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# “Doing” the act: Lenovo and corporate reputation

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Asha Kaul

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In early April 2011, with one foot in a temporary cast, Amar Babu, Managing Director, Lenovo India, slowly climbed the short flight of steps to the hotel in Mumbai for an interview with the case writer. His slow pace in the hotel lounge belied the expression of intent in his eyes as he deliberated upon the challenges faced by Lenovo and the future course of action.

India was a priority market for Lenovo. While aggressive brand building and reputation managing strategies had secured a 10 per cent bite of the market by 2011, there was still a long way to go for Lenovo. “If we can be a strong number one in China, given the similarity between the two countries (China and India), why can’t we be number one in India?” quipped Amar (Shashidhar, 2007).

According to Amar, Lenovo India sought to be the most preferred brand in the consumer market. Amar knew that the key to expanding market share and making existing business grow was in challenging the “perception of Chinese companies as mainly producers of cheap, low-end products” (Anand, 2005). However, the task was uphill with multiple questions to be addressed and strategies planned. In 2011, the questions to be addressed were: would Lenovo India be able to replicate its success in China? What strategies should be adopted to build reputation, redefine perceptions, and gain market share in India? Was Lenovo India poised for growth?

## Company origins

New Technology Developer, Inc. (NTD) was a Chinese firm that started in 1984 as a supplier of imported computers and computer parts. The popularity of its first original product, the Legend Chinese Character Card, led NTD to rename itself as the Beijing Legend Computer Group Company in 1988. Its key products were personal computers, servers, imaging equipment, mobile phones, and information technology (IT) services. In 1994, the firm was listed on the Hong Kong Stock Exchange and was one of the few Chinese companies to secure the position. By 1999 Legend was the market leader for PCs in China, with a market share of 21.5 per cent. At that point in time, the other two players following close on its heels were IBM with a market share of 6.2 per cent and Founder with a market share of 5.9 per cent. At a time when Chinese products were equated with low price and inferior quality, NTD distanced itself from such notions by emphasising innovation as its key-differentiating factor.

In 2003, the company rechristened itself Lenovo to suit the international market. Even then, most of its business was generated within its home country. In 2004, nearly 90 per cent of its revenues came from China.

## Emerging from the shadows

Right from the beginning, Lenovo played against the tide. Lenovo had constantly been innovating on new features and designs to suit changing customer requirements and trends.

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Disclaimer. This case is written solely for educational purposes and is not intended to represent successful or unsuccessful managerial decision making. The author/s may have disguised names; financial and other recognizable information to protect confidentiality.

With an eye on expansion Lenovo set up five regional headquarters in the USA, Europe, Asia-Pacific, China, and Asia. Almost 54 per cent of the new PCs were being used by customers in the markets of India, Russia, Brazil, and China (Shashidhar, 2007). To exploit opportunities these trends show, Lenovo worked on building a design, production, marketing, and distribution network in the emerging markets and shifted some of the business units from high-cost locations to low-cost countries such as China and India.

### Spreading wings

In a move that received much worldwide publicity, Lenovo acquired IBM's PC and notebook manufacturing division in December 2004 for \$1.75 billion. This included the transfer of the research, product development activities, the global distribution and sales network. A significant component of the deal was the transfer of the crucial "Think" brand from IBM to Lenovo. This included the reputed ThinkPad laptops and the ThinkCentre desktop series. At this point, Lenovo and IBM agreed upon a mandatory two-year lock-in period for employees – the staff could not move back to IBM for two years after the acquisition. This was expected to make the organisational transition smooth for both companies. Additionally, both companies agreed to Lenovo's use of the IBM logo on its products for a maximum period of five years from the date of acquisition till it built its own brand. In exchange, Lenovo was not to compete with IBM services and consulting businesses. At the time of acquisition, IBM worldwide had the highest reputation in the enterprise segment.

The move gave Lenovo a foothold in lucrative emerging markets such as Asia, which were poised for huge growth in IT and demand for related products. The acquisition immediately catapulted the company from global eighth position among PC makers to third position, after Hewlett Packard (HP) and Dell.

Moving beyond its traditional institutional client base or enterprise segment, Lenovo began developing products for the consumer markets, especially the retail and small and medium business (SMB) sectors. In line with its growing popularity, a significant decision was taken in 2008 to move away from the IBM tag before the stipulated five years were over and build an independent identity. In the same year, Lenovo first launched its products without the IBM logo and introduced the Idea consumer brand at the International Electronics Show at Las Vegas.

By 2011, Lenovo had operations in more than 60 countries and provided PCs to more than 160 countries. Operating dual headquarters in Beijing, China and Raleigh, North Carolina, USA, Lenovo had organised its worldwide operations to enable speedy decision making, quick capitalization on human talent as well as fast reaction to market opportunities.

### Lenovo India: setting up base

In 2005, Yang Yuanqing, Lenovo Group Chairperson observed, "I put India on the top priority market among the emerging markets" (Anand, 2005). Lenovo India was formed in 2005 with Neeraj Sharma as Country Head. Sharma had been with IBM since 1996 before taking over as the Managing Director, South Asia, Lenovo.

In 2005, a PC manufacturing plant was set up in Pondicherry with an initial annual output of 500,000 units. The very next year the company started introducing Lenovo branded products for small businesses and the consumer segment for it realised that besides the enterprise segment, the fast expanding small office and home office segment and the consumer market were ideal areas for business growth. From 2006 onwards, the market for laptops had been outpacing that for desktops. Lower prices and preference by younger customers who looked for mobility were causal factors for its rapid growth. Along with lower prices, there was a demand for lightweight computers with higher battery life and better graphic and multi-media capability.

Amar Babu joined Lenovo India in November 2007. His decision to move to Lenovo from Intel was motivated by the opportunities that Lenovo offered and the challenges which the company faced. To participate in the amalgamation of the East and the West; to be part of

the story of a Chinese backyard-shed, \$25,000 operation with home grown technology solutions aiming to acquire IBM, and, manning other global business operations, seemed exciting. The challenge, on the other hand was equally provoking: not many people knew Lenovo. Those who did, associated it with IBM and had a positive perception or with China and had a negative perception or had no opinion about the company.

