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Lenovo: Building a Global Brand

The brand essence of Lenovo is innovation that makes a difference to customers. Branding is not a marketing issue for us, it is a business issue. We have to deliver on products and services.[1]

—Deepak Advani, Chief Marketing Officer

Announced in December 2004, the $1.75 billion acquisition of IBM's personal computer (PC) division by 20-year-old Lenovo, China's largest PC maker, made headlines around the world. A relative upstart in the business, founded with $25,000 of seed capital from the Chinese Academy of Sciences, Lenovo was acquiring the IBM division that invented the PC in 1981. While Lenovo was arguably the best known brand in China and had some brand presence in Asia, it was virtually unknown to the rest of the world. In 2004, over 90% of Lenovo's revenues came from China (see **Exhibit 1** for financials).[2] But with this major deal, Lenovo aimed to become a global technology giant. Annual revenues would triple to $12 billion, making Lenovo the third-largest PC maker in the world after Dell and Hewlett-Packard.

As a new multinational with 20,000 employees operating in 138 countries, Lenovo needed a global marketing and branding strategy to match its new reach. This meant determining what Lenovo stood for and designing products that supported that claim. In January 2006, 13 months after the deal was announced and eight months after it closed, Lenovo was preparing for the intense limelight that would come with its sponsorship of the February 2006 Turin Winter Olympics. There it planned to introduce a Lenovo-branded product line designed from the bottom up for small and medium enterprises, a move considered bold and risky by industry observers.

The Global PC Industry

History

Twenty-five years before this landmark deal, IBM introduced its first PC after watching the growing adoption of microcomputers and home computers in the 1970s. In particular, the commercial success of the Apple II series, which ran the financial analysis software called VisiCalc, convinced IBM that there was a role for small computers in its business. IBM relied on key technological contributions from third parties (such as the 8080 microprocessor from Intel, the DOS operating system from Microsoft, and VisiCalc from Software Arts) to quickly launch its own desktop computer. These partnerships were nonexclusive, allowing the vendors to engage with other companies who might build similar PCs. The IBM brand gave the PC instant credibility in the

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Professor John Quelch and Carin-Isabel Knoop, Executive Director, Global Research Group, prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

business marketplace. The PC itself was designed using a well-specified, open architecture that allowed other companies to manufacture modular and compatible peripheral components and write hundreds of applications that would make the PC useful.

An entire industry of IBM-compatible computers (often referred to as clones) developed, led by Compaq. Founded in 1982 by three former executives from Texas Instruments who each invested $1,000, Compaq made $111 million in its first year cloning IBM PCs, and raised $67 million in an IPO in 1983. That same year saw the launch of the software program Lotus 1-2-3, adding database and graphing capabilities to a spreadsheet program and greatly increasing the business utility of PCs. For the next 20 years, this product development interplay between hardware and software companies such as IBM, Microsoft, Intel, and Lotus drove remarkable worldwide growth in the PC industry.

In 1984, Compaq introduced a PC that included Intel's new and more powerful 80386 class of microprocessors, beating IBM to market. That same year, Michael Dell began building IBM-compatible computers in his college dormitory. Dell sold directly to customers, bypassing what had become a well-established retail store distribution model. Dell allowed customers to configure PCs to meet their individual needs (e.g., changing amounts of memory or disk storage space) at a lower price. Dell took his company public in 1989, and by 1999 Dell's sales outstripped Compaq's.

Hewlett-Packard (HP) also entered the computer market in the 1980s. Since its founding in 1939, HP produced sophisticated electronic instruments. Eventually HP expanded into new markets such as medical and computational devices. HP introduced inkjet and laser printing technologies in 1984. A year later, HP established a joint venture in China, a pioneering step in the globalization of the PC industry. From the 1980s on, U.S.-based companies such as Motorola, Intel, AMD, and National Semiconductor made micro-processors, while other PC components (e.g., memory chips, hard drives, motherboards, and monitors) were often designed and manufactured in Asia.

In the 1990s, Microsoft and Intel set the basic standard for the PC, reducing differences among various makers' machines. Meanwhile, the Internet boom drove demand, and vendors from all around the world brought PCs to market. Outsourcing and offshoring saw an increasing number of key PC component parts being produced outside the United States. Although Dell sourced components from Taiwan, Malaysia, and other global locations, it continued to assemble computers for domestic customers in U.S. factories. However, other companies—including IBM, HP, and Gateway—moved their entire manufacturing operations offshore. Dell also established a manufacturing operation in China to supply completed computers to customers in Asia. Dell, in fact, became Lenovo's greatest competitor.

Consolidation

In the early 21st century, merging manufacturers sought to cut expenses or join complementary pipelines to develop new products. In an example of the former, HP in 2001 acquired Compaq, its major U.S. rival in PCs, for $20 billion. To speed integration, managers were instructed not to redesign policies or processes from scratch, but to pick them from one side or the other. Since HP was the acquirer, most of Compaq's business practices ended up being discarded.[3] Consolidation continued in early 2004, when PC manufacturer Gateway acquired eMachines for nearly $290 million, creating a company with a 7% share of the U.S. market.[4] While Gateway pioneered its own unprofitable retail chain of stores, eMachines had profitably sold $1.1 billion of machines in 2003 through established retail channels.[5]

As a result, by 2004, approximately half of the PCs sold around the world came from five vendors: Dell led the pack with 17.9% share; HP followed with 15.9%; Lenovo, including IBM's market share prior to the acquisition, held 8%; and Acer and Fujitsu-Siemens held just over 3.5% each. Many competitors shared the remaining 50% of the PC market, ranging from large corporations with household names—including Gateway, NCR, Sony, and Toshiba—to small vendors.[6]

Manufacturers sold 46.57 million PCs in the second quarter of 2005, nearly 17% more than for the same period in 2004. Non-U.S. markets registered the fastest growth: sales in Europe, the Middle East, and Africa grew at over 20% compared to only 11.7% in the United States.[7] Sales were boosted by first-time buyers lured by falling prices. The average price of a PC system had fallen steadily from $1,700 in 1999 to about $1,000 in 2005 (see **Exhibit 2**).[8]

By the third quarter of 2005, leading vendors increased their market share at the expense of Lenovo, which fell to 7.7%.[9] Lenovo was in third place globally, with combined PC sales of 3.5 million units (including those of IBM).[10] Dell and HP held 18% and 16% of the market respectively. Taiwan-based Acer clocked the fastest growth among the top five PC brands in the second quarter, delivering just over 2 million units, up 62.2% over the prior year.[11] Buoyed by strong relationships with business partners,[12] Acer was Europe's top PC brand and had experienced a comeback in the U.S. market. The world's top five PC brands sold 23.52 million units, accounting for the first time for over half of the market. See **Exhibit 3** for market share information.

The Legend behind Lenovo

The Rise of Legend

During its first 20 years, Lenovo evolved from a small distributor of imported computers into China's leading computer firm. In 1984, the Chinese Academy of Sciences provided about $25,000 for 11 of its computer scientists to form the New Technology Developer, Inc. (NTD). NTD set up shop in a small concrete bungalow in Beijing with a mandate to commercialize the Academy's research and use the proceeds to further computer science research. NTD generated early revenues by distributing imported computers such as IBM PCs to government agencies and large state-owned companies.

In 1987 the company introduced its first original product, the Legend Chinese-character card, which translated English-language operating systems into Chinese. It included a popular "association" feature that allowed users to form common Chinese phrases by typing in just a few Chinese characters. Unlike competing software products, the Legend card was a piece of hardware that attached to PC motherboards, thereby saving valuable hard drive space. NTD bundled the Legend card with the imported PCs it distributed, achieving substantial first year sales of the card, which accounted for 38% of company revenue and 46% of profit.[13] The Legend card's popularity gave a boost to the PC distribution business and the firm won several new contracts, including one to distribute HP PCs in China.[14] With the success of the Legend card securing the firm's reputation, NTD was renamed Legend Computer Company in 1989. Legend launched its own-brand PC into the Chinese market in 1990. Initially marketing only to China's business sector, the company sold 2,000 units in 1990 and 17,000 units by 1992.[15] Legend then pioneered the home computer concept in China, introducing a line of home PCs and a retail network in 1993. The Legend PC business division was formally established through a 1994 reorganization that coincided with the company's listing on the Hong Kong Stock Exchange. By 1995, Legend was the world's fifth-largest manufacturer of motherboards.[16]

Yang Yuanqing was appointed general manager of the new PC division. Recalling the 29-year-old's appointment as a "risky decision," Legend co-founder and CEO Liu Chuanzhi later noted, "I did not really have any other choice. Most of the senior managers of the company were older than 50 and did not have much experience working in a market environment, not to mention a rapidly changing industry like the PC industry."[17] Yang eliminated the direct sales force in favor of a network of hundreds of local distributors. The reorganization significantly improved inventory turns.[18] Yang also slashed PC prices by 30% to just above cost.

