

UNIVERSITY OF ECONOMICS IN BRATISLAVA
INTERNATIONAL PROGRAMS INSTITUTE

Evidence number: 180040/I/2014/ 2469388266

MAKING A CHOICE OF BUSINESS STRATEGY
IN INTERNATIONAL CONTEXT

Master Thesis

2014

Zhihua Li

UNIVERSITY OF ECONOMICS IN BRATISLAVA
INTERNATIONAL PROGRAMS INSTITUTE

MAKING A CHOICE OF BUSINESS STRATEGY
IN INTERNATIONAL CONTEXT

Master Thesis

Study program: International Management

Field of study: 6225 8 07 Management

Department: International Programs Institute

Supervisor: Prof. Ing. Štefan Slávik ,CSc.



ZADANIE ZÁVEREČNEJ PRÁCE

Meno a priezvisko študenta: Li Zihua
Študijný program: Medzinárodný manažment (Jednoodborové štúdium, inžiniersky II. st., denná forma)
Študijný odbor: 3.3.15 Manažment
Typ záverečnej práce: Inžinierska záverečná práca
Jazyk záverečnej práce: anglický
Sekundárny jazyk: slovenský

Názov: Making and choice of business strategy in international context
Cieľ: To formulate business strategy of a company acting in international environment
Anotácia: - process of business strategy formulation
- distinctivenesses of business strategy creation in international environment
- analysis of internal and external environment of a company acting in international environment
- formulation of business strategy variants of a company acting in international environment

Vedúci: prof. Ing. Štefan Slávik, CSc.
Ústav: ÚMP EU - Ustav medzinarodnych programov
Dátum zadania: 19.11.2012
Dátum schválenia: 15.04.2014

prof. Ing. Štefan Slávik, CSc.
garant študijného programu

Študent


Vedúci

ACKNOWLEDGEMENTS

This thesis would not have reached its present form without the support of many people. First of all, I would like to express my sincerely special thanks of gratitude to my supervisor Prof. Ing. Štefan Slávik ,CSc. for his professional guidance, instructive advice and valuable suggestions while writing this diploma work. Secondly, thanks to Mr Yehui Wang, Lenovo EMEA Financial Director, for his great cooperation and support in collecting lots of marketing&sales data, as well as information about Lenovo strategies. Last my thanks would go to my beloved family for their loving considerations and great confidence in me all through these years. I also owe my sincere gratitude to my friends and my fellow classmates who gave me their help and time in listening to me and helping me work out my problems during the difficult course of the thesis.

DECLARATION

I hereby declare that the whole thesis is my own original work and effort under the guidance of the supervisor Prof. Ing. Štefan Slávik ,CSc with using the listed literature.

Bratislava 2014

.....
(signature of the student)

ABSTRACT

Lenovo as a new star in the PC industry gained the leading position in just a few years. This so admirable achievement, on the one hand due to the rapid growth of IT industry and favorable domestic political&economic environment, on the other hand more attributes to company's timely, successful business strategy and continuously improvement of its competitiveness. However, in today's worldwide unstable macro-environment, declining industry trends, change requirements of technical bottlenecks and intensified competition in the entire value chain, no any company can rest on its current achievement, neither Lenovo. Therefore, in order to gain the future market and obtained sustainable development, Lenovo must overcome a variety of difficulties, obstacles in the present and in the future, seize market opportunities, and continuously improve their competitive advantages.

Based on the elaboration on theories and methods of strategic management, this diploma work conducted lots of qualitative and quantitative analysis by using various research methods and analytical tools, such as DEPEST, Porter's Five Force Model, Value Chain model, EFE Matrix, IFE Matrix and Smile Curve to scan the internal and external environment that Lenovo operates today. The aim is to dig out the favorable and unfavorable factors in the external environment, the competitive advantages and disadvantages of Lenovo internal resources and the gap between Lenovo and its mainly competitors. At last, strategic alternatives are explored. The suggestions are constructed into three scenarios: 1. Innovation on the whole value chain to gain sustainable competitiveness. 2. Key markets penetration to improve market position in U.S. & Europe, and prepare for increasingly demand on women and new generation. 3. Concentric diversification to seize the opportunity of future technology and industry trend in mobile, storage and cloud services.

Key Words: Lenovo Group, International business, Strategic Management Process, Driving forces, Strategic choices.

ABSTRAKT

Spoločnosť Lenovo, ako nová hviezda v počítačovom priemysle, nadobudla vedúcu pozíciu už v priebehu niekoľkých rokov. Na jednej strane je tento podivuhodný úspech výsledkom prudkého nárastu v oblasti informačných technológií, ako aj priaznivého domáceho politického a ekonomického prostredia. Na druhej strane, je to vďaka viacerým atribútom aktuálnosti danej spoločnosti, úspešnej podnikateľskej stratégie, ako aj nepretržitému zdokonaľovaniu svojej konkurencieschopnosti. Napriek tomu, žiadna spoločnosť sa v dnešnom medzinárodnom makro prostredí pri zostupnom trende priemyselných tendencií a zmien požiadaviek technických prekážok a získavaní konkurenčných výhod v hodnotovom reťazci, nesmie spoliehať na svoj aktuálny úspech. Inak to nie je ani so spoločnosťou Lenovo. Práve preto, na dosiahnutie perspektívnosti na trhu a na docelenie vhodného rozvoja musí Lenovo prekonávať rôznorodé úskalia a prekážky teraz i v budúcnosti. Musí sa chopiť potenciálnej trhovej príležitosti a postupne zdokonaľovať výhody konkurencieschopnosti.

Táto diplomová práca, založená na spracovaní teórie a metód strategického manažmentu sa zaoberá množstvom kvalitatívnych a kvantitatívnych analýz s využitím rôznych výskumných metód a analytických techník ako sú DEPEST, Porterov model piatich konkurenčných síl, Model hodnotového reťazca, EFE Matrix, IFE Matrix and Smile Curve na skúmanie interného a externého prostredia, v ktorom Lenovo funguje.

Cieľom tejto práce je zdôrazniť priaznivé a nepriaznivé faktory v externom prostredí kompetitívne výhody a nevýhody interných zdrojov spoločnosti Lenovo, ako aj rozdiel medzi touto spoločnosťou a jej hlavnými konkurentmi. V neposlednom rade, práca sa zaoberá strategickými alternatívami. Návrhy sú zostavené do troch scenárov: 1. Inovácia celého rebríčka hodnôt na získanie vhodnej konkurencieschopnosti. 2. Kľúčová trhová infiltrácia na zlepšenie pozície trhu v Spojených Štátoch Amerických a Európe, príprava na požiadavky budúcnosti na ženy a novú generáciu. 3. Sústredná diverzifikácia na získanie príležitosti perspektívnej technológie a priemyselných trendov aj v oblasti mobilných telefónov a úložných priestorov.

Kľúčové slová: spoločnosť Lenovo, Medzinárodný obchod, Proces strategického manažmentu, Hnacie sily, Strategické voľby

Contents

Introduction.....	1
1 Overview of literature and theoretical background	5
1.1 The nature of strategy	5
1.1.1 What is strategy?	5
1.1.2 The comprehensive strategic-management model	7
1.2 Levels of strategy	8
1.3 Formulating business strategy	9
1.3.1 Develop vision,mission,goals	9
1.3.2 Perform external and internal Analysis	10
1.3.3 Strategy making according to SWOT analysis	15
1.4 Strategic alternatives and strategic choice.....	16
1.4.1 Business-level strategy:Gereneric business strategy	16
1.4.2 Corporate-levelstrategy:Growth strategy	18
1.4.3 Strategic Selection and Strategic Choice.....	20
1.5 International diversity and international strategy	21
1.5.1 Motives for international diversity	21
1.5.2 Market selection and entry mode	21
1.6 Conclusion	24
2 Objectves.....	25
3 Research Methodology	26
4 Result of the diploma work	27
4.1 Introduction of Lenovo Group	27
4.1.1 Company origin and development.....	27

4.1.2 Evolution of Lenovo's business strategy	28
4.1.3 Vision, Mission, Goals	32
4.2 Analysis of external environment	32
4.2.1 Analysis of Macro-environment.....	32
4.2.2 Analysis of industry environment	37
4.2.3 External Factors Evaluation Matrix.....	45
4.3 Analysis of internal environment.....	46
4.3.1 Competitiveness of value chain analysis	46
4.3.2 Resources Analysis.....	54
4.3.3 Internal Factors Evaluation (IFE) Matrix	61
4.4 Conclusion	62
5 Discussion & Recommendation	64
5.1 Review of Vision&Mission.....	64
5.2 SWOT Analysis	65
5.3 Proposal of Future Strategic Alternatives	67
Conclusion	72
Resum é.....	76
Bibliography.....	81

Introduction

In the wartime roaring with fire and guns, strategy determined the outcome of a battle, the death of a military and the success or failure of the entire war. In the peacetime, business world is also like a battlefield, in which the strategy affects the waste of a product, the rise and fall of a business, even the survival of an enterprise. As Michael Porter, the tenured professor at Harvard Business School once said: "The strategy is a key to success." The corporate resources, capabilities can be like an atomic bomb, playing its power only based on the future competitive strategies of enterprises. Due to the high importance of the strategies of corporate, strategies are usually derived by the top executives of the company and presented to the board of directors in order to ensure it is parallel with the expectations of stakeholders of the company. Also the high importance is the implications of the selected strategy, which is illustrated through achieving high levels of strategic alignment and consistency, both relative to the external and internal environment. In this way, a good strategy enables the company to maximize internal efficiency while capturing the highest potential of opportunities in the external environment. The aim of this diploma work is thus to shed more light on the influence of context, including the internal resources, the industrial context, and the role of external social interaction in strategic making.

To introduce the research topic and the underlying theoretical concepts, the introduction starts with background and challenges that the corporate is facing in the process of strategy making in the international context.

Globalization and Competition

Today, globalization as a political, economic, social, and technological force appears everywhere and unstoppable. The ever-faster flow of information across the globe has made people easily to know about the tastes, preferences, and lifestyles of citizens in any other countries. Also we are fully enjoying the benefits of the process of globalization. We drink Coca-Cola and Nescafe, eat McDonald's hamburgers and Japanese Sushi, wear Zara clothes and Nike sneakers, drive BMWs and Toyotas, work with an HP or Lenovo

computer, communicate with an Apple or Samsung mobile phones. Therefore, to a certain extent we are all becoming—at varying speeds and at least in economic terms—global citizens. The traces of globalization appear in everywhere in our lives. In other words, this is also equal true from the business perspective, where the companies take great opportunities along with the deepening of globalization. The shrinking of business distance makes it much easier to access markets in far flung parts of the world. Fast Internet connection developed by companies enables the shrinking of communication time bringing together buyers and sellers on opposite sides of the globe within seconds. Global marketing and advertising enables the development of global brands and the communication of global messages .The world has provided such an opportunity to sell as many goods to as many people everywhere. There are no longer defined in political or geographic terms in market boundaries for companies.

However, international competition increases intensively as a result of the globalization process. On the one hand, just as the globalization of customers compels companies to consider globalizing their business model, the globalization of one or more major competitors also force companies constantly improve and innovate their business strategy to create sustainable competitiveness. A competitor who globalizes early may have a first-mover advantage in emerging markets, greater opportunity to create economies of scale and scope, as well as an ability to cross-subsidize competitive battles, thereby posing a greater threat in the home market. On the other hand, the global competition stimulates the industrial globalization and monopoly. Through overseas factories and decentralized production, the division or transfer of the whole industry between countries prevailed in the past decade is replaced by the sets of value chain segmentation and effective combination between countries .Thus, modern production division is no longer integrated at the national level division , but deepened to the specialization level in sections and enterprises. This division of labor is between different countries, forming a system of international production networks. Therefore, the enterprise's different departments, factories, workshops, even steps, processes and so on are organized on an international scale. For example, the Boeing 747 has 4 million parts, distributed in 65 countries co-produced by the 1500 large enterprises and more than 15,000 middle&small businesses.

Such an industrial structure and morphology associated not only change the traditional pattern of international division of labor, bring the great challenge to the traditional model of industrial development and competition, but also form the oligopoly. Thus, multinationals continue to expand to new markets to maximize the reduction of costs and enhance the competitiveness on the global market. Merger and acquisition (M&A) has become more and more popularity in the selection of international corporate strategies. According to 2013 Fortune 500 report published in American magazine "Fortune", the output value of the global top 500 enterprises has accounted for 45% of world output, their internal and inter-trade accounts for over 60% of the total, their investment has accounted for 90% of total FDI. Their turnover in last year was up to \$ 12.696 trillion which is twice of the world's middle-income countries' domestic revenue.¹ Multinational companies have become one the most active actors in the world's economy, and one of the main organizers in the world economic activities.

Challenges in managing strategy successfully in Globalization

Foreign capital, cheaper labor and increased resources have prompted more companies to focus on globalization. However, formulating and implementing an international strategy can be one of the most complex and significant issues that any firm can undertake. The worldwide competition, global information system, the quality service revolution and the global organizational environment, all these are forcing management to totally rethink their approach to both operation and human resources, which requires the new organizations must be more responsible to both their internal and external environments. Thus, the strategy is no longer merely a static analysis of the problem, but a dynamic, constantly evolving demand for value creation, which becomes a dynamic tool guiding long-term development of companies. As W. Chan Kim and Renée Mauborgne, the author of the book "Blue Ocean Strategy" presents, Value Innovation is the cornerstone of Blue Ocean Strategy. Value Innovation challenges the traditional competition-based strategies, encourage companies to integrate innovation, effectiveness, price and cost as a whole; Not

¹ Global Fortune 500 List. Available at: <<http://www.fortunechina.com/fortune500/c/2013-07/08/2013G500.htm>>

only catches up with rivals according to existing industry best practices, but also changes the industry landscape frame and reconfigure the rules of the game; Not only targets the existing market at "high" or "low end" customers, but also looks into the mass potential demand of the buyer; Not only blindly pursues market segments to meet customer preferences, but also combines market segments and integrate requirements.² Therefore, how to break the routine in international competition, and actively respond to changes and challenges, grasp opportunities, continuously create and re-create the value for the corporate existence and development become the most important mission and tough topic for all the CEOs while making the corporate and business strategy in the world.

² W. Chan Kim and Ren é Mauborgne .2005.*Blue Ocean Strategy*. 1 Edition .Beijing, China, Commercial Press ,2005,p14-21.ISBN 7-100-04452-9

1 Overview of literature and theoretical background

1.1 The nature of strategy

1.1.1 What is strategy?

Strategy is a term that can be traced back to the ancient Greek “Strategos”, which means “General”, used to mean a chief magistrate or military commander-in-chief.³ The generalized explanation of strategy refers to “a plan of action designed to achieve a long-term or overall aim.”⁴ From the original military perspective, the strategy refers to the planning and command in overall view of the war that is based on the military, politics, economy, geography and other factors of each side, and complied with the laws of war, taking into account all aspects of the war to formulate the guidelines, policies and methods for the war. After these concepts of military strategy, strategy was applied to the enterprise which has become the guidance and method directing enterprises to determine the business objectives, critical resource allocation, organization of various activities according to the operating environment and their own strength.

In the area of business management, there is no unified definition of strategy. Different scholars and managers define strategy with different meanings. Early in 1947, Scholar John von Neumann and Oskar Morgenstern defined strategy in the book “Theory of games and economic behaviour” as a series of actions by a firm that are decided on according to the particular situation⁵. Later in 1962, American management expert Alfred E. Chandler published the book "Strategy and Structure", which firstly applies “strategy-the military term” in the company’s management that opened the start of company's strategy. In the book, Chandler defined a corporate strategy is the determinant of the basic long-term goals of an enterprise, and the adoption of courses of action and the allocation of resources

³ Rich Horwath.2006. *The origin of strategy* .Published by The Strategic Thinking Institute. 2006.Page.1 Available at:< http://www.strategyskills.com/Articles_Samples/origin_strategy.pdf>

⁴ Oxford Dictionaries. Available at:< <http://www.oxforddictionaries.com/definition/english/strategy>>

⁵ John von Neumann and Oskar Morgenstern.1953.*Theory of games and economic behavior*, Third Edition. Printed in the United States of America by Princeton University Press.1953.page.79-84.Available at:< <https://archive.org/details/theoryofgamesand030098mbp>>

necessary for carrying out these goals.⁶ H. Igor Ansoff (1918-2002) who is well known as the pioneer and father of Strategic Management defined that strategy is a rule for making decisions determined by product/market scope, growth vector, competitive advantage, and synergy, which is simply said that strategy is to make the company "adapt" to their environment.⁷ All these definitions are the classical interpretation that recognized strategy as a rationally intended package of measures in order to achieve long-term goals. In 1998, Professor Mintzberg of McGill University in Canada developed the definition of strategy in a much broader spectrum. He did not offer one single definition of strategy, but argued that strategy "requires a number of definitions, five in particular"⁸, which defined strategy as a Plan, a ploy, a pattern, a position and a perspective. These five interrelated definitions help executives and researchers to better understand the facets of the term strategy from different perspectives. From the perspective of future development of enterprises, a strategic plan is a carefully crafted set of steps that a firm intends to follow to be successful. A strategic ploy is a specific move designed to outwit or trick competitors which involves using creativity to enhance success; From the perspective of past development process of the business, strategy is manifested as a pattern, which emphasizes that strategy is the consistency in behaviour over time, whether or not intended. Therefore, strategy can be divided into two kinds- intended strategy and emergent strategy. Compared with intended strategy, emergent strategy results from coincidental behaviour and can only be realized ex-post, as "patterns in streams of actions, not decisions"⁹; From the point of view of industrial level, strategy is expressed as a position that an organization places in the industry relative to its competitors; And from the corporate-level perspective, strategy reflects the values of the corporate strategic decision makers (Perspective) and how

⁶ Alfred E. Chandler. 2003. *Strategy and structure: Chapters in the history of American industrial enterprise*, Washington, D.C. Reprinted by Beard Books. 2003. page. 13. ISBN 1-58798-198-X. Available at: <
http://books.google.sk/books?id=mKfjhPZTkB8C&printsec=frontcover&source=gbs_ge_summary_r&cad=0#v=onepage&q&f=false >

⁷ H. Igor Ansoff, *Corporate strategy*. 1965. Available at: <
<http://wiki.mbalib.com/wiki/%E5%AE%89%E7%BB%8D%E5%A4%AB> >

⁸ Article *The strategy concept I: Five Ps for Strategy*. In California Management Review. Fall 1987. ABI/INFORM Global published Page 11.

⁹ H. Mintzberg and J.A. Waters *Of strategies, Deliberate and Emergent* 1985, Published in Strategic Management Journal. page. 257

executives interpret the competitive landscape around them.

According to all these definitions of strategy, we can find out the characteristics of corporate business strategy as followed:

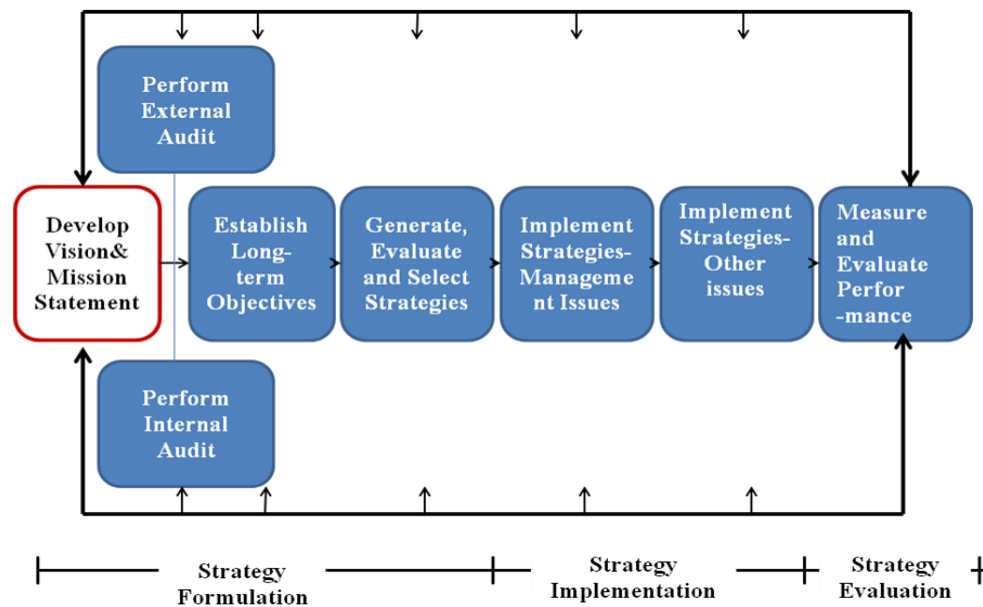
1. Strategy is the long term direction of an organisation;
2. Strategy aims to gain advantage over competitors;
3. Strategy lists the scope of an organizations activities, which will affect operational decision and require an integrated approach both inside and outside the organization;
4. Strategy builds on resources and competences(capabilities);
5. Strategy addresses changes in the business environment, which is likely to be complex in nature and involves considerable changes;
6. Strategy expresses the values and expectations of the corporate stakeholders;

1.1.2 The comprehensive strategic-management model

Strategic management can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives¹⁰.Therefore it is a systematic approach to identify and make the necessary changes to achieve organizational success and to measure the organization's performance as it moves toward its vision. According to this definition, The strategic-management process can be best studied and applied using Fred R.David 's "The comprehensive strategic-management model ", which includes 7 steps: (1)Develop vision and mission statement; (2)Perform external and internal audit; (3)Establish Long-term objectives; (4) Generate, evaluate and select strategies; (5)Implement strategies on solving management issues; (6)Implement strategies on managing marketing, finance, accounting, R&D, and MIS issues; (7)Measure and evaluate performance.

¹⁰ Fred R.David 2009 *Strategic Management Concepts and Cases* Thirteen Edition. New Jersey. Pearson Education,Inc.2009. Page 6. ISBN 13:978-0-13-612098-8

Figure 1.1.2.1 A Comprehensive Strategic-Management Model



Source: Fred R.David 2009 Strategic Management Concepts and Cases Thirteen Edition. New Jersey. Pearson Education,Inc.2009. Page 6. ISBN 13:978-0-13-612098-8

This model does not guarantee success, but it does represent a clear and practical approach for formulating, implementing, and evaluating strategies. And it helps to answer the critical questions that the MNEs' usually faced, typically like where are we now? Where do we want to go? And how are we going to get there? Therefore, the answers to these questions require using the dynamic and continuous thinking to identify the changes in any one of the major components in the model. And the activities should be also performed on a continual basis, not just at the end of the year or semiannually.