Lenovo's journey in India was not entirely smooth. In the initial years in India, it had to grapple with governmental rules and regulations. Laws were numerous and there was lack of consistency in government policies. The primary challenge before them was to make profits in the changing environment. Ensuring lowest cost for manufacturing through importing or local manufacturing was difficult in the light of the changing duty structure. Compliance with the existing policies paved the way for the company, though in the initial phase, it had to pay numerous fines for multiple regulations with which it was not familiar.

### Organisational growth

Speeding approach for expansion in India, Lenovo developed a three-phase approach for consolidating its position in India. In the first phase, continuity was assured to customers by guaranteeing that they would continue to interact with the same IBM team they had earlier connected with. The IBM product roadmap, customer service system and sales coverage were maintained for India. In the second phase, they expanded their product line. A project team was appointed to identify which of the Lenovo products would be suitable for the Indian market. The third phase was planned to focus on extensive advertising and branding of the products.

### *Tiding over troubled waters*

During 2007, with the end of the lock-in period Lenovo saw a string of exits by its senior executives who had earlier been with IBM move back to their parent company. Neeraj Sharma, Manish Gupta, General Manager, Products and Enterprise, Ajay Mittal, Vice-president, Brand and Marketing, Princey Bhatnagar, General Manager, Desktop Business, S. Thirumurugan, CFO, Vivek Malhotra, Director, Sales and Channels. Gupta, Mittal and Sharma went back to join IBM.

Anil Philip, Executive Director, Transaction Business, Lenovo India, was appointed as the interim MD for six to eight weeks. He was soon replaced by Amar Babu as Lenovo's next MD in India. Early 2008 saw more exits when Anil Philip left. Most of these exits happened before recession as the crisis situation hit all companies and few were in the "attracting employees" mode.

According to Amar, some of the reasons for attrition were loss in market share, closure of a plant, and cutting down of certain parts of the business which led to insecurity. To quell doubts and arrest further attrition, Amar and his team maintained a constant flow of communication with internal customers and business partners. It was important to nurture their confidence, for, stated Amar, "People should not lose hope." During this period, salary increases were held back, differential pay structure was removed, cost structures were made transparent and the rationale for these measures was explained. Employees who had been handed the pink slip[1] were provided support. The company helped them find other jobs, gave severance packages and provided guidance on resume writing:

It made us understand that the severance was an outcome of the economy and not a reflection on us as individuals. Many people who had left the company have come back. Some have joined at the same post and others at different posts. Many of the employees who had joined IBM have come back. For us at Lenovo, every person who comes back is a huge victory (stated an employee from the organisation).

In 2008 at the time of recession, Amar realized that it was critical for him to provide confidence to his employees. A turnaround had been planned which meant that changes in processes and business had to be initiated. Senior leadership team shared reality, spelled out challenges and discussed processes. In the interaction with the employees, three questions were addressed: what is the problem, what was Lenovo doing about it and how

they planned to bounce back. Additionally, cost structures were explained which made it easy for the team to appreciate reasons for hard decisions as plant closure, termination of employees, and exiting some businesses. As small wins materialized, the team gained confidence and became a part of the change process.

A management team with dedicated leaders who “walk the talk” and have a strong following, recognize performers, and have good communication skills helped in building trust and arrested attrition to some extent, stated a senior member from the Lenovo team. Discussing other cultural changes within the organization, she said that monthly meetings with the country head, and round table discussions were organized by the leadership team to keep all employees were on the same page. The company adopted an unwritten open door policy which improved accessibility of the top management.

In 2008, the top management began hiring people, put together a management team, went to the press and the business partners. Many of the issues related to employees, processes, and products were addressed, inventory was cleaned up and expenses were looked into. In a year and a half, Lenovo recovered, with a strong team of 340 employees and enhanced market share of 10.3 per cent in the third quarter of 2010-2011. According to Amar:

[...] it was important to first get the right team in place. Without the right team, any strategy is incomplete. To translate to execution and improve it continuously needs right and motivated people in the right jobs with a fair degree of empowerment. This change in culture and operational efficiencies tremendously reduced the attrition rates at Lenovo.

While the recorded industry attrition rates were around 20 per cent, Lenovo's rate was 10 per cent. “Since 2009 there has been a change in approach to business with clarity in thinking, strategic moves which were entrepreneurial in nature, and efficient execution” stated Amar and continued:

Employees are being taken care of and empowered. There is greater focus on teamwork and unity, which has made a huge change. We have removed two to three hierarchical layers which has increased trust and enhanced efficiency.

In 2011, there were five or six layers within the organisation. A new entrant was only two levels below the MD who in turn was two levels below the CEO. The attempt of the top management was to build an “entrepreneurial culture inside a global organisation” by sharing the vision and getting people to believe in it and feel part of it. The “how” still remained a question.

### *Visioning*

In 2009, Lenovo shifted gears to drive growth. In October of the same year, Amar worked with the leadership team to set the goal or vision that everyone could relate to and believe in. They developed the vision of “Unstoppable Lenovo India” with five clear goals to be achieved by March 2012: to be profitable from April, 2010; to be one of the top two in the market by March 2012; to be a partner of choice for business partners; to be number one in customer satisfaction; and be one of the top 20 best employers in the country.

This vision galvanized and excited the team and employees moved from a “turnaround” mindset to a “growth” mindset. This was supported with specific “change” programmes over time (“Rewire projects”, “Smart Expense”, etc.). Amar tried to ensure that the team had clear short-term goals (top 3) to achieve for the immediate year which ensured that the whole organisation was working as one team towards the goal.

To support this vision, it was important to have the right people in the right jobs and empower them. New talent was recruited for the organisation from Ivy League management schools in the country, and existing talent was promoted. Both these tactics impacted the overall planning and execution. Right through the process, the senior leadership team continued celebrating success and rewarding employees. Synergistic visioning created an engaged and motivated team. However, for sustenance of the new venture, a paradigm shift was required, asserted a senior employee in the organization.