In 1996, Legend introduced its first laptop model and marketed PCs carrying Intel's Pentium chip in China, undercutting prior generation competitor prices. Increased sales volumes brought down costs dramatically, allowing Legend to make a profit while overtaking IBM as China's PC market leader with 7% market share. In 1997, Legend signed an intellectual property agreement with Microsoft and formed an alliance with IBM for the distribution of IBM software products in China, allowing the firm to sell PCs with pre-installed IBM software.[19]

While competitors focused on providing new technologies for the business market, Legend designed desktops that the average Chinese consumer could use. Focusing on functionality, Legend introduced in 1999 a PC that overcame China's complicated Internet access procedures with a preloaded one-year Internet connection. It also included Chinese voice-recognition software and a graphics pad for writing Chinese characters by hand. It quickly became China's top selling PC.[20]

By 1999, Legend was China's PC market leader (21.5% share) and well known throughout the Asia-Pacific region. [21] In addition to exporting Legend PCs, the firm continued to distribute foreign-branded PCs in China, and the combined sales made Legend the number one vendor of PCs in the region. Its 9.1% market share for PCs topped IBM's and Compaq's share in Asia.[22]

Facing an Increasingly Mature Market

Having maintained Legend's PC market leadership in China for five consecutive years, Yang was promoted to Legend Group president and CEO in 2001. In this role, he faced new challenges: while Legend's 30% PC market share in China far outdistanced its nearest domestic rival's 10% share, China's entry into the World Trade Organization meant that Legend could no longer count on local player advantages such as government imposed quotas and tariffs on imports, or restrictions on foreign companies' ownership rights, investment, and access to distribution channels. Of particular concern was Dell's introduction of a direct sales model in China. Legend also had to deal with the rise of other Chinese manufacturing giants, such as appliance maker Haier, introducing their own-brand PCs. Finally, upstarts and grey-market clones challenged Legend's positioning as company providing affordable PCs.[23] In response, Legend beefed up its marketing efforts, bringing in famous Chinese personalities as brand spokespersons. In 2002 Legend spent $6.6 million on advertising for the home PC segment, half Dell's advertising budget for China.[24]

Legend nevertheless aimed to become a global *Fortune* 500 company by 2010 and managers identified two options: globalization or localization. They saw the choice as either specializing in a few product categories to develop a global IT brand or increasing the range of their product categories and adding a service business to grow primarily in the rapidly expanding Chinese market. Many Legend managers concluded in 2002 that their competitive edge over multinationals was based on local competencies and that the company was not ready to deploy resources internationally to develop a global brand.[25]

Beyond China

However, by 2003, Legend faced increased domestic competition and sensed a growing global opportunity. In spring 2004, the company found that the Legend name was already a registered trademark in several Western countries and searched for a new name to use outside China. The firm prepared for international expansion with the announcement of the new Lenovo name and logo. Lenovo was derived from "Le-" for Legend and "–novo" signifying "new" or "innovative." The name was easy to pronounce in many languages and available for brand registration in major markets. First used just as a brand name in foreign markets, the company adopted Lenovo Group Limited as the company's official English language name, retaining the original Chinese name for use in the home market.

In an announcement reported worldwide, Lenovo in March 2004 joined the Olympic Partner Program, the International Olympic Committee's (IOC) highest level worldwide marketing program. "Engaging the world" was the slogan Lenovo used at its IOC signing ceremony. Under the partnership agreement, Lenovo became the exclusive provider of computing equipment and services for the Turin Olympic Winter Games in 2006 and the Beijing Summer Olympic Games in 2008.

The $80 million price of admission was a significant investment for a company with sales of around $3.2 billion. Although Lenovo would be able to benefit from using the Olympic logo for marketing and promotions and have access to exclusive worldwide marketing opportunities, the company would have to spend at least twice the sponsorship cost on advertising to leverage the investment. These advertising expenses would be spread over five years, and the company expected about half of the sponsorship cost to be paid in kind through products and services.

The Deal

A few months after negotiating the Olympics sponsorship, Lenovo in December 2004 acquired IBM's Personal Systems Division—essentially annexing all of IBM's PC operations—for $1.75 billion, paying $650 million in cash and up to $600 million in common stock, and assuming $500 million in IBM liabilities. Lenovo management forecasted annual operating synergies of $200 million.[26] As part of the agreement, IBM continued to own 18.9% of the new company. The Chinese government owned 46% of the new entity through Legend Holdings. In 2005 private investors (mostly private equity firms, including Texas Pacific Group, General Atlantic LLC and Newbridge Capital LLC) took about 10%, leaving IBM with 13.2%, the original founders with 14.7%, and the public with 34.7%. The China Academy of Sciences held a 27.3% share as passive investor with no board seats.

For IBM, this deal was an opportunity to shed an unprofitable operation and concentrate on consulting services (including outsourcing of enterprise IT operations) and middleware solutions (software often bundled with server hardware). Deepak Advani, an IBM veteran who became Lenovo's chief marketing officer, explained the IBM rationale: "We had to decide what the right long-term play for IBM was. PCs were more and more at the fringe, with IBM moving more and more into services. A potential acquisition by Lenovo was an option, as was spinning out the division to a private equity firm. IBM and Lenovo decided to do the deal." A few years prior, a Lenovo manager explained, IBM had approached Lenovo for a potential similar transaction, which Lenovo had declined on the basis of the PC division's poor shape at the time. When IBM approached Lenovo again, it was Lenovo CFO Mary Ma (considered by Fortunate Magazine to be the world's 27th most powerful businesswoman in the world in 2005) who reviewed the deal and subsequently recommended to the top management team that Lenovo go ahead with the transaction.

As part of the deal, Lenovo gained the right to use the IBM on its products for up to five years, along with two major product offerings: the well-established IBM ThinkPad laptop and ThinkCentre desktop brands.[27] The IBM logo could only be used on IBM Think-family products. For any type of advertising, the IBM logo could only be shown on the product within the ad, not as a separate logo in the ad. The use of the IBM logo on the Think-family products would change over time, as per the timeline shown in **Exhibit 4.**

In return, Lenovo promised not to compete with IBM's services and consulting groups. IBM would continue to provide global support for the computers for five years. Finally, Lenovo also had access to IBM's 30,000-member enterprise sales team and ongoing support from partner and channel management programs.

The ThinkPad Legacy

The highly popular ThinkPad brand and product line were central to the value of the Lenovo deal but at the same time represented a key challenge. "The research showed that in many customers' minds the IBM and ThinkPad brands were hard to separate," Mark McNeilly, Lenovo's director for branding and marketing strategy explained. "They really were linked together."

ThinkPad was introduced in 1992 and had received over 1,000 industry awards for design and engineering. The first ThinkPad, the 700C, featured a brilliant, high-resolution color screen and IBM's patented TrackPoint device—a small red button in the middle of a keyboard that allowed easy navigation around the screen. In 1994, the ThinkPad became the first notebook to offer a built-in CD-ROM drive and, in 1997, IBM integrated a DVD drive into the ThinkPad 770—another industry first. However, not all ThinkPad innovations endured: a collapsible "butterfly" keyboard, a pen notebook, and a built-in LCD projection system all shipped but lacked widespread appeal.

Beginning in 2000, IBM effectively introduced a new product category—the ultraportables—by making laptops smaller, lighter, and more powerful. The ThinkPad i Series was introduced that year as the first notebook with built-in wireless networking. The ThinkPad T Series, introduced in 2001, again set new standards for its balance of power and portability. The T Series (T stood for travel) provided a modular design that allowed customers to easily swap out DVD drives. In 2003, IBM bundled every ThinkPad with ThinkVantage Technologies, designed to help medium and large business IT departments reduce PC management costs and increase end-user productivity.

By 2004 IBM had sold over 100 million desktops and notebooks; of those, 20 million were ThinkPads.[28] At the time of the acquisition, many questioned whether Lenovo could sustain the ThinkPad brand equity. Newspapers like *The Wall Street Journal* recounted stories about loyal IBM users and their fears for the future: "The thing that has won my loyalty to ThinkPad is that it is practically indestructible," one user said. "You can run a truck over it and it still works. . . . I'm concerned that the engineering budget for continuous development will get cut drastically."[29]

The Opportunity and Challenges

Acquisition of the IBM PC business allowed Lenovo to move quickly into the international marketplace: the expanded firm claimed customers and businesses in 138 countries. The way IBM and Lenovo sold PCs was very complementary. In China, 70% of sales were transactional (made through business partners) and 30% by relationship (through consulting). Globally, it was the opposite, with only 30% of sales made through partners.[30] Further, Lenovo's focus had been on small businesses and consumers, whereas IBM had long targeted corporate and enterprise customers. On the supply chain side, significant operational benefits flowed from the fact that components for IBM PCs were sourced in China.