1.2 Levels of strategy

Strategies exist at a number of levels in an organisation. Generally, in the large and medium-sized enterprises, strategy can be divided into three major levels: corporate-level strategy, business-level strategy and functional-level strategy.

Corporate-level strategy defines the scope of the firm in terms of industries and markets in which it competes. In other words, Corporate strategy answers the fundamental question : WHICH INDUSTRIES SHOULD WE BE IN ?Therefore, the corporate strategy is heavily influenced by investors and acts to guide strategic decision-making throughout the

business. The decisions include investment in diversification, vertical integration, acquisitions, and new ventures; the allocation of resources between the different businesses of the firm; and divestments.

Business-level strategy defines the way a firm creates customer value compared to its competitors within a particular industry or market. Thus, it implies strategic decision about choice of products, meeting needs of customers, gaining advantage over competitors, creating or exploiting new business opportunities.

Functional-level strategy are the elaboration and implementation of business strategies through individual functions such as production, R&D, marketing, human resources and finance. They are primarily the responsibility of the functional departments. The functional-level strategy supports the business strategy and competitive approach, in the mean while creates a managerial roadmap for achieving functional area performance objectives.

1.3 Formulating business strategy

The strategic management starts from formulating process,also known as the strategic plan,which helps the company to identify the keys to sucess,the facts of failures and the objectives of what do we want to become.

1.3.1 Develop vision,mission,goals

“Good business leaders create a vision, articulate the vision, passionately own the vision, and relentlessly drive it to completion.”

- Jack Welch, Former CEO of General Electric

Many skills and abilities separate effective strategic leaders like Jack Welch from poor strategic leaders. One of them is the ability to inspire employees to work hard to improve their organization’s performance.As the quote from Jack Welch suggests, a vision is one key tool available to executives to inspire the people in an organization through clearly describing what the organization hopes to become in the future.Effective strategic leaders are able to convince employees to embrace lofty ambitions and move the organization

forward.

While a vision looks to the future, a mission is another important tool that captures the key elements of the organization's past and present through disclosing an organization's identity and provide answers to the fundamental question "Who are we?" A mission statement explain to stakeholders why they should support the organization by making clear what important role or purpose the organization plays in society.

An organization's vision and mission offer a broad, overall sense of the organization's direction. To work toward achieving these overall aspirations, organizations also need to create goals—narrower aims that should provide clear and tangible guidance to employees as they perform their work on a daily basis. The most effective goals are those that are specific, measurable, aggressive, realistic, and time-bound, which is known as SMART rule.

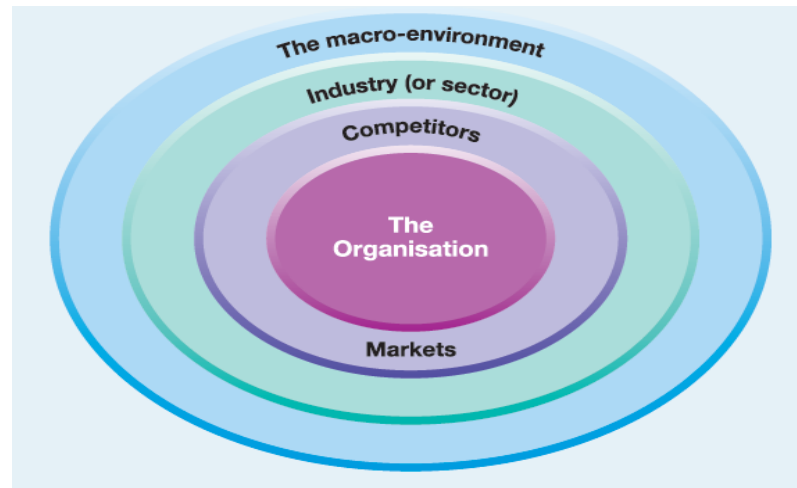
A clearly well-stated vision, mission and goals ensure unanimity of purpose within the organization, establish a general tone or organizational climate, provide a basis for allocating organizational resources, facilitate the translation of objectives into the work structures.

1.3.2 Perform external and internal Analysis

Any business survives and develops in a certain environment. Developments and changes in the environment provide both the opportunities and threats to the enterprise's survival and development. Therefore, the starting point for the strategies' formulating of the company is the analysis of its strategic environment. The so-called strategic environment is the sum of the business-related internal factors and external factors, which is showed in the followed graph-the layers of business environment (Figure 1.3.2.1). External factors include the outside three layers of macro-environment, industry business environment and markets & competitors. Among of them, the competition conditions are the most immediate and critical element that impact the business development and strategic decision making. Internal factors include the company's resources and capabilities inside the organization that showed as the central layer determines the company's competency and competitive position. The purpose of the analysis is to identify the strategic environment

that allows businesses to benefit from the limited opportunities and/or advantages and threats and/or disadvantages enterprises should be avoided.

Figure1. 3.2.1 Layers of business environment



Source: Gerry Johnson, Kevan Scholes, Richard Whittington 2005 Exploring Corporate Strategy Seventh Edition New Jersey. Pearson Education, Inc. 2005. Page 101. ISBN 13:0-273-68734-4

External Analysis

● Macro-Environment Analysis

Macro-environment refers to those factors that have strategic impact on the development of enterprises. These environmental factors include political and legal environment, economic environment, social and cultural environment, technological environment, natural environment. These factors on the one hand have a certain degree of variability and are not controllable, on the other hand, they also have a certain regularity. Therefore, only when enterprises can comprehensively, accurately, timely obtain and analyze these factors, then, it can develop the correct and effective business strategy.

The method of analyzing macro environment for enterprise is called PEST (Political, Economic, Social and Technological analysis) analysis. It describes a framework of macro-environmental factors used in the environmental scanning component of strategic management. The model has recently been further extended to DEPEST, adding Environmental and Demographic factors.¹¹

Political factors are basically to what degree the government intervenes in the economy.

¹¹ http://en.wikipedia.org/wiki/PEST_analysis

Specifically, political factors include areas such as tax policy, labor law, environmental law, trade restrictions, tariffs, and political stability.

Economic factors include economic growth, interest rates, exchange rates and the inflation rate. These factors have major impacts on how businesses operate and make decisions.

Social factors include the cultural aspects and include health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety. Trends in social factors affect the demand for a company's products and how that company operates.

Technological factors include technological aspects such as R&D activity, automation, technology incentives and the rate of technological change. They can determine barriers to entry, minimum efficient production level and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality, and lead to innovation.

Environmental factors include ecological and environmental aspects such as weather, climate, and climate change, which may especially affect industries such as tourism, farming, and insurance. Furthermore, growing awareness of the potential impacts of climate change is affecting how companies operate and the products they offer, both creating new markets and diminishing or destroying existing ones.

Demographic factors include gender, age, knowledge of languages, disabilities, mobility, home ownership, employment status, religious belief or practice and income level.

The outcome of DEPEST is an understanding of the overall picture surrounding the company. By using this strategic tool the company can understand market growth or decline, business position, potential and direction for operations.

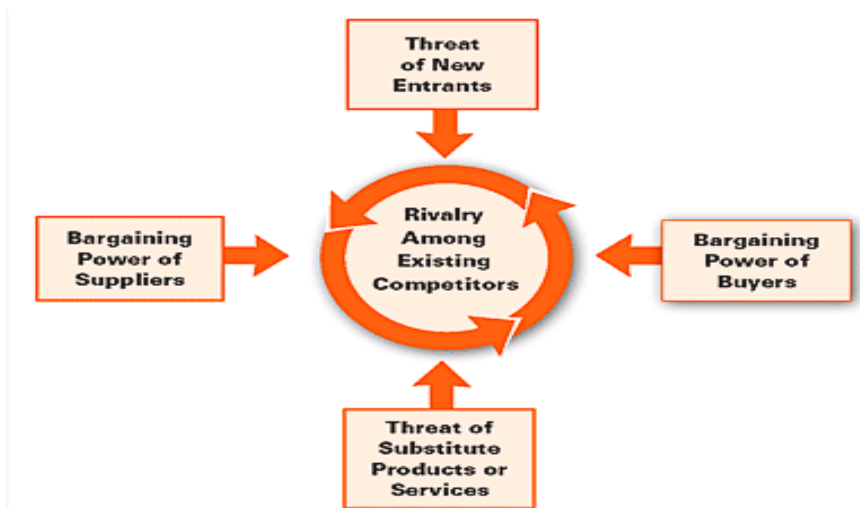
● **Industry Analysis**

Companies compete within industries, meaning that industries are the main competitive areas of a company's business activities. To formulate effective strategies, managers must understand their industries well, such like the driving forces of the industry, the economic characteristics, the competitions and the customers, business partners. Porter's Five-Forces Model of competitive analysis is one of the most popular techniques that help a multinational manager understand the major forces in the industry and the degree of the industry's attractiveness.

Industry competitive analysis-Five forces model

According to Porter's view, the nature of competitiveness in a given industry can be viewed as a composite of five forces(Figure 1.3.2.2):(1) Rivalry among competing firms;(2) Potential new entrants; (3)Threat of substitute products;(4)Bargaining power of suppliers; (5)Bargaining power of consumers.

Figure 1. 3.2.2 Porter's five forces model



The interaction and mutual restraint between these five competitive forces form the the industry's competitive structure, determine the intensity of competition in the industry and the ultimate profit potential. By analyzing the competitive structure of the industry, we can understand the competitive position, competitive advantages and disadvantages of the enterprises in the industry which become the basis of developing strategies to overcome all kinds of competitive forces. For example, by deeply analyzing the major competitors and intensity of competitive rivalry, the firm can carry out retaliatory countermoves to gain competitive advantage, such as lowering prices, enhancing quality, adding features, providing services, extending warranties, and increasing advertising. By analyzing the threats of potential entrants, enterprises can better understand the characteristics of the industry, product differentiation, resource conditions and sales channels. Analyzing the threats of substitute products encourage enterprises to pursue continuous product innovation, quality improvement, cost control and high quality customer-oriented services. Analysis of bargaining power of suppliers set the foundation for selecting quality suppliers, establishing a good partnership, obtaining the advantages of resources allocation. Through

the analysis of consumer information, purchasing power, consumption characteristics and important level facilitate enterprise to develop accurate and efficient marketing strategies according to the characteristics of different customers and customer segments.

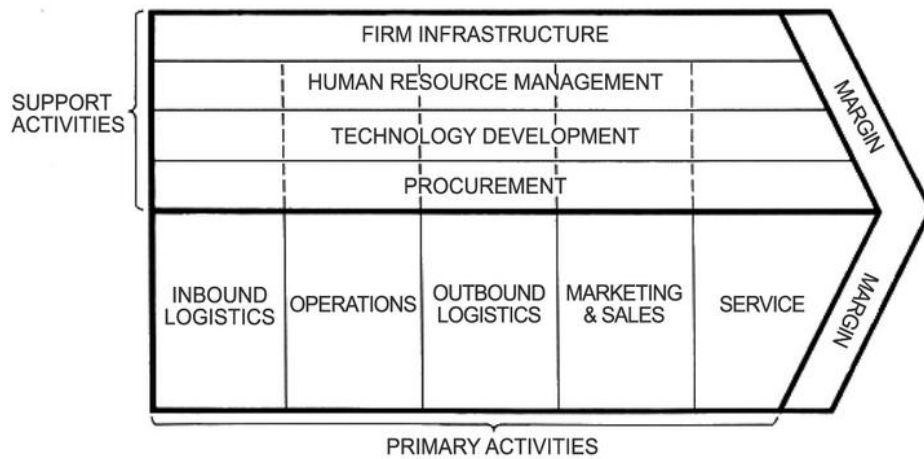
Internal Analysis

External environment brings some opportunities and threats, with forming the outside condition of enterprise's present status and influencing the enterprise's future development. In the meanwhile, internal environment is the significant conditions that company's internal strengths and weaknesses lies. Enterprise's internal environment consists of three parts, organizational structure, culture and resources which involves marketing, finance, production operations, research and development and other functional areas. The main purpose of the internal environment analysis is to analyze all these factors, summarize a number of key strategic elements that would influence the future development of enterprise, namely the advantages and disadvantages of the enterprise.

One of the classical internal elements assessment approach is "Value Chain" analysis (Figure 1.3.2.3), which was designed by Michael Porter in 1985 as a systematic way to examine how competitive advantage develops and to identify where value is added in an organization. According to Michael Porter, "value chain" represents all the activities that a firm uses to "design, produce, market, deliver and support its product".¹² Thus, he divided value chain into two layers activities: Inbound Logistics, Operations, Outbound Logistics, Marketing and Sales and Service are categorized as primary activities. Procurement, Human Resource management, Technological Development and Infrastructure are the secondary activities. Through value chain analysis, the firm can examine its costs and performance in each value-creating activity and look for ways to improve it. Also by estimate its competitors' costs and performances as benchmarks against its own data examined over time, value chain analysis can enable a firm to better identify its own strengths and weaknesses.

¹² Porter, Michael E. 1985. *Competitive Advantage: Creating and Sustaining Superior Performance*, New York.: Simon and Schuster. Retrieved 9 September 2013. page.11-15

Figure1. 3.2.3: The value chain within an organisation



Source: Porter, Michael E. 1985. *Competitive Advantage: Creating and Sustaining Superior Performance*, New York.: Simon and Schuster. Retrieved 9 September 2013. page.11-15

1.3.3 Strategy making according to SWOT analysis

Except the external and internal audit, SWOT Matrix (Figure 1.3.3.1) is the most common tool for a company situation analysis for identifying the strengths, weaknesses, opportunities and threats of an organization. The method of SWOT analysis is to take the information from an environmental analysis and separate it into internal (strengths and weaknesses) and external issues (opportunities and threats).

Strengths are distinctive capabilities, resources, skills or other advantages of an organization relative to its competitors. Weaknesses are any competitive disadvantages of a company relative to its competitors. Opportunities are favorable conditions in a firm's environments. Threats are the unfavorable conditions that come from any changes challenging a company's position in its industry. Once SWOT analysis is completed, it determines what may assist the firm in accomplishing its objectives, and what obstacles must be overcome or minimized to achieve desired results.

Figure 1.3.3.1 SWOT Matrix



Source: http://en.wikipedia.org/wiki/SWOT_analysis

1.4 Strategic alternatives and strategic choice

After performing the external and internal analysis with identifying the strengths, weaknesses, opportunities and threats that the enterprise faces, the management starts to create the strategic alternatives and select the best one as the final choice.

1.4.1 Business-level strategy: Generic business strategy

From the business level stand point, there are several generic approaches to the business strategies which were proved to be suitable and validity in majority of cases. First is **Porter's generic competitive strategies** that company could use to gain competitive advantages. These are: 'overall cost leadership', 'differentiation' and 'focus'. The cost leadership strategy advocates gaining competitive advantage due to the lowest cost of production of a product or service. Lowest cost need not mean lowest price. Costs are removed from every link of the value chain- including production, marketing, and wastages and so on. The product could still be priced at competitive parity (same prices as others), but because of the lower cost of production, the company would be able to sustain itself even through lean times and invest more into the business all throughout. The 'differentiation' strategy involves creation of differentiated products for different segments. A variety of products, each branded and promoted differently with levels of function,

allows a company to 'desensitize' prices, and on the basis of being different, charge premium or higher prices. This strategy also provides a hedge against different markets and product life cycles, allowing cash flow to come in even if a few products decline, while others grow or mature. The 'focus' strategy involves focusing on a narrow, defined segment of the market, also called a 'niche' segment. A company in a niche market has customers who understand, appreciate and can pay a premium for their indulgence. Competitive advantage – either by cost or differentiation- is created specially for the niche. But the risks are that the niche may not grow, or it may disappear with time and change.

Strategy Clock (Figure 1.4.1.1) is another model used in marketing to analyse the competitive position of a company in comparison to the offerings of competitors that was developed by Cliff Bowman and David Faulkner as an elaboration of the three Porter generic strategies. The diagram allows businesses to travel eight directions in an effort to determine what they offer to customers. This includes:

Position 1: No frills (low price/low added value). It is focussed on a price-sensitive market segment. Such products tend to be commodity-like, and customers do not value differences in the offerings from different suppliers. Price is the key competitive issue.

Position 2: Low price. Companies competing in this category are the low cost leaders. They drive prices down to bare minimums, and balance very low margins with very high volume.

Position 3: Hybrid (moderate price/moderate differentiation). This strategy seeks to simultaneously achieve differentiation, and a price lower than that of competitors.

Position 4: Differentiation. This strategy aims to achieve competitive advantage by offering better products/services at the same price or by enhancing margins with slightly higher pricing.

Position 5: Focused differentiation. This strategy seeks to provide high perceived benefits, justifying a substantial price premium, usually to a niche market.

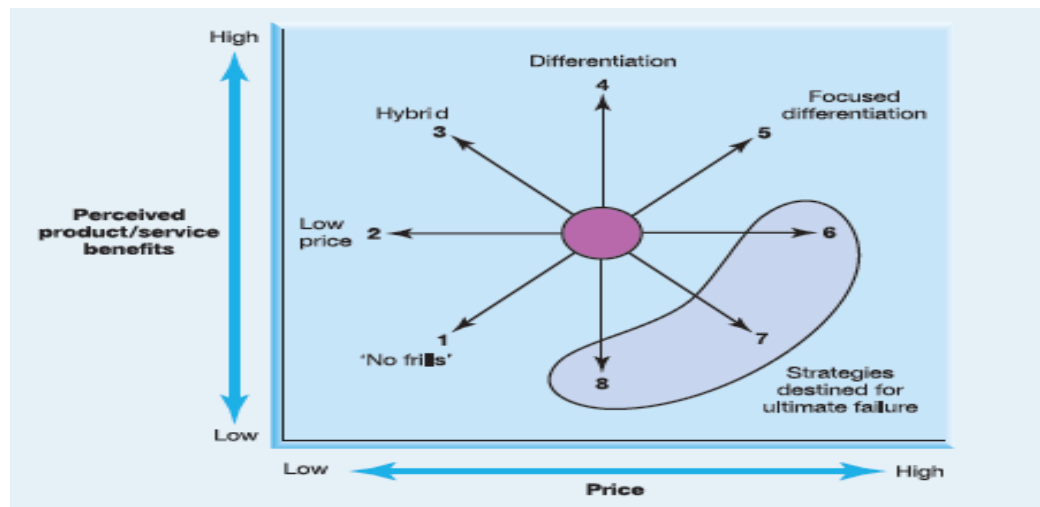
Position 6: Increased price/standard value – a failure strategy. It will get higher margins if competitors do not follow, however it has very high risk of losing market share.

Position 7: Increased price/low value – a failure strategy. It is only feasible in a monopoly situation.

Position 8: Low value/standard price – a failure strategy. It will result in ultimate loss of

market share.

Figure 1.4.1.1 The strategy clock: competitive strategy options



Source: Gerry Johnson, Kevan Scholes, Richard Whittington 2005 Exploring Corporate Strategy Seventh Edition New Jersey. Pearson Education, Inc. 2005. Page 280. ISBN 13:0-273-68734-4

Except Porter's Generic Competitive Strategy, Strategy Clock, there are also some models that can be used in the strategic alternatives in business level. Such like Hall's competitiveness model, Minzberg's strategy typology, Nelson's strategy typology, which covers the integration strategies (Upward/Downward integration), differentiation strategies, low cost strategies, product/market penetration strategies, defensive/offensive strategies and so on.

1.4.2 Corporate-level strategy: Growth strategy

From the corporate level stand point, as business-level strategy concerns with how value might be created as business units interact with customers in their markets, the corporate-level strategy deals with the issues arising from cross-market operation that management faces in the MNEs. Therefore, Corporate-level strategy concerns: The scope of the markets and industries the firm competes in; How the firm manages their portfolio of businesses; Mode of entry into new businesses; Acquisitions/merger, joint venture/strategic alliance; Level and type of diversification; Capturing synergies between business units; Allocating corporate resources.

There are three kinds of corporate level strategies, that the management of MNEs should

take into account according to the exact situation of the firms.

- **Vertical Integration Strategies**

It allows a firm to gain control over distributors, suppliers, and/or competitors. It includes forward integration strategy, backward integration strategy, and horizontal integration strategy.¹³ **Forward integration** involves gaining ownership or increased control over distributors or retailers. An effective means of implementing forward integration is franchising. **Backward integration** is a strategy of seeking ownership or increased control of a firm's suppliers. This strategy can be especially appropriate when a firm's current suppliers are unreliable, too costly, or cannot meet the firm's needs. **Horizontal integration** refers to a strategy of seeking ownership or increased control over a firm's competitors. One of the most significant trends in strategic management today is the increased use of horizontal integration as a growth strategy. Mergers, acquisitions, and takeovers among competitors allow for increased economies of scale and enhanced transfer of resources and competencies.

- **Diversification Strategies**

Diversification strategies include related and unrelated diversification two types. Businesses are said to be related when their value chains possess competitively valuable cross-business strategic fits; businesses are said to be unrelated when their value chains are so dissimilar that no competitively valuable cross-business relationships exist.¹⁴ Most companies favor related diversification strategies in order to capitalize on synergies, such as transferring competitively valuable expertise, technological know-how, or other capabilities from one business to another; Combining the related activities of separate businesses into a single operation to achieve lower costs; Exploiting common use of a well-known brand name; Cross-business collaboration to create competitively valuable resource strengths and capabilities.