### *Courting controversy*

In 2009, the company got into trouble with the Indian Government over the erroneous depiction of India's geographic boundaries in the wallpapers uploaded on its ThinkPad. A large number of desktops with this wallpaper had been supplied to income tax offices across the country. While there was no specific law under the Indian Penal Code to deal with such an offence, under the Customs Act, the consignment could be seized if the notebook had been imported. At this point in time, the media reported that it was the China Government which was asking Lenovo India to err.

The systems had been manufactured at Lenovo's Pondicherry plant. The original image for the map had been obtained from an international stock photography agency and been reworked by the company's software development graphics team in the USA. The error was first discovered in one of the systems supplied to the income tax office, New Delhi, in April 2009. Lenovo justified the depiction by saying that the desktop wallpaper was meant only to "depict time zones and not political or geographical boundaries."

According to Amar, they explained to the government that there was "no intent, just a mistake" which was graciously accepted. Employees held service camps in income tax offices in ten cities across the country and replaced existing wallpaper with conventional ones. It also offered to change the wallpaper for any other customer who came up with a similar complaint, and stopped the installation on new systems. The media talked about the successful measures adopted by Lenovo in courting controversy with the Indian Government.

In 2011, Lenovo moved ahead in its relationship with the Indian Government and in working closely with the Ministry of IT, state governments on e-governance projects and began to provide hardware infrastructure.

### *Governance*

World-wide Lenovo was governed by a board with representatives from diverse fields including PE majors and academia. Lenovo India being a private limited company had its own board consisting of senior management from local groups and emerging markets.

Lenovo worked on clear "Business Conduct Guidelines" and "Business Ethics Guidelines". These set of guidelines defined the rules under which all employees were expected to work with partners, vendors, and customers. According to Amar, business ethics of the highest order was followed and Lenovo was intolerant towards violations of existing norms within the organisation. An Internal Audit, Ethics Committee and an Ombudsman ensured adherence to business code of ethics. Internal audit and business controls were a key part of the functioning of the organisation. It inherited the IBM code of conduct which was strong and rigid in implementation.

Regular and frequent trainings were given to employees on these guidelines to make sure that they were followed in day-to-day transactions. Periodic reviews were conducted at various levels and risk assessment was done to ensure that Lenovo functioned as per expected standards. Corrective actions were taken for situations where gaps were identified. These processes and review systems were strictly followed by the company, informed a senior executive and added, "This is what helped us tide over the wall paper incident with the IT officials and build relationships with the government." Any deviation was viewed unsympathetically and all relations were severed in case employees or partners were found wanting in ethical deployment of duties.

### *Product initiatives*

By 2009-2010, SMBs were driving IT growth. Early forecasts in the year predicted an 8.5 per cent growth in IT and telecommunications spending over the previous year. Tier one to three cities showed the maximum growth in SMBs. The sector demanded innovative technologies that offered optimum operational value while being cost effective and technically simple.

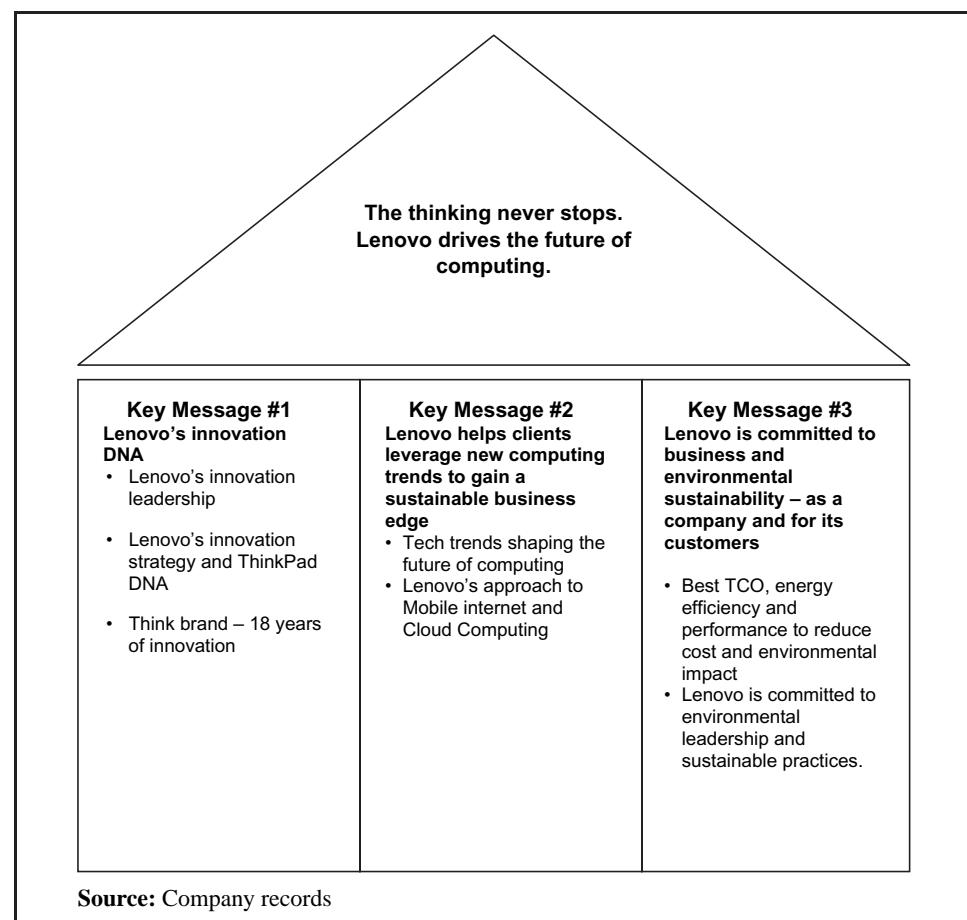
In response to the market demand by 2011, Lenovo had come up with X, Y, and W series of computers. The X series was 12 inches, T series 14 inches and much lighter and W series was 15 inches but much superior. With a core I-7 technology, W series was designed as a compact mobile workstation and was suited for graphics and design. The prices of the three series started from INR 60,000, 80,000 and 1,00,000, respectively. All Lenovo machines were made of magnesium alloy which made them sturdy. Some of the machine features were roll cage, shock absorbers which would allow the hard disk to park itself on the side in case of an accident, legendary keyboard which was spill resistant and had a drainage provision and steel hinges. The sturdiness of the machine was a major differentiating factor from other competing machines in the market. Would sturdiness in product be a differentiating factor and help Lenovo scarf the market, mulled Amar.