"On paper this was pretty much a match made in heaven," Advani recalled. "We had complementary products and client bases, and practically no channel conflict. We could use the broad product portfolio we sell in China and use global distribution and take products around the world." See **Table A** and **Exhibit 5** for a before and after comparison of the product and revenue mix. Conveying the opportunity created by these complementarities was a key message to deliver to customers. See **Exhibit 6** for the Lenovo customer value proposition.

Table A Global Lenovo and IBM Product and Client Footprints

	Lenovo (% sales)	IBM (% sales)
Product type	85% desktop	60% laptop
Client base	80% small business and consumers	57% large enterprise/ mid-market
Coverage	Mostly China	Strong around the world, but relatively weak in China

Source: Company documents.

The only major overlap, though a welcome one, was in company cultures. "The two companies had similar values with a focus on meritocracy," Advani said, "since Lenovo had in part modeled itself after HP and IBM. Customer focus, innovation and trustworthiness were shared values." (See **Exhibit 7** for Lenovo and IBM contributions to the industry.)

Even so, the potential remained for cultural and operational clashes between IBM veterans and Chinese nationals. There was also uncertainty about how IBM's existing customers—who demanded the highest quality products and services—would react to the new ownership arrangement. During the transition, PC competitors would surely try to dislodge loyal customers. When asked about the Lenovo-IBM PC division merger, Michael Dell was categorical: "It won't work."[31] "When was the last time you saw a successful acquisition or merger in the computer industry?"[32]

Bringing Heaven to Earth

Organization

Making sure that the "match made in heaven" would succeed required careful coordination and integration at the top and throughout the combined organization. At an early meeting, Yang addressed a dozen top executives, Advani recalled, and exhorted them to work together as they integrated the two companies:

> The key message was to trust the other person. Because we all came from different backgrounds, we had to respect each other's position. Always remember that the real competitor is outside. And be ready to compromise. Even if you think that your decision is grounded in "better business" logic or facts, you should be willing to compromise if that makes more sense. This helped us to build our business relationships and got us off to a good start.

Led by Chairman Yang and Chief Executive Steve Ward[33] from IBM, Lenovo kept a small headquarters not in Beijing but in Purchase, New York, not far from IBM's corporate headquarters. Research centers were sited in Beijing, Shanghai, and Shenzhen (China), Yamato (Japan), and Raleigh, North Carolina. Operations centers would be in Beijing and Raleigh. About half of Lenovo's would be from IBM. Of that number, over 40% already worked in China and fewer than 25% worked in the United States. Some 2,000 were members of sales teams.

In September 2005, Yang announced a management restructuring that integrated the original Lenovo and former IBM organizations. Half of the company's top jobs went to executives of American, Australian, European, and Indian origin,[34] reflecting the company's new international composition and scope. English became the company's working language. Working via conference calls around the clock posed challenges; the original Lenovo team was used to meeting together to solve problems. The 12-hour time difference between Beijing and the U.S. east coast also caused some strain. Many calls were scheduled very early in the morning or late at night, causing executives to work around the clock via teleconference.

However, a manager explained, the integration went well overall since both organizations were focused on winning. But some analysts and observers remained concerned: Legend became Lenovo, they argued, by keeping its organization relatively simple and nimble, able to respond rapidly to opportunities. The IBM deal brought new organizational complexity and the need to serve many more geographical markets.

Brand Strategy

Because the Lenovo name was little known outside Asia, the new enlarged company had the opportunity and challenge to build an international brand from scratch, while making the most out of the IBM legacy. Advani recalled that decisions about branding were key in the initial months:

> With IBM, we did $10 billion in revenues around the world. It was clear that if we lost that business base it would make it much, much harder for us to achieve our growth aspirations. So one of the first questions I asked Yang was, 'As chief marketing officer, do you have some ideas on a preferred branding strategy or am I free to start with a clean slate and craft a new branding strategy based on market research and our best judgment?' And I will always remember this. He said, 'You are the CMO and you do the market research, and we as a company will do what you recommend,' which was terrific.

In addition to its strong market positions in China and Asia, Lenovo also had the Turin Olympics sponsorship, a bold early move that gave the new company a platform to showcase its capabilities to the world. Furthermore, the deal itself had brought Lenovo considerable public visibility and brand awareness. And IBM was one of the most trusted brands around the world, and had a series of strategic relationships that the new company could build on. In the ThinkPad, Advani underlined, "we had a priceless gem of a brand. We also had the right to use the IBM logo for five years. We wanted to leverage that asset. Having the IBM stamp of approval on the notebook is serving as a very good bridge, because they're thinking that IBM trusts this company enough with its logo and if IBM is doing systems support, then I'm going to give these guys a shot."

A particular challenge for Advani and his team was the media and press perception of Lenovo's association with China and the Chinese government, a potentially negative connotation that Lenovo's competitors and detractors were eager to cultivate. An executive explained:

> According to data we've seen, firms from China and some other Asian countries tend to get very low marks for trustworthiness. What Lenovo brings to the table is the best from East and West. From the original Lenovo we have the understanding of emerging markets, excellent efficiency and a focus on long-term strategy. From IBM we have deep insights into worldwide

markets and best practices from western companies. So we view Lenovo as a new world type of company, the kind Friedman talks about in his book, *The World is Flat*.

Getting to Know the Market

The world's perception of Lenovo at this stage, however, was far from this ideal. To understand its starting point, Lenovo did extensive market research to support its branding decisions. Lenovo staff talked to over 4,000 customers face-to-face and surfaced three main concerns: that innovation would slow down, quality would suffer, and service and support would be outsourced overseas. To address and neutralize the last point, Lenovo structured the original deal to include ongoing worldwide service and support from IBM via its existing global service infrastructure.

Regarding the first two concerns, Lenovo hoped to reassure customers that innovation and quality might actually increase because the new Lenovo would be solely PC focused. Advani explained, "we knew we had to show that innovation and quality would not decrease. Customers would have to experience all this for themselves. The proof had to be in the pudding." Although early research showed a large drop in intent to purchase, most of the lost ground was recovered after more details on Lenovo and its intentions were provided. See **Exhibit 8** for research results.

With these data in mind, the team looked at four branding alternatives:

The first was the use of a **master brand,** which was very common in the IT space, as exemplified by HP, Intel, and Microsoft. A master brand strategy would focus almost all marketing resources on building the Lenovo brand worldwide. A major issue here was what to do about ThinkPad, which was considered a great sub-brand that Lenovo was reluctant to lose. Yet the master brand model seemed powerful—companies using it were moving up on the *BusinessWeek*/Interbrand annual brand valuation surveys. For example, Samsung had recently overtaken Sony, a clear sign in Advani's mind that master brands could be used to rapidly build brand equity.

The second approach was a **house of brands** strategy like Procter & Gamble's approach with Tide detergent, Pampers disposable diapers, and many others. This meant spending relatively little on the corporate brand umbrella but committing significant resources to each sub-brand, e.g. ThinkPad, ThinkCentre, etc. This would be potentially the most expensive option and represented a particular challenge in the PC business, with its razor thin margins. Said Advani, "While the sub-brand approach was consistent with where we were with the ThinkPad, we risked winding up not having as much market impact because we could not afford the marketing spend to build six or seven brands at once."

The third approach was the **synergy approach**, a hybrid model whereby a company master brand was marketed in conjunction with a "hero" sub-brand, as in the Apple iPod and the Motorola Razr. The notion behind this approach was that the sub-brand gave the master brand some of its personality when the master brand alone would be imprecise in its market imagery. This approach would require combined and balanced investments to build both the Lenovo and ThinkPad brands.

The fourth approach was closer to the **Lexus/Toyota** strategy, whereby different brands would represent separate luxury and mass market offerings. Lexus delivered a truly differentiated customer experience, not just a different brand name. This scenario implied two distinct consumer experiences and, to a large extent, two different organizations. ThinkPad would be the premium line while Lenovo would offer standard products. This strategy had proven difficult for many companies to implement. For each successful example, Lenovo managers could think of five misses, such as Delta and Song customers checking in at the same airline ticket counter, or Acura SUV buyers receiving paperwork from Honda Finance.

One area of debate was the extent to which the new company would use the ThinkPad brand on existing Lenovo products. Advani recalled:

> Some executives argued, 'Let's take the retail products Lenovo sells in China, label them ThinkPad and take them around the world,' and I said absolutely not. I am not going to take a product that has not been built from the ground up as a ThinkPad, put the ThinkPad name on it, and sell it as ThinkPad. That would be the best way to destroy the ThinkPad franchise. You don't build great brands simply through advertising and marketing, but by understanding your brand essence and value proposition and communicating it in a clear and compelling way. If you communicate something that is not authentic, it will backfire. The brand essence of the ThinkPad was clear, namely it is the ultimate business tool and a premium business notebook. We have been very disciplined about everything that goes into the ThinkPad to make sure that it fits that essence.

