerId=prUS23916413> (accessed April 30, 2013).

¹⁴ The Economist (February 11, 2011) "Nokia Falls into the Arms of Microsoft," http://www.economist.com/bk/blogs/newsbook/2011/02/mobile_handset-makers (accessed April 30, 2013).

¹⁵ Koetsier, J (January 28, 2013) "Android Captured Almost 70% Global Smartphone Market Share in 2012, Apple Just Under 20%," *VentureBeat*, <http://venturebeat.com/2013/01/28/android-captured-almost-70-global-smartphone-market-share-in-2012-apple-just-under-20-1v8CismJkvdbeho99/> (accessed April 30, 2013).

¹⁶ Online research indicated that the term "smart connected device" was used by International Data Corporation ("IDC") as early as the first quarter of 2012 when it first reported the combined performance of vendors in the PC, notebook, tablet and smartphone markets by combining the results of its individual tracker reports of these industries of 2011. From 2012, IDC provided quarterly tracker reports of "smart connected devices." IDC (March 28, 2012) "Nearly 1 Billion Smart Connected Devices Shipped in 2011 with Shipments Expected to Double by 2016, According to IDC," <http://www.idc.com/getdoc.jsp?containerId=prUS23398412> (accessed April 30, 2013).

Suppl... why & notebooks
 PCs
 Smartphones

Why

It all started with the substitutions of smartphones and tablets for PCs and notebooks by consumers to obtain information and to get connected to social media.¹⁷ The wide adoption of the former two devices led to growth in the market of smart connected devices by 29.1% to 1.2 billion units from 2011 to 2012;¹⁸ 722.4 million smartphones and 128.3 million tablets were shipped in 2012, up by 46.1% and 78.4% respectively from 2011.¹⁹ This came at the expense of PCs and notebooks, which saw a drop in shipment volume of 4.1% and 3.4% to 148.4 million for PCs and 202 million for notebooks for the same period.²⁰ Apple, with its iOS-supported iPhone and iPad, was credited with this transformation, but it was Android and Samsung that benefited most [for information on Apple and Samsung, see **Exhibit 1** and **Exhibit 2**]. The biggest hit was naturally on traditional PC industry players like Lenovo, HP and Dell, which, instead of being the top three players, dropped to third, fourth and fifth position in the new industry landscape.²¹ Lenovo, striving to keep up with the change, released its smartphone to the market outside of China for the first time in May 2012.²²

Lenovo Smartphone

Microsoft and its OS suffered in the process; it was reported that the market share of the company's platforms in the consumer market dropped from its all-time high of 95% in 2004 to around 20% in 2012.²³ Meanwhile, Apple's iOS and Google's Android OS claimed over 90% of the market share of modern tablets.²⁴

Core Issue

The smart connected device industry was at its infancy stage, and a lot of changes could occur in the future that would thwart or boost any players in the industry. For Lenovo, the issues for the time being were still how to claim market share and how to build its brand.

Lenovo

Lenovo was a US\$11.6 billion company with 23,000 employees that was listed in the Hong Kong Stock Exchange in 1994.²⁵ It made smart connected devices, mainly PCs and notebooks.²⁶ The company had operations in over 60 countries and sold its products in 160 countries. It had "no ... headquarters ... [but] operations hubs in Beijing, Raleigh ... and Paris and ... research centres in Yokohama, Japan; Beijing, Shanghai and Shenzhen, China; and Raleigh, North Carolina"²⁷ [see **Exhibit 3** for a financial summary of Lenovo for 2008-2012].

¹⁷ Keynote (2012) "2012 Mobile User Survey," <http://www.keynote.com/docs/reports/Keynote-2012-Mobile-User-Survey.pdf> (accessed April 30, 2013)

¹⁸ IDC (February 21, 2013) "Mobility Reigns as the Smart Connected Device Market Rises 29.1% in 2012 Driven by Tablet and Smartphone Growth, According to IDC," <http://www.idc.com/getdoc.jsp?containerId=prUS23958513> (accessed April 30, 2013)

¹⁹ Ibid

²⁰ Ibid

²¹ Ibid

²² Kim, Y. H. (October 24, 2012) "Lenovo Looks to New Markets," *Wall Street Journal*, <http://online.wsj.com/article/SB10001424052970203897404578076241324650654.html> (accessed April 30, 2013)

²³ Anthony, S. (December 13, 2012) "Microsoft's Share of Consumer Market Has Dropped From 95% to 20% in 8 Years," *ExtremeTech*, <http://www.extremetech.com/computing/143277-microsofts-share-of-the-consumer-market-has-dropped-from-95-to-20-in-8-years> (accessed April 30, 2013)

²⁴ Eddy, N. (April 25, 2013) "Apple, Android Lead Worldwide Tablet Market Strategy Analytics," *eWeek*, <http://www.eweek.com/mobile/apple-android-lead-worldwide-tablet-market-strategy-analytics> (accessed April 30, 2013)

²⁵ Lenovo's share price was HK\$8.64 as of December 31, 2012. With outstanding shares of 10,432.82 million and an exchange rate of US\$1 to HK\$7.7512 at the end of the year, the company's market value at the end of 2012 should have been US\$11.63 billion. Quamnet.com (2013) "Lenovo Group Limited," <http://www.quamnet.com/quote/0992/lenovo/> (accessed April 30, 2013). Bloomberg (2013) "Lenovo Group Ltd," <http://www.bloomberg.com/quote/992:HK> (accessed April 30, 2013); Exchange Rate UK (2013) "US Dollar (USD) to Hong Kong Dollar (HKD) Exchange Rate History," <http://www.exchangerates.org.uk/USD-HKD-exchange-rate-history.html> (accessed April 30, 2013)

²⁶ Lenovo (2013) "About Lenovo," http://www.lenovo.com/lenovo/hk/en/our_company.html (accessed April 30, 2013)

²⁷ Ibid., Bloomberg (January 31, 2013) "Lenovo Profit Rises 34% on Avoiding PC Slump, Smartphones," <http://www.bloomberg.com/news/2013-01-30/lenovo-profit-rises-34-on-avoiding-pc-slump-smartphones.html> (accessed April 30, 2013)

Lenovo was originally called Legend when it started manufacturing PCs and was a sales and distribution representative for foreign PC brands in the PRC. In 1996, the company slashed its PC price by 30% while introducing its first WinTel-platinum-processor PC to the market, a first for a Chinese domestic PC manufacturer.²⁸ The strategic decision was backed by Legend's proximity to and understanding of the rising potential of the Chinese market, and the low-cost availability of component parts made available by the transfer of the manufacturing base of foreign PC brands to China. This move raised the company to the China PC market's top position, which it continued to maintain.²⁹ Besides PCs, Legend expanded its product range to laptops, workstations, servers, digital entertainment devices, and, in 2002, mobile phones.³⁰

Legend

Slashed prices
outsourced sales & dist

The Lenovo-IBM Marriage

The company tried going international in 2001 by opening seven overseas offices.³¹ In 2003, the company changed its English brand name and, in 2004, its company name from Legend to Lenovo.³² By 2004, the company's China market share was down to 27% but Lenovo's overseas offices accounted for only less than 3% of its revenue.³³ Instead of organic growth, the company decided to use mergers and acquisitions for global expansion.³⁴ In December 2004, Lenovo bought IBM's PC business with US\$1.25 billion;³⁵ the new company had combined revenue of around US\$12 billion and a production volume of 11.9 million units.³⁶ Lenovo believed it could turn an annual US\$200 million deficit business into a profitable one. It also recognized the risks involved: the churn of customers, the churn of IBM employees, and business and cultural integration risks.³⁷ Despite successfully mitigating these risks, the new company faced falling market shares in the United States in the midst of market growth, a struggling share price and a 2008 deficit performance.³⁸ In 2009, Yang Yuanqing, the company's former CEO before the IBM takeover, reassumed the position. He implemented a "protect and attack" strategy, which meant "reinforcing [Lenovo's] business in established markets while going after potential new markets."³⁹ Lenovo showed year-on-year

2009
stock protect

risks of IBM

falling
inventory
2009 - protect & attack

²⁸ Lu, Q. (2000) *China's Leap into the Information Age: Innovation and Organization in the Computer Industry*, Oxford University Press: Oxford

²⁹ Liu, C. Z. (2007) "Lenovo: An Example of Globalization of Chinese Enterprises," *Journal of International Business Studies*, 38 (4), pp. 573-577.

³⁰ Bell, S. (2008) *International Brand Management of Chinese Companies, Case Studies on the Chinese Household Appliances and Consumer Electronics Industry Entering US and Western European Markets*, Physica-Verlag: Heidelberg.

³¹ Ying, F. (2006) "The Globalisation of Chinese Brands," *Market Intelligence & Planning*, 24 (4), pp. 365-379.

³² Ibid. According to Lenovo's website, the word "Lenovo" was formed by taking the "Le" from "Legend" and combining it with the Latin word "novo," which meant "new." Lenovo (2013) "Shares Information," http://www.lenovo.com/ww/lenovo/shares_info.html (accessed April 30, 2013).