¹³ Fred R. David 2009 *Strategic Management Concepts and Cases* Thirteenth Edition. New Jersey. Pearson Education, Inc. 2009. Page 139-141. ISBN 13:978-0-13-612098-8

¹⁴ Arthur Thompson Jr., A. J. Strickland III, and John Gamble. 2005. *Crafting and Executing Strategy: Text and Readings*. 14 Edition. New York: McGraw-Hill/Irwin, 2005. page 241. ISBN:0072884444

● Portfolio Strategies

Portfolio strategies resolve how should managers make decisions about which businesses, markets or geographies to invest in and which to avoid, harvest or sell?and how could make a portfolio grow in value?A number of tools have been developed to help managers choose what business units to have in a portfolio.For instance, The growth share (or BCG) matrix,Parenting matrix,GE matrix,Product life cycle matrix.Each tool gives more or less focus on one of three criteria:(1) the balance of the portfolio, e.g. in relation to its markets and the needs of the corporation;(2) the attractiveness (profitability) of the business units in the portfolio;(3) the degree of ‘fit’ that the business units have with each other in terms of potential synergies or the extent to which the corporate parent will be good at looking after them.¹⁵

1.4.3 Strategic Selection and Strategic Choice

Why some strategies might succeed better than others?Which strategy should be selected to guarantee the success?How to make the final strategic choice?There are three main success criteria which strategic options can be judged¹⁶.First is suitability that is concerned with whether a strategy addresses the circumstances in which an organisation is operating.Second is acceptability that is concerned with the expected performance outcomes (such as the return or risk) of a strategy and the extent to which these would be in line with the expectations of stakeholders.Third is feasibility. It is concerned with whether a strategy could be made to work in practice. Therefore,the strategy which has gone through all those processes of logical, analytical,rational,formal planning and evaluation, as well as best meets these criterias and is most likely to achieve the specified objectives is then chosen.Except that,the strategy making managers also use some techniques such like Sensitivity analysis,Scenario playing, Option theory, Game theory, Strategy workshops to evaluate on the risks,imagin the uncertain future,against potentially

¹⁵ Gerry Johnson, Kevan Scholes, Richard Whittington 2005 *Exploring Corporate Strategy* Seventh Edition New Jersey. Pearson Education,Inc.2005. Page 351-352. ISBN 13:0-273-68734-4

¹⁶ Gerry Johnson, Kevan Scholes, Richard Whittington 2005 *Exploring Corporate Strategy* Seventh Edition New Jersey. Pearson Education,Inc.2005. Page 394. ISBN 13:0-273-68734-4

challenging of the competitors' strategy. Also, behavioral, cultural, and political aspects of strategy generation and selection are always important to consider and manage.

1.5 International diversity and international strategy

1.5.1 Motives for international diversity

As we have discussed at the beginning, driven by the development of economic and technology, the geographic segmentation has not been able to hinder the pace of globalization. Today, it is increasingly importance of multinational operations in the strategic management of large companies. Forced by the global competition, more and more companies go international at the attempt of lowering cost, accessing to new markets, obtaining new customers, diversifying business risks, exploiting strategic capabilities, accessing&developing resources, developing know-how and stabiling earnings across markets. Therefore, internationlization has become the most common approach that the companies used to gain competitive position in the world market.

1.5.2 Market selection and entry mode

The process of market entry requires an organisation to select attractive and profitable national markets and to identify the appropriate entry mode. The selection of national markets involves considerations at the macro level and in terms of competitive and market conditions already discussed. Some factors that require particular attention in comparing the attractiveness of national markets, for instance, macro-economic conditions reflected in indicators such as the GDP, CPI (Consumer Price Index), PPI (Producer Price Index), political and legal environment (favored or unfavored policies, laws), infrastructure of national markets (existing transport and communication infrastructure; tariff and non-tariff barriers to trade), the similarity of cultural norms and social structures.

Once a particular national market has been selected for entry, an organisation needs to choose which, if any, value-adding activities are to be located in that market. Entry modes differ in the degree of resource commitment to a particular market and the extent to which

an organisation is operationally involved in a particular location. The key entry mode types are: exporting, contractual arrangement through licensing and franchising, joint ventures, strategic alliances, merger and acquisition.

(1) Exporting is the easiest and cheapest participation strategy, although it may not always be most profitable. And it is most common way to begin to internationalization or to test new markets due to its advantage of no operational facilities needed in the host country. In the meanwhile the company can get the economies of scale through exploiting in the new market. However the exporting incurs transportation costs, expose to import duties, does not allow the firm to benefit from the location advantages of the host nation, and the company has limited opportunities to gain knowledge of local market and competitors, thus can not respond quickly to the local customer demands.

(2) Licensing and Franchising are often appealing business models for a company looking to expand. **In a franchising model**, the franchisee uses another firm's successful business model and brand name to operate an independent branch of the company. The franchiser maintains a considerable degree of control over the operations and processes used by the franchisee, but also helps with things like branding and marketing support that aid the franchise. **Under a licensing model**, a company sells licenses to other (typically smaller) companies to use intellectual property (IP), brand, design or business programs. These licenses are usually non-exclusive, which means they can be sold to multiple competing companies serving the same market. In this arrangement, the licensing company may exercise control over how its IP is used but does not control the business operations of the licensee. The advantages of licensing and franchising are that there is a contractually agreed income that can be guaranteed, as well as a limited economic and financial exposure. However, they also have the disadvantage of limited benefits from the locational advantages of host nation. And it may lose control and create a new competitor to a certain extent.

(3) Joint Venture & Strategic Alliance allow companies with complementary skills to benefit from one another's strengths. They are common in technology, manufacturing and commercial real estate development, and whenever a company wants to expand its sales or

operations into a foreign country. In a **joint venture**, the companies start and invest in a new company that's jointly owned by both of the parent companies. A **strategic alliance** is a legal agreement between two or more companies to share access to their technology, trademarks or other assets and it does not create a new company.

Because Joint Venture and Strategic Alliance are fast and flexible ways to gain complementary resources, they are increasingly among the most popular strategies that companies use to develop new product and expand into new geographic areas. However, Joint Venture and Strategic Alliance are inherently unstable and many will fail due to select the wrong partner, can not trust and provide attitudinal commitment¹⁷ that both sides are willing to dedicate resources and effort and to face risks to make the things work, or due to limited ability to integrate and coordinate in integrating the culture, processes and other operations in cross national boundaries.

(4) Foreign Direct Investment means that a multinational company owns, in part or in whole, an operation in another country. Unlike the international Joint Venture, a new firm is not created by parent companies. FDI reflects the highest stage of internationalization. There are two types of FDI, one is Merger and Acquisitions (M&As), another is Greenfields investment. **Merger & Acquisitions** have been playing a very important and active role in the external growth of a number of leading companies a world over. According to the World Investment Report, cross-border M&As are a major driving force affecting FDI, which rose 53 per cent in 2011.¹⁸ M&As deal with the buying, selling, dividing and combining of different companies and similar entities that can help an enterprise grow rapidly in its sector or location of origin, or a new field or new location, without creating a subsidiary, other child entity or using a joint venture.¹⁹ A merger occurs when two organizations of about equal size unite to form one enterprise. An acquisition occurs when a large organization purchases (acquires) a smaller firm, or vice versa. **Greenfield investment** happens while a parent company starts a new

¹⁷ K. Praveen Parboteeah, John Brooks Cullen. 2010. *Strategic International Management*. 5 Edition South-Western Cengage Learning, 2010. Page 250. ISBN: 053845296X, 9780538452960

¹⁸ UNCTAD, based on UNCTAD cross-border M&A database and information from Financial Times Ltd, FDI Markets .Available at: <www.fdimarkets.com>.

¹⁹ http://en.wikipedia.org/wiki/Mergers_and_acquisitions

venture in a foreign country by constructing new operational facilities from the ground up. In addition to building new facilities, most parent companies also create new long-term jobs in the foreign country by hiring new employees. FDI has the advantages of full control of resources and capabilities, rapid entry in the new market, lowering the cost, gaining the economy of scale, facilitating the support from the host government. In the meanwhile, it leads to the problems of integration and coordination, staff turnover, customer losing, especially the difficulty in the culture conflict.

1.6 Conclusion

The success of any good enterprise is based on the measures that are laid out by the various stakeholders. In commerce, business strategy is important for the achievement of the objectives set around making lots and lots of profits, growing and expanding, and most importantly, diversifying. And various strategies and strategy-formulation tools described above can significantly enhance the quality of strategic decisions. However, the process of designing the international strategies is a very complex one that has to consider the difficulty of its implementation and coordination in the different subsidiaries of the multinational firm, located in different parts of the world. Therefore, any corporate strategy needs to be reviewed on a regular basis, not only to ensure it is still relevant but also to ensure that the original strategy has not become blurred by misconceived operational responses to threats and opportunities that are not in keeping with the original strategy. Once effectively elaborated and implemented, the international strategy offers the opportunity of exploiting some advantages that are not available for the national firms, such like the global efficiencies, the multinational flexibility and the world-wide learning process.

2 Objectives

The main objective of this diploma work is to deeply analyze how to make the strategic choices for an IT company in order to successfully compete in an intensely competitive global market, and what the key elements that influent the company to make its business strategies. By deeply analyzing the internal and external environment of the PC industry, the diploma work explores how effectively the organizational capabilities and external opportunities are exploited and how a Chinese IT firm executes its strategic management in order to lead in the global market. Through discussion on the possible scenarios of future potential threats and opportunities, the diploma work aims to identify the improvement way for long term success and sustainability.

Based on the above objectives, we should focus on the following main topics:

- How to perform the strategic-environment analysis by implementing the standard analysis tools?
- What are the characteristics of the external and internal determinants and how could them influent the international strategy formulation for a Chinese IT company in the international context?
- How could the existing capabilities be managed to create new knowledge, added value and sustainable competitive advantages?
- What are the strategic choices that a Chinese IT company selects in the international intensive competition market?
- What are the impacts of the adoption of international strategies have on the company's performance?
- How to keep the position for long-term success and sustainability?

3 Research Methodology

The Diploma work is based on a qualitative&quantitative research methods. The research contains both theoretical and specific practical parts. Literature reviews provided the theoretical framework needed for the Diploma work. Case company specific qualitative data collection was carried out by interviews. Also observations and experiences of my own were used in the data collection and analysis.

In order to keep the accuracy of this research, different approaches have been used to gather the data:

- Study of international literature related to the research topics.
- Study of the annual reports of Lenovo Group and other published materials.
- Interview with manager in Lenovo Slovakia and Lenovo China.
- Information from Lenovo official website, newspaper and magazine.
- Information from the website of professional market research companies.

To achieve the sets of objectives, the diploma work uses variety of strategic analysis tools and methods such as macro environment analysis, Porter's five forces model analysis, value chain analysis, External factor evaluation (EFE) matrix analysis, internal factor evaluation (IFE) matrix analysis, SWOT matrix, benchmarking method and so on to deeply analysis and study on the strategic choice of international operation of Lenovo Group. Also some of them use the mathematical model to demonstrate the feasibility of Lenovo's strategies through the analysis of the technical strength, market strength, innovative strength and management strength of Lenovo, which in turn enhances the reliability and adequacy of the analysis and provides more substantial theoretical basis and feasible protection for the strategic choice of Lenovo Group in the international context.

4 Result of the diploma work

PC industry is a rapidly changing industry, it is subjected to the changes of political, economic and social environment, as well as dependent on changes in the information technology and the competition between enterprises. Therefore, enterprises want to seek survival and development, they must firstly accurately analyze the current situation of environment and future trends, seize opportunities conducive to its development. The second is to continuously enhance their competitiveness advantages, avoid the short-boards in order to win in the fierce competition. In this section, the substantial results of this study have been generalized. They are analyzed by applying the theoretical knowledge and tools concerning basis of strategic management. The primary aim is to identify what are the main driving forces of PC industry and what are the specific competitive advantages and disadvantages Lenovo has through detailed analyzing the internal and external environment that Lenovo has.

4.1 Introduction of Lenovo Group

Lenovo Group Ltd. is a US\$34 billion Chinese multinational personal technology company with headquarters in Beijing, China, and Morrisville, North Carolina, United States. Formed by Lenovo Group's acquisition of the former IBM Personal Computing Division, the Company develops, manufactures and markets reliable, high-quality, secure and easy-to-use technology products and services. Its product lines include legendary Think-branded commercial PCs and Lenovo-branded consumer PCs, as well as servers, workstations, and a family of mobile internet devices, including tablets, smartphones and smart TVs. As the largest PC company in the world, the company's business covers 166 countries in the world with more than 33,000 employees worldwide today.

4.1.1 Company origin and development

In 1984, Lenovo Group was founded in Beijing, China by 11 scientists with 200,000RMB investment of Institute of Computing Technology, Chinese Academy of Sciences. The original name is Legend Group Ltd. In 1994, under the transition of China's economy –

from planed economy to market economy, Lenovo group was changed from originally 100% state-owned company to a shareholder enterprise. And in 2000, Legend Group was spin-offs to Legend Group Ltd and Digital China Ltd which under the control of mother corporation “Legend holdings”. Legend Group changed its name to Lenovo in 2004, and in 2005, acquired the former Personal Computer Division of IBM. Since 1997, Lenovo has led the domestic Chinese market in sales every year and also ranks #1 in the Asia-Pacific market. From 2010 Lenovo has been the fastest growing major PC Company for more than 4 years that outgrew the worldwide PC market as a whole. And in 2013 the company became the #1 PC company in the world for large business and the public sector. In two years (2012-2014), Lenovo built a Smartphone business from scratch and reached #4 in the world, also become the #3 in the world in what IDC calls "Smart Connected Devices," which combines PCs, Smartphone and tablets. As a global Fortune 500 company, Lenovo has developed its research centers in Yokohama, Japan; Beijing, Shanghai, Wuhan, Shenzhen, China; Morrisville; and developed its manufacturing around the world from Greensboro, North Carolina and Monterrey, Mexico to India, China and Brazil.

4.1.2 Evolution of Lenovo's business strategy

- **Initial stage (1984-1989)**

Lenovo created two main business units in this period, one is independent Research&Development, production of Legend’s Chinese-character card and computer board, the other is selling the product of AST and HP as the dealer of these two companies in China. In this period Lenovo's main strategies are technological innovation and leading product. In 1986, the first Legend’s Chinese-character card was born. Through continuous improvement, the card was developed to eight software version, six models and widely used in six areas. In 1988, Legend’s Chinese-character card received the highest National Science-Technology Progress Award in China²⁰. Meanwhile, the company wanted to quickly achieve product leadership in the market through high-quality & low-priced products strategy. They used the most advanced design ideas, the latest international standard components to produce superior products with the mass production in the

²⁰ <http://www.lenovo.com/lenovo/uk/en/history.html>

low-cost mainland in China to lower prices and win market share.

- **Market development period (1990-1999)**

In the 1990s, based on technological innovation and product leadership strategy, Lenovo began to focus on marketing and overseas development strategy. In 1990, the first “Legend PC” was launched in the market²¹. Lenovo changed its role from an agent for imported computer products into a producer and seller of its own branded computer products. By the end of 1993, Lenovo had developed its R&D center in Silicon Valley, Hong Kong, Shenzhen and Beijing, China. For the marketing strategy, a major strategic adjustment is copying the business model of its competitor-HP. Lenovo abolished its direct sales system, and established a thorough distribution system at the attempt of extending its sales to every corner of the country. In 1996, Lenovo became the market share leader in China for the first time.

- **Diversified development period (2000-2003)**

In 2000, the U.S. stock market crashing affected the global economy, the internet bubble busted. Almost all Internet and IT companies suffered setback. Being the number one in the domestic market, Lenovo withdrawn its overseas development strategy and began to implement diversification strategy in domestic market. From 2001 to 2002, the company started a wave of mergers and acquisitions²² with the intention of developing mobile communications services, IT services, software outsourcing, network products and software integration system. In June, 2001, Lenovo set up a joint venture "Legend Ao Dragon" with America Online, Holding 51% share. In February, 2002, Lenovo set up a joint venture "Legend Xiahua mobile communications company” with Xia Hua mobile communications company, Holding 60% share. In March 2002, Lenovo acquired Han Consulting Ltd with holding 51% share and entering the consulting industry. In April 2002, Lenovo set up joint venture “Legend Chi Soft Computer Technology Co., Ltd” with a domestic insurance IT company Guangzhou Chi soft Co., Ltd, holdings 70% share. In December 2002, Lenovo purchased Chinaweal Business Machinery Co., Ltd, with holding

²¹ <http://www.lenovo.com/lenovo/uk/en/history.html>

²² Xiaoping Zhang.2011.*The World Is Thinking—Lenovo*, First Edition Beijing, China. China Machine Press. 2011.12. Page 56-p57.ISBN:978-7-111-36469-6

90% share, and entering into the system service industry. However, the diversification strategy was failed finally. In 2003, under the rapid recession of the Internet industry, Lenovo diversification strategy lastly ended in failure. Nearly all diversified business were closed and sold before 2004. Mainly PC business was decreased in revenue, profit, lost 2% in market share. And the company laid- off 600 employees.

- **Strategic change and internationalization (2004-2008)**

The failure of diversification strategy has brought great strike. Lenovo began to shrink the front. They formulated the new strategies, one was re-establishing their core business - PC and related products, and another is internationalization and branding strategy. Firstly, the company changed its logo to a more a more international style logo from “Legend” to “Lenovo”, which means the implication of the new standard for innovative Lenovo. "Le" is on behalf of the original “Legend”. "Novo" is an old Latin root that is on behalf of "innovation"²³. Secondly, the company implemented its great plan of acquiring IBM PC business in 2004. After this acquisition, Lenovo became the world's third largest PC vendor and have the leading brand, high-quality of IBM Think products, as well as the broad IBM’s sales channels. Meanwhile, three overseas private investment institutions invested \$ 350 million into the new Lenovo. So far, Lenovo quickly achieve its internationalization strategy in terms of product, marketing network, ownership structure and financing. Lenovo’s brand awareness in China reached a new peak.

In domestic PC business, in response to the great threat came from Dell’s direct sales in the commercial market, Lenovo implemented an important strategic change – changing its pure distribution business model to dual business model to fit to the characteristic of different customers in domestic market. On the one hand, Lenovo optimized its existing distribution model, expended its 4 regions to 18 sub-regions, 108 network, forming a dense network to cover the whole market. On the other hand, Lenovo rapidly established the key account model by creating telemarketing and account manager business unit to face and deal with enterprise and other large customer directly. Under the dual- mode system,

²³ Zhijun Ling .2005.*The Lenovo Affair:The Growth of China’s Computer Giant and Its Take Over of IBM-PC*. First Edition. Beijing, China. Citic Press Group.2005.Page 374.ISBN:7-5086-0162-9/F 834

product development, marketing, sales, supply chain and service, all aspects are split to two modes to form the end-to end value chain .One year after, dual-mode achieved a strategic success , Lenovo significantly increased its market share. Its market share in commercial market increased from 17% to 22%, which was quite closed to Dell’s market share (24%).²⁴

- **International development maturity (2009 - present)**

Under the macroeconomic environment of world economic crisis, the market downturn, Lenovo suffered a serious decline in performance in the history, net profit fell 78.1 percent in the second quarter, and revenue fell 20%, a net loss of \$ 79 million in the third quarter. In 2009,the board of directors of Lenovo reorganized the top management team, redefined the business strategy. The “Protect&Attack” strategy was officially announced in the company’s annual strategic plan. In the “Protect&Attack” strategy, the world market was divided into emerging and mature markets, customers were divided into commercial and consumer customers, product group was divided into Think Group and Idea Group. In emerging market include China, Lenovo focused on aggressive channel expansion and market penetration to increase the market share and brand awareness. In mature market, Lenovo made full use of the high brand awareness and the existing commercial customer relationships of Think business to protect and stable profits and market growth. Through fast and efficient implementation of the new strategy, Lenovo reversed the situation of three consecutive quarters’ losses. In the second quarter of 2009,the net profit reached \$ 53.08 million. And in 2010 the sales of Lenovo grew by 42% (market average 17%) , becoming the fastest growing vendor in the industry .

2013 Lenovo successfully defeated all its competitors, becoming NO.1 in global PC market. In 2014, based on the “Protect&Attack” strategy, Lenovo proposed PC + strategy of developing mobile Internet, servers’ storage and cloud services to adapt to future changes in the industry and customer needs.

²⁴ Xiaoping Zhang.2011.*The World Is Thinking—Lenovo*, First Edition Beijing, China. China Machine Press. 2011.12. Page 72.ISBN:978-7-111-36469-6

4.1.3 Vision, Mission, Goals

Vision, Mission, Goals are the foundation of a corporate strategy making. The success of Lenovo can be tracked to its excellent vision&mission direction. “We will create personal devices that more people are inspired to own, a culture that more people aspire to join and an enduring, trusted business that is well respected around the world.”²⁵ This vision guides the company in pursuit of its mission to become one of the world's great personal technology companies.

In order to accomplish these vision and mission, the company sets its goals from 4 aspects of business running. Firstly, from market position stand point, the company intends to lead the PC&PC+industry with a high respected innovative and qualitative product; Secondly, from financial target, the company intends to increase profit through developing high profit business and more innovative product. Thirdly, the company sets its human resources goals of developing global winning team, consistent culture and to be recognized as one of the best, most trusted and most well-respected companies to work for and do business with are. Also its intention of becoming a top-tier environment-friendly enterprise is highly implanted into its product innovation, production and business operation.

4.2 Analysis of external environment

4.2.1 Analysis of Macro-environment

Macro environment factors are uncontrollable external forces that affect how a business operates. They are largely out of the control of the business, and often require changes in operating, management, production, and marketing. In order to dig out how the macro environment influence the PC industry, the diploma work will use DEPEST model to break down each external factors.

Politics:

From 2008 to 2013, the Chinese government implemented Fiscal policy of home appliances subsidy program to fight the rapid decline of the export demand of the

²⁵ http://www.lenovo.com/lenovo/us/en/our_culture.html

consumer electronics products caused by the global financial crisis, and to activate the purchasing power of the rural consumers, expanding domestic market. The program covered televisions, refrigerators, air conditioners, water heaters, mobile phones, computers and other appliance and electronic products. The rural consumers in China who buy those specified product can get 13% subsidies of the product price from the government. ²⁶The introduction of the policy, no doubt provides a great opportunity for the enterprise to break into the rural market segments in this biggest agricultural country which farmers are more than half of the population. And more important is that the demand for computer products in the city basically saturated, the rural market is almost untapped. Therefore, with the economic growth and the government's policy's promotion, this market will become the most significant growth highlights in Chinese market. In addition to this policy, a number of economic stimulus policies issued by the Chinese government while the global economic crisis seriously hit China's export trade. Such like a \$ 583.9 billion (4 trillion Yuan) economic stimulus package, dedicated to infrastructure and public facilities; Top ten industrial revitalization plan, which aims to revitalize the company, particularly in the manufacturing sector enterprise ; A variety of small consumer subsidy programs and tax cuts plan. These policies continuously drive the purchase and consumption of IT products and services in China. According to the report of global technology research and advisory firm Gartner written in 2010, from 2009 to 2013 , these economic policies will directly promote China 's IT spending to reach \$ 38.9 billion , of which the hardware (mainly includes computer classes and related peripheral equipment) overall expenditure will reach \$ 13 billion . ²⁷

Since joining the WTO, China established a large number of bilateral international trade cooperation and alliances, laying the cornerstone for the international development for

²⁶ Ministry of Finance of the People's Republic of China ,Ministry of Commerce of the People's Republic of China, Ministry of Industry and Information Technology of the People's Republic of China. 2009 *Notice on intensifying the implementation of the policy of home appliances going to the countryside* .Published in Information Management System of home appliances going to the countryside. Available at:<

<http://jdxx.zhs.mofcom.gov.cn/admin/news.do?method=view&id=42161362> >
²⁷ Gartner Newsroom January 28,2013. *China's Economic Stimulus Policies Will Drive \$39 Billion in IT Spending Through 2013*. Gartner Press Release . Available at:<<http://www.gartner.com/newsroom/id/1290614>>

Chinese enterprises. Lenovo also benefit from them. However, as for the specific business development and operations abroad, as a local Chinese enterprise, Lenovo faced with the greater challenge than other competitors from US, Europe and Japan. Completely different tax policy, consumer policy , various labor law, different trade restriction, all these affect the company's strategy formulation , implementation and business operation in each country . Also the political stable problems, such as the war of Middle East and North Africa, the recent riots in Ukraine, significantly increased the investment risk, the credit risk of countries and companies, influenced the daily business operation and management. With the rapid development of China and the reverse effect of the world financial crisis, trade protectionism in some countries brings the potential threat to the international development of Chinese enterprises.