Building the Lenovo Masterbrand

The company settled on a fairly simple strategy, a "one-two punch," with two elements: build up Lenovo as a strong master brand and continue to strengthen the ThinkPad product brand, which was a special franchise that could be leveraged to support the Lenovo master brand. In doing so, Lenovo had to decide what its brand essence would be and over how many product categories its brand could be stretched. At a high level Lenovo saw two types of business model for PC providers. The first group, which included major players such as Dell and Acer, aimed to wring out costs by focusing on supply chain efficiencies and inventory turns. These competitors produced little or no innovation at the product level. The second group, such as Apple and the IBM PC division, focused on selling product innovation at a premium. To these players, market share mattered less than providing innovation and great design for the set of customers that appreciated and were prepared to pay a price premium for them.

Over time, PCs had become ubiquitous and played a growing role in many important aspects of daily life, from completing financial transactions to keeping precious family pictures. Consumers were therefore looking for more innovation, tighter security, better quality and reliability, and better design. This presented fewer challenges for Lenovo and IBM than it might for some of their competitors, Lenovo managers believed, because both firms had already been focused on innovation.

The question then became how to differentiate Lenovo from other competitors such as Sony and Apple that focused on innovation. The answer, Advani explained, was efficiency: "We have a very efficient base in China, along with a 5% after-tax profit and global infrastructure. Unlike the competition we feel we have the ability to combine efficiency *and* innovation. That is what Lenovo is all about and it's what we've set down in our mission statement: *We put more innovation in the hands of more people so they can do more amazing things.*" See **Exhibit 9** for more details on Lenovo branding.

To implement this strategy Lenovo planned a significant new product launch, along with a three-phase advertising plan. First, the company ran a worldwide advertising campaign from May to September 2005, where every ad signed off with "ThinkPad" instead of Lenovo. The objective was to maintain ThinkPad sales momentum, which meant reassuring customers that little had changed since the acquisition. The second campaign, "ThinkPad Unleashed," was scheduled to run on NBC during the Turin Olympics Opening Ceremony on February 10, 2006, with an expected reach of over 27 million viewers (see **Exhibit 10** for sample ad).[35] The message was that Lenovo was not just maintaining the status quo but making the ThinkPad even better, doing things that IBM could not have done or would never have done. The third phase of the campaign would stress that the Lenovo master brand stood for innovation. "What we wanted was to maintain the ThinkPad brand and use that brand's strength to build the Lenovo brand," McNeilly explained. "We realized that it would be naïve to choose one over the other and we needed to take a flexible view of the transition."

Telling the Story

Taking Risks

In designing the new wide screen ThinkPad Z60, the product team was challenged to make something so appealing that anyone who owned a ThinkPad would want to upgrade. The design team chose a titanium cover, a major departure from the traditional black of the ThinkPad. Launching the product would send a strong design signal. It also posed a significant risk. Some market research suggested that any deviation from the black would confirm for some customers their worry that Lenovo would "mess up the ThinkPad."

After more research and much discussion, Lenovo managers decided that the titanium cover did remain true to the essence of the ThinkPad. "Titanium delivered a real benefit to customers—protection. And it looked beautiful," Advani explained. "That's the way it was received in the marketplace. *Fortune* magazine did a story that said, 'All told, Lenovo's stewardship of this brand is off to a good start, with perhaps the best ThinkPad yet.'" The titanium lid was described as "downright revolutionary for anyone who automatically equates ThinkPads with solid black," the press wrote.[36] The scratch-resistant titanium top was offered as a $25 option. The new ThinkPad came with either 14-inch- or 15.4-inch-wide displays, making it easier to view spreadsheets and movies. Buyers could order a built-in EVDO wireless broadband card and antenna, which allowed them to connect to the Internet at almost broadband speeds without having to be close to a Wi-Fi hotspot.[37] Finally, *Fortune* opined, Lenovo made the "legendary" keyboard even better.[38]

Lenovo started receiving credit in the press as a company making bold moves, a compliment in view of the business world's near worship of the ThinkPad. "We made clear we're not going to mess it up—we showed we could make products that were true to the ThinkPad brand essence and even improve upon it," Advani said. "We then communicated this in our "ThinkPad Unleashed" advertising campaign to prove the point and to give Lenovo credit as the company that understands the ThinkPad brand so well that it can make ThinkPad better."

In launching the new titanium ThinkPad, Lenovo learned from its prior introduction of a versatile ultraportable tablet product, the X41 Tablet Series, its first product introduction after the IBM deal (see **Exhibit 11**). In April 2005, Advani had launched the tablet at a press conference at the Raleigh innovation center to send a message of commitment to innovation. Unfortunately, the great reviews credited IBM and not Lenovo. Subsequently, Lenovo stressed in advertising and public relations a strong association between Lenovo and the ThinkPad Z60 it launched in autumn 2005.

Raising Awareness

While IBM used field brand-tracking studies once a quarter, in three countries (China, Germany, and the United States) Lenovo covered 10 countries quarterly. Advani and his team looked at these countries more closely to learn from each and spread the learnings across the globe. "We look at our research in detail very scientifically," Advani explained. "In some countries we're seeing the consideration score is not high, in other countries we're seeing the conversion rate is not high, so whether there's unaided awareness or unaided ad awareness, we're looking at the bottleneck in consumers' decision making processes in each country." In India, for example, unaided awareness was very low but total (aided plus unaided) awareness was much higher. To address the unaided awareness problem, Advani said, Lenovo innovated:

> We found a way to place a Lenovo monitor, which did not yet sell in India, on a very popular game show on television, India's version of 'Who Wants to be a Millionaire.' The show ran at prime time three times a week for six months and was hosted by one of the top Indian movie stars. A 50,000 rupees question on the show asked players to name the company that is formed out of the combination of the English word 'legend' and the Latin word 'new.'

This product placement turned out to be a very cost-effective way to increase total awareness of Lenovo in India. But that was the easy part, Advani cautioned. "The next step is to give the brand meaning and have it stand for something unique that customers care about. Moving consumers to consider and prefer the brand is what we need to work on next."

Lenovo market surveys revealed that the Olympics sponsorship was seen as a major positive to the brand's reputation primarily in China and Brazil. However, the Olympics were not seen as a key buying motivator. Lenovo planned a $100 million campaign, orchestrated by IBM's former advertising team at Ogilvy & Mather. The initial plans incorporated online ads, television, and print and factored in Lenovo's sponsorship of the 2006 Winter Olympics and the 2008 Summer Olympics in Beijing**.** The IBM logo could not be used at the Olympics because IBM was not associated with it; only the Lenovo and ThinkPad logos could be so used.

Prior to the Turin Olympics, Lenovo used mostly product-oriented messages in its advertising. In 2005 Lenovo spent $250 million on worldwide marketing, with over 80% of it spent on television and print advertising and the remainder being allocated to the internet, outdoor and other media. In the United States, Dell's marketing spend reached $460 million (nearly 20 times more than Lenovo), followed by HP with $130 million. In Japan, Dell spent $110 million (nearly 10 times more than Lenovo) followed by NEC at $26 million. Dell also led in advertising spending in the United Kingdom and Germany, while HP dominated in France, Brazil, India, and Mexico. In many major markets, Lenovo's gap to the PC market share leader in share of voice was at least 1:3.

Because Lenovo's key competitors commanded a higher share of voice, the company was exploring unconventional ways to position Lenovo. For example, the company worked with microfinance provider Opportunity International, providing the nonprofit with PCs to automate its loan processing system. In the United States, Lenovo funded supplying computers to good students with limited financial means. These initiatives were highlighted in Lenovo's public relations campaigns. Advani also led viral campaigns to position Lenovo as a company "doing clever things."

The 3000 Family

In March 2006, Lenovo planned to launch its Lenovo-branded PC series 3000 worldwide. The challenge would be to persuade buyers to choose Lenovo over rival products from such well known companies as Dell, HP, Acer, Gateway, and Fujitsu-Siemens. While ThinkPad and ThinkCentre products were priced at a slight premium to the competition, the 3000 would be priced equal to them. While the Lenovo brand stood for attractive products that customers cared about, Lenovo marketing managers had to communicate specific points of differentiation.

As Lenovo evolved its own product line, some managers wanted to give these new products a subbrand name like other PC subbrands such as *Presario* or *Vaio*. A number was chosen so as to not detract from the Lenovo name. The "3000 Family" was born. The 3000 family was targeted at the small business market. Lenovo research revealed that these customers cared especially about great value in use. One approach was to provide very price-competitive products. However, Advani worried that any perception of Lenovo as a company from China providing cheap products ($359 to $499) might devalue the Lenovo master brand. If Lenovo brand products were positioned and perceived as low-cost PCs with no differentiation, this could also damage the premium ThinkPad brand.