³³ Ying, F. (2006) "The Globalisation of Chinese Brands," *Market Intelligence & Planning*, 24 (4), pp. 365-379.

³⁴ Liu, C. Z. (2007) "Lenovo: An Example of Globalization of Chinese Enterprises," *Journal of International Business Studies*, 38 (4), pp. 573-577.

³⁵ Ying, F. (2006) "The Globalisation of Chinese Brands," *Market Intelligence & Planning*, 24 (4), pp. 365-379. In a presentation made in 2007, Liu disclosed that the final price of the acquisition was only concluded after a year-long negotiation. The final arrangement introduced four new shareholders to Lenovo: IBM, holding 13.4% of the shares, and three private institutional investors, including Texas Pacific Group, General Atlantic LLC, and Newbridge Capital LLC. In return for a 10.2% stake in Lenovo, these institutional investors brought not only US\$350 million in capital to Lenovo, but also crucial expertise and networks in M&A to the company's board. Liu, C. Z. (2007) "Lenovo: An Example of Globalization of Chinese Enterprises," *Journal of International Business Studies*, 38 (4), pp. 573-577.

³⁶ Zhang, H. (2012) "The Financial Globalization of Lenovo," INSEAD, <http://www.insead.edu/facultyresearch/faculty/documents/5867.pdf> (accessed April 30, 2013).

³⁷ Liu, C. Z. (2007) "Lenovo: An Example of Globalization of Chinese Enterprises," *Journal of International Business Studies*, 38 (4), pp. 573-577; Zhou, S., Ren, B. and Li, S. (2010) "Lenovo," in I. Alon and W. X. Zhang (eds.) *A Guide to the Top 100 Companies in China*, World Scientific Publishing: Hackensack, N.J.

³⁸ Ng, A. W., Chatzkel, J., Lau, K. F. and Macbeth, D. (2012) "Dynamics of Chinese Emerging Multinationals in Cross-border Mergers and Acquisitions," *Journal of Intellectual Capital*, 13 (3), pp. 416-438; Bell, S. (2008) *International Brand Management of Chinese Companies, Case Studies on the Chinese Household Appliances and Consumer Electronics Industry Entering US and Western European Markets*, Physica-Verlag: Heidelberg; Lenovo (2009) "2008/09 Annual Report," http://www.lenovo.com/ww/lenovo/pdf/report/E_099220090626a.pdf (accessed April 30, 2013).

³⁹ Lenovo (August 17, 2012) "Lenovo Reports First Quarter 2012/13 Results," <http://www.lenovo.com/ww/lenovo/pdf/Lenovo-press-release-Q1-Apr-Jun-2012-eng-final.pdf> (accessed April 30, 2013).

improvements: the company's turnover almost doubled to US\$29.6 billion and profit before taxes increased by more than four times to US\$582 million for the financial year 2011-2012 from a US\$188 million loss in 2008-2009.⁴⁰ In 2012, its PC shipments surpassed those of Dell, and Lenovo was competing with HP head-to-head to become the world's largest PC vendor.

From PC to Four-Screen

Despite the fact that the global market size for PCs and notebooks had been flat for a couple of years before it went south in 2012, 90% of Lenovo's revenue was from PC and notebook sales.⁴¹ The company launched its first smartphone in 2010 but the product line's sales had not been significant.⁴² In January 2011, the company formed the Mobile Internet and Digital Home Business Group ("MIDH");⁴³ this represented the company's launch of the "four-screen" strategy, which included smart connected desktops, laptops (including tablets), smartphones and televisions. In 2012, after becoming the second largest smartphone vendor in China behind Samsung, the company launched its smartphone in other emerging markets: India, Indonesia, the Philippines, Russia and Vietnam.⁴⁴ The same year also saw Lenovo rolling out its smart television to the China market.⁴⁵ These efforts grew the non-PC/notebook revenue of the company by almost 130%, though it still accounted for only 10% of Lenovo's revenue for its latest fiscal year of 2011-2012.⁴⁶

from notebook

90% of My revenue!
- India - China
- emerging markets

Despite not carrying a strong brand, the company received recognition and positive reviews for its innovation, product design and product functionality. To illustrate, the company received 25 and 44 awards in the 2012 and 2013 Consumer Electronics Show, respectively.⁴⁷

Acquisition a strategy

video

The "Protect and Attack" Strategy

Lenovo's "protect and attack" strategy referred to protecting its strengths, the Chinese market and the large enterprise business, and attacking areas where the company saw opportunities.⁴⁸ Over the years, this strategy had not changed; the focus of "protect" was still China and the relational business of corporate clients' bulk orders of preconfigured PCs, but new elements were introduced to the "attack" space. For instance, after the MIDH business unit was set up in January 2011, Lenovo added MIDH as an "attack" area in its 2011-2012 plan, spelling out clearly that the aim of attack for the year was to "grow ... MIDH presence globally ... [and to drive] convergence"; in its 2012-2013 plan, the objectives were to "grow tablet and smartphone in China and launch SmartTV [and to] expand cloud offerings worldwide."⁴⁹ The

build a ecosystem

⁴⁰ Yang, Y. Q. (May 23, 2012) "2011-12 Annual Results Presentation," Lenovo, http://www.lenovo.com/ww/lenovo/pdf/Lenovo_Q4_FY12_PPT_Eng_FINAL_v1_Combined.pdf (accessed April 30, 2013).
⁴¹ Wikipedia (February 15, 2013) "Market Share of Leading PC Vendors," http://en.wikipedia.org/wiki/Market_share_of_leading_PC_vendors (accessed April 30, 2013).
⁴² Lenovo (2012) "2011-12 Annual Report," http://www.lenovo.com/ww/lenovo/pdf/report/E_099220120531d.pdf (accessed April 30, 2013).
⁴³ Lenovo (August 19, 2010) "Lenovo Reports First Quarter 2010/11 Results," http://news.lenovo.com/article_display.cfm?article_id_1364 (accessed April 30, 2013).
⁴⁴ Lenovo (January 18, 2011) "Lenovo Creates New Mobile Internet Business Group to Focus on Tablets, Smartphones and Smart TVs," http://news.lenovo.com/article_display.cfm?article_id_1410 (accessed April 30, 2013).
⁴⁵ Kim, Y. H. (October 24, 2012) "Lenovo Looks to New Markets," *Wall Street Journal*, <http://online.wsj.com/article/SB10001424052970203897404578076241324650654.html> (accessed April 30, 2013).
⁴⁶ Lenovo (May 8, 2012) "Lenovo Launches Innovative Smart TV Across China," http://news.lenovo.com/article_display.cfm?article_id_1588 (accessed April 30, 2013).
⁴⁷ Lenovo (2012) "2011-12 Annual Report," http://www.lenovo.com/ww/lenovo/pdf/report/E_099220120531d.pdf (accessed April 30, 2013).
⁴⁸ Ibid., Lenovo (February 8, 2013) "Lenovo Product Reviews CES 2013 Awards," <http://www.partnerinfo.lenovo.com/partners/us/resources/downloads/reviews/Lenovo-Product-Reviews-CES-2013-Awards.pdf> (accessed April 30, 2013).
⁴⁹ Kaul, A. (2012) "'Doing' the Act: Lenovo and Corporate Reputation," *Emerald Emerging Markets Case Studies*, 2 (8), pp. 1-16.
⁵⁰ Yang, Y. Q. (May 27, 2010) "2009-10 Full Year Results Presentation," Lenovo, <http://www.lenovo.com/ww/lenovo/pdf/Lenovo%202009-10%20Q4%20Results%20FINAL%20EN.pdf> (accessed April 30, 2013).

Competitive advantages

success of this "protect and attack" strategy hinged on the company's many competitive advantages.

1

Strong China Position

China was an important PC market, and in 2011 the country accounted for 21% of the global market.⁵⁰ Half of Lenovo was of Chinese heritage; as discussed, its rise to the top position of the Chinese market in the 1990s was enabled by its understanding of and proximity to the market. With the rapid growth in market size and the Chinese government's computer subsidy programs, Lenovo was well-positioned to benefit from such exogenous favorable factors.⁵¹ The "protect and attack" strategy refocused the company's attention on its heritage base and gave the company an almost instant boost in its performance for the financial year 2009-2010. That year saw the company's China performance outperform that of the market, achieving a 57% growth rate versus the market's 47%.⁵² Lenovo commanded around 30% of the China market, which had contributed on average 43% of the company's revenue and 134% of operating profit since 2007.⁵³ The company systematically increased its penetration in tier 1-3 cities; after achieving high penetration rates in those cities, it then extended that to tier 4-6 cities, which offered the company ample room for growth as PC penetration in rural China was still low.⁵⁴