Economics:

Economic depression has been lasting for five years since the world financial crisis in 2008. According to the latest IMF World Economic Outlook Report, the world economy is seems to start to be recovery now .Firstly, in 2013, Economic activity in the major developed economies begins to accelerate sluggish economic growth. The U.S. economy has been maintained growth for 10 consecutive quarters by the end of 2013.Eurozone economy starts to bottom out, and gradually be out of recession. Japanese stimulation policies received some success, increasing confidence of the people. Secondly, the global growth is projected to increase from 3 percent in 2013 to 3.7 percent in 2014 and 3.9 percent in 2015 (Figure4.2.1.1)²⁸. However, the coexistence of developed countries' low growth, high unemployment, high deficits and high debt has no fundamental improvement which results in the shortage of an increasing power, and economic growth remains below potential levels.

In the mean while, after the high growth of the emerging economies since the financial crisis, it started to slow down. However, in 2014, 2015 ,the growth of the emerging economies was still estimated to be more than 5% , especially in China and India, which

²⁸ International Monetary Fund,January,2014.*Is the Tide Rising? IMF World Economic Outlook Update* . Washington D.C. International Monetary Fund .January 21,2014.Page 1-3.Availabe at:<<http://www.imf.org/external/pubs/ft/weo/2014/update/01/pdf/0114.pdf> >

benefit from the high growth in investment and export. Therefore, how to take use of the growth trend of the economy, and how to control or eliminate the potential risks are the big topics while company makes their strategies in different countries and areas.

Figure 4.2.1.1 Overview of the World Economic Outlook Projections

Overview of the World Economic Outlook Projections (Percent change)				
Region/Country	2012	2013	2014	2015
World output	3.1	3.0	3.7	3.9
Advanced economies	1.4	1.3	2.2	2.3
United States	2.8	1.9	2.8	3.0
Euro Area	-0.7	-0.4	1.0	1.4
Japen	1.4	1.7	1.7	1.0
United Kindom	0.3	1.7	2.4	2.2
Canada	1.7	1.7	2.2	2.4
Emerging Market and Developing Economies	4.9	4.7	5.1	5.4
Central and Eastern Europe	1.4	2.5	2.8	3.1
Russia	3.4	1.5	2.0	2.5
Developing Asia	6.4	6.5	6.7	6.8
China	7.7	7.7	7.5	7.3
India	3.2	4.4	5.4	6.4
Latin America and the Caribbean	3.0	2.6	3.0	3.3
Brazil	1.0	2.3	2.3	2.0
Mexico	3.7	3.2	1.0	3.5
Middle East, North Africa, Afghanistan, and Pakistan	4.1	2.4	3.3	4.8
Sub-Saharan Africa	4.8	5.1	6.1	5.8
South Africa	2.5	1.8	2.8	3.3

Source: International Monetary Fund, January, 2014. Is the Tide Rising? IMF World Economic Outlook Update. Washington D.C., January 21, 2014. Page 1-3.

Technology:

From 1990s, the information technology entered into high-speed development period. With the development of modern information technology in microelectronics, computer hardware and software technology, information network technology, system integration technology, information industry has become the leading industry of the era of knowledge economy. There are several technological features that influence the industry. First, technology is growing at a rapid rate, if you look at the past 10, 15, 20 years and look at how far technology has come, it is remarkable. Second, A wave of new technological innovations are emerging. With the growing awareness of the individual needs of

computing devices, IT industry develops toward the direction of intelligent, personalized Internet. According to the report of future IT market forecast in China which is released by global technology research and advisory firm Gartner in 2013, cloud computing& cloud service, mobile Internet, virtualization, tablet PCs, smart devices will become an engine of the new technology growth.

Social culture:

The information technology industry is one that thrives off people's need to have the latest and most up to date gadgets. People like to be seen with the latest and greatest in information technology to look as though they are ahead of the game. They are seen as being cool and a trend setter if they have the newest computer or tablet. It seems to be a generational wide trend to be on the technology bandwagon. From the time this industry began that housed computers took up entire rooms to today's computers that can be made to fit in your hand, there has definitely been a trend to downsize things. Therefore the laptop computers comprised not only of businesspeople, but also college students and high school students. Also the rise of the tablet PC market affects the children quickly getting familiar with the use of computers at a very young age. The brand image of a computer and lifestyle trends become the main decisive for the purchasing decision.

Environment:

It is pretty obvious in today's society that most people are trying to be more environmentally friendly. It has been shown that these resources we have are limited and are not going to be around forever. Not only does it take up resources to create computers, but once they go outdated, which could happen overnight, there needs to be a way to dispose of them. The actual manufacturing of computers is very material intensive. The total amount of fossil fuels to make one computer is equal to almost ten times what the actual computer ends up weighing. Computer manufactures are now trying to make computers that last longer and can just be updated with the latest software periodically to reduce the amount of waste.

Demographics:

It turns out that a lot of tech companies are missing their most important markets. According to recent studies if you are a male between the ages of 18 and 35 you used to be

the key target in the tech industry, however women are now in the forefront of many of the most recent and popular technology offerings such as Internet usage, Mobile phone voice usage, Text messaging, Skype ,E-readers, Health-care devices and so on. Women also are the caretakers of the up-and-coming, pre-teenage and teenage technology markets, therefore being the ultimate decision maker for the products which they purchase. Studies also show that more than half of the world's population is under 30-years-old. Therefore, except the function, other characteristics of computer, such like color, weight, port, fast, and interface are growing need for attention.

4.2.2 Analysis of industry environment

4.2.2.1 Industry characteristics-the current situation and future trend

As we mentioned above, computer industry is one of the fastest growing industry in the world. On one hand industry technology upgrades day to day, on the other hand, the intensified competition increasingly stimulates various manufacturers continue to pursue innovative technologies and products. The industry environment can be characterized as followed:

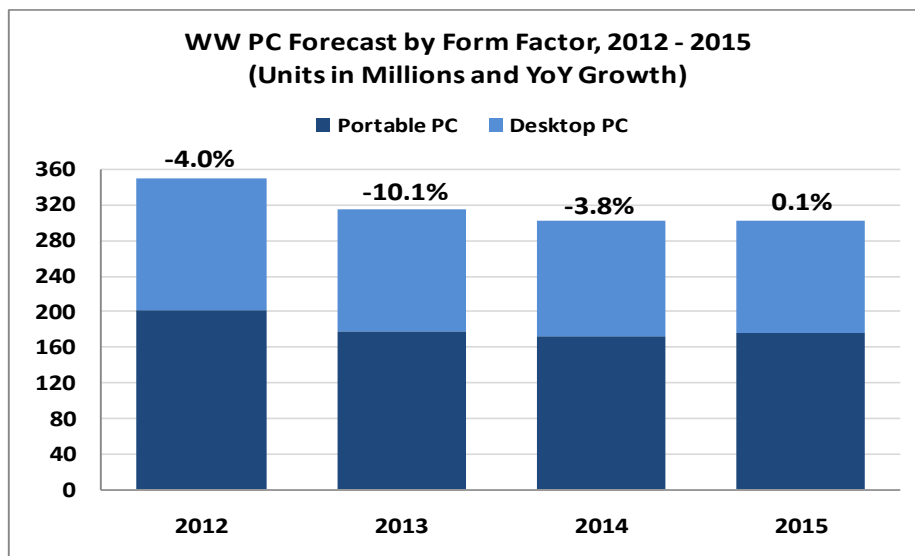
- **Decline trend and intensive competition in global PC market**

After experienced the explosive growth in 1990s and the beginning years of the 2000s, the PC market started to be downward under the impact of the global financial crisis. According to International Data Corporation (IDC) Worldwide Quarterly PC Tracker (Figure 4.2.2.1.1), Global PC shipments fell 10% last year which is the worst-ever sales slump for the industry. Interest in PCs has remained limited, leading to little indication of positive growth beyond replacement of existing systems. Total shipments are expected to decline by an additional -3.8% in 2014 before turning slightly positive in the longer term. At these rates, total PC shipments will remain just above 300 million during the forecast – barely ahead of 2008 volumes. Even in emerging markets – a primary growth engine of the PC market – shipments are projected to decline in 2014 and recover by only a few percent during the forecast. According to IDC research, one reason is that more devices become available, and despite industry efforts, PC usage has not moved significantly beyond

consumption and productivity tasks to differentiate PCs from other devices, such like Smartphone or tablets. Another chief concern for future PC demand is a lack of reasons to replace an older system.

While the industry is seriously hurt by the declined consumption, there is an increasingly intensified trend of competition between the world Top PC vendors. According to the latest statistics of IDC Q4 2013 data²⁹ (Figure 4.2.2.1.2), we can see the Top five PC vendors Lenovo, HP, Dell, ASUS, Acer monopolized 61% market in 2013 Q4. And the market share among these companies are tightly followed with each other. Lenovo and HP as the largest two companies fiercely compete for the first position. In 2013, Lenovo and HP nearly had the same market share around 17% during quarter 1 to quarter 3. And in quarter 4, after continuously growing for 3 quarters, Lenovo climbed up to its highest performance in the year with the market share 18.1%, 1.7% higher than HP, while HP decreased a lot from Quarter 3 to quarter 4.

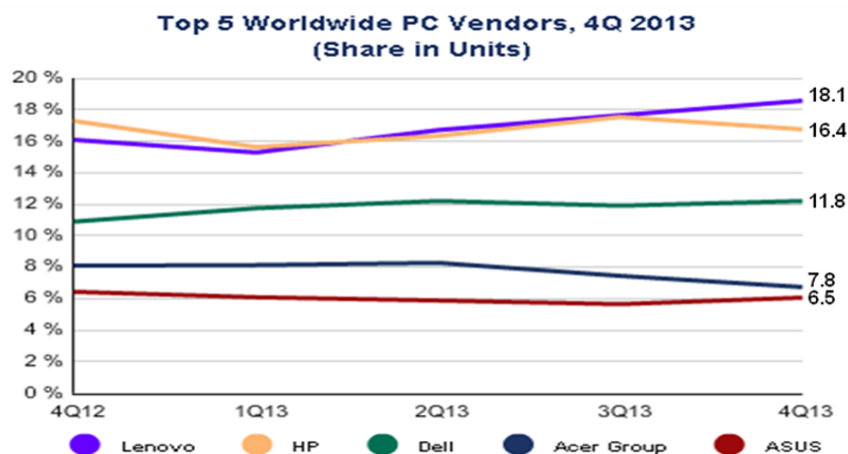
Figure 4.2.2.1.1 WW PC Forecast by Form Factor, 2012-2015



Source: International Data Corporation December 2, 2013. Press Release, IDC Forecasts PC Shipments to Fall by Double Digits in 2013; Volumes Are Expected To Stabilize Above 300 Million Units Per Year, But With No Significant Recovery. December 2, 2013. Available at : <http://www.idc.com/getdoc.jsp?containerId=prUS24466513>

²⁹ International Data Corporation December 2, 2013. Press Release, *IDC Forecasts PC Shipments to Fall by Double Digits in 2013; Volumes Are Expected To Stabilize Above 300 Million Units Per Year, But With No Significant Recovery.* December 2, 2013. Available at : <http://www.idc.com/getdoc.jsp?containerId=prUS24466513>

Figure 4.2.2.1.2 Top 5 Worldwide PC Vendors share ,4Q 2013



Source: Lenovo internal table. IDC WW PC Tracker, 2013Q4 Final Top10, Feb 06

- **Day to day innovation shorten the product life cycle**

Today, IT industry has become the fastest changes industry in the world. Every year there will be constantly updated in terms of hardware, software, applications, appearance and so on. In order to be the “first” in the market, PC manufacturers release a new product even per quarter, which in the meanwhile dramatically shorten the product life cycle. Therefore the company without technology and innovation ability will not be able to survive and succeed in IT industry. Also how to efficiently design and manage product roadmap, product life cycle, product liabilities becomes one of the major challenges to improve business operation.

- **High integration of PC supply chain**

PC supply chain is divided into two camps, one is the assembly manufactures, represented by Foxconn, Quanta, Compaq, Wistron, Pegatron and Inventec, who highly concentrate even monopolize the global assembly and manufacture of computer. Another camp is composed by Microsoft, Intel, AMD, Seagate, Western Digital, Toshiba, and Samsung. They control all the supply of processor, hard drive, graphics, memory and other key parts of the laptop. For example, Intel provides 80% chipset in the computer market. Almost all computer operating systems are installed Microsoft.

- **High degree of product homogeneity increase transparency in the price**

The PC product becomes more and more homogenous with having the same technology,

same components, same function, same characteristic, similar appearance and similar customer experience. Therefore, the price of PC has become more and more transparency than before. PC Vendor or end users thus are quite easy to compare the product and price between various brands, which significantly increases the price competition between manufacturers

4.2.2.2 Analysis of the competitive structure of the industry

So far we have thoroughly analyzed the macro environment and characteristics of the computer industry, so now it is time to switch gears a little and start to talk about the specific factors that shape the computer industry's competition. Porter's Five Forces model (Figure 4.2.2.2.1) breaks down the computer industry's structural conditions to analyze the competition within that industry. This model demonstrates how attractive an industry is for new entrants and incumbents.

Figure 4.2.2.2.1 Porter's Five Force Model



- **Rivalry among existing players:**

The PC industry is highly competitive and is characterized by aggressive pricing practices, downward pressure on gross margins, frequent introduction of new products, short product life cycles, continuous improvement in product price/performance characteristics, price sensitivity on the part of consumers, and a large number of competitors. Over the past several years, price competition in the market has been particularly intense. The PC companies have aggressively cut prices and lowered their product margins in order to gain

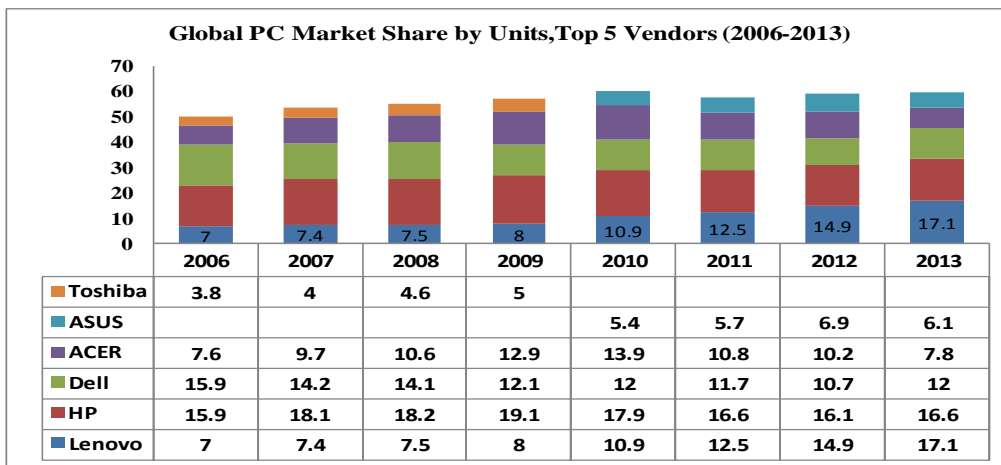
or maintain market share in response to the weakness of the demand. In the mean while integration become more and more popular for PC companies at the attempt of pursuing lower cost, complementary product, specific technology, expansion of markets and economies of scale.

In domestic PC market, the international giant such like Lenovo, HP, Dell, Acer, Asus have already monopolized the whole Chinese market. Therefore some low-end manufactures without cost advantage started to be out of the market. In the meanwhile, the existing PC companies implemented the intensive channel&price competition. HP adjusted its commercial channel strategy, strengthened distribution channels and retail shop building, penetrated to the low level of market. After the failure of its direct sales model in China, Dell also began to strengthen channel construction to cover China's huge market for SMEs and individual users. Meanwhile, after the privatization, Dell positioned itself on end-to-end solution provider in China which highlighted channel development and management to the strategic level. Asus, benefitted from the good reputation of its professional and technical motherboard brand, quickly entered into the campus and student groups, and got a great success in China. And Acer treats Lenovo as its most important competitors in the Chinese market, implements the targeted price war and Marketing promotion.

In international market, Lenovo has a surprisingly wonderful performance. As the followed graph(figure 4.2.2.2.2 and figure 4.2.2.2.3)shows, Lenovo was the only one that built the consecutive growth in PC industry from 2006 to 2013,especially in 2012 and 2013,even though the market started to present negative growth, Lenovo still kept the highest positive growth compared to its main competitors HP and Dell. And its market share grew to the number 1 of 17.1% while the company only had 7% with the ranking of number 4 in the world in 2006. However from the graph we also found that HP is the longest one that controlled the Number 1 market position from 2006 to 2012, and its performance is relatively stable. And even though Lenovo achieved number 1 market position in 2013 in the global market, they still cannot compete well in EMEA (Europe, Middle East and Africa) and North America(NA).As showed in graph below(Figure 4.2.2.2.4),in NA Lenovo only had 8.8% share and ranked in number 4.In EMEA, Lenovo had 10.7% market

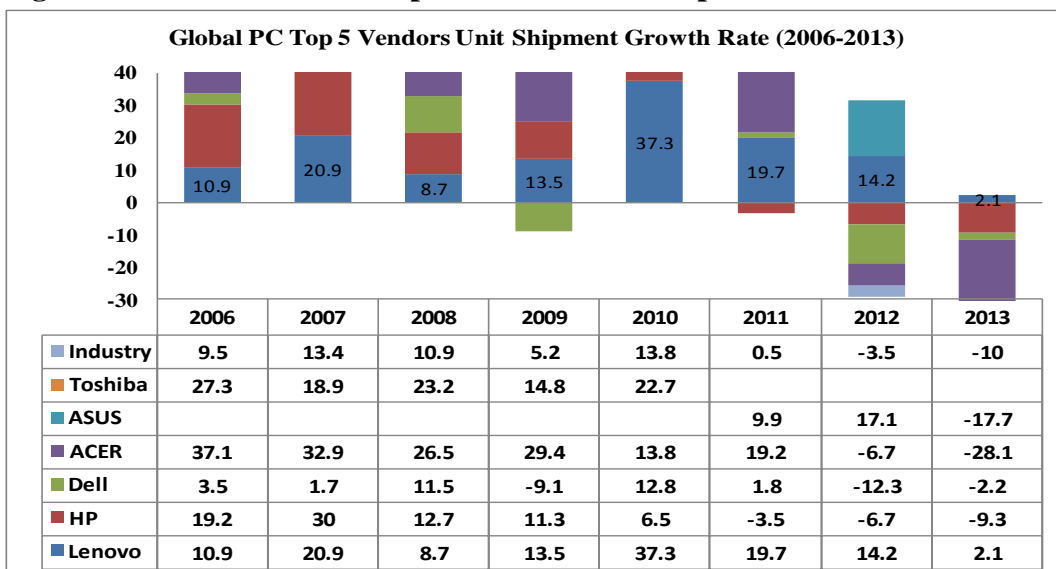
share and ranked in number 3 in the market. In the meanwhile, HP and Dell have very strong market position (HP: number 1; Dell: number 2) with more than 20% market share in these two markets. Therefore if Lenovo want to keep its great performance of number 1 position in the industry, they must put great effort in these two markets, in the mean while continuously improve its global competitive advantage from the whole value chain stand point.

Figure 4.2.2.2 Global PC Market Share by units



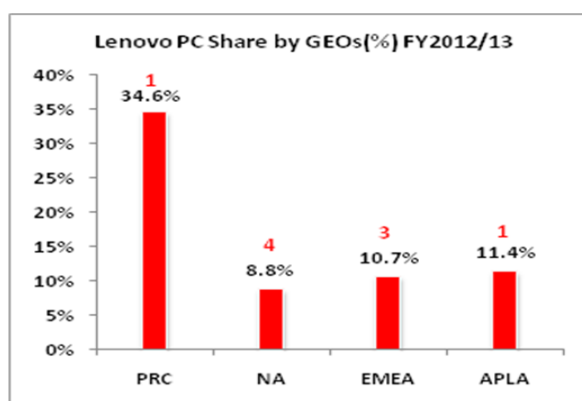
Source: Wikipedia.Market share of personal computer vendors. Available at:<
http://en.wikipedia.org/wiki/Market_share_of_personal_computer_vendors >

Figure 4.2.2.3 Global PC Top 5 Vendors Unit Shipment Growth Rate



Source: Wikipedia.Market share of personal computer vendors. Available at:<
http://en.wikipedia.org/wiki/Market_share_of_personal_computer_vendors >

Figure 4.2.2.4 Lenovo Market Share by GEOs(%)



Source: Lenovo FY 2012/13 Annual Report. Page 17-19. Available at:
<http://www.lenovo.com/ww/lenovo/annual_interim_report.html>

- **Threat of new entrants:**

The IT industry is relatively attractive to newcomers because of its rapid growth and appealing customer base. At the same time, the industry is unattractive to newcomers because of the cost advantage large-scale incumbents possess, the significant amount of capital a new firm would need, and the major established brands already in the industry. Any newcomer in this industry can expect a strong retaliation from existing players, which is a major reason this industry is not too attractive. The best way for a new entrant in this field to be successful would be if they had a brand new idea for a product or service; the lack of differentiation in the industry is one thing a newcomer could exploit.