Lenovo instead investigated in more depth what small business customers cared about in Germany, Japan, the United Kingdom, and the United States. Because small businesses were thinly staffed, they valued simplicity and easy, open dealings with PC vendors. About 85% considered themselves extremely dependent on their PCs for their business. They perceived quality, reliability, and durability as key. Yet they also valued the design, look, and feel of the machines—a laptop that conveyed that the user was progressive and successful. Among such users, IBM, Dell, and HP were considered top vendors, while awareness of Lenovo was low. Those aware of the IBM transaction favored a wait and see attitude before committing to Lenovo.

Lenovo therefore had to ensure that the 3000 Family had a unique, distinctive and attractive design. Each Lenovo-branded PC came with a set of tools called "LenovoCare" providing "worry-free computing." The marketing campaign for Lenovo 3000 reinforced the notion that small business owners wanted to "worry about [their] business, not [their] PC." See **Exhibit 12** for sample ads.

Thinking Things Through

As Advani looked forward to the launch of the 3000 he was asked to present Lenovo's branding strategy to an industry conference. Particular points he was asked to address included:

1. What is Lenovo's point of differentiation? Innovation? Efficiency? Both? Something else?
2. Would Lenovo use ThinkPad to build the Lenovo brand? Could it do so without hurting the ThinkPad franchise?
3. How much would Lenovo use the IBM logo, for how long and in what ways?
4. Why did Lenovo choose to name its first non-ThinkPad product a number ("3000") versus a name? Did he still feel that was the right approach?
5. How would Lenovo be positioned: As a new type of Chinese company? A unique combination of East and West? An international firm?

As Advani sat down to work on the presentation, he reflected on what story should Lenovo tell the world at the Olympics. It was clear that a successful sponsorship and Lenovo-branded product launch were imperative. In the first quarter of 2005, Lenovo's market share shrank by about 5% followed by an even worse drop (-8.6%) in the second quarter. By early 2006, the trend was slowing (-3.8%).[39] Meanwhile PC prices continued to fall and any increase in component prices threatened to further squeeze margins, even as Lenovo faced slowing global PC growth and a more competitive China PC market.[40]

Exhibit 1 Selected Company Financials (March 2004 to March 2008 estimate)

Year Ending (HK$m)	03/04	03/05F	03/06E	03/07E	03/08E
Revenues	23,176	22,555	111,119	131,751	148,415
EBIT	1,020	1,092	2,666	3,295	3,482
Net income (UBS)	1,053	1,070	1,656	2,246	2,377
EPS (UBS, HK$)	0.14	0.14	0.19	0.26	0.27
Net DPS (UBS, HK$)	0.05	0.05	0.06	0.07	0.07
Year Ending	**03/04**	**03/05F**	**03/06E**	**03/07E**	**03/08E**
EBIT margin (%)	--	-4.8	2.4	2.5	2.3
ROIC (EBIT) (%)	--	-48.0	34.6	24.8	25.9
EV/EBITDA (x)	--	-10.2	8.4	7.3	6.6
PE (UBS) (x)	--	-16.8	18.5	13.8	13.0
Net dividend yield (%)	--	-2.2	1.6	1.9	2.0

Source: Adapted from UBS Investment Research, *Lenovo Group Ltd.*, November 3, 2005, p. 1.

Note: One Hong Kong dollar equals US $ 0.13.

LENOVO INCOME STATEMENT AND MARGIN FORECAST

A. Income Statement Forecast

HK$mn	FY05E	FY06E	FY07E	FY08E
Sales	22,555	111,119	131,751	148,415
Cost of Goods Sold	19,228	94,921	112,542	126,987
Gross profit	3,327	16,198	19,209	21,429
Core operating expenses	2,396	13,680	16,074	18,107
Other incomes	211	147	160	160
Operating profit (EBIT)	1,142	2,666	3,295	3,482
Finance costs	(7)	(317)	(120)	(120)
Associate and others	(8)	10	20	20
Profit before taxes	1,128	2,359	3,195	3,382
Taxes	(35)	(632)	(831)	(879)
Net profit	1,092	1,726	2,364	2,503
Net profit to shareholders	1,120	1,657	2,246	2,377

Source: Adapted from UBS estimates.

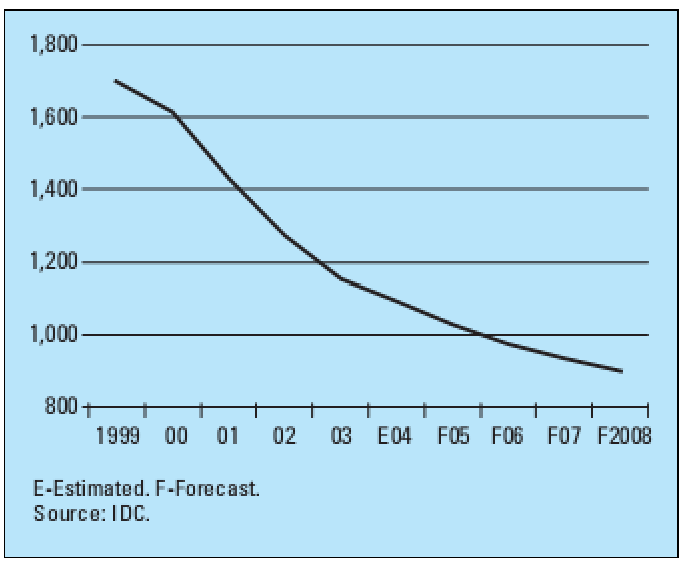
Exhibit 1 (continued)

B. Margin Forecast

	FY05E	FY06E	FY07E
Gross profit	16.6%	14.6%	14.4%
Core operating expenses (% of sales)	12.3%	12.2%	12.2%
Operating profit	2.4%	2.5%	2.3%
Pretax profit	2.1%	2.4%	2.3%
Net profit	1.5%	1.7%	1.6%

Source: Adapted from UBS Investment Research, *Lenovo Group Ltd*., November 3, 2005, page 6.

Exhibit 2 Average PC System Price (in dollars)

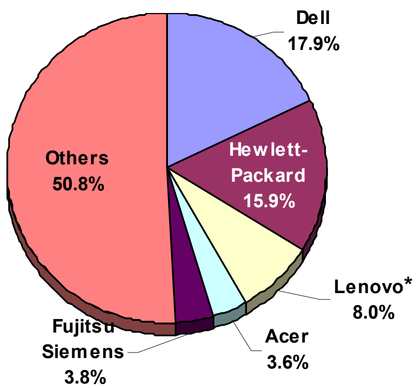


Source: Adapted from *Computers: Hardware Industry Survey*, December 8, 2005, Standard & Poor's Industry Surveys via NetAdvantage, accessed May 2006.

Exhibit 3 Worldwide PC Market Shares

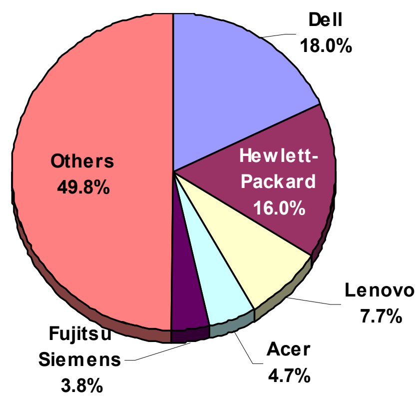
Worldwide PC Shipments Market Share—Third Quarter (based on units shipped)

2004



TOTAL UNITS: 45.1 MILLION

2005

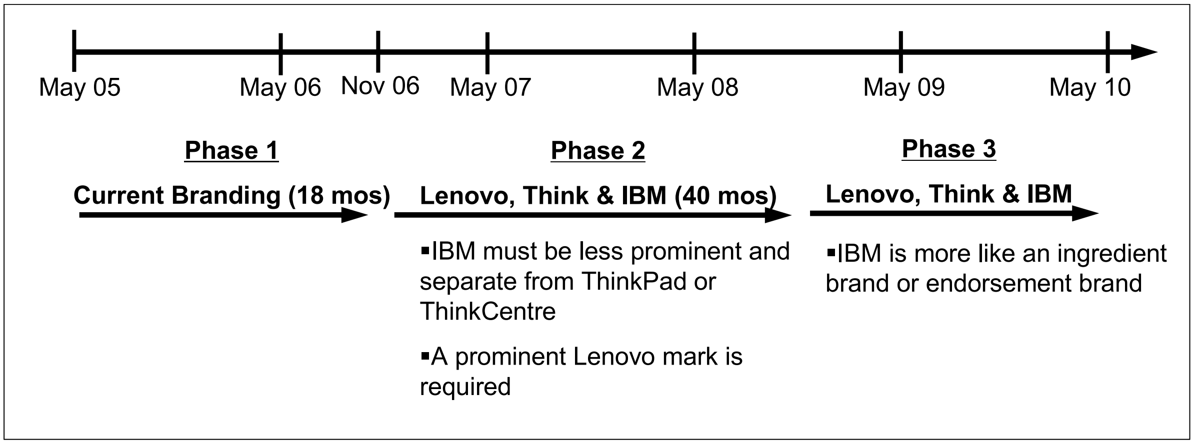


TOTAL UNITS: 52.8 MILLION

*Lenovo share for 2004 is based on combined IBM and Lenovo data.