PC is important to me

2

Manufacturing Capability at Low Cost

China not only offered a low overhead cost base for the company, the country's "global factory" position meant that the company was collocated to most of its component parts, allowing for efficient and low-cost inventory and supply-chain management. Believing that the manufacturing base was one of its fundamentals, and contrary to general industry practice, Lenovo kept 50% of its manufacturing base in-house with six facilities in the PRC and others in Brazil, Japan and the United States.⁵⁵ The manufacturing facilities allowed Lenovo to remain unaffected during the flooding of Thailand in 2011, which thwarted the country's hard-drive manufacturing upon which most brands depended. By controlling its own manufacturing base, the company shifted production towards those models with hard drives available.⁵⁶ But the most important benefit of owning a low-cost manufacturing base was iterated by Yang: "You must know how to keep up with the pace [of innovation], control inventory, to match supply with demand and handle very fast turnover."⁵⁷

50% in house

Leapfrog speed w/isa

2013), p. 7. Yang, Y. Q. (May 23, 2012) "2011-12 Annual Results Presentation," Lenovo, http://www.lenovo.com/www/lenovo/pdf/lenovo_Q4_FY12_PPT_Eng_FINAL_v1_Combined.pdf (accessed April 30, 2013), p. 9

⁵⁰ Wu, T. and Wu, I. (September 4, 2012) "Lenovo Group Ltd.," Credit Suisse, https://doc-research-and-analytics.csfb.com/docView?sourceid=em&document_id=x468928&serialid=A%2FReq%2Fn%2F8OZofChUBXqq%2FoBYHAYl'sRb13veHfzLmVw%3D (accessed April 30, 2013)

⁵¹ Lemon, S. and Fletcher, O. (March 5, 2009) "China Offers Computer Subsidy for Farmers," *PCWorld*, <http://www.pcworld.com/article/160750/article.html> (accessed April 30, 2013)

⁵² Yang, Y. Q. (May 27, 2010) "2009-10 Full Year Results Presentation," Lenovo, <http://www.lenovo.com/www/lenovo/pdf/lenovo%202009-10%20Q4%20Results%20FINAL%20EN.pdf> (accessed April 30, 2013)

⁵³ Wu, T. and Wu, I. (September 4, 2012) "Lenovo Group Ltd.," Credit Suisse, https://doc-research-and-analytics.csfb.com/docView?sourceid=em&document_id=x468928&serialid=A%2FReq%2Fn%2F8OZofChUBXqq%2FoBYHAYl'sRb13veHfzLmVw%3D (accessed April 30, 2013)

⁵⁴ Wu, T. (August 17, 2012) "Lenovo Group Ltd.," Credit Suisse, https://doc-research-and-analytics.csfb.com/docView?language=ENG&source=ulg&format=PDF&document_id=995551251&serialid=xhbn%2Bzlrk47QaUphW19uvsNSCag9n5CPeO970zhlrA%3D (accessed April 30, 2013)

⁵⁵ Tuo, Y. N. (July 23, 2012) "Lenovo Keeps Manufacturing In-House," *China Daily*, http://www.chinadaily.com.cn/bizchina/2012-07-23/content_15607801.htm (accessed April 30, 2013); Wikipedia (2013) "Lenovo," www.en.wikipedia.org/wiki/lenovo (accessed March 12, 2013)

⁵⁶ Ware (July 10, 2012) "Lenovo Seeks to Build Its Brand," http://www.warc.com/LatestNews/News/Lenovo_seeks_to_build_its_brand?ID=30086 (accessed April 30, 2013)

⁵⁷ Lu, Q. (2000) *China's Leap into the Information Age: Innovation and Organization in the Computer Industry*, Oxford University Press. Oxford, p. 96

I need to be at top for to provide customized ~~Scale~~ high volume

Lenovo implemented a vendor-managed inventory model and reduced the overall logistics operation time from 30-100 hours to 3-5 hours and its inventory turnover period from 7-10 days to 0.5 days. This, coupled with the economy of scale achieved by the extremely high-volume sales, implied a capability of customization of scale. That was why market position was important to Lenovo, for a top market position meant volume, and volume drove down unit cost, shared the overhead cost and enabled customization at low cost.

Strong Distribution Network

The China market presented PC manufacturers with mature markets (the cities) and emerging markets (the rural regions). Lenovo addressed this with two different sets of distribution models, that is, "e-City malls, retail stores and local dealers" for the cities' mature markets and a "go-to-market strategy that [involved] educating the consumer on PC technologies" for the rural regions.⁵⁹ This approach successfully created demand for PCs in rural China, which was the driver for the year-on-year growth of the company's PC sales volume despite the fact that the China market was experiencing decline.⁶⁰

The company adopted an indirect channel model for emerging markets such as the UAE by appointing distributors, and treated them as "an extension of the organisation."⁶¹ The overall objective was to improve the company's retail coverage for transactional sales targeted to serve consumers and small and medium business customers. For the European and Japanese markets, Lenovo made acquisitions to build its distribution networks. In 2011, Lenovo acquired Germany's Medion AG and formed a joint venture with Japan's NEC. The acquisitions also boosted Lenovo's market share in Germany to 14% and in Japan to 25%.⁶²

For the US market, where it trailed behind HP and Dell, the company partnered with key local retailers to boost its retail presence from the minimum to about 4,000 points of presence.⁶³ It also penetrated distributors' networks by offering the distributors' dealers "60 days interest free inventory financing."⁶⁴ The attack strategy was delivering results; the company's market share in the United States had been below 5% since its IBM acquisition, but in 2011 it had grown beyond 7%.⁶⁵

UAE, EU, Jap

Conveys 2 diff - Small Medium Strategies

USA

⁵⁸Ahrens, N. and Zhou, Y. (January 2013) "China's Competitiveness: Myth, Reality, and Lessons for the United States and Japan: Case Study -Lenovo." Center for Strategic & International Studies, http://csis.org/files/publication/130129_competitiveness_Lenovo_casestudy_Web_0.pdf (accessed April 30, 2013).
⁵⁹Wu, T. and Wu, I. (September 4, 2012) "Lenovo Group Ltd.," Credit Suisse, https://doc.research-and-analytics.csfb.com/docView?sourceid_em&document_id_x468928&serialid-A%2FReq%2Fn%2FR0ZofChUBXqq%2FoBYHAYPsRbl3veI6iZl_mVw%3D (accessed April 30, 2013), p. 1.
⁶⁰Ibid. According to the article, the PC market in China in the second quarter of 2012 dropped by 5.4%.
⁶¹Lenovo (October 1, 2009) "Lenovo Unifies Channel Strategy and Launches New Channel Partners," <http://www.lenovo.com/news/uk/en/2009/10/channel.html> (accessed April 30, 2013); Seymour, A. (January 28, 2010) "Lenovo Goes for Local Distribution with Metra," <http://www.itp.net/579120-lenovo-goes-for-local-distribution-with-metra@UFF1ZCKOwrIV> (accessed April 30, 2013); RWME Contributor (July 16, 2012) "Building Effective Channels in Emerging Markets," *Reseller Middle East*, <http://www.resellerme.com/speak-out/building-effective-channels-in-emerging-markets> (accessed April 30, 2013).
⁶²Hille, K. and Kwong, R. (June 1, 2011) "Lenovo Buys Medion to Bolster Europe Profile," *Financial Times*, <http://www.ft.com/intl/cms/s/2/73fc1cc-8c53-11e0-b1e8-00144fcab49a.html#axzz2MYd9MXRi> (accessed April 30, 2013); Alabaster, J. (September 4, 2012) "NEC Sells Shares in Lenovo, Japan PC Joint Venture Unaffected," *PCWorld*, http://www.pcworld.com/article/261890_nec_sells_shares_in_lenovo_japan_pc_joint_venture_unaffected.html (accessed April 30, 2013); Toto, S. (July 4, 2011) "Lenovo and NEC Launch PC Joint Venture in Japan," *TechCrunch*, <http://techcrunch.com/2011/07/04/lenovo-and-nec-launch-pc-joint-venture-in-japan/> (accessed April 30, 2013).
⁶³Wang, J. (January 20, 2012) "Lenovo Eyes on US Expansion," *China Daily*, http://usa.chinadaily.com.cn/epaper/2012-01/20/content_14482650.htm (accessed April 30, 2013).
⁶⁴Lenovo (June 2011) "Partner Credit Program," http://www.partnerinfo.lenovo.com/partners/us/resources/downloads/financing/Partner_Credit_Program_Introduction.pdf (accessed April 30, 2013).
⁶⁵Wang, J. (January 20, 2012) "Lenovo Eyes on US Expansion," *China Daily*, http://usa.chinadaily.com.cn/epaper/2012-01/20/content_14482650.htm (accessed April 30, 2013).