### *Lateral thinking*

In 2007, Lenovo set up the India Innovation Centre in Mumbai. This was the third such centre set up by Lenovo across the globe. The first centre was set up in North Carolina, USA, in June 2005, and the second in Beijing, China, in September 2005. The centre was to act as an incubator by bringing together customers, business partners, solution providers and independent solution providers to collaborate on personal computing solutions.

Innovation and technology planning were extremely important as customers wanted products with latest technology (Figure 1). Lenovo collaborated with LANDesk, IBM, Intel, Microsoft, and Symantec, among others in these centres. It was the recipient of many awards for innovation leadership (Figure 2). With a growing demand from partners concerning

**Figure 1** Innovation campaign – “Future of Computing” message framework



**Figure 2** Innovation leadership

The graphic is titled "Innovation Leadership" at the top. Below it, a box contains the text "Over 100 design awards and counting" followed by a bulleted list of awards:

- 6 IDEA Awards
- 20 iF awards for Good Design
- 82 G-Mark Awards in Japan
- 13 red dot design awards
- ThinkPad Design of the Decade, IDSA 2000
- ThinkPad 701C in permanent collection at MoMA
- 8 'Best of Show' awards at CES 2010

On the right side of the graphic, there are several images of Lenovo products and awards:

- A Windows 7 award ribbon.
- A red dot design award ribbon.
- An iF award ribbon.
- A "Windows Experience" award ribbon.
- A "Best of CES" award ribbon.
- A ThinkPad logo.
- A U1 Hybrid laptop.
- A T410s laptop.
- A X100e laptop.
- A W700 dual screen laptop.
- A desktop monitor labeled A300.

At the bottom right, the Lenovo logo is displayed with the tagline "NEW WORLD. NEW THINKING."

**Source:** Company records

access to product and support information, marketing material and pricing, Amar decided to set up the Lenovo Partner Portal in 2008. Innovation, reliability, and durability were emphasized worldwide and steps taken to ensure the same. Lenovo maintained the “brand promise” of Thinkbrand, keeping innovation as its tool for growth in market share of enterprise customers. All those customers who had left Lenovo post-transfer of Thinkbrand from IBM gradually started coming back. The cash which was generated was ploughed back in the business to provide products which were appealing and customer centric.

The company's innovation strategy was based on a two-tier approach to solving real-world customer problems – first, in developing ideas that could be brought to market within 24 months, and second, making investments in long-term research on “game changing technologies”.

#### *Product category*

In 2008, Lenovo launched the “Idea” PC brand, comprising IdeaPad notebooks and Ideacentre desktops. The latter series was part of the senior leadership’s move to develop its desktop business in the country. Lenovo’s low share in this market had been attributed to its lack of comprehensive product portfolio. However, the Idea range was expected to bring about the desired change. According to a Lenovo press statement, the products had been “engineered for the best user experience with cutting edge capabilities, trendsetting design and built-in peace of mind” (Ciol, 2008). With features such as an anti-bacterial keyboard and face recognition security, the machines were considered a departure from Lenovo’s emphasis on aesthetics and design over popular features. To complement the launch in April 2008, the company planned a marketing campaign called “Ideas Everywhere” across different mediums. Emphasis was laid on planning, performance, practice and priorities:

- *Plan.* Before committing anything.
- *Perform.* If you have committed, do it.
- *Practice.* For improvement everyday.
- *Priorities.* Put company above all.

After maintaining a low profile for a couple of years, in June 2009 Lenovo introduced 16 new products in one shot to communicate that their intention to “stick around” and not quit with the implicit promise that “we will invest and deliver.” Lenovo marketed its products directly to consumers, small to medium size businesses, and large enterprises, as well as through online sales, company-owned stores, chain retailers, and major technology distributors and vendors.

At the beginning of 2010 Rory Read, President and Chief Operating Officer, Lenovo group stated:

Lenovo is eyeing a double digit market share, wherein we expect to grab 10 to 20 per cent of the PC sales. Our focus will be on introducing quality products with customised solutions (Sinha, 2010).

In 2011, ThinkPad (for corporate clients) and Idea (for retail clients) marked the product portfolio of Lenovo. While the image of ThinkPad for enterprise customers was maintained, Idea was positioned as a colourful brand with different multimedia options, lightweight and easy to use machine. Consideration and preference for the new products still remained to be tested.

Lenovo focussed on making investments to drive the SMB business and expanding the retail network. With 400 retail stores already opened in early 2011, Amar had plans to increase the number to 1,000 which would make them the largest PC retailer in India.

#### *Inventory management*

Creative and aggressive inventory management was important. “At Lenovo, if the product is more than 90 days, we write it off. We have very aggressive inventory guidelines,” asserted Amar. Lack of planning could cost the company almost 50 per cent of the cost of the machine. Inventory management was the key differentiator in the PC industry. “Profitability and share is built by selling latest products. We always had the inventory financial rules but it was important to build a ‘non tolerant’ system to inventory” (stated Amar).

Amar personally began reviewing inventory status every week which helped in bringing into focus organisational strategies. He added:

Today Lenovo is regarded as the leader in technology transitions and one with the leanest inventory chain. Our inventory management systems have resulted in increased confidence apart from improved margins and market share.

#### **Harnessing market growth**

In 2007, by the time Amar Babu joined Lenovo, plans had been finalised to set up a second manufacturing plant in the country at Baddi, Himachal Pradesh. This would help them to exploit the market fully. The plant was expected to have a workforce of 350 people and take up manufacturing, product configuration, value-added distribution and customer services, logistics and customer support, and distribution of products. During that year, Lenovo was the third largest PC maker in the country, after HP and Hindustan Computers Limited. By February of the following year, the combined production capacity was five million laptops and desktops. It had a nearly 50:50 desktop-laptop manufacturing ratio. The Pondicherry unit was expected to cater to the market in South India, and the Baddi unit primarily to the west and the north. However, Baddi plant was closed in April 2009 and all production for Lenovo was undertaken at the Pondicherry plant, which had sufficient capacity to meet customer needs. “With demand slowing down, it was decided that it is best to shut the operations at our Baddi unit and build capacity at our unit in Pondicherry,” said Amar (CXOtoday.com, n.d.). The unit in Pondicherry had a capacity of five million units of desktops and laptops, and a staff of over 100 people.