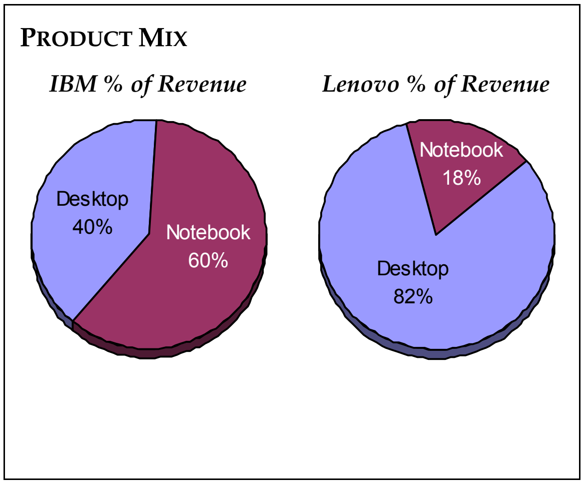
Source: Company documents based on IDC data.

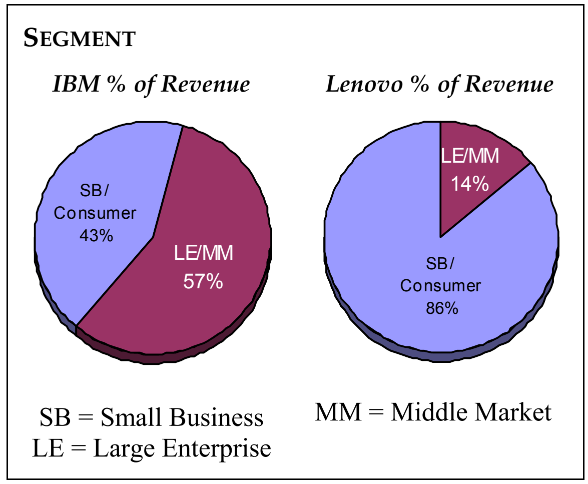
Exhibit 4 Timeline for Use of IBM Logo

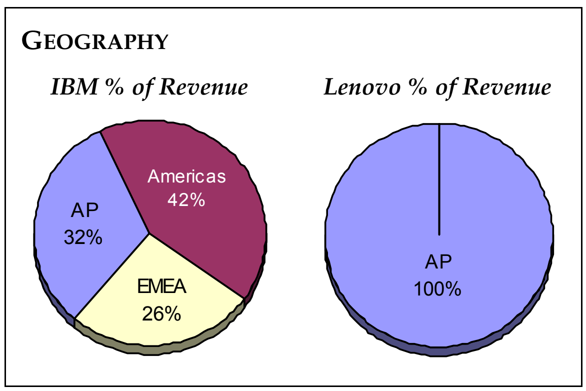


Source: Company documents.

Exhibit 5A Revenue Distributions before Acquisition, Early 2004



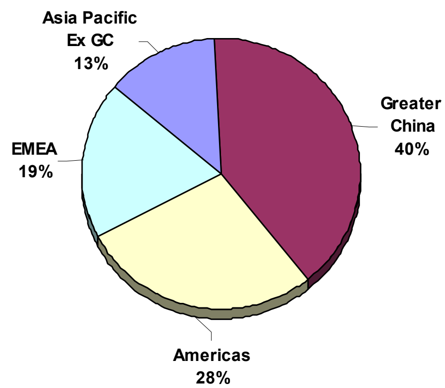




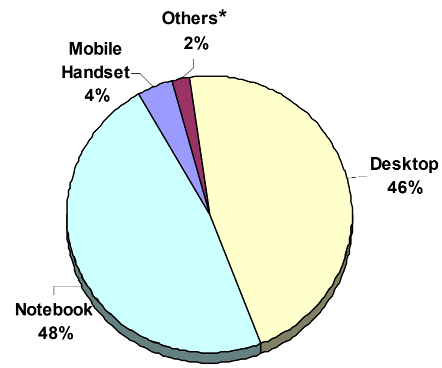
Source: Company documents.

Exhibit 5B Revenue Distributions after Acquisition, Spring 2005

High Asia Pacific/China Mix

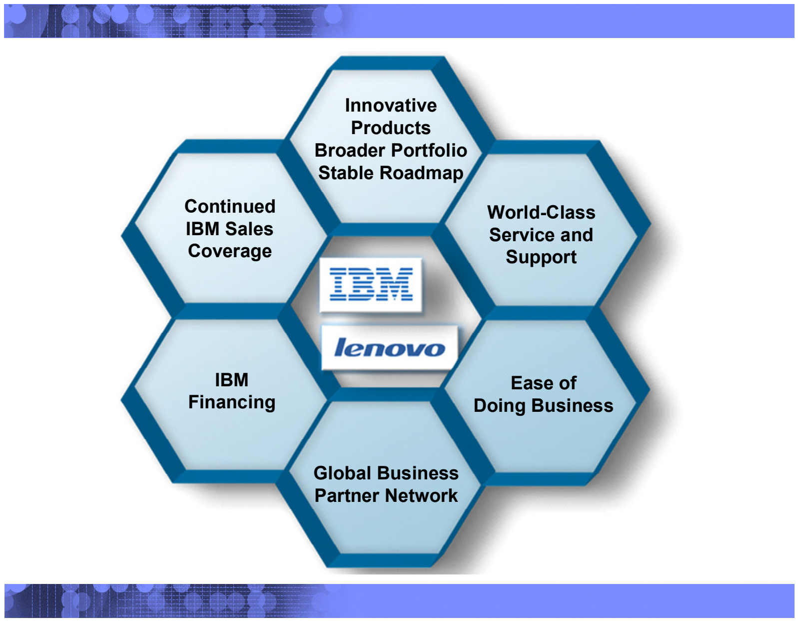


High Notebook Mix



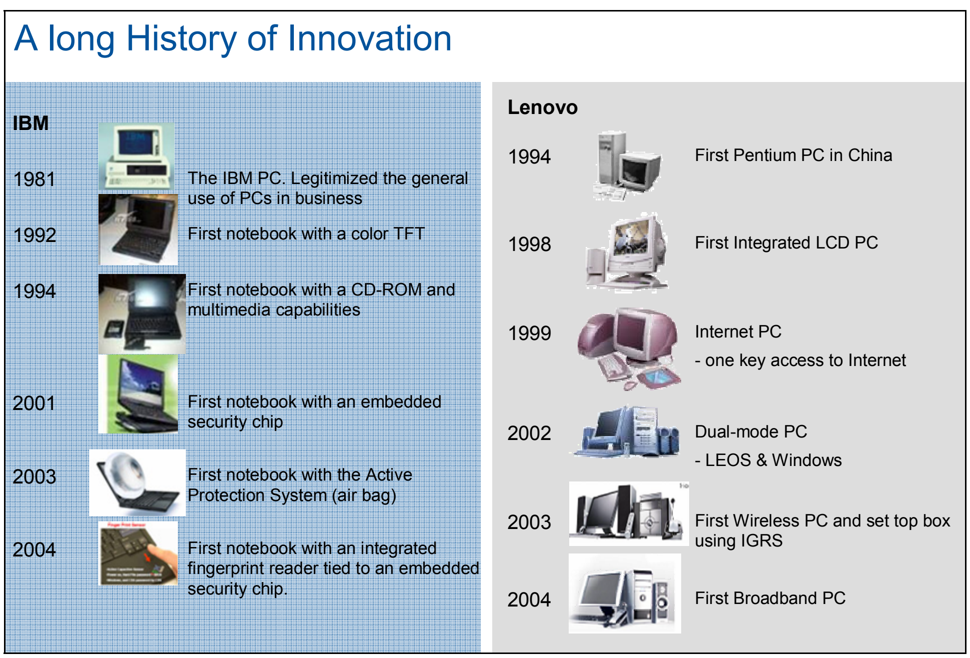
Source: Company documents.

Exhibit 6 Lenovo Customer Value Proposition



Source: Company documents.

Exhibit 7 History of Innovation by Lenovo and IBM in the PC Industry



Source: Company documents.