- **Threat from substitutes:**

There haven't been a completely replacement product for computer. But you can find all kinds of functional-substitute of the PC section. The document processing of Smartphone and player function of mobile entertainment video all have some features of PC products. And the recent PC functionality alternative product is Tablet product which many features are identical to the traditional PC. It can be said as a condensed version of the traditional PC. Due to its light-weight and easy-to-carry, it triggers a new round of consumer climax. According to IDC statistics, in 2013, worldwide tablet shipments totaled 217.1 million units, which is up from 144.2 million units for the year 2012 and represents a year-over-year growth rate of 50.6%. And IDC forecasts that tablet shipments will exceed total PC shipments on an annual basis by the end of 2015. And, Smartphone will be the

biggest contributors to worldwide shipments of all smart devices, exceeding 1.4 billion shipped units in 2015(Figure 4.2.2.2.5). However, some researchers also demonstrate that nothing can really replace all that computers do for us as a society.

Figure 4.2.2.2.5 Smart Connected Device Market share 2013 &2017 Shipment in Million

Product Category	2013 Unit Shipments	2013 Market Share	2017 Unit Shipments	2017 Market Share	2013—2017 Growth
Desktop PC	134.4	8.60%	123.11	5%	-8.40%
Portable PC	180.9	11.60%	196.6	8%	8.70%
Tablet	227.3	14.60%	406.8	16.50%	78.90%
Smartphone	1,013.20	65.10%	1,733.90	70.50%	71.10%
Total	1,556	100%	2,460.50	100%	58.10%

Source: International Data Corporation (IDC), 11 Sep 2013, Tablet Shipments Forecast to Top Total PC Shipments in the Fourth Quarter of 2013 and Annually by 2015, According to IDC, Press Release in IDC Official Home Page. [online] 11 Sep 2013 Available at: <<http://www.idc.com/getdoc.jsp?containerId=prUS24314413>>

● **Bargaining power of suppliers:**

As the analysis above, one of the characteristics in IT industry is highly integration supply chain. Nearly all the main parts OEM suppliers, such like Intel(CPU),Microsoft(Software), Samsung (HDD, Memory, Display) have a strong influence on the market. These enterprises have been in the international market for a long period in the PC industry value chain, and living in a monopoly position. They have mastered the core technology of the industry, conducted strong product pricing. With the rapid expansion of Lenovo in worldwide market, the overall size of its bargaining power between the suppliers has been enhanced than before. However, in order to achieve a lower purchase price than competitors, it is necessary to continuously enhance the competitive position and strengthen strategic cooperation with upstream suppliers

● **Bargaining power of buyers:**

According to the size, PC industry customers are divided into large enterprise, small and medium enterprise, consumer customers. Large corporate customers, such as government, education, banking, insurance clients are usually have large amount of purchase with high profit, having strong affect of the procurement of other industrial customers. Facing with the choice of many PC vendors in the IT market, they have greater bargaining power. They

generally use bidding, decide on the best PC suppliers, who has the best product quality, the best service but with the lowest price. SME customers usually are the scale of less than 1,000 enterprises. Such enterprises have broad market base, scattered locations, limited funding, and fragmented procurement. In recent years, small and medium enterprises as a backbone of the economy have sprung up everywhere, each country gave varying degrees of support policies, PC manufacturers are also conducting strategic plan for SME customers, such as designing specific product line and services. Therefore, SMEs start to show much more bargaining power than before. The consumer customer market is the largest and most diversified characteristics groups. They are the fastest information capturing predictors. The intensive competition in the industry and high degree of product homogeneity dramatically increased the awareness and abilities of consumer customers in the product comparison and price bargaining. So many choices and minimal switching costs enable the customers not to be typically "locked in" to one firm. Therefore how to make a suitable product and price strategy according to different customer segment is a critical challenge for the companies' managers.

4.2.3 External Factors Evaluation Matrix

According to the external environment analysis above, we can draw the External Factors Evaluation Matrix³⁰(Figure 4.2.3.1) to deeply analyze the quantitative difference of the major external opportunities and threads that Lenovo faced together with its main competitors HP& Dell, which can provide a more reliable quantitative basis for future strategic choices for Lenovo's international operations.

³⁰ Fred R. David.2013.*Strategic Management: A Competitive Advantage Approach, Concepts and Cases*. 14 Edition, New Jersey. Pearson Education,Inc.2009. Page 80. ISBN 13: 9780132664233

Figure 4.2.3.1 Lenovo External Factors Evaluation Matrix

	Keyfacts	Weight	Lenovo		HP		Dell	
			Score	Weighted Score	Score	Weighted Score	Score	Weighted Score
Opportunities	1.The economy of developed country starts to be recovery from the global financial crisis	0.05	3	0.15	4	0.2	4	0.2
	2.Developing country still have relative higher growth rate of economy	0.07	4	0.28	3	0.21	3	0.21
	3.Favorable Policies in China Market	0.06	4	0.24	3	0.18	3	0.18
	4.Strong competitive position in industry	0.15	4	0.6	4	0.6	3	0.45
	5.Diversified consumer preferences	0.08	4	0.32	4	0.32	4	0.32
	6.Mobile product(tablet, smartphone) demand increase	0.12	4	0.48	3	0.36	2	0.24
	7.E-commerce opportunity	0.06	3	0.18	3	0.18	4	0.24
	8.Women and Yong generation	0.04	4	0.16	4	0.16	4	0.16
	Weighted Score	0.63		2.41		2.21		2
Threat	1.Industry decline trend	0.15	1	0.15	1	0.15	1	0.15
	2.intensive competition and price war	0.10	2	0.2	2	0.2	2	0.2
	3.Strong bargaining power of consumer	0.03	2	0.06	2	0.06	2	0.06
	4.High integration of supply chain	0.03	2	0.06	2	0.06	1	0.03
	5.product homogeneity and threat of alternatives	0.06	2	0.12	1	0.06	1	0.06
	Weighted Score	0.37		0.41		0.41		0.41
poor(1),below average (2),average(3),superior(4)								
Total Score			1.00	2.82	2.62	2.41		

As can be seen from External Factor Evaluation Matrix, the greatest opportunities for Lenovo will be exist in mobile product, diversified consumer preference and developing country and its domestic policy. Therefore Lenovo must take full use of these opportunities to improve their competitiveness in product innovation, break through mobile business to lead in the future market.

4.3 Analysis of internal environment

4.3.1 Competitiveness of value chain analysis

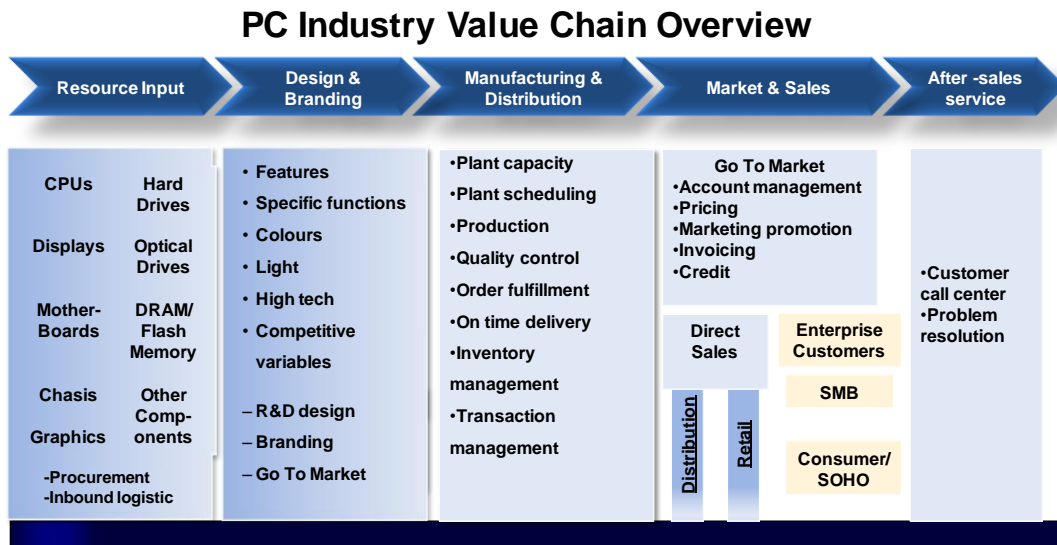
A value chain constitution of corporate status and its position in the value chain of industry are the key factors of identifying whether a company has strong competitiveness. If a company's main activities in the value chain required to invest a minimum of support activities under the premise and it can still get huge profits, or if the company's core business is in the highest stage (in the industry upstream suppliers) of the industrial value chain, it can be said that the company is more competitive than the other competitors.

Therefore, the analysis of the Lenovo Group corporate value chain and its position in the industry value chain in the international competition can clearly help to identify which activities are the most valuable to the firm and which ones could be improved to provide competitive advantage. In other words, by looking into internal activities, the analysis reveals where a firm's competitive advantages or disadvantages are.

- **PC Industry Value Chain Overview**

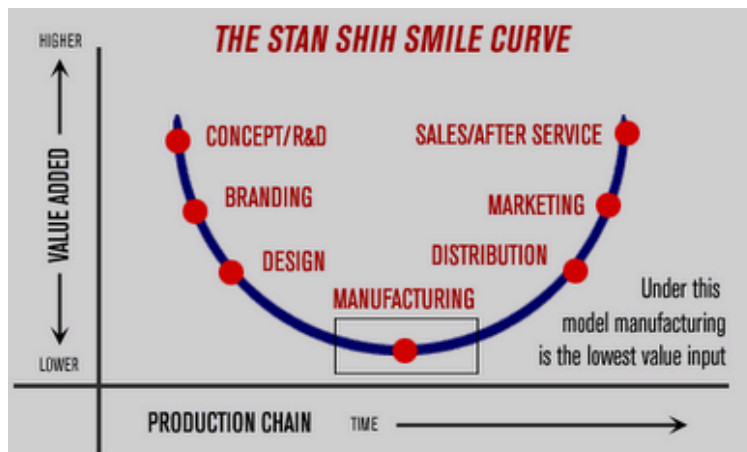
According to Porter's Value Chain Model, the primary activities of the value chain of the PC industry can be comprised of five key stages: Resource input, Design& Branding, Manufacturing& Distribution, Market&Sales, After-Sales Services (See figure 4.3.1.1). Firstly, from the upward suppliers, PC companies buy the key components (CPU, Display, Graphics, Hard Disk Driver, Memory and etc.).Secondly, according to the latest key parts specification, PC companies design their own product features, colors, competitive variables to create product roadmap and brand the new product for going to the market. Thirdly manufacturing and distribution, which include the key activities of scheduling the production, producing, quality control, order fulfillment, on time delivery, inventory management and transition management. Fourth is marketing and sales. The key activities include account management, product pricing, promotion, invoicing and credit management. PC companies usually use three kinds of business model (direct sales, distribution, and retail) to cover different customer segments (Enterprises, Small and Middle Enterprises, Personal consumers).Last stage is after-sales service. In this process, companies mainly deal with the customer claim and solve the product quality or services' problems. Therefore the value chain of PC companies connects with the value chain of suppliers, distributors, customers and forms the whole industry value chain.

Figure 4.3.1.1 PC Industry Value Chain Overview



In general, except identifying the core business, an industry value chain analysis should also consider the value-adding potentials of different components of the value chain and the companies' capabilities to match it. According to "A Smiling Curve"³¹ (figure 4.3.1.2) which is proposed by Stan Shih, the founder of Acer in 1992, in the personal computer industry, both ends of the value chain command higher values added to the product than the middle part of the value chain. It means R&D, Branding, Design, Distribution, Marketing&sales, Service are the high value added activities to the company's performance in PC industry. On the contrary, assembly line production is the minimum value stage.

Figure 4.3.1.2 PC Industry Smile Curve



³¹ Smiling Curve. Available at: <http://en.wikipedia.org/wiki/Smiling_curve>

● **Top 5 PC Companies Value Chain Comparison**

If we go deeply to the primary activities of value chain of the world top 5 PC companies we can see how the companies make the computer product and sell it to the customers and how difference they are doing. What are the competitive advantages and disadvantages of Lenovo compared to its competitors in their primary value chain activities.

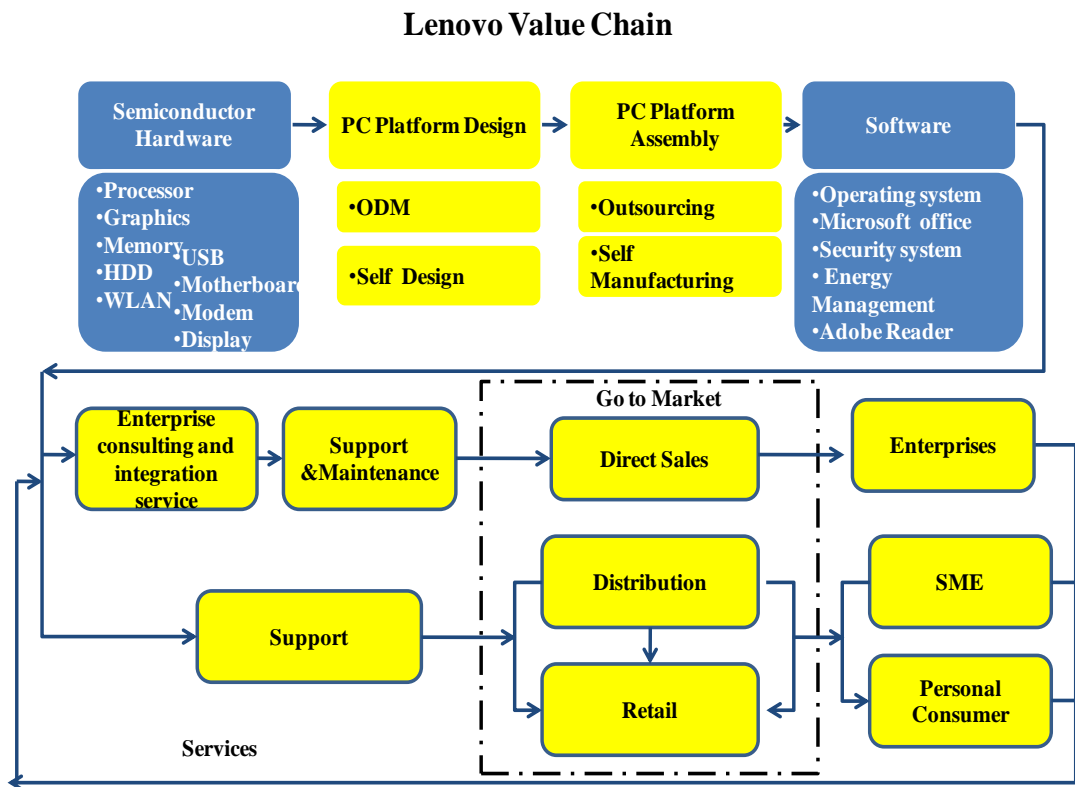
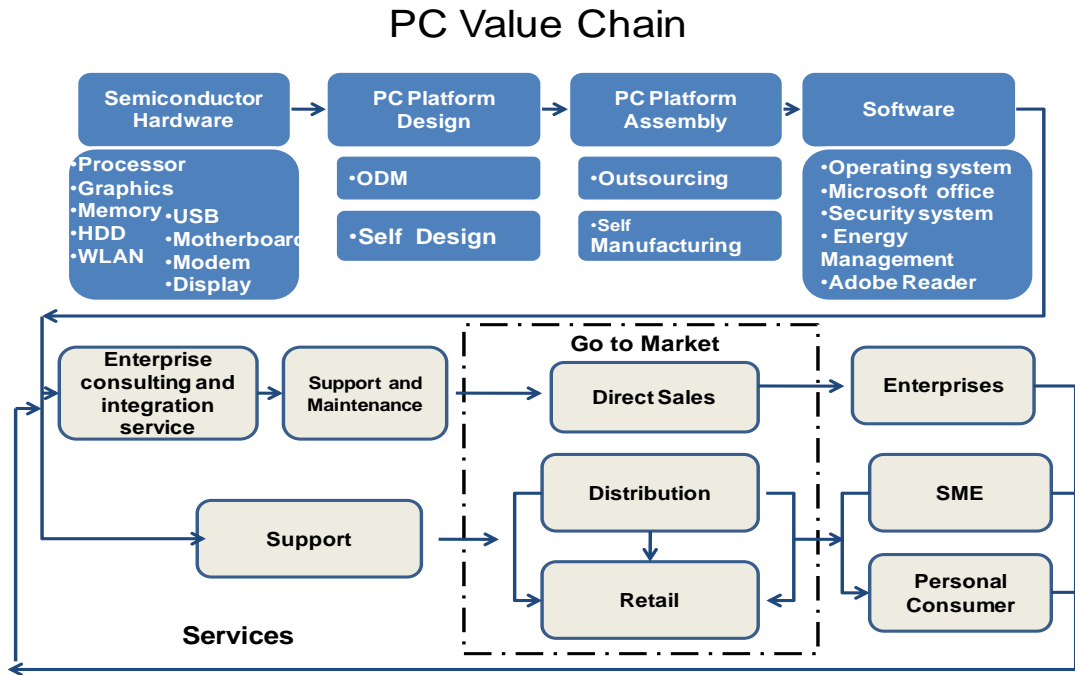
As the followed graphs (figure 4.3.1.3) show, firstly, for hardware, all PC companies directly purchase key components such like CUP, HDD, Memory from OEM (Original Equipment Manufacturer). For software, all PC companies have the similar software as well as face the same customers. Therefore, the competitive advantages or disadvantages are focusing on platform design, manufacturing control and marketing&sales. Some PC companies, such like HP, DELL, ACER, usually outsourcing their product design to ODM (Original Design Manufacturer). For the new product, PC Companies provide the general design framework. Then, ODM is responsible for detailed design and production. For the traditional upgraded product or middle-low-end product, the ODM will design and produce directly without any input from the PC companies. Therefore, nearly 90 percent of global notebook computers more or less are handled through the hands of these foundries. However, as more and more consumers turn to Smartphone and tablet PCs, the global PC industry is experiencing the most severe winter for decades. Notebook homogeneity—the same design and functionality brings a great resistance to selling PC products. From Apple's success, we can see that self-designed products will largely farewell homogenization, realize a real innovation. Among the TOP 5 PC companies, Lenovo, ASUS has a strong R & D capabilities, and a large portion of their products are independently developed. Through independent design and development, on the one hand they can better control the R & D, engineer, develop a specific, market-leading star product, on the other hand through the in-house self-manufacturing, they can better control product quality and ensure on-time delivery.

Secondly, in the marketing and sales aspects, at present, there are two main business models are widely used in the global PC market: Direct sales model and Distribution model. The core characteristic of distribution model is that product delivered to the end user through several distribution ties. Distribution has the widest sales web and service

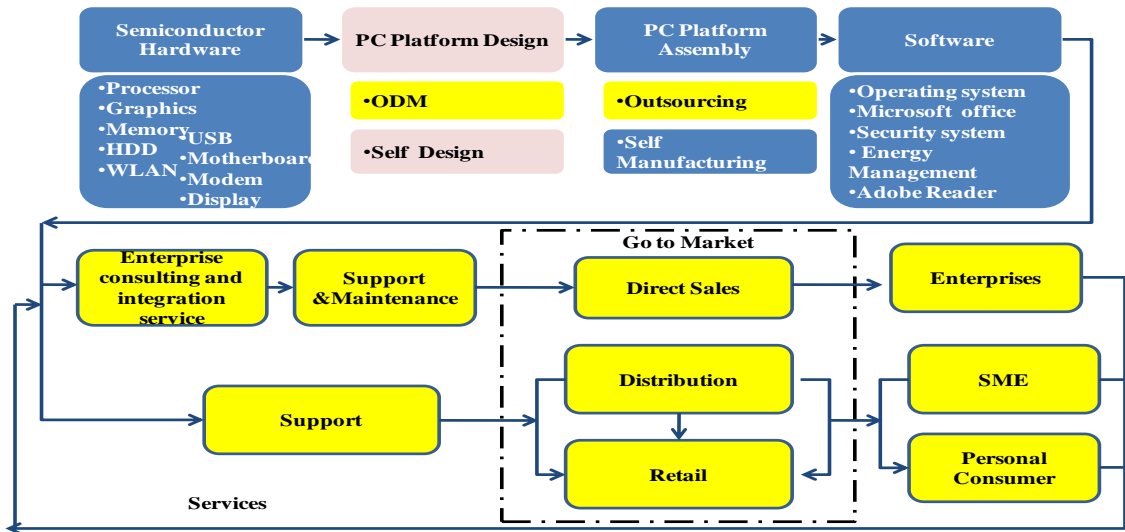
web to cover the customer everywhere. The most advantage of this model is that the PC company can easily enter into the new markets and get the broadest customer base through different channels. Direct sales model also known as the low cost model. The main features are: sales accept orders via telephone and internet, assembly workers are assembled according to the needs of end users, and sent directly to the users. This model establishes direct contact with customers. Two models both have advantages and disadvantages. Among top 5 PC companies, Dell is well known by its direct sales model and mainly covers enterprises and SME customers. Acer, Asus mainly focus on consumer market. Lenovo is well known by its specific dual business model in the industry. The company divided its business into two models—relationship business model and transaction business model. Relationship model covers the large enterprise customers (such as government, education, banking, insurance clients). Transaction modal covers the small&medium enterprise and consumer customers. The organization structures and core business processes are also divided according to these two modal. For example, the marketing&sales, the product division and GSC (Global Supply Chain) are all divided into Relationship unit and Transaction unit to provide these two model with specific sales, product line and GSC support. Therefore they can penetrate into the different market&customer niches with providing the best product and service. Lenovo's dual business model sets its products, services and business process around customer needs and market segmentation. This tightly integrated, end to end model allows the Group to quickly react to market dynamics and changes in the back-end. It has been showed as a quite successful model during 2004 that competed with Dell and other competitors in Chinese market. Thus, from 2009 Lenovo started to duplicate this model all over the world.

One of the main reasons that Lenovo's dual-model can work well is that they have the absolute advantage of the distribution network in the world. In domestic market, Lenovo has the largest number of the highest quality distributors and the largest number of retail stores on the best position which covers all cities and rural market in China. In international market, based on the original IBM distribution web, Lenovo rapidly expanded their business to more than 200 countries.