④ An Understanding of Emerging Markets

Yang described his "attack" strategy in **emerging economies** ("EE") almost immediately after he took up the CEO role again: the company would focus on driving for market share with lower-end product lines in EE.⁶⁶ Over the years, the objectives of the company's business in EE had evolved from investing to gain shares to moving to profitability.⁶⁷ A 10% market share was the threshold for turning a profit in any EE, and the strategy seemed to be gaining traction—the India market share was 13%, while that for Russia was 9.6% as reported in the company's latest annual report.⁶⁸ EE were known for their unfriendly business environments, and a long-term approach was necessary for any company to build presence and establish capability before profitability could be put on the table. Even its channel partners acknowledged the company's understanding of EE as one of the reasons for it becoming "the No. 1 brand in these markets."⁶⁹

Need presence
- Move from market shares to profitability

⑤ Deployment of Strategic Acquisitions

At the beginning of 2010, Yang said that Lenovo was "looking for acquisition opportunities in China's mobile Internet sector, the global consumer computer market and developing regions."⁷⁰ Ever since he came on board again as CEO, Yang had added to Lenovo's asset portfolio by:

- paying US\$200 million in 2009 to buy back its mobile division, which formed the foundation of the company's establishment of the MIDH business unit⁷¹
- establishing a joint venture with NEC in Japan in 2011, which boosted the company's market share position in Japan to number one⁷²
- acquiring in 2011 majority shares of Germany's Medion to boost its distribution network and market share position to 14%⁷³
- acquiring in 2012 Brazil's CCE, a move to complement Lenovo's US\$30 million investment in manufacturing facilities in the country in preparation for the country's expected economic boom due to the hosting of the World Cup and the Summer Olympics in 2014 and 2016 respectively⁷⁴
- making its first software company acquisition, also in 2012—Stoneware of the United States—that would boost the company's cloud computing capability⁷⁵

Strategic Acquisitions

⁶⁶ Fletcher, O (April 2, 2009) "Lenovo Details Low-Price Emerging Market Strategy," *Computerworld*, http://www.computerworld.com/s/article/9130969/lenovo_details_low_price_emerging_market_strategy (accessed April 30, 2013)

⁶⁷ Yang, Y. Q (May 27, 2010) "2009-10 Full Year Results Presentation," Lenovo, <http://www.lenovo.com/ww/lenovo/pdf/Lenovo%202009-10%20Q4%20Results%20FINAL%20EN.pdf> (accessed April 30, 2013), Yang, Y. Q (May 23, 2012) "2011-12 Annual Results Presentation," Lenovo,

http://www.lenovo.com/ww/lenovo/pdf/Lenovo_Q4_FY12_PPT_Eng_FINAL_v1_Combined.pdf (accessed April 30, 2013).

⁶⁸ Hong Kong Stock Company News (July 27, 2012) "Lenovo's Emerging Market Is Not Profitable Will Be the Scale-Driven Profit," <http://www.garft.com/lenovos-emerging-market-is-not-profitable-will-be-the-scale-driven-profit> (accessed April 30, 2013), *The Economist* (January 12, 2013) "From Guard Shack to Global Giant,"

<http://www.economist.com/bk/news/business/21569398-how-did-lenovo-become-worlds-biggest-computer-company-guard-shack-global-giant> (accessed April 30, 2013), Lenovo (2012) "2011-12 Annual Report,"

http://www.lenovo.com/ww/lenovo/pdf/report/F_099220120531d.pdf (accessed April 30, 2013).

⁶⁹ RWMF Contributor (July 16, 2012) "Building Effective Channels in Emerging Markets," *Reseller Middle East*, <http://www.resellerme.com/speak-out/building-effective-channels-in-emerging-markets/> (accessed April 30, 2013).

⁷⁰ Back, A (March 15, 2010) "Lenovo Hunts for Acquisition," *Wall Street Journal*, <http://online.wsj.com/article/SB10001424052748703625304575116713662165260.html> (accessed April 30, 2013).

⁷¹ Lenovo (November 29, 2009) "Lenovo to Acquire Mobile Handset Business," <http://www.lenovo.com/news/us/en/2009/11/mobile-handset.html> (accessed April 30, 2013).

⁷² Dubib com (July 4, 2011) "NEC, Lenovo Finalize Joint Venture and Launch Japan's #1 PC Company," http://bai.dubib.com/news/9705_nec-lenovo-finalize-joint-venture-and-launch-japan-s-1-pc-company#_UTn8naOwrIV (accessed April 30, 2013).

⁷³ Chua, T (August 3, 2011) "Lenovo Acquires 51% of Medion Stake," *Hong Kong Business*, <http://hongkongbusiness.hk/manufacturing/more-news/lenovo-acquires-51-medion-stake> (accessed April 30, 2013).

⁷⁴ Lenovo (September 5, 2012) "Lenovo Acquires CCE to Build PC+ Leader in Brazil,"

http://news.lenovo.com/article_display.cfm?article_id=1628 (accessed April 30, 2013).

⁷⁵ Lenovo (September 18, 2012) "Lenovo Acquires Stoneware to Expand Secure Cloud Computing,"

http://news.lenovo.com/article_display.cfm?article_id=1631 (accessed April 30, 2013).

- investing in Israel's technology-oriented venture capital fund Vertex, to keep the company abreast of technological developments and investment opportunities in Israel⁷⁶
- forming a joint venture with EMC to improve the company's capability in providing network-attached storage solutions to small and medium-sized businesses.⁷⁷

It seemed that Lenovo would not stop using acquisition as a tool to boost its growth. It was reported that Lenovo was considering acquisition of IBM's server business and buying 50% of Sharp, the Japanese TV manufacturer.⁷⁸

Acquisition
Decision to be made



Strong Leadership

No one would dispute the fact that Lenovo's rebound owed much to its leadership. Liu Chuanzhi, the highly respected founder of Lenovo, played an anchor role in ensuring that the company made the right call every time a strategic decision was made. Among Yang's many swift acts after retaking the CEO position in 2009 was his decision to streamline the senior leadership team from a couple of dozen people to only nine, which sped up the company's decision cycle.⁷⁹ The company's leaders resided in different operation hubs and met once every one to two months for a few days in different key markets to review the business; the results were focused, aligned, but swift actions taken to boost performance in the key markets [see Exhibit 4 for more about Lenovo's management team].⁸⁰ Yang also lured top-notch veterans to strengthen areas requiring an extra boost. In 2010, he hired the reportedly "only executive [in the industry] that [had] executed a program that matched if not exceeded Apple's best" as the company's new chief marketing officer.⁸¹ In 2011, he engaged an ex-Acer CEO, who had helped build Acer's business in Europe, to head up Lenovo's Europe, Middle East and Africa business. After assuming the chairman role again in 2011, Yang moved to elevate the profile and the strategic and networking capabilities of the company's board by appointing in 2011 retired Sony chairman and chief executive Nobuyuki Idei as an independent non-executive director and in 2013 Yahoo's co-founder and former CEO Jerry Yang as a "board observer."⁸²

C
T
S

The Weakest Link

A Brand That Trailed Behind

Despite the fact that the company was the largest supplier of PCs in the world, Lenovo was "still a relatively unknown brand in most corners of the globe."⁸³ It was estimated that the company had spent over US\$1.3 billion in marketing and promotion activities for the fiscal years of 2009-2012, but the Lenovo brand remained a mediocre one on the global stage [see Exhibit 5 for an estimation of marketing and promotion spending of Lenovo in 2009-2012].

\$1.3 bn
not in marketing

⁷⁶ Lenovo (February 27, 2012) "Lenovo Invests in Vertex Venture Capital to Further Expand in Israel," http://news.lenovo.com/article_display.cfm?article_id=1567 (accessed April 30, 2013).
⁷⁷ Lenovo (January 3, 2013) "Lenovo and EMC Create LenovoEMC JV to Bring Network Attached Storage to SMBs and Distributed Enterprise Sites," http://news.lenovo.com/article_display.cfm?article_id=1652 (accessed April 30, 2013).
⁷⁸ Davis, J. (April 26, 2013) "Lenovo in Talks to Buy IBM's x86 Server Business," *MSPmentor*, <http://mspmentor.net/managed-services/lenovo-talks-buy-ibms-x86-server-business> (accessed April 30, 2013); Eisenhauer, J. (January 18, 2013) "Can Lenovo Get Sharp?" *CNET*, <http://asia.cnet.com/can-lenovo-get-sharp-62220188.htm> (accessed April 30, 2013).
⁷⁹ Salter, C. (November 22, 2012) "Protect and Attack, Lenovo's New Strategy," *Fast Company*, <http://www.fastcompany.com/1793529/protect-and-attack-lenovos-new-strategy> (accessed April 30, 2013).
⁸⁰ Ibid.
⁸¹ Enderie, R. (March 24, 2010) "Could David Roman Enable Lenovo to Rival Apple?" *Datamation*, <http://www.datamation.com/columns/article.php/3872621/Could-David-Roman-Enable-Lenovo-to-Rival-Apple.htm> (accessed April 30, 2013).
⁸² Perez, B. (February 25, 2013) "Lenovo Makes Key Hires for Growth," *South China Morning Post*, <http://www.scmp.com/business/companies/article/1157838/lenovo-makes-key-hires-growth> (accessed April 30, 2013).
⁸³ Bulik, B. S. (January 9, 2012) "What Do You Do When Your Business Outpaces Your Brand? Lenovo May Soon Have the Answer," *Ad Age*, <http://adage.com/article/cmo-interviews/lenovo-increasing-brand-awareness/231929/> (accessed April 30, 2013).