Exhibit 8 Awareness Research

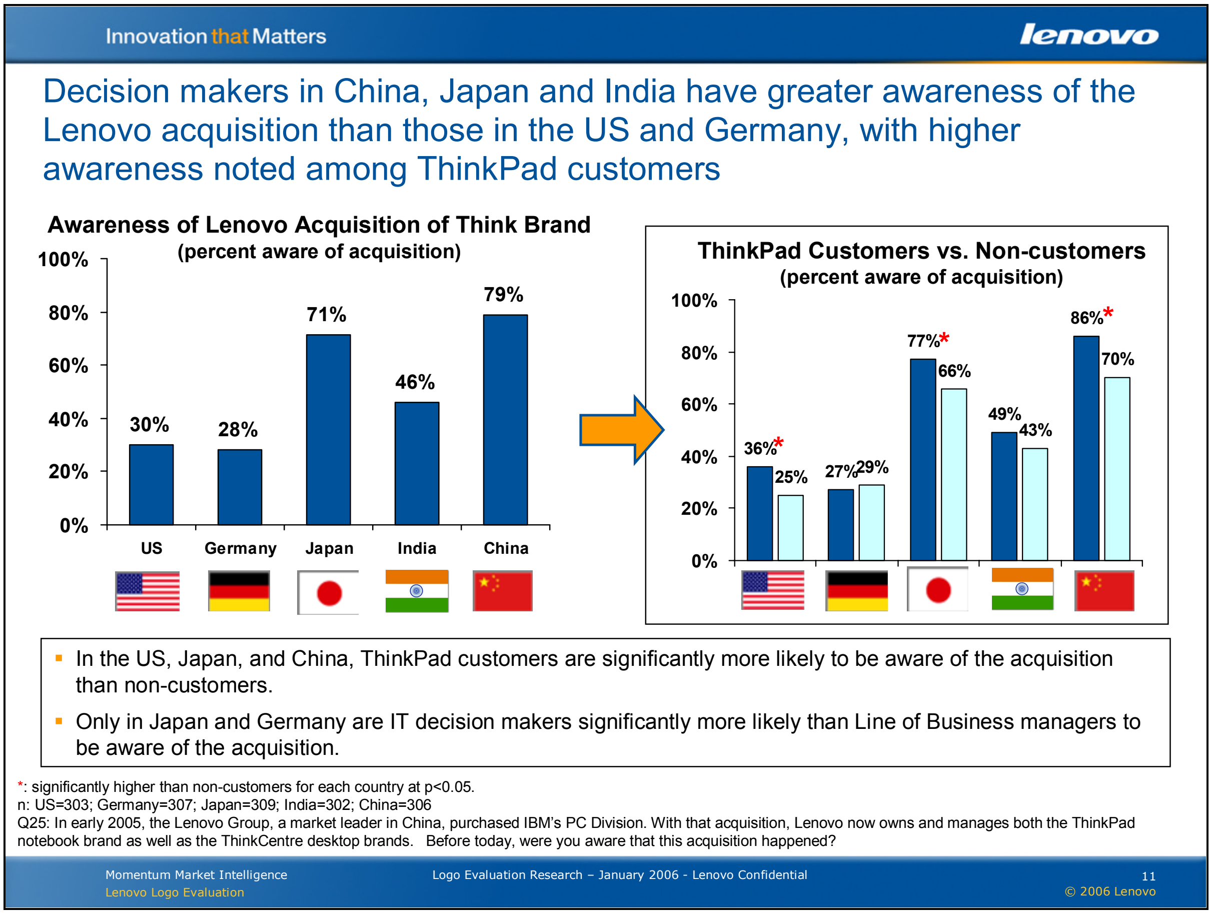
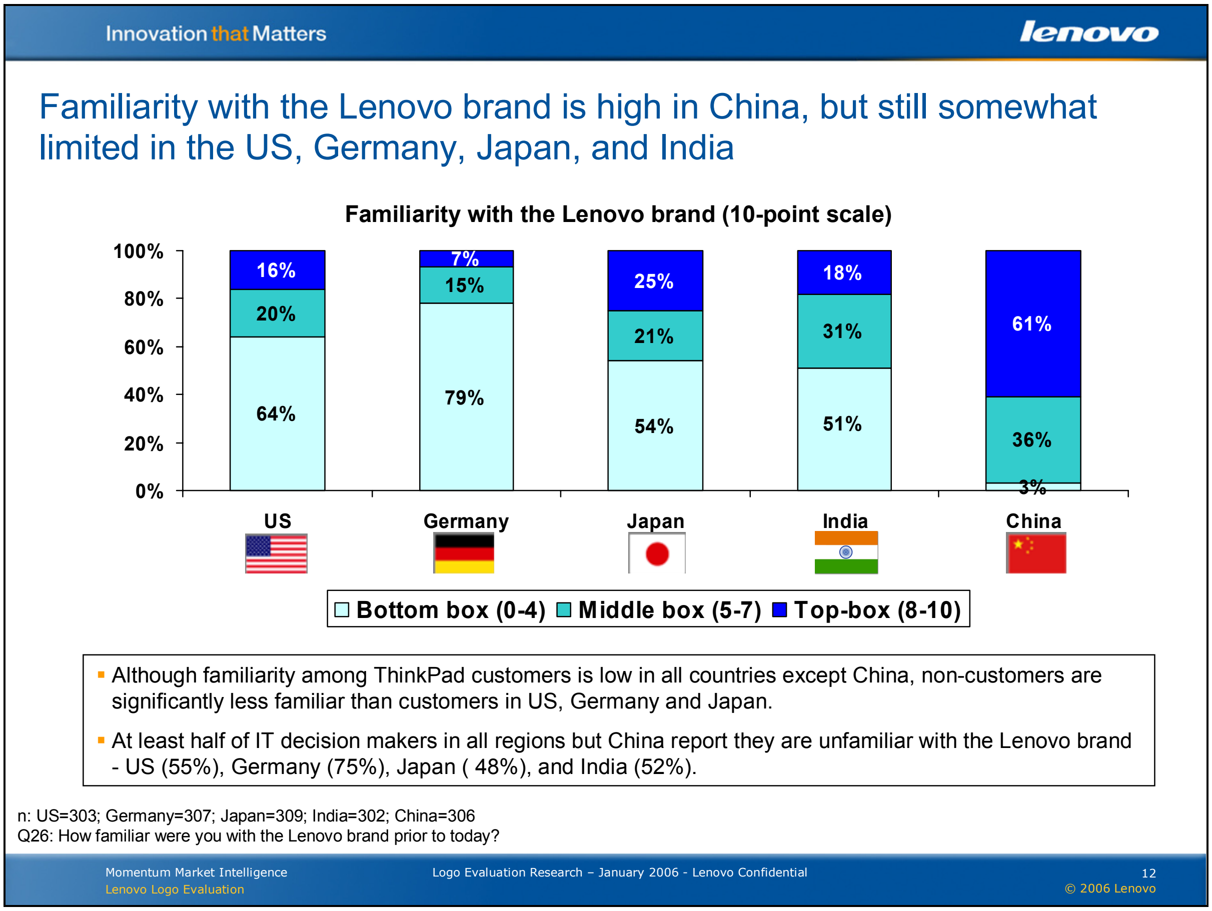


Exhibit 8 (continued)



Source: Company documents.

Exhibit 9 Lenovo Branding

A. Introducing a New Lenovo Brand

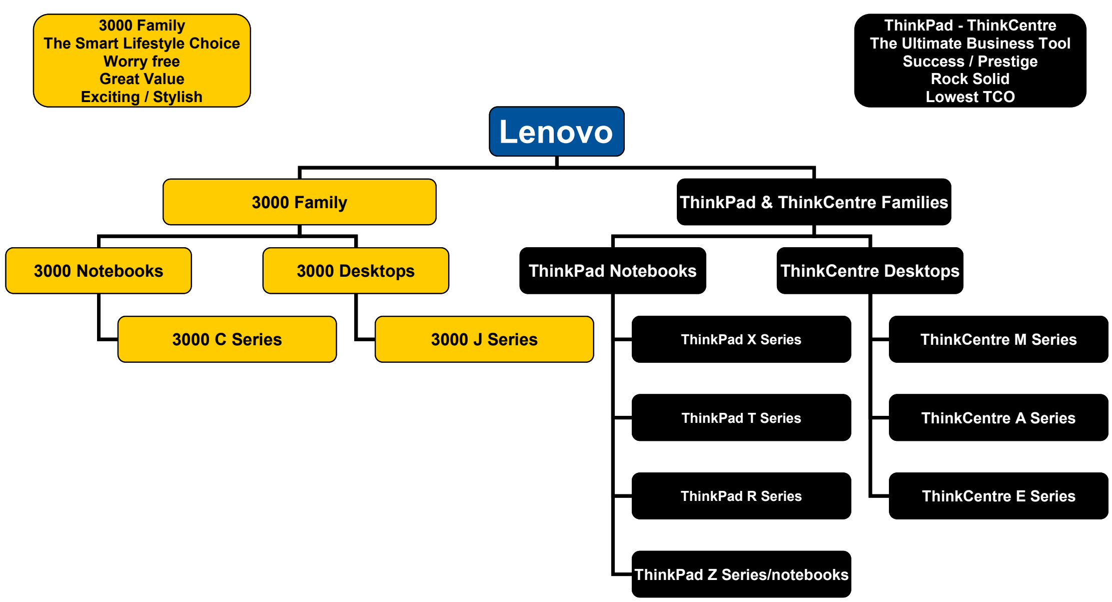
Two Product Lines to Meet Your Customers' Needs

And enable you to compete more widely

Category	Think-Branded	3000
Technology (Platform, Chipset, Processor)	Industry-Leading	Industry-Standard
Product Configuration	Custom Configure To Order	Standard Build to Stock
Platform Stability	Global Workhorse Models	Frequently Updated
Value	Full Suite of Robust Features	Attractive Price Points
Design	Classic	Exciting, Contemporary
Security	Most Secure PCs Available	Innovative & Secure
Business Partner Offerings	Complete End-to-End Solutions	Unique Products and Services

B. The Lenovo and Think Branded Family of Products

The 3000 & Think Branded Family of Products



Source: Company documents.