A global marketing centre was set up in Bengaluru, an IT hub to provide marketing services to Lenovo’s global businesses. This included creative development, production, translation, response management and analytics support.

### *Competitors and competition*

The key players in the segment were HP, Sony, and Acer. HP provided a full range of high-tech equipment to enterprise and retail customers and was known for its product innovation. Sony, in the premium segment, manufactured notebook, tablet, and desktops with innovative features and catered both to the enterprise and retail customers. Acer was a leading manufacturer of notebook, tablet, and desktop computers and was low in price. Apart from these established players, a significant chunk of the PC market was captured by the assembled PC segment (Refer Table I for market share of key players).

### *Consumers*

Lenovo started a dual business model (transactional and relational) in China which was a huge success and was looking to implement the same in India as well. In the transactional model, the customer preferences were for word processing and entertainment. Sensitivity to price, appearance, availability and service were the key determinants in choice of the PC. To satisfy this group of customers Lenovo relied on mass manufacturing and channel sales with an efficient supply chain. The purchase of PCs under the relational model focused on work requirements, product customization, security and stability. Unlike consumers for the transactional model, customers for the relational model often had different, specific and more complex requirements. Customised requirements, small-scale production and flexibility in product assembly were required. While "efficiency" was the key for the transactional model, "agility" was the defining parameter for success of the relational model.

The retail consumers for the PC market were mainly the youth in the age bracket of 18-25. Their contribution to desktop purchases was the highest amounting to 51 per cent which was followed by interest in notebooks (40 per cent). Prime factors affecting purchase decision were "price, sturdiness and decent configuration" (stated P.V. Maheshwar, PGP Class of 2013, IIM Ahmedabad).

**Table I** Quarterly market share of Lenovo India (in %)

Vendor	FY – 2007-2008			
	Q1 FY0708	Q2 FY0708	Q3 FY0708	Q4 FY0708
Acer	4.5	6.1	7.1	7.4
Dell	5.2	5.5	7.0	7.4
HP	17.6	17.5	17.6	18.3
Lenovo	8.2	8.3	8.9	7.7
Others	64.6	62.7	59.4	59.2
FY – 2008-2009				
Vendor	Q1 FY0809	Q2 FY0809	Q3 FY0809	Q4 FY0809
Acer	8.1	8.9	7.7	7.3
Dell	8.9	9.6	11.0	9.7
HP	18.6	19.8	15.6	18.2
Lenovo	7.8	7.6	6.6	4.7
Others	56.5	54.0	59.1	60.1
FY – 2009-2010				
Vendor	Q1 FY0910	Q2 FY0910	Q3 FY0910	Q4 FY0910
Acer	8.7	11.1	10.3	13.0
Dell	9.8	11.3	13.6	13.6
HP	17.8	17.1	16.2	16.5
Lenovo	5.0	7.3	8.1	7.2
Others	58.6	53.1	51.8	49.7
FY – 2010-2011				
Vendor	Q1 FY1011	Q2 FY1011	Q3 FY1011	Q4 FY1011
Acer	11.5	10.6	11.5	12.3
Dell	15.2	16.7	14.2	17.8
HP	14.3	13.7	17.3	13.0
Lenovo	7.2	9.2	10.3	10.0
Others	51.9	49.9	46.8	46.9

Note: FY 2007-2008 to 2010-2011

Source: Company records

However, enterprise customers had a different perspective. Amit Agarwal, an IT specialist providing technical services to Merck India made bulk purchase of Lenovo averaging 1,000 laptops and 100 desktops every year. His association with the ThinkPad was almost eight years old. Post-acquisition of IBM Thinkbrand, he had transferred his loyalties to Lenovo. He stated that the reason for continuing association with Lenovo over the past six years was the onsite services and support provided for three years with no extra payment. Additionally, stated Amit, the failure rate of machines in bulk purchase was only 1-2 per cent of the entire lot. The faulty machines were either repaired or replaced by the company.

For enterprise customers, Lenovo often signed a global contract with multinational companies, with a fixed price point across the globe. Orders were placed after due diligence was conducted on the machine. Prior to bulk purchase, the machines were loaded with applications specified by the customer and performance and speed were gauged as per specifications and requirements.

While large enterprises focussed on support and service the SMEs emphasised price and durability. Sandeep Padoshi, Vice President, Operations at Amar Chitra Katha Pvt. Ltd, India stressed that:

For us, as a SME, cost is an important factor in purchase decision along with configuration and after sales service. Since our purchase decisions are not large enough we realize that the discounts we get are not substantial. This means we do not have to be loyal to one brand. We thus categorise our purchase based on the requirements of different teams.

For their field sales and advertising sales team light weight and inexpensive machines were the preferred choice and in most situations they did their bulk purchase from Lenovo.

In 2011, the Indian PC market was at an all time high. The households were becoming a key constituent. From 2005 to 2011 there was a y-o-y growth of 31 per cent with a CAGR of 32 per cent. During the same period in the business segment there was a y-o-y growth of 3 per cent and a CAGR of 3 per cent. Market analysis in 2011 revealed that in the last five years there was an increased preference for notebooks over desktops. It showed a y-o-y growth of 31 per cent with a CAGR of 50 per cent in contrast to desktops which was 9 per cent y-o-y with a CAGR of 5 per cent. The overall growth in the PC market was 16 per cent.

### ***Scarfing the market***

Worldwide, Lenovo followed a strategy called “protect and attack”. It attempted to protect its strengths – being Chinese and being a large enterprise business – and attacked areas in which they saw opportunities:

For the first time we had a strategy that was on one page. The entire organisation was aligned and suddenly it was clear where to focus resources and what to expect from which part of the business (stated Amar).