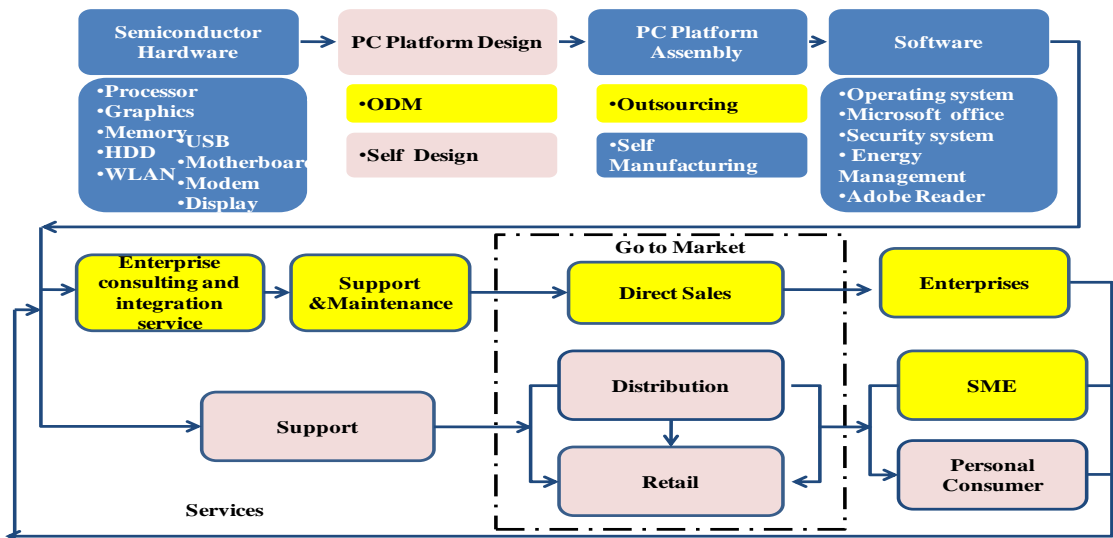
Figure 4.3.1.3 PC Value Chain Comparison



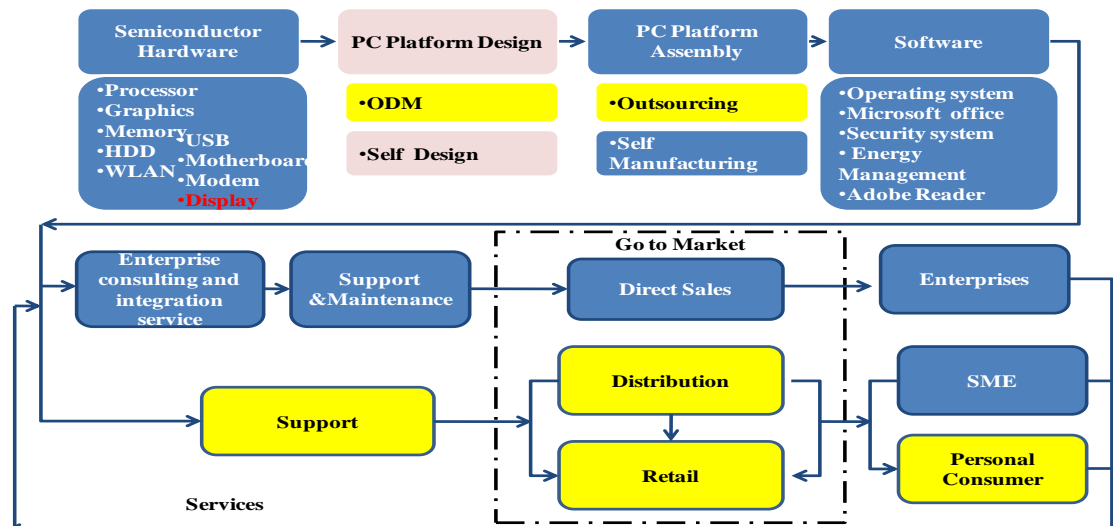
HP Value Chain

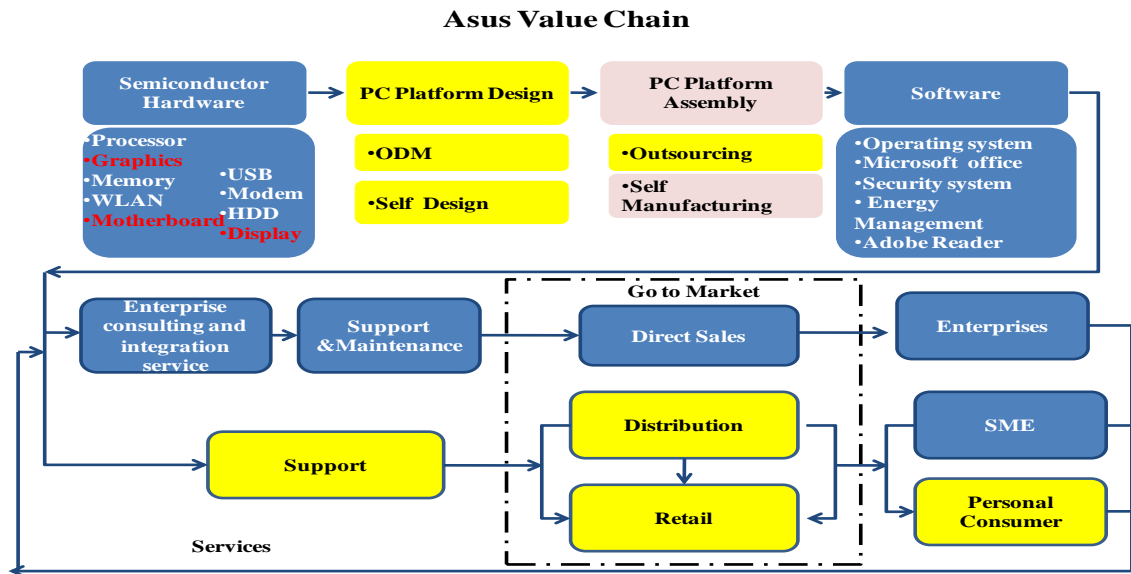


Dell Value Chain



Acer Value Chain

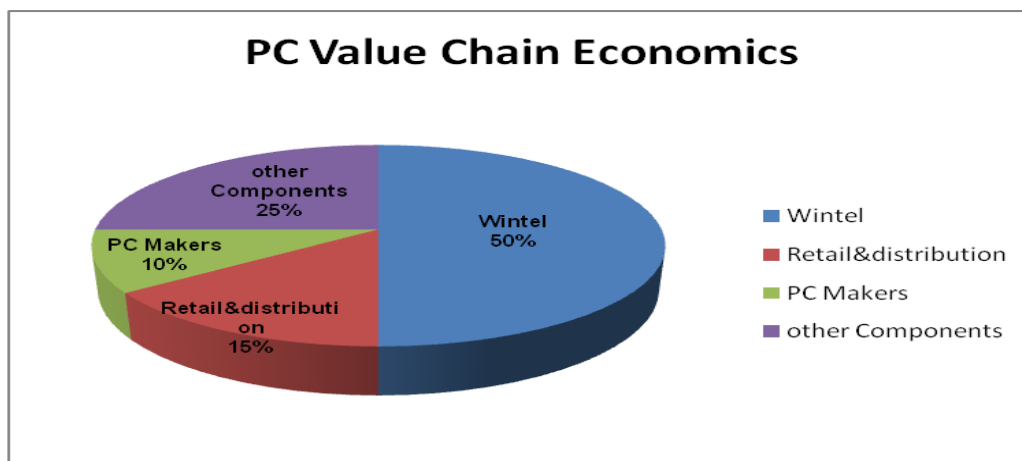




● **PC Value Chain Economics**

PC as high-tech electronic products leads to the social progress. In the eyes of many consumers it was once considered to be high consumption, high-margin products. Then, after analyzing the value chain above, we clearly found in the high value-added patent / technology stage, PC manufacturers do not have the advantage, and they are more dependent on the upstream OEM manufacturers' technology, development and downstream channel's marketing and sales. So this largely squeezes the profit margins of PC makers. As the followed chart(figure 4.3.1.4), the upstream Wintel CPU, operating system account for 50% of the profits, the other component accounts for 25% of the profits, and there need to be left at least 15% of the profits to the distribution and retail channels. So, PC makers only have 10% left.

Figure 4.3.1.4 PC Value Chain Economics



Currently Lenovo's PC business has covered the upstream, middle stream and downstream of the industry, but on the distribution of the ratio, the association's business Also mainly in the middle and downstream of the industry. Therefore, in order to get more international competitive advantages and increase profitability of their PC products, it must, on one hand closely connection between production control, technology development, marketing & sales, on the other hand ,strengthen research and development of core technologies making Lenovo develop toward a higher value chain.

4.3.2 Resources Analysis

- **Financial Resources:**

From the followed graph (Figure 4.3.2.1 to Figure 4.3.2.3) of Lenovo 5 years income statement which is showed in the company's FY2012/13 annual report, we can know that Lenovo has a consistently strong growth in revenue, profit, earning per share after 2009.And For the fiscal year ended March 31, 2013, the Group's consolidated revenue increased by 15 percent year-on year to record-high US\$33,873 million. Under personal technology products and services, revenue of the Group's PC and related business were US\$29,749 million, representing a year-on-year increase of 9 percent; whilst the revenue of MIDH (Mobile , Internet , Digital&Home) business, which was largely from Smartphone revenue in China, increased 105 percent year on-year to US\$3,039 million.³² The company's MIDH business just started in the global market, there will be a great market in the future.

Lenovo has been controlling the domestic market for more than 10 years and 43% of the whole group revenue comes from China. North America and EMEA (Europe, Middle East and Africa) are still its shortcoming that NA only contribute 15% of the group revenue and 20% of the group revenue comes from EMEA.

In the meanwhile HP, as the strongest competitors of Lenovo, falls into great difficulties in recent years. Its financial performance is much worse than Lenovo. HP continuously lost

³² *Lenovo FY 2012/13 Annual Report*. Available at:
http://www.lenovo.com/ww/lenovo/annual_interim_report.html

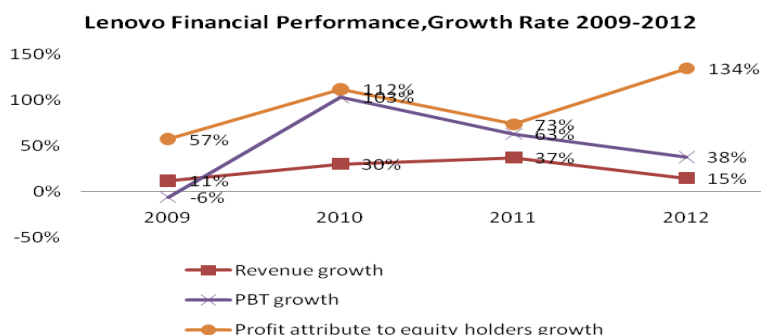
its business from 2011³³(Figure 4.3.2.4and Figure 4.3.2.5).And in 2012 HP entered into the worst years in its history. Sales declining, merger and acquisition failing, asset written-down, and the fair value of HP fell from more than \$100 billion in 2010 to historic lows of \$23.5 billion. Many critical businesses are impacted by the competitors. The new CEO Meg Whitman implemented a series of restructuring measures in 2012 and by the end of 2013, the cash situation of HP is improved that net operating cash flow increase \$ 1.6 billion. However, under the decline of the industry climate and the intensive competition, it is not easy for HP to be completely out of the wood.

Figure 4.3.2.1 Lenovo Five-Year Financial Summary (2008-2012)

	FY2013	FY2012	FY2011	FY2010	FY2009
US\$ in millions, except per share amounts					
Revenue	33,873	29,574	21,594	16,604	14,900
Profit/(Loss)before taxation	801	582	357	176	(187)
Taxation	(169)	(107)	(84)	(46)	(38)
Profit/(Loss)for the year	631	475	273	129	(226)
Profit/(Loss)attribute to:					
Equity holders of the Company	635	472	273	129	(226)
Non-controlling interests	(3)	2	-	-	-
	631	475	273	129	(226)
Earnings/(Loss)per share					
Basic(US cents)	6.16	4.67	2.84	1.42	(2.56)
Diluted(US cents)	6.07	4.57	2.73	1.33	(2.56)

Source: *Lenovo FY 2012/13 Annual Report*. Page 184.Available at: http://www.lenovo.com/ww/lenovo/annual_interim_report.html

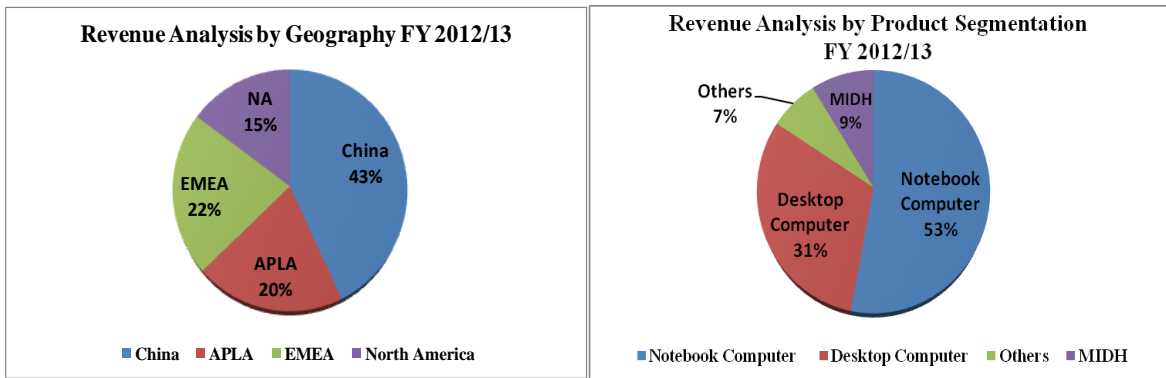
Figure 4.3.2.2 Lenovo Financial Performance, Growth Rate (2009-2012)



Source: *Lenovo FY 2012/13 Annual Report*. Page 184.Available at: http://www.lenovo.com/ww/lenovo/annual_interim_report.html

³³ *HP 2013 Annual Report*. Available at <http://h30261.www3.hp.com/phoenix.zhtml?c=71087&p=irol-reportsannual>

Figure 4.3.2.3 Lenovo Revenue Analysis by Geos and Product Segmentation



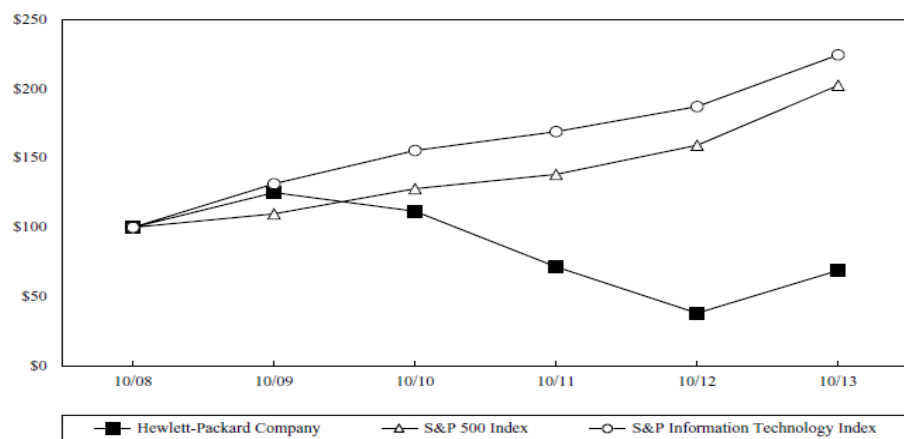
Source: *Lenovo FY 2012/13 Annual Report*. Page 17-19. Available at: http://www.lenovo.com/ww/lenovo/annual_interim_report.html

Figure 4.3.2.4 HP Selected Financial Data,(2008-2012)

	FY2013	FY2012	FY2011	FY2010	FY2009
US\$ in millions, except per share amounts					
Revenue	112,298	120,357	127,245	126,033	114,552
Earnings/(Loss) from operations	7,131	(11,057)	9,677	11,479	10,136
Net earnings(Loss)	5,113	(12,650)	7,074	8,761	7,660
Net earnings(Loss) per share:					
Basic	2.64	(6.41)	3.38	3.78	3.21
Diluted(US cents)	2.62	(6.41)	3.32	3.69	3.14
Cash dividends declared per share	0.55	0.50	0.40	0.32	0.32
At year-end:					
Total assets	105,676	108,768	129,517	124,503	114,799
Long-term debt	16,608	21,789	22,551	15,258	13,980
Total debt	22,587	28,436	30,634	22,304	15,830

Source: *HP 2013 Annual Report*. Page 39 Available at: <http://h30261.www3.hp.com/phoenix.zhtml?c=71087&p=irol-reportsannual>

Figure 4.3.2.5 HP Stock Performance Graph and Cumulative Total Return



	10/08	10/09	10/10	10/11	10/12	10/13
Hewlett-Packard Company	100.00	125.14	111.62	71.55	38.11	68.95
S&P 500 Index	100.00	109.79	127.92	138.26	159.27	202.54
S&P Information Technology Index	100.00	131.50	155.47	169.10	187.21	224.49

Source: *HP 2013 Annual Report*. Page 38 . Available at <http://h30261.www3.hp.com/phoenix.zhtml?c=71087&p=irol-reportsannual>

- **Technology and innovation:**

As the leading company in industry, Lenovo puts technology and innovation as one of its most important core value of the company. It owns the greatest track record for innovation in the PC industry and remains committed to innovation in its products and technology. Lenovo operates 46 world-class labs, including research centers in Yokohama, Japan; Beijing, Shanghai, Wuhan and Shenzhen, China; and Morrisville, North Carolina, U.S. Lenovo's innovation strategy is based on a two-tiered approach to solving real-world customer problems: 1) Focus the majority of development on ideas that can be brought to market within 24 months. 2) Invest longer term in research targeting "game changing" big plays. Through the work of its world-class researchers, Lenovo has won hundreds of technological and design awards and more than 6,500 globally recognized patents. In 2009 and 2010, Lenovo was selected by Bloomberg Businessweek as one of the 50 most innovative companies in the world and was twice selected by the World Brand Lab as one of the "Top 500 global brands". In 2013 CES show, Lenovo's innovative products obtained 53 CES Innovation Award, and was awarded as "the year's most innovative enterprise of CES" by *Obi-Geeks*. Even more, as the market has changed, Lenovo has also transformed itself for the PC+ era. For example, Lenovo was the clear leader in defining the new "convertible" PC space. Products like Yoga showcased innovation in combining the best of PC and tablet form factors to capitalize on the launch of Windows 8, which provide a flip-and-fold design to perform a 360 degree rotation with their unique dual-hinge. Also Lenovo created a new category with Horizon table PC, which not only captured attention and many prestigious awards, but also demonstrates the company's ability to drive significant innovation in PCs and create new markets where they can generate growth and establish a leadership position.

However, the competition on technology and innovation will be never end. Lenovo is still far away from those most high innovation companies in the world. From the followed "The Top 20 R&D Spenders"³⁴ (Figure 4.3.2.6) we can see the most famous companies in all

³⁴ Barry Jaruzelski, John Loehr, and Richard Holman, October 22, 2013. The Global Innovation 1000: Navigating the Digital Future. In *Strategy+Business* [online]. October 22, 2013. Available at: <<http://www.strategy-business.com/article/00221?pg=all>>

kinds industries are focusing on R&D as well. The correlated companies with Lenovo, such like Samsung, Intel, Microsoft, IBM, Sony, their R&D investment account for 6% to 19% of the revenue in 2013. While, if we look at the spending of Lenovo, HP, Dell (figure 4.3.2.7), we can find that compared with HP and Dell, Lenovo only spent USD 624 million which is account for 1.8% of revenue in 2012, less than HP and Dell. Therefore Lenovo still need to invest more on its R&D development in the future.

Figure 4.3.2.6 Top 20 R&D Spenders in The World

Rank	Company	US\$Billion	As a % of Revenue	Industry
1	Volkswagen	\$11.4	4.6%	Auto
2	Samsung	\$10.4	5.8%	Computing and Electronics
3	Roche Holding	\$10.2	21.0%	Healthcare
4	Intel	\$10.1	19.0%	Computing and Electronics
5	Microsoft	\$9.8	13.3%	Software and Internet
6	Toyota	\$9.8	3.7%	Auto
7	Novartis	\$9.3	16.5%	Healthcare
8	Merck	\$8.2	17.3%	Healthcare
9	Pfizer	\$7.9	13.3%	Healthcare
10	Johnson&Johnson	\$7.7	11.4%	Healthcare
11	General Motors	\$7.4	4.8%	Auto
12	Google	\$6.8	13.5%	Software and Internet
13	Honda	\$6.8	5.7%	Auto
14	Daimler	\$6.6	4.5%	Auto
15	Sanofi	\$6.3	14.1%	Healthcare
16	IBM	\$6.3	6.0%	Computing and Electronics
17	GlaxoSmithkline	\$6.3	15.0%	Healthcare
18	Nokia	\$6.1	15.8%	Computing and Electronics
19	Panasonic	\$6.1	6.9%	Computing and Electronics
20	Sony	\$5.7	7.0%	Computing and Electronics

Source: Barry Jaruzelski, John Loehr, and Richard Holman ,October 22, 2013. The Global Innovation 1000: Navigating the Digital Future .In *Strtegy+Business* [online]. October 22, 2013.Available at:<<http://www.strategy-business.com/article/00221?pg=all>>

Figure 4.3.2.7 Lenovo,HP Dell R&D Expense in 2012

Companies	2012			2011			2012 R&D growth rate
	R&D expense (in million)	Revenue (in million)	R&D/ Revenue	R&D expense	Revenue	R&D/ Revenue	
Lenovo	624	33,873	1.8%	453	29,574	1.5%	38%
HP	3,399	120,357	2.8%	3,254	127,245	2.6%	4%
Dell	1,072	56,940	1.9%	856	62,071	1.4%	25%

Source: *HP 2013 Annual Report. Consolidated Statement of Earning.* Page 88 .*Lenovo FY 2012/13 Annual Report.Consolidated Income Statement.* Page 112.

- **Brand:**

In domestic market, Lenovo as the biggest local PC company is well-known and has got the greatest reputation by all customer. In global market, Think product as the IBM PC

product before is highly recognized as well. But there is still one significant problem that stopped the company's growth outside China. That is, Think product is recognized and widely purchased in the commercial markets for its high-profile, high stability, high price. And it cannot well satisfy the consumer customers which are more attracted by the fashion style, portable and low price. Therefore the image of Think product is more positioned as a commercial product. In the mean while, the company's consumer product line Lenovo brand which is widely accepted in China still has low-awareness in other countries. Thus, how to get growth on Lenovo brand outside China is a great challenge for the company's next growth.