While its competitors in the new paradigm, Apple and Samsung, were ranked as the second and ninth best brands in 2012 by Interbrand, Lenovo continued to be absent from the top 100 list. To add insult to injury, its brand ranking in China dropped in three consecutive years, from 2010's 12th to 2011's 13th and to 2012's 15th, despite the fact that the company had increased its marketing and promotion spending by US\$156 million in 2011 and further by US\$248 million in 2012.⁸⁴

Marketing not working

The Importance of a Global Brand

Yang regarded a global brand as the key driver in improving the company's profitability; he saw a price disadvantage in Lenovo's products arising from the lack of a good brand, saying "sometimes the difference is as much as \$50 per machine."⁸⁵ A strong brand was required to complete the company's portfolio of sustainable advantages for competing head to head with global names, such as Apple and Samsung, in the domain of smart connected devices. Its importance was literally reflected by the 35 mentions of "brand" in Lenovo's latest annual report, compared with the 19 mentions of the MIDH business unit, the unit that was instrumental to Lenovo's growth in the smart connected device industry.⁸⁶ Lenovo had reported some progress on its brand-building investment in its latest annual report: "According to a third party measurements [*sic*], Lenovo's consumer brand consideration has grown 86% year-on-year across its key markets (including U.S., India, Russia, Japan and Germany) where Lenovo increased investment to enhance its brand presence."⁸⁷

Branding not helping me price more

The Splitting of Brands

Entering 2013, Yang announced a reorganization that saw the splitting of Lenovo into the Lenovo business group and the Think business group, which effectively meant the separation of the Lenovo brand and the Think brand into two separate family brands, instead of the latter being a sub-brand of the former.⁸⁸ The restructuring represented the company's acknowledgement that the Lenovo brand lacked the heritage and profile to be positioned at the high end; the Think brand was the best brand asset that stood a chance to compete against Apple.⁸⁹ The repositioning exercise meant the company would be using the Lenovo brand for the mass and lower-end segment.

Think
Apple
Lenovo
Not using
mass lower-end segment

The PC+ Era: How Well Will It Fare?

The Group is fully committed to the PC industry... The Group will continue its successful "Protect and Attack" strategy ... while also expanding its business across the four screens.

- 2011-2012 Annual Report, the Lenovo Group⁹⁰

⁸⁴ Interbrand (December 17, 2012) "Interbrand Launches Best China Brands Report 2012," <http://www.interbrand.com/en/knowledge/blog/post/2012-12-17/interbrand-launches-best-china-brands-2012.aspx> (accessed April 30, 2013); Interbrand (September 15, 2012) "Interbrand Releases 2011 Best China Brands Report," http://www.interbrand.com/libraries/Press_Release/Interbrand_2011BestChinaBrands_Press_Release_EN0914.stfb.ashx (accessed April 30, 2013); Interbrand (2011) "Best-in-Class to World Class Best China Brands 2011," <http://www.interbrand.com/en/interbrand-offices/interbrand-shanghai/best-china-brands-2011.aspx> (accessed April 30, 2013).

⁸⁵ Wang, J. (January 20, 2012) "Lenovo Eyes on US Expansion," *China Daily*, http://usa.chinadaily.com.cn/epaper/2012-01-20/content_14482650.htm (accessed April 30, 2013).

⁸⁶ Lenovo (2012) "2011-12 Annual Report," http://www.lenovo.com/ww/lenovo/pdf/report/E_099220120531d.pdf (accessed April 30, 2013).

⁸⁷ *Ibid.*

⁸⁸ Liao, Y. Q. (January 7, 2013) "Lenovo to Split into Two Biz Groups," *ZDNet*, <http://www.zdnet.com.cn/lenovo-to-split-into-two-biz-groups-7000009431/> (accessed April 30, 2013).

⁸⁹ *Ibid.*

⁹⁰ Lenovo (2012) "2011-12 Annual Report," http://www.lenovo.com/ww/lenovo/pdf/report/E_099220120531d.pdf (accessed April 30, 2013), p. 29.

In its most recent annual reports, Lenovo spelled out clearly that it was entering into the PC+ era. The fact that 90% of its business came from the PC market explained why the company, when facing its shareholders, had to downplay the importance of the changing paradigm and to reassert its commitment to and the significance of the PC industry. But in terms of its strategic and operational focus, the company had started preparing for this shift after Yang retook the CEO seat in 2009, the year when he repurchased the Lenovo mobile division by paying US\$200 million, twice what it sold for in 2008.⁹¹ The setting up of the MIDH business group in early 2011 indicated that Lenovo was ready to report and benchmark its mobile performance. From this angle, the extension of Lenovo's battlefields to the smart connected device industry was formalized.

But the likely shift from PCs to laptops and tablets upon PC replacement was a hard fact that the company was managing, and its smartphone capability in comparison to Samsung and Apple was yet to be proven. So how well would the company fare in the redefined landscape?

The company's commitment to the PC industry meant that it would build on its existing competitive advantages and it would continually adopt the "protect and attack" approach in the face of the fast-changing market paradigm. To brush up its capability and to recalibrate its product focus, the company had announced in 2012 the investment of US\$800 million to build a dedicated facility for mobile internet devices in Wuhan, China.⁹² Building its own manufacturing capability meant that the company needed high volume to drive down the cost, so the old formula of the "protect and attack" strategy applied—a strong position in China had to be maintained. But the game was a lot more complicated; unlike with PCs, Lenovo had never claimed the holy grail of being the top smartphone vendor in China. Apart from top-notch international players, there were also strong domestic competitors, such as Huawei, which made the headline of becoming the world's number-three smartphone vendor in the fourth quarter of 2012.⁹³ Would Lenovo be able to pull off more magic after its PC achievements?

There were reports that the company was eyeing major mobile players, such as Nokia (which Lenovo denied) and BlackBerry owner Research In Motion ("RIM"), to further boost its mobile capability. And the company admitted that it was in talks with IBM and Sharp to acquire the former's server business and 50% of the latter.⁹⁴ But the company had been frequently adding assets across the globe to its balance sheet. Could it just keep on doing this with another major acquisition like the one rumored without jeopardy?

And the company's investment in building a global brand had so far yielded mediocre returns. Would the company finally break through the barriers faced by Chinese companies and make the list of global top 100 brands? Would the "protect and attack" strategy still work its magic in the new competitive landscape?

⁹¹ Wikipedia (February 28, 2013) "Lenovo," <http://en.wikipedia.org/wiki/Lenovo> (accessed April 30, 2013).

⁹² Lenovo (May 7, 2012) "Lenovo Establishes Industrial Base in Wuhan," http://news.lenovo.com/article_display.cfm?article_id=1587 (accessed April 30, 2013).

⁹³ IDC (January 24, 2013) "Strong Demand for Smartphones and Heated Vendor Competition Characterize the Worldwide Mobile Phone Market at the End of 2012, IDC Says," <https://www.idc.com/getdoc.jsp?containerId=prUS23916413> (accessed April 30, 2013).

⁹⁴ Reisinger, D. (August 1, 2012) "Buy Nokia? Surely You Jest, Lenovo Exec Says," *CNET*, http://news.cnet.com/8301-1035_3-57484258-94_buy-nokia-surely-you-jest-lenovo-exec-says (accessed April 30, 2013); Shu, C. (January 27, 2013) "Lenovo Downplays RIM Acquisition Reports, Says It's Looking at M&A Opportunities in General," *TechCrunch*, <http://techcrunch.com/2013/01/27/lenovo-downplays-rim-acquisition-reports-says-its-looking-at-ma-opportunities-in-general/> (accessed April 30, 2013).

⁹⁵ Davis, J. (April 26, 2013) "Lenovo in Talks to Buy IBM's x86 Server Business," *MSPmentor*, <http://mspmentor.net/managed-services/lenovo-talks-buy-ibms-x86-server-business> (accessed April 30, 2013); Eisenhauer, J. (January 18, 2013) "Can Lenovo Get Sharp?" *CNET*, <http://asia.cnet.com/can-lenovo-get-sharp-62220188.htm> (accessed April 30, 2013).

EXHIBIT 1: APPLE—FROM IPOD TO IPAD, AND THE RISE OF IOS

From iPod to iPad

People were familiar with the Apple story—how Steve Jobs founded the company, how he was ousted and how he returned to turn the company around. This exhibit focused on the company's four "i"s that had helped the company change the landscape of the smartphone and PC industry, that is, iPod, iPhone, iPad and iOS. It should begin with the 2001 launch of the iPod, the hugely successful portable digital music player, which marked the defining moment of Apple evolving from a computer company to a manufacturer of powerful "computers" in the form of consumer electronic goods.

The late Steve Jobs used the iPod wisely. From a revenue extraction point of view, the gadget, which could store up to 1,000 songs, compared with an MP3 player that could store an hour's worth of music, was priced initially at US\$399. An extra revenue source was exploited by the "Made for iPod" logo, which licensed the production of iPod add-on products at around 5% of the retail price of each item. Consumers were estimated to have spent an additional US\$1 per every US\$3 spending on their iPods.⁹⁶ The result was huge add-on revenues at no cost at all to Apple. From a margin extraction perspective, Apple rode on the huge volume turnover of the iPod and negotiated hard with bulk volume purchases of flash memory, the single component that made up half of the cost of the iPod. For instance, Apple paid Intel and Micron an upfront US\$500 million to buy a significant percentage of their memory output.⁹⁷ A similar procurement approach was followed with Hunix, Samsung and Toshiba. These measures contributed to the margin performance of the company; for example, in 2007, the gross margin of an iPod nano was around 40%.⁹⁸ Later, Apple would deploy the same tactics to boost the margins of the iPhone and the iPad.