In the fourth quarter of 2010-2011 there was an interesting turn of events in the market. HP lost almost 4.3 per cent of its market share compared to the previous quarter. HP's loss was Dell's gain. While there was a minor shift in the market position of Acer, Lenovo remained constant and maintained its position as the fourth largest player (Table I) in the consumer segment (Prabhudesai, 2011). However, Lenovo wanted to gain the top position in the enterprise space with government as key account businesses which would come about by maintaining quality “ruthlessly”.

To gain headway in the enterprise segment, Lenovo introduced a “Stock and Sale” business model (2010) which ensured availability of the products across the country well before enterprise customers placed their orders. This model reduced the turnaround time:

We have a huge base of retention account owing to our global alliances with enterprises, and we are very comfortable working with them. We are trying to go outside that comfort zone and aggressively pursuing the large customers where our market share is lower than what we would like it to be. We feel we can increase our share in the segment by introducing the “Stock and Sale” model (Rahul Agarwal, Marketing Director (Acting) and Executive Director KAB & Think CoE (*Business Standard*, n.d.)).

Explaining the focus on desktops even when the laptop market was growing exponentially, Amar observed:

The laptop business, as the numbers show, is growing effortlessly. We can surely do better on the desktop front too. So we will also look at the desktop growth in smaller cities, where the penetration is low.

In 2010, market analysis showed that volume growth occurred more in tier one cities and 70 per cent of laptops were sold through retail in tier two and three cities.

Given the rising popularity of notebooks over desktops, Lenovo diverted its energies to focussing on developing this market. The consumer segment had yet to be tapped. Plans were developed to ramp up presence in this area through innovations such as the bright vision technology.

Direct marketing was adopted for large customers and the channel partners approach helped expanding reach to individual customers in non-metro areas through the Idea series. The PC market was expanding to the rural areas. In 2010, rival companies began offering PCs costing less than INR 10,000 to cater to this emerging segment. However, for Lenovo, emphasised Marwaha as early as 2008, the product differentiation was not on price, but requirements. ‘If someone asks, if I have the absolute best-priced product, my answer would be ‘No.’ But if they want an absolute best product, my answer would be ‘Yes’’ (Shekhar, 2008).

The first quarter of 2011 saw a 6.2 per cent growth in the PC segment over the same quarter in 2010. Total market share in India for the combined desktop and mobile PCs aggregated to nearly 2.6 million units. A dip was seen in the desktop PC sales graph, while the growth was driven primarily by the mobile PCs (laptops/notebooks).

Lenovo, according to Amar, was not strong in the desktop segment. Its strength lay primarily in the consumer notebook segment. In the fourth quarter of 2011, in terms of notebook and desktop sales, Lenovo moved up from a 4.7 per cent in the first quarter of 2010-2011 to 10 per cent market share.

A similar trend was visible in the individual sales of both desktop and notebook segments. While Lenovo had gained 4.2 per cent market share in the past two years in desktop computers, the gain in market share of notebooks was even higher at 5.9 per cent. There was a similar increase in market share for Dell.

### *“Getting Close”*

In the calendar year 2010, total PC market, consumer PC market and notebook sales were high and on the rise. Amar expected consumer notebooks to be a new engine for growth in India. Lenovo expanded its portfolio by introducing workstations and servers. According to Rahul:

Our strategy has been to build our brands around our innovative products. Our entire messaging is built on the fact that we have different products with unique features that give unique benefits (Shekhar, 2008).

Lenovo followed the principle of “satisfying to delighting” customers. Reaching the customer in time was a move in this direction, which they did by increasing coverage even in remote locations as Guwahati, Silliguri, etc. The service engineers provided onsite services within 48 h. Keeping a well-stocked inventory to immediately address customer grievances and staying connected with certified partners helped Lenovo achieve its target of “getting close”.

Three customer call centres were set up: one for commercial, one for consumer and a Lenovo LenCare for cases which were escalated (for example, DOA – dead on arrival, warranty cases). There was one representative at each centre who served as a single contact point for maintenance of communication between customers and relevant engineers.

As per principle, Lenovo attempted “getting close” to the customer through technology and not price. A senior management professional stated:

The major competitors for Lenovo are Dell, HP, and Acer. Our challenge is to make our brand most preferred through offering of products rich in technology and not low on price. Lenovo has never

competed on price. It is a dangerous strategy for us because of our Chinese origin. If we start competing on price, the perception of being a Chinese company can easily go against us (Data Quest, 2008).

### *Satisfying to delighting*

Lenovo engaged in aggressive brand building and advertising to position itself in the Indian market. In February 2006, Lenovo signed the Hindi film actors and siblings, Saif and Soha Ali Khan, to endorse their products. According to the company, Saif Ali Khan in particular fitted the bill by conveying a message of being “young, innovative, experimental and exciting,” which is how Lenovo wanted to position itself in the Indian market. Established actors were not used as the company did not want to appear to be talking down to customers. Instead, it wanted to position itself as evolving alongside the customer. Hence, in the words of Piyush Pandey of Ogilvy and Mather that designed the campaign, “I am you, and I am changing” (Kannan, 2007). The company also thought that a pair of siblings would look good in its television campaign. The same year a coup of sorts was pulled off: the computer used in the hugely popular television show *Kaun Banega Crorepati II* displayed the Lenovo logo prominently. Industry watchers considered it a low-cost high-impact strategy. Another popular show, *Sa Re Ga Ma Pa* also used the company’s products in its episodes.

Getting celebrity endorsement was at that point a nascent idea, yet to be explored by companies. It significantly increased visibility and helped expand the consumer market. Product placement in movies was also used. The company sponsored the Hindi film *Corporate* (2006) by Madhur Bhandarkar. “We are probably the first PC vendors to try product placement in films to reach out to the masses” (stated Neeraj Sharma (Ravikumar, 2006)).

Another campaign was launched with the tagline “New World, New Thinking” that highlighted the “Think” products. A concentrated advertising campaign during the West Indies tour by the Indian team in 2006 was a move towards increasing visibility. As a result of these efforts, brand awareness in India went up from 38 per cent in February 2006 to 74 per cent among customers and 85 per cent among organisations in October 2006 (Thanuja, 2007).