Exhibit 10 Think Pad Unleashed Print Advertisements

"ThinkPad Unleashed" campaign is true to the ThinkPad brand and strengthening it.

Starting at less than 2.7 pounds, it's the smallest, lightest ThinkPad® ever. Because you already have enough weight on your shoulders. The new Lenovo ThinkPad X60 and X80 with Intel Centrino Duo® Mobile Technology.

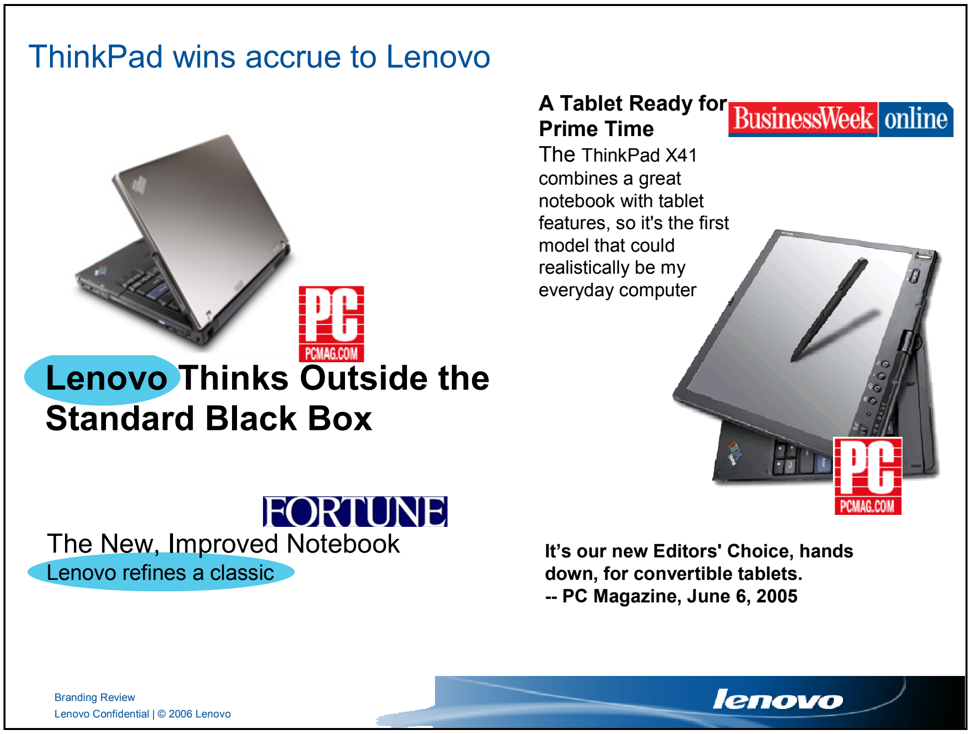
New Thinking. New ThinkPad.

Take notes. Get noticed.
The Lenovo ThinkPad• X41 Tablet PC, powered by Windows XP• Table PC Edition. It's a drawing board. It's a note pad. Best of all, it's a ThinkPad.

New Thinking. New ThinkPad.

Source: Company documents.

Exhibit 11 Public Relations Quotes for the ThinkPad Z60 and Tablet



Source: Company documents.

Exhibit 12 Sample Print Advertisements for 3000 Series

Viruses are the scourge of email business.

So how about a PC that can help bring you back to life?

Introducing the Lenovo 3000C series

It has a virus recovery button.

It updates its own software.

It has live phone support in less than a minute.

It's got Intel® Centrino® Mobile Technology.

It's a new kind of computer.

It's a new kind of world.

New World. New Thinking.

Source: Company documents.

Endnotes

[1] Simon London, "Quick-Fire Lessons In Globalisation—The Making Of A Multinational Part III: The Lenovo Team Has Little Time To Absorb New Skills If It Is To Compete In International Markets," *Financial Times*, November 11, 2005, www.factiva.com, (November 13, 2005). Lenovo's fiscal year ends in March.

[2] Yigang Pan, "Lenovo: Countering the Dell Challenge," The Asia Case Research Centre, Case No. HKU35 (Hong Kong: The University of Hong Kong, 2005), p. 1.

[3] London, (PART III) (November 11, 2005).

[4] http://news.com.com/2100-1042_3-5172583.html, accessed May 5, 2006.

[5] Gateway lost $526 million on sales of $4.3 billion in 2003 and lost $309 million on revenues of $4.2 billion in 2002.

[6] Adapted from *Computers: Hardware Industry Survey*, December 8, 2005, Standard & Poor's Industry Surveys via NetAdvantage, May 1, 2006.

[7] Ines Ke, "Commerce—IDC: Worldwide PC Market Achieved 5-Year-High Delivery Growth In Second Quarter," *Taiwan Business News* (July 22, 2005), www.factiva.com, (November 17, 2005).

[8] PC shipments market share is based upon data presented in from *Computers: Hardware Industry Survey*, December 8, 2005, Standard & Poor's Industry Surveys via NetAdvantage, (May 1, 2006).

[9] PC shipments market share is based upon data presented in from *Computers: Hardware Industry Survey*, December 8, 2005, Standard & Poor's Industry Surveys via NetAdvantage, (May 1, 2006).

[10] Ines (2005).

[11] Ines (2005).

[12] Ines (2005).

[13] Michael G. Rukstad, "A Technology Legend in China," HBS Case No. 9-701-052 (Boston: Harvard Business School Publishing, 2001), p. 2. and Yigang Pan, "Lenovo: Countering the Dell Challenge," The Asia Case Research Centre, case no. HKU35 (Hong Kong: The University of Hong Kong, 2005), p. 5.

[14] Shan Feng and Janet Elfring, "The Legend Behind Lenovo: The Chinese IT Company That Dares to Succeed" (Hong Kong: Asia 2000, 2004), p. 23.

[15] Pan (2005), p. 6.

[16] Rukstad (2001), p. 4.

[17] Quoted in Rukstad (2001), p. 5.

[18] Rukstad (2001), p. 5.

[19] Pan (2005), p. 7.

[20] Rukstad (2001), p. 7.

[21] Pan (2005), p. 18.

[22] Pan (2005), p. 8.

[23] Pan (2005), p. 9.

[24] Pan (2005), p. 9.

[25] Rukstad (2001), p. 9.

[26] Yang, p. 4.

[27] Notebooks (small, portable computers with built in keyboards and monitors) could run on batteries and be easily transported. Desktops were typically more powerful devices that could support elaborate configurations while providing larger storage systems, as well as greater power (and cooling) required by faster microprocessors.

[28] See http://www.pc.ibm.com/us/thinkpad/anniversary/history.html.

[29] William M. Bulkeley and Charles Forelle, "Will Chinese ThinkPads Still Seem Hip?" *The Wall Street Journal*, December 10, 2004, B1.

[30] Kath Walters, "Lenovo on your lips," *BRW*, May 4, 2006.

[31] London (Part I), November 10, 2005.

[32] Steve Hamm with Pete Engardia, "Big Blue's Bold Step into China," *BusinessWeek*, December 20, 2004.

[33] In December 2005, Bill Amelio from Dell replaced Ward as CEO.

[34] Simon London, "A Global Power Made In China—Lenovo: The Making Of A Multinational Part I," *Financial Times*, November 10, www. factiva.com, accessed November 10, 2005.

[35] Lenovo, "Lenovo United States News," Lenovo website, http://www.lenovo.com/news/us/en/2006/03/errorfree.html, accessed May 15, 2006.

[36] Peter Lewis, "The new, improved notebook," *Fortune*, October 31, 2005.

[37] Peter Lewis, "The new, improved notebook," *Fortune*, October 31, 2005.

[38] Peter Lewis, "The new, improved notebook," *Fortune*, October 31, 2005.

[39] Kirk Yang, "Lenovo," Citigroup Research, January 24, 2006.

[40] Yang, p. 4.