But these were not the only reasons for Apple's success in managing the iPod. The strategic moves that Steve Jobs had made with the iPod were moves that shed light on the future strategic decisions that Apple would make in managing the iPhone, iPad and iOS. The iPod claimed dominance in the MP3 market not only because of its sleek design and the famous central click wheel, but because of the ecosystem that the iPod had created with the launch of iTunes applications. After the iPod was launched, rival MP3 players quickly caught up with the gadget in terms of hardware. But Apple's launch of the iTunes store put the iPod in a superior position. The application allowed iPod owners to synchronize their device with their computers. In April 2003, Apple launched the first legitimate online music store that allowed music downloads on a pay-per-song basis. The store offered songs from five major record labels and from independent music labels to iPod users at US\$0.99 per song. Within three days of its launch, one million downloads of iTunes were recorded with one million songs purchased via the music store.⁹⁹

Because of the iTunes store, sales of the iPod shot up. Before iTunes, Apple on average sold 113,000 iPods per quarter, but after the store's launch, turnover shot up to 733,000 units that quarter and the growth momentum did not just stop there.¹⁰⁰ According to Apple's financial

⁹⁶ Darlin, D. (February 3, 2006) "The iPod Ecosystem," *New York Times*, <http://www.nytimes.com/2006/02/03/technology/03ipod.html?pagewanted=all> (accessed April 30, 2013).

⁹⁷ Hesseldahl, A. (September 22, 2007) "Unpeeling Apple's Nano," *Bloomberg BusinessWeek*, http://www.businessweek.com/technology/content/sep2005/te20050921_4557.htm (accessed April 30, 2013).

⁹⁸ Ricker, T. (September 19, 2007) "iSuppli: New iPod Nano Costs Apple Less than \$83 in Components," *engadget*, <http://www.engadget.com/2007/09/19/isuppli-new-ipod-nanos-cost-apple-just-59-and-83-in-components/> (accessed April 30, 2013).

⁹⁹ Script Kiddie (January 2003) "Whooh Hoooo! 1 Million in 3 Days," *ehMac.ca*, <http://www.ehmac.ca/anything-mac/3205-whooh-hoooo-1-million-3-days.html> (accessed April 30, 2013).

¹⁰⁰ Essay Fuhrer Bot (July 8, 2011) "Free Essay on 'Apple Inc in 2010'," *essayfree.net*, <http://essayfree.net/free-essay-on-apple-inc-in-2010/> (accessed April 30, 2013).

results (Q1 2002 to Q1 2007), a total of 88.7 million iPods were sold. Apple could see the critical mass implications of the positive network effects of bringing suppliers and consumers on an application platform, an important input for the business model of iOS and its Apps Store.

The strategic implications of the iPod's path did not just stop there. Apple ran a cooperation project with Motorola in 2005 that allowed iTunes to be pre-installed in the mobile vendor's Rokr E1. The market's response was not positive, and this reinforced Steve Jobs's belief that complete control of product design and production was necessary to bring out the best in the company's applications.¹⁰¹

When the launch of the iPhone was announced in January 2007, it created much hype among consumers. Even though Apple did not deploy any high-profile marketing campaigns in preparing for the company's entry into the highly competitive and commoditized mobile market, the iPhone's launch in June 2007 was an instant big hit. While the marketing campaign created high expectations for the iPhone, the product managed to live up to customers' expectations. The network effect of bringing the customers and the application developers together via the iOS platform resulted in critical mass of both iPhone users and application developers, thus explaining the high volume of sales of iPhones.

Like the iPhone, the iPad was an instant hit when it was launched in April 2010. In just 11 months, 15 million units of iPads were sold.¹⁰² A report described the iPad as "a product that nobody knew they wanted until they had seen one"; this summed up the strikingly new concept the iPad embodied, which would redefine the boundaries of the smartphone and PC/laptop industries.¹⁰³ By the first quarter of 2013, a total of 319 million iPhones and 121 million iPads were sold.¹⁰⁴

Apple vertically integrated every manufacturing process of the iPhone and iPad, and leveraged fully on their turnover volume to ensure that it would capture the greatest share of value in squeezing margins from its global supply chain. For instance, at a retail price of US\$599 (iPhone 4 16G), the cost of the device was estimated to be US\$187.51, allowing the company a gross margin of 58.5%.¹⁰⁵

The deployment of Apple's own retail store in the success of iPhone and iPad sales deserved a special mention. The Apple Store was one of the first initiatives of Steve Jobs after his return to Apple. A physical store had the double advantage of on the one hand allowing Apple to take back control of how a product was presented, which was an important part of the brand experience, and on the other hand allowing trained staff to "coach" customers in the best way to use an innovative Apple product, which at times was so innovative that coaching was definitely required to get the customer hooked up with the product. The first Apple Store was opened in May 2001, and had quickly proven analysts who had predicted the speedy exit of

¹⁰¹ Hackett, S. (July 17, 2009) "The ROKR E1," *512 Pixels*, <http://512pixels.net/the-rokr-e1/> (accessed April 30, 2013).

¹⁰² Wikipedia (March 3, 2013) "iPad (1st Generation)," [http://en.wikipedia.org/wiki/IPad_\(1st_generation\)](http://en.wikipedia.org/wiki/IPad_(1st_generation)) (accessed April 30, 2013).

¹⁰³ Reimer, J. (August 14, 2012) "From Altair to iPad: 35 Years of Personal Computer Market Share," *Ars Technica*, <http://arstechnica.com/business/2012/08/from-altair-to-ipad-35-years-of-personal-computer-market-share/> (accessed April 30, 2013).

¹⁰⁴ Search India (February 28, 2013) "Total iPhone and iPad Sales 2007-2013," <http://www.searchindia.com/2013/02/28/total-iphone-and-ipad-sales-2007-2013/> (accessed April 30, 2013).

¹⁰⁵ Keller, K. (June 28, 2010) "iPhone 4 Carries Bill of Materials of \$187.51, According to iSuppli," *iSuppli Market Intelligence*, <http://www.isuppli.com/Teardowns-Manufacturing-and-Pricing/News/Pages/iPhone-4-Carries-Bill-of-Materials-of-187-51-According-to-iSuppli.aspx> (accessed April 30, 2013).

the store wrong.¹⁰⁶ By 2007, the Apple Store was among the top retailers in the world with a turnover of US\$4,036 per square foot a year.¹⁰⁷

The success of the Apple Store as the company's major distribution channel for the iPhone increased Apple's negotiation power with the network operators, whom mobile vendors traditionally depended on as distribution channels for their phones.

iOS

iOS was the key factor behind the phenomenal success of Apple's iPhone and iPad. It was a proprietary platform owned by Apple; therefore it would only be deployed on Apple's products. Sitting in the middle of the platform was the Apps Store—the key to the success of Apple devices in locking in customers and application developers. The importance of the total experience of end users and the positive feedback loop effect on both users and application developers could not be emphasized more. In terms of attracting application developers, iOS was the clear preference for application developers over other OS, including its most important opponent, Android.¹⁰⁸ One of the reasons was that writing applications for iOS was easier, or easiest among all the smartphone OS.¹⁰⁹ Knowing the importance of quickly building up a critical mass of applications, Apple had tried to lower the barriers to entry for application developers, which seemed to be working. It seemed that developers could write their applications with the Tool Kit downloaded from Apple and assistance from public sources but without the need to attend courses.¹¹⁰

Monetary return was of importance in attracting developers' resources. It was reported that the App Store had generated around US\$6.9 billion and US\$9 billion revenue respectively for the two calendar years of 2011 and 2012.¹¹¹ Reports further showed that the iOS App Store generated 350% more revenue than Android in 2012.¹¹² As Steve Jobs had pointed out in his keynote speeches, Apple held more than 200 million credit cards of its users on file, which meant that users were more likely to make purchases. This was an asset that no other OS could match. The higher-end nature of Apple's mobile device also indicated a more affluent user profile, which again contributed to their higher propensity to pay for applications. All these related to the popularity of Apple's App Store among application developers. On January 7, 2013, the company announced that 40 billion apps had been downloaded, excluding redownloads, since the marketplace was launched in 2008.¹¹³ The lock-in of applications enhanced the user experience, achieving an almost organic-like growth of the user-application base of Apple mobile devices. By the end of 2012, there were over 500 million active accounts on the iOS App Store with 775,000 apps available.¹¹⁴ This was something that Android would find it hard to beat even though it had accumulated an asymmetrically huge number of end users under its open policy of mobile vendor adoption.

¹⁰⁶ Wikipedia (March 3, 2013) "Apple Store," http://en.wikipedia.org/wiki/Apple_Store (accessed April 30, 2013).