When Amar took over in 2008 he was wary of using these options to gain visibility. He did not want to get the actors to endorse the ThinkPad because the credibility of the brand was strong and it did not require endorsement. However, he did tie up with Disney for a branding promotion:

If you buy the name of the brand and do not deliver, then at some point of time, you will lose the customer and the brand will die. Leveraging the brand equity is important. One has to be true to the brand and institute measurement processes. Lenovo kept on regularly measuring the awareness, the consideration and preference of the brand along with developing the corporate image (stated Amar).

Lenovo worked on online brand building by recruiting bloggers. They increased their focus on the young Indian consumer segment and aimed to create an instant emotional connect with the 18-24 age group:

We want consumers to seek our innovative, fun-embodied, stylish products and become de-facto “fun” ambassadors within their social circle [...]. From now on, the brand’s marketing communications will revolve around highlighting the “fun” proposition for consumers as well as our feature-rich product portfolio – and cater to consumers’ 360 degree requirements (asserted Rahul (Kannan, 2007)).

With competition being high in the laptop segment, companies positioned their product in terms of pricing or consumer-friendly features. These included attractive colours and purchase schemes. Lenovo preferred to focus on innovation and the sturdiness of its machines. Amar, in 2008 stated:

People buy our commercial laptops such as ThinkPad and know it is sturdy. Yeah, we haven’t put colours on the ThinkPad [...] one of our designers said we don’t wear a silver suit to the office! (Data Quest, 2008).

However, by 2010 Lenovo was beginning to realise the importance of catering to the “fun” factor in the consumer segment. It began to develop PCs that balanced richness of features and affordability with attractive design and quality service.

In 2010, Lenovo launched “Please, Daddy, Please” campaign. Praveen Raj, Creative Director, Hungry & Foolish Intellectual Properties, said:

The best part of *Pleaseddaddyplease.com* is that it allows the audience to make the dad-son story their own, and turns the consumers into Lenovo's brand ambassadors. So while the association with MTV and Cyrus will help Lenovo connect with the youth, the real pay-off will be consumer videos created and shared by real people, convincing the five different kinds of dads on the site to get them a Lenovo (Saraiya, 2010).

In four months subsequent to launch of the “Please, Daddy, Please” campaign brand consideration was pushed up by 20 per cent and brand preference by 5 per cent.

The Lenovo Worldwide Marketing Services (WWMS) first introduced a marketing communications model that was considered radical by industry analysts in 2009-2010 (Explained Rahul, September 2010):

This model challenges the conventional notion that branding and advertising activities are best addressed locally within each market/location. Lenovo's adoption of “worldsourcing” as opposed to “outsourcing” in the WWMS has borne excellent growth and results. For Lenovo, WWMS has played an active role in boosting efficiency and effectiveness.

The WWMS was based in Bengaluru, India and all marketing communications activities were centralised without being driven by culture specific issues.

Advertising budget was increased threefold for the financial year beginning 2011. In the same year, consideration moved up from 33 to 38.5 per cent and preference from 12 to 18.5 per cent. There was a substantial increase in awareness levels of Lenovo since the time of its entry in India and was comparable with the market leaders at 90 per cent plus:

This was a simple translation of the “protect and attack” strategy when it came to execution. We generated the margins by first focusing on the enterprise segment which we then invested in brand promotions (stated Amar).

By “protecting” the enterprise business, Lenovo witnessed an increase in the share of enterprise business from 14 per cent in the beginning of the FY 2010-2011 to 20 per cent at the end of the year. The “attack” with 16 new products was in the commercial segment where Lenovo had a 22 per cent market share. This was the area the company was targeting while consolidating its position in the consumer market.

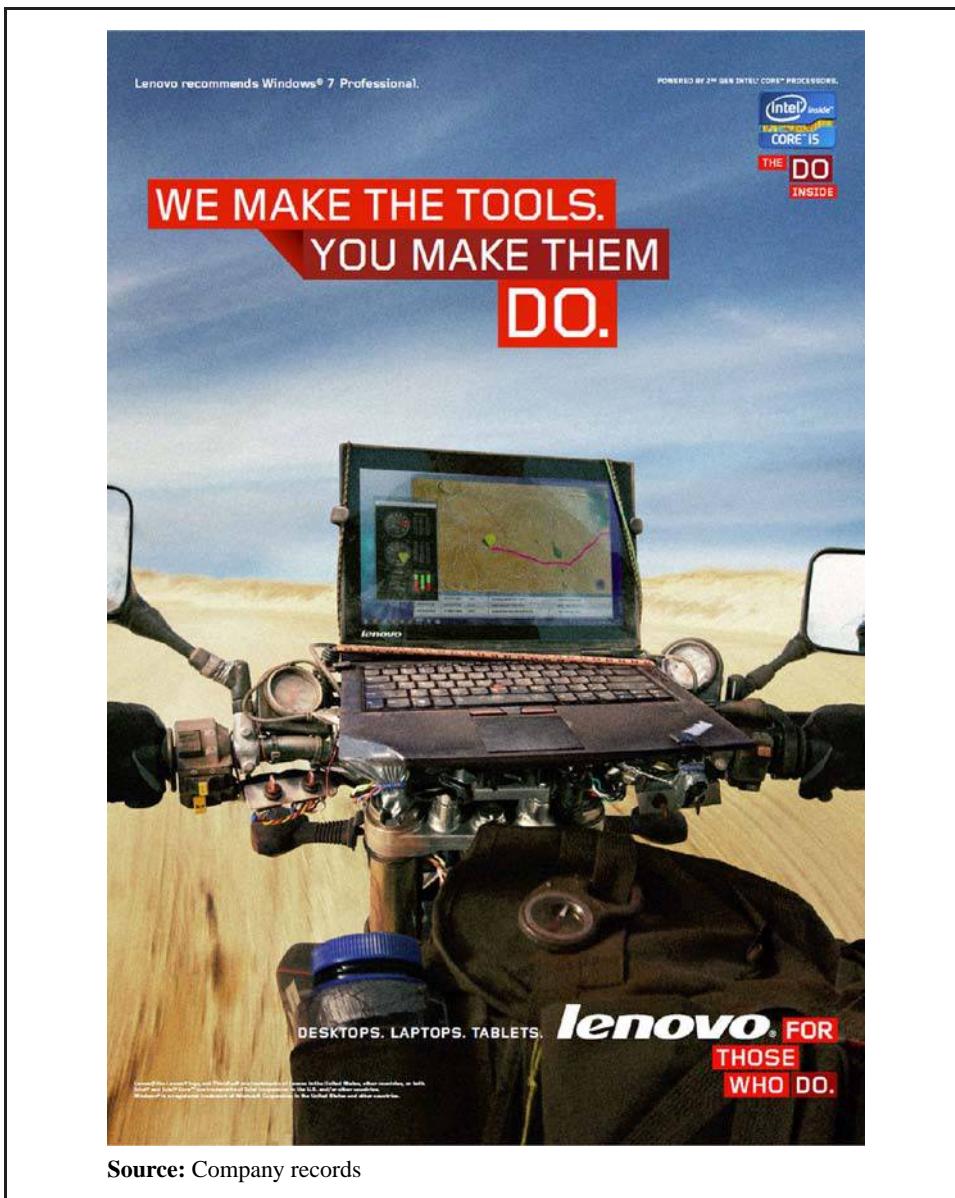
### Communication initiatives: “For those who do”