- **Human Resources:**

Lenovo in China is well known in its excellent management philosophy of “decide the strategy, take team, lead team” which was created by its founder Chuanzhi Liu. To attract, develop, and cultivate talent is one of the core value and strategy of the company. Through a series successful mergers&acquisitions, Lenovo obtains lots of executive managers and professional talents that have international experience and leading technology. For example, in 2005,Lenovo acquired former IBM PC division, all employees, including management team and R&D department were transferred and maintained in Lenovo, In 2013, Lenovo completed several key M&A activities: CCE in Brazil, for consumer technology products; EMC in the U.S. in servers and storage; Stoneware in the U.S. in cloud computing; IBM X86 Server business; Motorola Mobility. All these transactions contribute great for Lenovo's human resources development. Today, Lenovo has more than 3,200 engineers, researchers and scientists. And in company's top management team, 50% are the original Lenovo's executive managers and 50% are the most excellent people that come from IBM, Dell, Acer. Also all these successful transactions show the great strategic investments and strategic partnerships capability of Lenovo's management team. For example, in the case of acquiring IBM PC division, IBM purchased \$ 600 million of Lenovo shares; in the case of acquiring IBM X86 server business, IBM purchased \$ 182 million of Lenovo shares; in the case of acquiring Motorola Mobility, Google purchased \$ 750 million of Lenovo shares. All these cases showed the great confidence of Lenovo's partnership, also proved the capability of Lenovo's management team.

- **Organizational resources:**

As an innovative enterprise, organizational structure changing timely is also one of Lenovo's core competitiveness. Since 2004, every strategic change is accompanied with organizational adjustments. For example, in 2009, Lenovo divided its business into two groups—mature&emerging markets. In January,2012,Lenovo restructured its organization into four global business region , namely China market , North America , EMEA market (Europe, Middle East and Africa) and Asia-Pacific - Latin American(APLA) markets . In April 1, 2013, Lenovo established two new end-to- end product groups: Lenovo product group and Think product group, which undertake the tasks of R&D, production, business model design, and building competitiveness in all steps of value chain. In January, 2014, Lenovo announced two major mergers and acquisitions, one is picked up IBM's server business for \$ 2.3 billion, and another one is purchasing Motorola Mobility from Google for \$ 2.91 billion. Shortly after, Lenovo announced a new organizational structure adjustment of changing two product groups into four new relatively independent business groups: 1.PC Business Group (including the Lenovo brand and Think brand); 2.Mobile Business Group (Smartphones, Tablets, Smart TVs); 3.Enterprise business group (including servers and storage); 4.Cloud services business group (including Android and Windows software opportunity). The new organizational structure fully reflects the future strategic development intention on MIDH business, server's storage and cloud services of Lenovo.

- **Culture:**

Culture integration is a big problem for a global company especially for a Chinese company. How to apply Lenovo's Chinese culture to fit the different culture and different situation in every other country? In the road of globalization, Lenovo took culture development as one of the most important strategy. It has developed its culture for several times after acquiring IBM PC division in order to fit the new situation. Today its special Lenovo culture which is named as "Lenovo way" use a simple "5P" directions influent all employees in the company. They are:

- ✓ "We PLAN before we pledge;
- ✓ We PERFORM as we promise;

- ✓ We PRIORITYZE the company first;
- ✓ We PRACTICE improving everyday;
- ✓ We PIONEER new ideas”.

This 5P is centered around a simple but powerful value of “**We do what we say. We own what we do**”. These values resulted in an enterprise wide set of behaviors that has built a culture of accountability, commitment, trust and excellence. It has created a cohesive and consistent approach to its work, its company, its products, its marketplace and its people and has become a cornerstone of its success.

4.3.3 Internal Factors Evaluation (IFE) Matrix

According to the internal environment analysis above, we can draw the Internal Factors Evaluation Matrix³⁵ (Figure 4.3.3.1) to deeply analyze the quantitative difference of the major internal strengths and internal weaknesses between Lenovo and its main competitors HP and Dell, which can provide a more reliable quantitative basis for future strategic choice for Lenovo international operations.

³⁵ Fred R. David.2013.*Strategic Management: A Competitive Advantage Approach, Concepts and Cases*. 14 Edition, New Jersey. Pearson Education,Inc.2009. Page 122. ISBN 13: 94047404740474

Figure 4.3.3.1 Lenovo Internal Factors Evaluation(IFE) Matrix

	Key facts	Weight	Lenovo		HP		Dell	
			Score	Weighted Score	Score	Weighted Score	Score	Weighted Score
Advantages	1.Good Financial situation	0.07	4	0.28	1	0.07	3	0.21
	2.High R&D capability	0.10	4	0.4	4	0.4	4	0.4
	3.Product Diversification	0.18	4	0.72	4	0.72	3	0.54
	4.Variable& experienced management team and technique talents	0.10	4	0.4	4	0.4	4	0.4
	5.Good brand reputation	0.06	3	0.18	4	0.24	3	0.18
	6.Service capability	0.05	4	0.2	4	0.2	3	0.15
	7.Excellent business model to cover all customer in different geography	0.10	4	0.4	3	0.3	3	0.3
	Weighted Score	0.66		2.58		2.33		2.18
Disadvantages	1.Lack of core technology	0.12	1	0.12	1	0.12	1	0.12
	2.High dependence on traditional PC products	0.10	1	0.1	2	0.2	1	0.1
	3.Not sufficient investment in R&D	0.12	1	0.12	1	0.12	1	0.12
		Weighted Score	0.34		0.34		0.44	
major weakness(1),minor (2),minor strength(3),major strength(4)								
Total Score		1		2.92		2.77		2.52

As can be seen from Internal Factor Evaluation Matrix, Lenovo has the highest weighted score of 2.92 which imply that the company has a very strong competitive advantage in the industry, especially in current financial situation, which is due to its continuous performance growth. In the meanwhile, in order to maintain its leading position in the industry, Lenovo must break through the shortcoming in technology, innovation, product and business diversification.

4.4 Conclusion

From the analysis of this section, we can see that Lenovo as a new star in the PC industry gained the leading position in just a few years. This so admirable achievement, on the one hand dues to the rapid growth of IT industry and favorable domestic political&economic environment, on the other hand more attributes to company’s timely, successful business strategy and continuously improvement of its competitiveness. However, this doesn’t mean that Lenovo can rest on its current achievement. Unstable world’s macro-environment, declining industry trends, change requirements of technical bottlenecks and intensified competition in the entire value chain, the existence of all these uncertain risk factors are

always challenging its leading position in the industry. Therefore, how could Lenovo get out of its technical bottlenecks, overcome these important risk factors, access to continuous development and growth will be an important direction of their future business strategy.

5 Discussion & Recommendation

Strategic thinking must be based on the deeply understanding of external and internal environment that the enterprise exists. Therefore this chapter will according to the results above and the principle of compliance with corporate vision and mission to extract the main opportunities&threats, strengths&weaknesses that Lenovo has, then, characterize the decision-making process and discuss the strategic scenarios for the next five years for Lenovo to provide valuable strategic options and recommendations for the sustainable development and growth in the future.

5.1 Review of Vision&Mission

By considering the vision statement of Lenovo, there are three main points that the company wants to reach. First is designing and producing the best product in the world. Second is having the “best” culture to attract more talent people. Third focuses on building to last and respectable business in the world. As for the first point, Lenovo has the higher quality and maximum sales product in PC industry. However, it doesn't mean it has the best computer product in the world. Lenovo still cannot escape from the dilemma of product homogeneity. Compared to Apple, Samsung, Google such well-known companies for their technology and innovation, Lenovo is facing with great challenges of breaking through technological and thinking box. From cultural stand point, highly integrated, strong executed corporate culture becomes an important tool for Lenovo to be out of the woods in the past. However, facing with a series new mergers and acquisitions, diversified development, we are not able to accurate predict what and how much challenges on its current culture Lenovo will meet in the future. From corporate sustainability and reputation point of view, a good financial situation, the strongest competitive ability, excellent strategic and operational management are the core elements to achieve this goal. Today, Lenovo has relative competitive advantages in these areas, but the downward trend in the industry and the lower profit margins challenge Lenovo to find the new growth points in order to maintain its market position and sustainability.

5.2 SWOT Analysis

By considering the opportunities, threats, strengths, weaknesses and the detailed qualitative and quantitative analysis of the Lenovo internal and external environment above, we can summarize the SWOT matrix of Lenovo, which consequently can lead us to formulate more targeted strategic options for Lenovo's future success.

Strengths

As the largest and leading PC manufacturers in the world, Lenovo benefits a lot from its strong market position, especially in the Asia-Pacific region, such as lower cost, good company reputation, well-known Think product brand, high R&D capability. Except these, Lenovo has a very strong business model which has been proved to be a fundamental and one of the most important factors that help its business better cover all the customers in most of the regions. Also its good financial situation and variable experienced management team, as well as the technique talents contribute a lot for the future strategic development, including the business expanding, vertical integration, and diversification.

Weaknesses

Today, there are two most important shortcomings that Lenovo struggles with, one is heavily dependent on traditional PC manufacturing which has a low margin and is in the decreasing trend of PC prices. Compared to its competitors HP and Dell, that both have lots of other diversified business, like service, software, IT infrastructure, it is a very critical risk for Lenovo while facing with the downward trend of PC products. Therefore, lacking of core technology, less investment on R&D, weakness in its mobile business could be very urgent points that Lenovo need improve. Another shortcoming exists in its traditional PC business. There are still lots of places where Lenovo can be better. For example, Lenovo is still behind its rivals of HP&Dell in US&European regions; Its Lenovo-brand which covers the consumer market is still not well-known and accepted by the consumer in developed economies.

Opportunities

Compared to the last five years, the new economic forecast shows the recovery trend for the future. It is a good message that could improve the confidence of consumer, as well as enterprises. Also the continuous changing on customer demands, such as mobile product

preference, E-commerce rising, women&new generation demand, all these provide the great opportunities for Lenovo's future development.

Threats

With the downward trend in the industry, the competition will become more and more intensive. Continuous price war threatens to further erode the Lenovo's margins and reduce its market share, stronger bargaining power of customers and suppliers require the company to must be the strongest. Also the product imitation and alternatives are an endless topic and threat that Lenovo must face in this rapidly changing industry.

The summarized SWOT information is showed as the followed graph (Figure 5.2.1):

Figure 5.2.1 Lenovo SWOT Matrix

Internal Factors	Strengths-S	Weaknesses-W
	S1.Strong competitive worldwide market position S2.Stable leading position in domestic& emerging market S3.Good financial situation S4.High reputation on Think brand S5.High R&D capability S6.Variable&experienced management team and technique talents S7.Excellent business model	W1. High dependence on PC products W2. Weakness in the mobile business W3.Lack of core technology W4.Not sufficient investment in R&D W5.Low market share in U.S. & Europe W6.Lenovo Brand is not well-known and accepted in developed economies
External Factors	SO Strategies	WO Strategies
	O1.Recovery of developed economies O2.Higher growth rate of developing economies O3.Favorable policies in China O4.Diversified consumer preferences O5.Higher Mobile product demand O6.E-commerce opportunities O7.Women and New generation demand	1.Take use of the self-competitiveness of strong market position and Think brand awareness to grasp the conomic and political opportunities. (S1S2S4S6S7O1O2O3) 2.Explore potential market opportunity through high R&D capability and based on good financial situation; (S3S5O4O5O6O7)
Treats-T	ST Strategies	WT Strategies
	T1.PC Industry downward trend T2.Intensive competition and price war T3.Stronger bargaining power of consumer T4.High integration of supply chain T5.Product homogeneity T6.Threat of alternative products	1.Innovation on the whole value chain to lower cost and strengthen the competitiveness. (S5S6S7T1T2T3T4T5T6) 2.Concentric diversification (S5T5T6)

This SWOT matrix clearly summarized the analysis of external and internal environments we performed in the “result” section, also the Strengths-Opportunities strategies, Weaknesses-Strengths strategies, Strengths-Treats strategies, and Weakness-Treats strategies can be drawn from the opportunities, threats, strengths and weakness listed above, which will deeply described as the proposal of future strategic alternatives.

5.3 Proposal of Future Strategic Alternatives

This section aimed to formulate some valuable business strategies at the attempt of improving Lenovo’s current situation and reach the target of sustainable development. Based on the environment scanning and SWOT analysis above we can propose three strategic business alternatives.

Strategy 1: Innovation on the whole value chain

In the situation of intense competition and serious homogenization of PC industry, product innovation has become one of the most important goals that all manufacturers pursuit and compete. While relying solely on the product innovation is not enough, if a company wants to improve the international competitiveness and achieve long-term development. It must proceed innovation on the overall situation- innovate on product, technology, service, marketing, operations, management and all other stages of value chain to form a differentiated customer value that bring exceeded expectation of product value for the customer. Meanwhile, it can form company’s unique ‘innovation capability’ competitiveness.

- **Technological innovation to break through the core technology:**

Today, PC companies are in a troubled dilemma of innovation. All the companies release some of the so-called ‘new’ product every quarter, and even every month. However, when you closely study on the features of this ‘new’ product, you will find that they are only ‘adjusted one’ of the existing products, such as changing 2G memory to 4G, 500G hard drive to 1TB. While all the core technologies, such as appearance, function, application do not be changed or upgraded at all. This is the root of the homogeneity of PC product. Therefore, Lenovo must focus on breaking through the core technology that could be a

unique design with a refreshing change, or a super application integrated multiple functions. Just as Apple uses an approach that allows each new product at first to be a flash-in-the-pan, but then remain average to high sales by using incremental innovation, such as with the iPhone, iPod, and iPad (each has its initial ‘wow’ impact, but then users keep buying as they innovate annually.

- **Marketing innovation to improve brand value:**

To achieve penetration in various markets around the world, the brand awareness is one of the most important factors. Therefore marketing innovation is the essential strategy that Lenovo must consider. Firstly, the marketing strategy must be the combination of unification and diversification which means the marketing information around product features, technical concepts must be unified and regional promotion on product marketing and sales should carry out in an appropriate manner with considering regional characteristics, local culture, social customs to achieve a local process for a worldwide brand. Secondly, in addition to traditional advertising, star marketing, sales promotion activities, marketing innovation can use services-marketing, experiential marketing, knowledge marketing, emotional marketing, network marketing, green marketing and hunger marketing to achieve the promotion from a product, a brand to a social values.

- **Operational innovation to create the perfect supply chain:**

Dell's direct sales model brings its efficient Just-in-time supply chain management and low inventory, low-cost advantages. In the current dual-mode operation, the operational innovation of Lenovo can be proceeded from channel intelligent, processes visualization, real-time response, simplest interface, operational processes clarity, standardized channel behavior, personalized customer care, value-added services and so on. For example, building more efficient global IT management systems, moving logistics and manufacturing places closely to suppliers, docking with channels and suppliers' information systems.

- **Service innovation to create an excellent service system:**

The famous management expert Tom Peters said: "Only when company put the service in the first place, it can get a steady stream of profits." Service innovation means new ideas, new techniques are changed into new or improved service. So we can start to think about

the customer needs& expectations, product design, manufacturing, logistics, marketing and all other aspects of the value chain with considering the value-added point to the customer service. Through innovative technology, improved system provides differently elastic service for different customers, thus to create an excellent service system.

- **Management innovation to gather industry elite, build efficient management team and management modes:**

Whether is a company able to develop a superior strategy, and successfully implement the strategy depends crucially on whether it has a high-level management team. And management innovation is the most effective, also essential way that attracts all kinds of elite in the world. Therefore, in order to build a perfect management team and management modes in the industry, Lenovo must implement management innovation as followed: 1. Managerial conceptual innovation - actively learn the most advanced theories, methods and most excellent management experience; 2. Cultural innovation – create a doubt, problem-solving culture, seek analogies and examples from different environments to create a superior "multi-win" culture; 3 Organizational innovation – timely restructure the organization according to the changes in the external&internal environment to build efficient operation; 4 Managerial tools' innovation - create a new management policy, introduce a new management system, apply a variety of management methods.

Strategy 2: Key market penetration strategy

From the SWOT analysis above we know a very critical issue affecting the performance of Lenovo is that Lenovo is still lagging behind its main rivals HP and Dell in U.S. and European countries. However, as the origin of the PC industry, these two regions attract most people's attention. In the macroeconomic environment of recovery on national economy in U.S. and European markets, Lenovo must seize this opportunity to rapidly penetrate to these two big markets to improve the overall performance of the group. For the strategies in these two markets, on the one hand Lenovo can focus on product and technological innovation to enhance brand awareness there, on the other hand, the company should ally with the advantages and strengths of its strategic partners to find out the breakthrough point. For example through the acquisition of IBM PC, IBM X86 Server,

Motorola Mobility, Lenovo have formed a strategic alliance with IBM, Google. Lenovo should deeply think about the future cooperation and development opportunity, such like the technical development cooperation, channel cooperation. In addition, cross-industry marketing cooperation is also a very effective marketing method, such as joint-activities with car, real estate companies which can strengthen the influence on marketing and promotion in the U.S. and European markets.

Furthermore, in terms of the customer markets, Lenovo should innovate on specific product design and marketing activities for targeted women and new generation to detect the depth of these market, prepare for the future demand. For example, learn from Apple, Samsung's mobile products, stress on flexibility, light, bright color, and enter into the new generation's living environment, implement campus marketing, network marketing, etc.

Strategy 3: Concentric diversification

Mobile, storage, and cloud services are predicted to be the future trend of the IT industry. Lenovo has started to diversify its business on mobile internet and digital home (MIDH) fields. In 2013-2014, Lenovo has implemented a series of merger & acquisitions in mobile and server business. However, whether these acquisitions can really help Lenovo achieve takeoff in the mobile, storage, and cloud services business is still not certainty. For example, in the recent two large-scale acquisitions, before Lenovo acquired Motorola's mobile business, Motorola Mobile has lost \$ 1 billion and earnings hopeless, which is one of the main reasons why Google wanted to sell it. The similar situation happened in another case of Lenovo acquiring IBM X86 server in 2014. In the overall server market, the low-end servers like X86 has relatively lower profit, and IBM's X86 server business has been declining in profit for consecutive seven quarters. So how can Lenovo rapidly develop these new businesses to be profitable, at the same time keep its PC performance, is the biggest challenge over the next five years for Lenovo. According to the characteristics of historical development of Lenovo and the SWOT situation above, we can propose the following implementing strategies: 1. Use Chinese and Asian markets as a jumping off point with best Lenovo brand awareness, PC monopoly position and channel advantages to quickly arrive at number one market position in mobile, storage and services businesses;

2. Study characteristics and developing trend of mobile, storage and cloud service business in developed countries. Apply the strategy of stabilization of IBM and Motorola's existing channels, customers, and market share at the early stage; 3. After realizing steps 1 and 2, Lenovo can penetrate into U.S., Europe and other developed markets and achieve the global development on its new businesses.

Conclusion

The aim of this chapter is to present our final conclusion through review the whole content of this diploma work, at the same time state recommendation for Lenovo Group. Also, some limitations in the research process were discussed and the areas that were not investigated in depth in our study are highlighted as the implications of future research at the end of this chapter.

Conclusion of the diploma work

The theme of this diploma work is to deeply analyze how to make the strategic choices for an IT company in order to successfully compete in an intensely competitive global market, and what are the key elements that influence the company to make its business strategies. In order to reach this goal, the relevant theoretical framework is applied in the analytical framework, in which the assessment utilized a formal strategy formulation process of Fred R. David's comprehensive strategic management model suggestion are considered. This diploma work concentrates on assessing the current competitive position of Lenovo Group in the international context and presenting strategic choices and opportunities for the future improvement.

Relevant literature reviews are performed within Chapter 1. They construct the theoretical background for the whole research. In this part, we tried to dig out the essence of strategy, through discussing on all kinds of different definitions of strategy, and the main characteristics of strategy. Including corporate strategy, business strategy, and functional strategy, three levels of strategies were introduced. Then, the most critical part of Fred R. David's comprehensive strategic management model, especially the strategy formulating process was dismantled and clearly explained step by step. Also, in the theoretical part we tried to provide lots of analytical framework, such like DEPEST model, Porter's Five Force Model, Value Chain model, SWOT Matrix, Strategy Clock, that could be used in the auditing of internal and external environment for the practical implementation.

After clearly presenting the theories and methods of strategic management, the diploma

work conducted lots of qualitative and quantitative environmental analysis for Lenovo by using various methods and tools provided in the theoretical contents. The external environment analysis focused on the macro environment with using DEPEST model, which scanned political, economic, technical, social cultural, environmental and demographics factors that seriously impact the industry growth rate. The industry environment analysis is also included in the external environment scanning. For this part, we investigated on the industry characteristics and competition structure by using Porter's five force model. In the internal environment analysis, we used value chain analysis to describe the PC industry value chain and compared the critical steps of value chain between Lenovo and its main competitors(HP, Dell, Acer and Asus), which can help us find out the main competitive advantages of Lenovo in its value chain. Also, we conducted the analysis on Lenovo's tangible and intangible resources, including finance resources, human resources, organizational resources, technology& innovation resources, brand resources and cultural resources, to see what kinds of capability beneath these resources and how to extend them, how to make them contribute great to the future's success of the company. All these results provide sufficient theoretical and feasible basis for strategic choice of Lenovo's international business.

One of the main findings of this diploma work is that with respect to the major competitors in the PC industry, Lenovo currently has very significant competitive advantages either from its value chain system or from its internal resources. From value chain system point of view, the company has the excellent dual-model which is able to cover both commercial and consumer customers very well. From internal resources point of view, Lenovo hold more than 30% market share and ranked number 1 position in domestic market for nearly 18 years, also it defeated its main competitors HP&Dell and leaded the worldwide market in 2013.Except this, the company's good financial situation, super human resources, worldwide brand awareness, integrated culture and timely changed organizational capability strengthen the company's competitiveness in the world market.