¹⁰⁷ Hornby, T. (May 19, 2008) "The Roots of Apple's Retail Stores," *Low End Mac*, <http://lowendmac.com/orchard/08th/roots-of-the-apple-store.html> (accessed April 30, 2013).

¹⁰⁸ Jones, C. (December 17, 2012) "Applications Developers Preferred iOS and Android," *Forbes*, <http://www.forbes.com/sites/chuckjones/2012/12/17/application-developers-prefer-ios-and-android/> (accessed April 30, 2013).

¹⁰⁹ Bonnington, C. (April 30, 2012) "Why iOS Apps Look Better Than Android Apps," *Wired*, <http://www.wired.com/gadgetlab/2012/04/easier-design-apps-ios/> (accessed April 30, 2013).

¹¹⁰ Buzbee, J. (January 20, 2009) "How to Write an iPhone App in 14 Days," *SmallNetBuilder*, <http://www.smallnetbuilder.com/apps/articles/376-how-to-write-an-iphone-app-in-14-days> (accessed April 30, 2013).

¹¹¹ Chucks, J. (January 10, 2013) "Apple's App Store Could Generate 22 Billion in 2016 Revenue," *Forbes*, <http://www.forbes.com/sites/chuckjones/2013/01/10/apples-app-store-could-generate-22-billion-in-2016-revenue/> (accessed April 30, 2013).

¹¹² Koetsier, J. (January 30, 2013) "Google Play Revenue Growing 10X Faster than iOS App Store," *VentureBeat*, <http://venturebeat.com/2013/01/30/google-play-revenue-growing-10x-faster-than-apples-ios-app-store/> (accessed April 30, 2013).

¹¹³ Reisinger, D. (January 7, 2013) "Apple App Store Hits 40 Billion Downloads, 20 Billion in 2012, Alone," *CNET*, http://news.cnet.com/8301-13579_3-57562400-37/apple-app-store-hits-40-billion-downloads-20-billion-in-2012-alone/ (accessed April 30, 2013).

¹¹⁴ Ibid

EXHIBIT 2: BRIEF PROFILE OF SAMSUNG

Samsung's credentials went beyond being the world's number one in feature phone sales and smartphone sales in 2012.¹¹⁵ Samsung had developed its own OS—the Bada—a niche OS doing well in the markets of India, Russia and Southeast Asia.¹¹⁶ What was more impressive was its equally successful handset performance irrespective of the OS, whether it was its own Bada, the Android or the Windows Phone.

Samsung, the South Korea-based conglomerate, founded Samsung Electronics in 1969 as a manufacturer of consumer electronic goods, such as TVs and home appliances. Samsung mobile phones were produced under Samsung Telecommunications, a business unit of Samsung Electronics, headquartered in Suwon, South Korea.¹¹⁷ The brand tried entering the mobile scene in 1983, and after a decade of exploration and failures in trying to gain any market position, even in its South Korean home market, it successfully rolled out its SH-700 series in 1993. The model was the predecessor of the Samsung brand "Anycall," and this "Anycall" series helped Samsung beat Motorola and claim the position of best-selling brand in its home market in 1995.¹¹⁸ The next year saw Samsung producing its first CDMA digital phone, and by 1997 the brand had claimed over 50% of the CDMA mobile segment.¹¹⁹ The company faced difficult hurdles in trying to penetrate the GSM markets of Europe, where the then "big three" (Nokia, Motorola and Ericsson) claimed dominance. After several years of failing and numerous unsuccessful models, Samsung learned to focus its efforts in producing models with high-end, simple designs and sophisticated features. This worked. From 1998, the brand slowly and steadily gained its market presence. By 2000, it had a market share of around 5%; by 2003, it had replaced Ericsson to claim third place in global market share; and by 2008, it claimed second place with a 16% market share, trailing only after Nokia.¹²⁰ In the smartphone market, as a latecomer with insignificant smartphone sales in 2007, Samsung surpassed Apple, claiming the largest piece of the smartphone pie in 2011 with shipments of around 95 million units.¹²¹

Samsung's achievement could be attributed to its consistent and relentless efforts to beat a chosen competitor. It spent more than a decade beating Motorola in its home market, moved on to learn from its own failure to successfully penetrate the European market and beat Ericsson, and then was set to beat Nokia as the world's number one by 2014, but of course

¹¹⁵ Gartner, Inc. (February 13, 2013) "Gartner Says Worldwide Mobile Phone Sales Declined 1.7 Percent in 2012," http://www.gartner.com/newsroom/id_2335616 (accessed April 30, 2013); Davidson, R. (February 1, 2013) "Featured Chart: IDC's Smartphone Vendors Market Share for 2012," *iCharts*, <http://www.icharts.net/blogs/2013/featured-chart-idcs-smartphone-vendors-market-share-2012> (accessed April 30, 2013)

¹¹⁶ Vakulenko, M., Schuermans, S., Constantinou, A. and Kapetanakis, M. (November 2011) "Mobile Platforms: The Clash of Ecosystems," Vision Mobile, http://www.visionmobile.com/rsc/researchreports/VisionMobile-Clash-of-Ecosystems_v1.pdf (accessed April 30, 2013)

¹¹⁷ Wikipedia (January 11, 2013) "Samsung Telecommunications," http://en.wikipedia.org/wiki/Samsung_Telecommunications (accessed April 30, 2013)

¹¹⁸ Archer, A. (n.d.) "The History of Samsung Mobile Phones," *eHow*, http://www.ehow.com/about_5211891_history-samsung-mobile-phones.html (accessed April 30, 2013)

¹¹⁹ Wikipedia (January 11, 2013) "Samsung Telecommunications," http://en.wikipedia.org/wiki/Samsung_Telecommunications (accessed April 30, 2013)

¹²⁰ Daniel P. (July 14, 2011) "Four Years of Disruption: Cell Phone Industry Financials 2007-2011," *phonearena.com* http://www.phonearena.com/news/Four-years-of-disruption-cell-phone-industry-financials-2007-2011_id20153 (accessed 30 April 2013)

¹²¹ Editor (10 February 2012) "2011 handset and smartphone sales statistics worldwide: the big picture", *mobithinking.com*, <http://mobithinking.com/blog/2011-handset-and-smartphone-sales-big-picture> (accessed 30 April 2013)

achieved it ahead of target.¹²² Realizing the potential of smartphones after the iPhone's launch in 2007, it directly targeted Apple and beat it to claim the first position in 2011.¹²³

Samsung also had the advantage and the support of complementary business units from within the same group. The screens, chips and internal technological expertise within the Samsung group all enabled it to contain its production costs and ensure a healthy margin, a partial reason why even when the lower-margin feature phone business accounted for over 70% of its sales in 2011, the brand could still pocket around a 15% operating margin.¹²⁴

Samsung's quick progress in the smartphone industry could also be attributed to it holding the largest market share in North America and Western Europe, where smartphone penetration was high at 63% and 51% respectively in 2011.¹²⁵ By the end of 2011, Samsung claimed a 30% and 38.1% share of these two markets.¹²⁶ As North America and Western Europe were major replacement markets for Samsung, the response in these two markets to the high-end Galaxy SII, which launched in the third quarter of 2011, helped boost the company's position to first for the year, and its operating margins too.

The impressive performance of the Galaxy SII was a result of a combination of strong phone features and aggressive marketing, a job that Samsung was good at for years. For example, as the Galaxy SII was a smartphone that competed head-to-head with the iPhone 4S with a similar launch time, Samsung used very aggressive marketing tactics to push for the extra mile in phone sales. For instance, when the iPhone 4S was launched in Australia, Samsung set up a temporary booth next to an Apple Store and offered to sell the Galaxy SII at AU\$2 for the first 10 customers standing in the queue for the iPhone 4S. This was designed as an echo of the Samsung worldwide advertisement in which people queuing up for the iPhone 4S were sharing problems they had with the iPhone and then noticed someone with a Galaxy SII. The advertisement ended with people's comments on the bigger screen size.¹²⁷ With a strong product, this aggressive approach in drawing a direct comparison with the iPhone paid off. Samsung won the battle of 2011's total unit shipment over Apple.

Success did not come without good reason. Samsung's past record said it all. However, market observers scratched their heads when Samsung announced in early 2010 that it was launching its own proprietary OS, Bada. This came when Samsung had earlier announced that more than 50% of its smartphones would use the Android OS.¹²⁸ As the dust settled, it was clear that Samsung intended to use the OS for mid- to low-end smartphones, targeting developing markets where feature phone users would migrate upward to smartphones but were still confined by their disposable income.¹²⁹ To show Android's capability, phone

¹²² Daniel P. (14 July 2011) "Four Years of Disruption: Cell Phone Industry Financials 2007-2011", *phoneArena.com*, http://www.phonearena.com/news/Four-years-of-disruption-cell-phone-industry-financials-2007-2011_id20153 (accessed April 30, 2013).

¹²³ Mohanty, S. (2012) "Samsung's Attack on Apple: Staging a Guerrilla War in Smartphone Market," case study published by Amity Research Center.