A Communications Department was formed with Poornima Mathan as the Communications Lead. Based in Bengaluru, she informed the case writer that Lenovo constantly interacted with the media, informing them of all developments and innovations across tier one to five cities. However, the tonality was passive. Stated Poornima, that as was the case with all multinational companies, they were very careful with media reporting, they were more measured in their responses rather than being aggressive in tone. Additionally, they also collaborated with IDC in providing information which would help analysts in preparing reports on competing companies in the IT sector.

In 2011, Lenovo went live with a 360° campaign centred round the core youth audience, which was heavy on sports, infotainment, news, music, and movies (Figure 3). The central piece was the TV campaign which was timed perfectly with the breaking of the Indian Premier League. This was supported with digital, out of home, retail, cinema, and print. The campaign covered youth passion points of sports, music, cinema, and social media.

The campaign was launched on 24 May 2011. Immediately after its launch, within a span of four days, it tapped 40 per cent of the target audience, estimated to be close to 10 million people. Paid media comprised the search and display web sites like Google and Yahoo; earned media included Facebook, Twitter and other networking sites; and owned media was *Lenovo.com* which witnessed almost 60,000 hits per day.

**Figure 3** For those who do



**Source:** Company records

### CSR initiatives: community involvement

For Lenovo worldwide, corporate social responsibility (CSR) formed an integral part of its business model. The ripple effect was also felt in India where they started a project called Matrubhasha, a vernacular computing initiative that promoted computer proficiency among school going children. The project went live on 19 March 2009. It donated 150 new H series desktop computers, pre-installed with a vernacular software application called LooKeys which operated in 12 Indian languages, to Akshara Foundation, a Bengaluru based public charitable trust that worked in the education sector. The systems were installed in 38 libraries of the foundation housed in government schools: 35 Kannada schools (reaching 20,550 children) and three Urdu schools (reaching 1,500 children) across the city of Bengaluru. Employees of Lenovo India volunteered three to five hours every month to train the librarians in these schools on how to use the software, who in turn, taught the students. The volunteers and staff members of Akshara monitored the progress of these projects.

**Table II** | Lenovo (India) journey from 2005-2011

2005	Lenovo enters India A PC manufacturing unit is set up in Pondicherry
2006	Lenovo begins launch of various brand building campaigns
2007	Many senior executives decide to leave Lenovo Amar Babu joins Lenovo India Second manufacturing plant is set up in Baddi
	Lenovo sets up the India Innovation centre in Mumbai, India, the third such centre across the globe
2008	Lenovo Partner Portal is set up Lenovo decides to move away from the IBM tag
2009	Introduces the Idea consumer brand Introduces 16 new products at one shot Introduces its dual sales model in India Baddi plant closes down and all Lenovo production is planned to be undertaken at Pondicherry plant Introduces the "Stock and Sale" model
2010	Starts a new project <i>Matrubhasha</i> Market share increases to 9.2 per cent in second quarter Launches "Please, Daddy, Please" campaign which pushes up brand consideration and preference
2011	Advertising budget is increased three times Lenovo goes live with a 360° campaign

In Pondicherry, the plant employees were encouraged to teach children and people in the surrounding areas. They donated computers for the people and children desirous of learning. However, in 2011 they were in the process of a systematic structuring for Lenovo's community involvement. How could they scale it up, do better and roll it across the country were the questions in the mind of Amar.

### Bull's eye

In 2011, Lenovo India had entered the third phase of establishing its presence in the Indian market through aggressive advertising, brand building, reputation management and communication (Table II). Though India was the world's ninth largest PC market in unit terms – ten to 11 million strong – Amar observed that the combination of three factors – the large population, the high number of young educated people and a relatively low PC penetration – harboured tremendous potential for growth. With a twinkle in his eye, Amar remarked that as India was "a little behind China" in terms of economic development, market penetration and maturity, it would take some time before Lenovo replicated its success with China in India.

However, he knew that to further consolidate its position in the market, Lenovo India had to build its reputation as the number one player in the market. Did they possess the required competencies to change perceptions and mindsets of stakeholders? Could the growth trajectory of the company be aligned with the reputation building and managing model they were currently following?

#### Keywords:

Communication,  
Corporate reputation,  
Strategy,  
India,  
Corporate strategy

#### Note

1. An informal or slang term referring to a notice of dismissal given to an employee. A pink slip is an official notification that a worker's position has been eliminated or that the worker's services are no longer needed. Investopedia Financial dictionary, available at: [www.answers.com/library/Investment+Dictionary-cid-62182](http://www.answers.com/library/Investment+Dictionary-cid-62182) (accessed 1 July 2012).

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