However, there are also some important negative findings generated from the external and internal scanning which need the company pay more attention and take the immediate action. We can divide these findings into two aspects. One are the problems existing in its

current PC business, such like weak market position in U.S. and Europe, weak brand awareness in Lenovo product, lacking of core and high value-added technology. Another finding is the threat of the substitute of PC product, such like tablet, smartphone. However, it also could be a good opportunity for Lenovo to diversify its present business model from 85% relying on PC product to extend to the fields of mobile, storage and cloud services to capture the future industry trend and step into its future PC + leading position.

In such context, strategic alternatives are explored. The suggestions are constructed into three scenarios: 1. Innovation on the whole value chain to gain sustainable competitiveness; 2. Key markets penetration to improve market position in U.S. and Europe, prepare for the future demand on targeted women and new generation; 3. Concentric diversification to seize the opportunity of future technology and industry trend in mobile, storage and cloud services.

Limitation of the diploma work

There are some limitations that need to be highlighted in the process of data collection. Firstly, the exact figures of the sales situation are avoided in the interview. All of the analysis is concluded from the official website and annual reports. Secondly, some quality analysis, especially for the competitors' relative situation, is limited by the interviewees' knowledge and experiences. Thirdly, it is also important to comment that IT industry is dynamic and there are various driving forces continue to push the development in this sector. The study was focused on PC manufacturing but not the whole IT industry. Therefore, the findings could not be totally the same interest to the companies such like software, internet, IT consulting and so on.

Future research implications

In our research, we focused on the trends, driving forces and the industry dynamics, which can very well explain the present situation in this industry segment and enable Lenovo to understand the present market potential and establish the potential in the years coming. However, it was good to act as an "eye opener" to both Lenovo and researchers to include the time perspective and keep watching on the changes of technology and industry trend, which we didn't go to deep length due to time factor. Also strategy implementation and

evaluation as the very important stage of strategic management process were not studied in this diploma work due to the time limited and to avoid too complexity. However, the success of a good strategy is guaranteed by efficient implementation. Thus, the next research could focus on how to successfully implement business strategies.

Resumé

V čase rinčania zbraní, zvolená stratégia rozhodovala o výsledku bitky, strate na životoch, a o úspechu alebo zlyhaní celej vojny. V čase pokoja a mieru je svet podnikania tiež bojiskom, kde stratégia ovplyvňuje to, či bude produkt žiadaný, ale aj vzrast a pokles obchodu, ba dokonca prežitie celého podniku. Michael Porter, profesor na Harvardskej obchodnej škole raz povedal: “Stratégia je kľúčom k úspechu.” Podnikové zdroje a schopnosti vedia byť ako atómová bomba, ktorej sila závisí na potenciálnej konkurencieschopnosti a stratégii podniku. V súčasnosti, vďaka rozvoju globalizácie a internacionalizácie, ale aj tvrdej konkurencie, potreba dobrého strategického manažmentu pre spoločnosť narastá. Práve preto, väčšina spoločností, najmä tie medzinárodné, začali používať úspešné medzinárodné stratégie a efektívne implementovať strategický manažment vo fungovaní svojho podnikania.

Chápeme tvorbu stratégie ako sociálne uskutočnenú aktivitu, závislú na kontexte, ktorá je orientovaná na dosiahnutie strategických cieľov a ktorá vzniká prostredníctvom akcie a interakcie viacnásobných účastníkov, alebo skupín, distribuovaných cez organizáciu.

Hlavným cieľom tejto diplomovej práce je analyzovať ako správne vytvoriť stratégiu pre čínsku IT spoločnosť, s úspešnou konkurencieschopnosťou na celosvetovom trhu. Práca sa zameriava aj na kľúčové zložky, ktoré ovplyvňujú obchodnú stratégiu danej spoločnosti. Diplomová práca sa pokúša preskúmať kľúčové témy, ktoré prispievajú k záveru a ktoré sú potrebné k získaniu poznatkov k hlavnému cieľu tejto práce. Tieto kľúčové témy sú: 1) Spôsoby kontroly strategického prostredia implementovaním štandardných analytických techník. 2) Charakteristika a vplyv externých a interných determinantov na medzinárodnú stratégiu čínskej IT spoločnosti v medzinárodnom kontexte. 3) Kľúčové fakty, že existujúce schopnosti danej spoločnosti môžu byť použité k novým poznatkom, môžu pridať hodnotu produktu a tým si udržať výhody konkurencieschopnosti. 4) Strategický výber čínskej spoločnosti v medzinárodne silnej trhovej konkurencii. 5) Vplyv osvojených medzinárodných stratégií na činnosť spoločnosti. 6) Spôsoby ako si udržať pozíciu dlhodobého úspechu.

Diplomová práca je rozdelená do siedmich kapitol:

1. Úvod

Táto kapitola nás uvádza do problematiky diplomovej práce. Kapitola opisuje kritickú rolu globalizácie a jej vplyv na voľbu podnikových stratégií v medzinárodnom kontexte. S narastajúcim prehĺbovaním ekonomiky, priemyslu a globalizácie, so zmierňovaním colných bariér, voľného prívivu talentov, globalizácie informačných technológií na jednej strane, a konkurencieschopnosti trhu, budovaním medzinárodných monopolov, revolúcií v technológiách, tak aj zmeny v oblasti nakupovania zo strany zákazníkov na strane druhej, to všetko prispieva k rozvoju podnikania a prináša so sebou nové výzvy pre terajšie, ale aj budúce strategické techniky týchto podnikov. Tieto nové okolnosti nútia manažment k prehodnocovaniu svojho prístupu k operáciám, ale aj k ľudským zdrojom, čo si vyžaduje viac zodpovednosti nových organizácií voči obom typom prostredia, internému, ale aj externému. Práve preto, stratégia už nie je len stabilnou analýzou problému, ale dynamickým, konštantne sa rozvíjajúcim dopytom pre vytvorenie hodnoty, ktorá sa stáva dynamickým prostriedkom k vedeniu k dlhodobému rozvoju spoločností.

2. Strategický manažment- Literatúra a teória

Táto kapitola sa zameriava na teórie strategického manažmentu, ktoré vytvárajú teoretické pozadie nášho výskumu. V tejto časti sme sa snažili zdôrazniť podstatu stratégie, cez popis rôznych typov definícií stratégie. Kapitola popisuje tri stupne stratégií vrátane stratégie korporácie, obchodnej stratégie a funkčnej stratégie. Taktiež v tejto kapitole popisujeme najkritickejšiu časť komplexného modelu strategického manažmentu Freda R. Davida, konkrétne formulovanie strategického procesu, ktoré tu vysvetľujeme krok za krokom. V teoretickej časti sme sa snažili poskytnúť analytický rámec, prostredníctvom DEPEST modelu, Porterovho modelu piatich konkurenčných síl, Modelu hodnotového reťazca, SWOT Matrix modelu, a modelu Strategických hodín, ktoré môžu byť použité pre skontrolovanie interného a externého prostredia na realizáciu v praxi.

3. Cieľ

Táto kapitola opisuje základný cieľ práce ako aj hlavné témy, ktorými sme sa zaoberali.

Kapitola sa zameriava na závery, ktoré chce diplomová práca realizovať.

4. Metodológia výskumu

V tejto kapitole sú opísané všetky použité kvantitatívne a kvalitatívne metódy, ktoré prispievajú k logickému sledu výskumu.

5. Výsledky diplomovej práce

Na základe teórií strategického manažmentu, opísaného v predchádzajúcej kapitole, sa diplomová práca zaoberá kvantitatívnymi a kvalitatívnymi analýzami, s použitím rôznych metód a techník. Analýza externého prostredia sa zameriava na analýzu makro prostredia, s použitím DEPEST modelu, ktorý skúma politické, ekonomické, technické, kultúrne a demografické faktory, ktoré vplývajú na rýchlosť rastu daného priemyslu. V tejto časti sme sa zamerali na charakteristiku priemyslu a na štruktúru konkurencie s použitím Porterovho modelu piatich konkurenčných síl. Čo sa týka analýzy vnútorného prostredia, tu sme použili Model hodnotového reťazca na opísanie počítačového priemyslu, kde sme porovnávali kritické kroky hodnotového reťazca medzi spoločnosťou Lenovo a jej najväčšími konkurentmi (HP, Dell, Acer a Asus). Snažili sme sa zistiť najhlavnejšie konkurenčné výhody Lenova a ich hodnotový reťazec. Taktiež sme sa snažili analyzovať hmotné a nehmotné zdroje, vrátane finančných zdrojov, ľudských zdrojov, organizačných zdrojov, technologických a inovatívnych zdrojov, značiek a kultúrnych zdrojov spoločnosti Lenovo, na zistenie spôsobilosti týchto zdrojov a aby sme vedeli ako ich rozširovať, aby funkčne prispievali k budúcim potenciálnym úspechom spoločnosti.

Výsledky nášho výskumu poskytujú dostatok teoretického základu pre strategický výber internacionálneho obchodu spoločnosti Lenovo.

6. Diskusia a odporúčania

V tejto časti sa diplomová práca zaoberá hlavnými zisteniami výskumu. Jedným z hlavných zistení tejto práce je, že spoločnosť Lenovo má v súčasnosti veľmi dôležité konkurenčné výhody, či už vďaka svojmu hodnotovému reťazcu, alebo interným zdrojom. Z hľadiska hodnotového reťazca, spoločnosť má excelentný duálny model, ktorý je schopný veľmi dobre pokryť obchodné nároky, ale aj nároky spotrebiteľa. Čo sa týka

vnútorných zdrojov, Lenovo vlastní viac ako 30% trhového podielu a radí sa na prvú pozíciu na domácom trhu už skoro 18 rokov. V roku 2013 porazil svojich najväčších konkurentov, HP&Dell, a od tej doby vládne celosvetovému trhu. Okrem toho, dobrá finančná situácia spoločnosti, skvelé ľudské zdroje, celosvetovo známa značka, komplexná kultúra a schopnosť včasného prispôsobenia sa trhu, to všetko upevňuje konkurencieschopnosť spoločnosti na svetovom trhu.

Napriek tomu, prostredníctvom nášho výskumu sme zistili dôležité negatívne zistenia, týkajúce sa externého a interného skúmania na ktoré si spoločnosť musí dávať väčší pozor a začať neodkladne konať. Tieto zistenia môžeme rozdeliť do dvoch skupín. Prvá sú problémy existujúce v súčasnom PC odvetví, ako napríklad slabá pozícia trhu s Spojených Štátoch Amerických a Európe, slabé vnímanie značky Lenovo, ale aj nedostatok vyššej hodnoty technológií. K ďalšiemu zisteniu patrí hrozba náhrady počítačov tabletami a mobilnými telefónmi. No aj napriek tomu, toto zistenie by mohlo slúžiť ako nová príležitosť pre spoločnosť Lenovo ako obmeniť súčasné obchodné modely, ktoré sa z 85% spoliehajú na počítačové produkty, a tak rozšíriť svoje zameranie aj na mobilné telefóny a úložné priestory. Tým by mohla spoločnosť napredovať a tak vstúpiť do budúcnosti počítačov a zaujať úradujúcu pozíciu.

Práve v tomto kontexte sa zameriavame na strategické alternatívy. Návrhy sú zostavené do troch scenárov: **1. Inovácia celého rebríčka hodnôt** na získanie vhodnej konkurencieschopnosti, čo zahŕňa inováciu produktov, technológií, služieb, marketingu, operácií, manažmentu, a všetkých ďalších stupňov, ktoré prevyšujú očakávania produktovej hodnoty pre zákazníka, zatiaľ čo formujú jedinečnú „inovatívnu schopnosť“ konkurencieschopnosti spoločnosti. **2. Kľúčová trhová infiltrácia** na zlepšenie pozície trhu v Spojených Štátoch Amerických a Európe. Lenovo musí uchopiť možnosť ekonomického obnovenia trhu v rozvinutých krajinách a čo najrýchlejšie sa dostať na trh Spojených Štátov Amerických, ako aj na Európsky trh a týmto zlepšiť celkový výkon spoločnosti. Taktiež by mala spoločnosť Lenovo zdokonaľiť dizajn produktu, ako aj marketingové aktivity zamerané na ženy a novú generáciu, na zistenie hĺbky trhu a pripravenie sa na požiadavky budúcnosti. **3. Stratégia sústrednej diverzifikácie.** Táto stratégia je založená na získaní a implementovaní IBM X86

obchodného serveru a na značku mobilných telefónov- Motorola. Spoločnosť Lenovo sa musí sústrediť na to, ako využiť svoje súčasné silné pozitíva a potenciálne príležitosti perspektívnej technológie a priemyselných trendov aj v oblasti mobilných telefónov, úložných priestorov a na rýchly vývoj tejto novej oblasti podnikania, aby bola spoločnosť zisková a zároveň aby pokračovala vo svojej počítačovej činnosti.

7. Záver

Cieľom tejto kapitoly je poskytnúť konečný záver cez zhodnotenie celého obsahu tejto diplomovej práce a zároveň navrhnúť odporúčanie pre spoločnosť Lenovo. Táto kapitola sa tiež zaoberá niektorými obmedzeniami, ako sú limitovaný marketing & predaj dátových zdrojov, skúsenou kvalitativnou analýzou a počítačovo orientovanými limitáciami v procese výskumu. Zmeny v technológiách a priemyselnom trende, ktoré neboli hlbšie skúmané sú v závere tejto kapitoly zvýraznené ako implikácie pre budúci výskum v tejto oblasti.

Spoločnosť Lenovo, ako nová hviezda v počítačovom priemysle, nadobudla vedúcu pozíciu už v priebehu niekoľkých rokov. Stále existujú neistoty a riziká, ktoré ohrozujú a aj budú ohrozovať jej vedúcu pozíciu. Dúfame, že práve tento výskum môže inšpirovať našich čitateľov a vzbudiť v nich túžbu po produkte Lenovo.

Tento výskum nás vedie aj k tomu, aby sme si boli vedomí časovej perspektívy a aby sme stále sledovali zmeny priemyselného trendu budúcnosti.

Bibliography

Books:

1. W. Chan Kim and Ren é Mauborgne .2005.*Blue Ocean Strategy*. First Edition. Beijing, China, Commercial Press ,2005,p14-21.ISBN 7-100-04452-9
2. John von Neumann and Oskar Morgenstern.1953.*Theory of games and economic behavior*, Third Edition. Printed in the United States of America by Princeton University Press.1953.page.79-84.Available at:<
<https://archive.org/details/theoryofgamesand030098mbp>>
3. Alfred E.Chandler.2003.*Strategy and structure: Chapters in the history of American industrial enterprise*, Washington, D.C. Reprinted by Beard Books.2003.page.13.ISBN 1-58798-198-X.Available at:<
http://books.google.sk/books?id=mKfjhPZTkB8C&printsec=frontcover&source=gbs_ge_summary_r&cad=0#v=onepage&q&f=false >
4. H.Igor Ansoff,*Corporate strategy*.1965.Available at:<
<http://wiki.mbalib.com/wiki/%E5%AE%89%E7%BB%8D%E5%A4%AB> >
5. H.Mintzberg and J.A. Waters *Of strategies,Deliberate and Emergent* 1985,Published in Strategic Management Journal. page.257
6. Fred R.David 2009 *Strategic Management Concepts and Cases* Thirteen Edition. New Jersey. Pearson Education,Inc.2009. Page 6. ISBN 13:978-0-13-612098-8
7. Gerry Johnson, Kevan Scholes, Richard Whittington 2005 *Exploring Corporate Strategy Seventh Edition* New Jersey. Pearson Education,Inc.2005. Page 101. ISBN 13:0-273-68734-4
8. Porter, Michael E. 1985.*Competitive Advantage: Creating and Sustaining Superior Performance*, New York.: Simon and Schuster. Retrieved 9 September 2013.page.11-15
9. Gerry Johnson, Kevan Scholes, Richard Whittington 2005 *Exploring Corporate Strategy Seventh Edition* New Jersey. Pearson Education,Inc.2005. Page 280. ISBN 13:0-273-68734-4

10. Fred R.David 2009 *Strategic Management Concepts and Cases* Thirteen Edition. New Jersey. Pearson Education,Inc.2009. Page 139-141. ISBN 13:978-0-13-612098-8
11. Arthur Thompson Jr., A. J. Strickland III, and John Gamble. 2005.*Crafting and Executing Strategy: Text and Readings* .14 Edition.New York: McGraw-Hill/Irwin, 2005.page 241. ISBN:0072884444
12. Gerry Johnson, Kevan Scholes, Richard Whittington 2005 *Exploring Corporate Strategy* Seventh Edition New Jersey. Pearson Education,Inc.2005. Page 351-352. ISBN 13:0-273-68734-4
13. Gerry Johnson, Kevan Scholes, Richard Whittington 2005 *Exploring Corporate Strategy* Seventh Edition New Jersey. Pearson Education,Inc.2005. Page 394. ISBN 13:0-273-68734-4
14. K. Praveen Parboteeah,.John Brooks Cullen.2010. *Strategic International Management*.5 Edition South-Western Cengage Learning, 2010. Page 250.ISBN: 053845296X, 9780538452960
15. Xiaoping Zhang.2011.*The World Is Thinking—Lenovo*, First Edition Beijing, China. China Machine Press. 2011.12. Page 56-p57.ISBN:978-7-111-36469-6
16. Zhijun Ling .2005.*The Lenovo Affair:The Growth of China's Computer Giant and Its Take Over of IBM-PC*. First Edition. Beijing, China. Citic Press Group.2005.Page 374.ISBN:7-5086-0162-9/F 834
17. Xiaoping Zhang.2011.*The World Is Thinking—Lenovo*, First Edition Beijing, China. China Machine Press. 2011.12. Page 72.ISBN:978-7-111-36469-6
18. Fred R.David 2009 *Strategic Management Concepts and Cases* Thirteen Edition. New Jersey. Pearson Education,Inc.2009. Page 80. ISBN 13:978-0-13-612098-8
19. Fred R.David 2009 *Strategic Management Concepts and Cases* Thirteen Edition. New Jersey. Pearson Education,Inc.2009. Page 122. ISBN 13:978-0-13-612098-8

Electronic Articles:

1. Rich Horwath.2006. *The origin of strategy* .Published by The Strategic Thinking Institute. 2006.Page.1 Available at:<
http://www.strategyskills.com/Articles_Samples/origin_strategy.pdf>

2. Article *The strategy concept I: Five Ps for Strategy*. In California Management Review. Fall 1987. ABI/INFORM Global published Page 11.
3. UNCTAD, based on UNCTAD cross-border M&A database and information from Financial Times Ltd, FDI Markets .Available at:<www.fDimarkets.com>.
4. Ministry of Finance of the People's Republic of China ,Ministry of Commerce of the People's Republic of China, Ministry of Industry and Information Technology of the People's Republic of China. 2009 *Notice on intensifying the implementation of the policy of home appliances going to the countryside* .Published in Information Management System of home appliances going to the countryside. Available at:<<http://jdxx.zhs.mofcom.gov.cn/admin/news.do?method=view&id=42161362> >
5. Gartner Newsroom January 28,2013. *China's Economic Stimulus Policies Will Drive \$39 Billion in IT Spending Through 2013*. Gartner Press Release . Available at:<http://www.gartner.com/newsroom/id/1290614>
6. International Monetary Fund,January,2014.*Is the Tide Rising? IMF World Economic Outlook Update* . Washington D.C. International Monetary Fund .January 21,2014.Page 1-3.Available at:<<http://www.imf.org/external/pubs/ft/weo/2014/update/01/pdf/0114.pdf> >
7. International Data Corporation December 2,2013.Press Release, *IDC Forecasts PC Shipments to Fall by Double Digits In 2013; Volumes Are Expected To Stabilize Above 300 Million Units Per Year, But With No Significant Recovery*.December 2, 2013 .Available at : <http://www.idc.com/getdoc.jsp?containerId=prUS24466513>
8. *Lenovo FY 2012/13 Annual Report*. Page 17-19.Available at:
http://www.lenovo.com/ww/lenovo/annual_interim_report.html
9. International Data Corporation (IDC), 11 Sep 2013, Tablet Shipments Forecast to Top Total PC Shipments in the Fourth Quarter of 2013 and Annually by 2015, According to IDC, Press Release in *IDC Official Home Page*. [online] 11 Sep 2013 Available at:
<http://www.idc.com/getdoc.jsp?containerId=prUS24314413>
10. *Lenovo FY 2012/13 Annual Report*. Available at:
http://www.lenovo.com/ww/lenovo/annual_interim_report.html
11. *Lenovo FY 2012/13 Annual Report*. Page 184.Available at:

- http://www.lenovo.com/ww/lenovo/annual_interim_report.html
12. *HP 2013 Annual Report*. Available at
<http://h30261.www3.hp.com/phoenix.zhtml?c=71087&p=irol-reportsannual>
 13. *Lenovo FY 2012/13 Annual Report*. Page 17-19. Available at:
http://www.lenovo.com/ww/lenovo/annual_interim_report.html
 14. *HP 2013 Annual Report*. Page 39 Available at
<http://h30261.www3.hp.com/phoenix.zhtml?c=71087&p=irol-reportsannual>
 15. *HP 2013 Annual Report*. Page 38 . Available at
<<http://h30261.www3.hp.com/phoenix.zhtml?c=71087&p=irol-reportsannual>>
 16. Barry Jaruzelski, John Loehr, and Richard Holman ,October 22, 2013. The Global Innovation 1000: Navigating the Digital Future .In *Strtegy+Business* [online]. October 22, 2013. Available at: <<http://www.strategy-business.com/article/00221?pg=all>>
 17. *HP 2013 Annual Report. Consolidated Statement of Earning*. Page 88 .*Lenovo FY 2012/13 Annual Report.Consolidated Income Statement*. Page 112.

Web Pages:

1. Global Fortune 500 List. Available
at:<<http://www.fortunechina.com/fortune500/c/2013-07/08/2013G500.htm>>
2. Oxford Dictionaries. Available at:<
<http://www.oxforddictionaries.com/definition/english/strategy>>
3. http://en.wikipedia.org/wiki/PEST_analysis
4. http://en.wikipedia.org/wiki/SWOT_analysis
5. http://en.wikipedia.org/wiki/Mergers_and_acquisitions
6. <http://www.lenovo.com/lenovo/uk/en/history.html>
7. <http://www.lenovo.com/lenovo/uk/en/history.html>
8. http://www.lenovo.com/lenovo/us/en/our_culture.html
9. Wikipedia.*Market share of personal computer vendors*. Available at:<
http://en.wikipedia.org/wiki/Market_share_of_personal_computer_vendors >
10. Smiling Curve. Available at:<http://en.wikipedia.org/wiki/Smiling_curve>