¹²⁴ Genuity, C. (November 4, 2011) "Apple Takes Half, Nokia Relegated," *Forbes*, <http://www.forbes.com/sites/canaccordgenuity/2011/11/04/apple-takes-half-nokia-relegated> (accessed April 30, 2013).

¹²⁵ Gadget News (November 9, 2011) "Samsung vs. Nokia Market Share Competition," *gadget satellite-stream.com*, <http://gadget.satellite-stream.com/samsung-vs-nokia-market-share-competition.html> (accessed April 30, 2013); Vakulenko, M., Schuermans, S., Constantinou, A. and Kapetanakis, M. (November 2011) "Mobile Platforms: The Clash of Ecosystems" *Vision Mobile*, http://www.visionmobile.com/rs/researchreports/VisionMobile-Clash-of-Ecosystems_v1.pdf (accessed April 30, 2013).

¹²⁶ *Ibid*.

¹²⁷ Mohanty, S. (2012) "Samsung's Attack on Apple: Staging a Guerrilla War in Smartphone Market," case study published by Amity Research Center.

¹²⁸ Tofel, K. C. (May 24, 2010) "Samsung Launches Bada OS Phone – But Why?" *Gigaom*, <http://gigaom.com/mobile/samsung-launches-bada-os-phone-but-why/> (accessed April 30, 2013).

¹²⁹ *keepingitcupertino* (November 15, 2011) "Why Bada Is More of a Threat than Android," *The Verge*, <http://www.theverge.com/2011/11/15/2564461/why-bada-is-more-of-a-threat-than-android> (accessed April 30, 2013).

features could not be compromised too much, which made developing low-end smartphones using the Android OS and getting Google's sign-off difficult. So the Bada OS was Samsung's answer. Samsung seemed to pull off this strategy, as Samsung's Wave series using the Bada OS was doing well in markets such as India, Russia and Southeast Asia with shipments estimated to be as high as 15 million units five quarters after the OS was launched.¹³⁰ The outlook for the sustainability of the OS was not bright though. For an OS to survive with an ecosystem formation, critical mass had to be reached. Though Samsung announced that Bada was an open system, no other handset vendor had adopted the OS. Samsung tried to follow Android's way in promoting the platform to developers, such as organizing application competitions, but the developers' response was lukewarm. As of October 2011, there were around 15,000 applications on the platform. Almost three years after its launch, in October 2012, Samsung announced that it would merge Bada with Intel's Tizen.¹³¹

¹³⁰ Vakulenko, M., Schuermans, S., Constantinou, A. and Kapetanakis, M. (November 2011) "Mobile Platforms: The Clash of Ecosystems." Vision Mobile, http://www.visionmobile.com/rsc/researchreports/VisionMobile-Clash-of-Ecosystems_v1.pdf (accessed April 30, 2013).

¹³¹ Brogan D. (October 11, 2012) "Samsung to Merge Bada with Tizen for Open-Source OS, More Wave Handsets to Come?" *Pocket-lint*, <http://www.pocket-lint.com/news/47934/samsung-merging-bada-with-tizen> (accessed April 30, 2013).

EXHIBIT 3: FIVE-YEAR FINANCIAL SUMMARY OF LENOVO, 2008-2012**Consolidated income statement**

	2012		2011		2010		2009		2008	
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Revenue	29,574,438	21,594,371	16,604,815	14,900,931	16,787,872					
Profit/(loss) before taxation	582,443	357,751	176,303	(187,945)	534,685					
Taxation	(107,027)	(84,515)	(46,935)	(38,444)	(49,528)					
Profit/(loss) for the year	475,416	273,236	129,368	(226,389)	485,157					
Profit/(loss) attributable to:										
Equity holders of the Company	472,992	273,234	129,368	(226,392)	484,263					
Non-controlling interests	2,424	2	-	3	894					
	475,416	273,236	129,368	(226,389)	485,157					
Earnings/(loss) per share										
Basic (US cents)	4.67	2.84	1.42	(2.56)	5.51					
Diluted (US cents)	4.57	2.73	1.33	(2.56)	5.06					

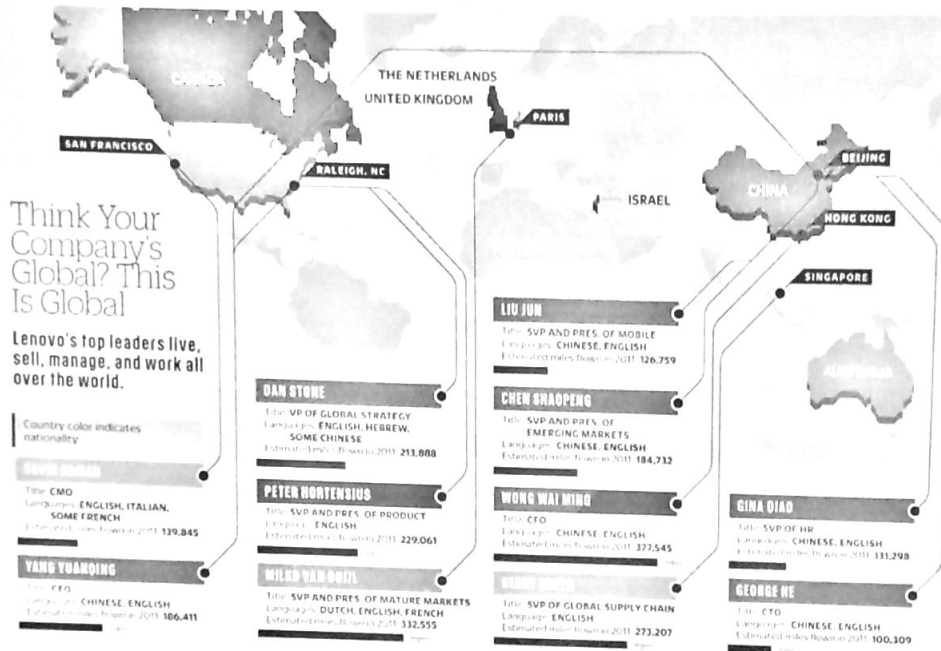
Consolidated balance sheet

	2012		2011		2010		2009		2008	
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Non-current assets	4,040,348	2,769,476	2,720,315	2,520,946	2,494,481					
Current assets	11,820,400	7,936,463	6,235,613	4,100,717	5,044,840					
Total assets	15,860,748	10,705,939	8,955,928	6,621,663	7,539,321					
Non-current liabilities	1,603,102	838,386	930,557	844,221	1,098,123					
Current liabilities	11,809,677	8,032,653	6,419,353	4,466,527	4,827,935					
Total liabilities	13,412,779	8,871,039	7,349,910	5,310,748	5,926,058					
Net assets	2,447,969	1,834,900	1,606,018	1,310,915	1,613,263					

Source: Lenovo (2012) "2011-12 Annual Report,"

http://www.lenovo.com/ww/lenovo/pdf/report/E_099220120531d.pdf (accessed March 12, 2013).

EXHIBIT 4: HOW GLOBAL WAS LENOVO'S MANAGEMENT TEAM?



Source: Salter, C. (November 22, 2012) "Protect and Attack, Lenovo's New Strategy," *Fast Company*, <http://www.fastcompany.com/1793529/protect-and-attack-lenovos-new-strategy> (accessed March 12, 2013).

**EXHIBIT 5: ESTIMATION OF LENOVO'S MARKETING AND PROMOTION SPENDING,
2009-2012**

The following was how Lenovo's marketing spending of 2009-2012 was estimated:

1. In the company's 2011-2012 annual report, the company stated "a US\$248 million increase in promotional, branding and marketing activities." In the same document, it was also reported that branding and promotional expenses increased by 75%. This meant that the promotional, branding and marketing expenses for the previous year (2010-2011) should be US\$331 million, hence, for the financial year 2011-2012 they should be US\$579 million.
2. The company's 2010-2011 annual report stated a "US\$156 million increase in promotional activities" over last financial year, which meant that the related expenses for 2009-2010 should be US\$175 million.
3. The company's 2009-2010 annual report described "a US\$42 million decrease in promotion activities," implying the related expenses for 2008-2009 should be US\$217 million.

Sources: Lenovo (2012) "2011-12 Annual Report," http://www.lenovo.com/ww/lenovo/pdf/report/E_099220120531d.pdf (accessed March 12, 2013), p. 24; Lenovo (2011) "2010-11 Annual Report," http://www.lenovo.com/ww/lenovo/pdf/report/E_099220110620a.pdf (accessed March 12, 2013), p. 23; Lenovo (2010) "2009-10 Annual Report," http://www.lenovo.com/ww/lenovo/pdf/report/annual_report_EN_final_Aug_26.PDF (accessed March 12, 2013), p. 23.

Push

The Case

Strengths of lenovo

- Purchase protection facilities
- A very lean inventory ^{not} system
- Strong dist network

Insights

11-12

Smartphones 46.1%

Tablets 78.9%

PCs 4.1%

Notebooks 3.9%

Gov. Dampley

- 25 & 44 awards in consumer electronics show,

\$1.3bn in 2009-12

12-13-15th

Splitting of brands

Core Problem

You must keep up with the pace of innovation, control inventory, to match supply with demand, and handle very fast turnover.