





**THE NEW FACE**

**OF IBM**



**China's biggest IT brand wants to go global.  
So it bought the PC division – and the world-class  
management – of an American icon.  
Who says being “oceans apart” is a bad thing?**

**by Kevin Maney** illustration by Steven Chorney photographs by Tony Law

**WITH ITS STEEL** and glass exterior, vaulted atrium entrance, and rows of cubicles, the Beijing campus of Lenovo is typical tech. Standing in the lobby as purposeful workers bustle about, I could be anywhere - except for the song that suddenly blares out of speakers just before 9 a.m.

The music, played at the start of every workday, sounds like a cross between a national anthem and cheesy karaoke. A chorus of operatic voices rise in unison, singing the company's theme in Mandarin: "Our ship leaves the harbor despite big waves ahead / We are sailing through the waves to lands far away / We are building a new splendor ..."

The melody rings throughout this vast lobby - but it also resonates across time, space, and culture. Fifty years ago, IBM had a theme song, too. It was called "Ever Onward." Employees would belt it out at company events. The vintage IBM song and Lenovo's year-old anthem express eerily similar hopes and dreams. "There's a feeling everywhere of bigger things in store, of new horizons coming into view," IBMers used to chorus on command.

The musical echoes are just the beginning. Today, in an unprecedented union of China's biggest information technology company and an American institution, the blue-uniformed factory workers in Beijing are joining forces with Big Blue executives in New York. But this is more than an overseas manufacturing deal. In April, Lenovo purchased IBM's personal computer division - home of the Think line of notebooks, desktops, and monitors - for \$1.8 billion. The acquisition instantly moves Lenovo from its position as the ninth-largest PC maker to number three, behind Dell and HP. The company now has the global reach, brand recognition, and management expertise to own the fast-growing markets throughout Asia - and stake a claim to PC customers in the West.

Yet there's more afoot here than the sale of an American icon to Chinese owners. The purchase creates the first truly globalized - as opposed to global - corporation. This will not be simply a business with far-flung, disparate operations. Success depends on a truly transnational approach to everything from merging cultures to the making and selling of computers, one that brings together worldwide talent and resources and combines them to pursue a larger goal. It's a confluence of forces - innovation, technology, and free markets - that makes this moment possible. Isn't this exactly the kind of IBM Thomas Watson Sr., who in the 1930s pitched "world peace through world trade," would have wanted for the 21st century? Is this what globalization hath wrought?

The Lenovo-IBM deal is a major step in engineering a transition from the American Century to the Chinese Century. The IBM acquisition may help Lenovo become China's first breakout company. "Twenty years from now, we might look back at this as a historical moment for China rising up," says Lenovo marketing director Leon Xie.

What's astounding is the methodical way that Lenovo is carrying out this transition. The company recognizes its executives don't yet have the experience or strategic chops to lead Lenovo to this new world. So it's buying the one thing from IBM that can't be commoditized, that China can't produce more cheaply and more efficiently: superior management.

"We were simply finding a boss for ourselves," says Lenovo CFO Mary Ma, who played a principal role in the acquisition. Indeed, though the new company has more employees in China than anywhere else, Lenovo chose to make American IBMer Steve Ward its CEO and to move headquarters from Beijing to a new location in Purchase, New York, just a few miles from IBM's venerable home in Armonk.

Lenovo's plan suggests that the next great US export could be corporate executives. Call it the harbinger of a giant outsourcing boomerang. As borders become less relevant and the international marketplace gets more efficient, every country will do what it does best, and for the best value. The US will no doubt continue to outsource manufacturing and technical jobs overseas. In turn, those overseas nations will seek the experience and know-how of US managers and decide to outsource their leadership here. A concurrent example: Sony this year named Howard Stringer as its first non-Japanese chair and CEO of Sony Corp.

All of which shines a spotlight on an extraordinary reality: American executives in New York will mentor Chinese executives as they run a largely Chinese company that wants to model itself on a Japanese corporation in order to challenge two American competitors, with the ultimate mission of helping China achieve its patriotic goal of kicking butt in international business.

If that's not globalization, what is?



**EARLY LAST YEAR,** IBM decided that it wanted to get out of the PC business, and that its PC division needed to get out of IBM. A low-margin, mass-market product was never Big Blue's forte, even if its \$12.8 billion in annual revenue made up 13 percent of the company's total revenue. IBM was more interested in adding revenue by expanding its professional services. Lenovo,

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Think globally (clockwise from top left): New CEO Steve Ward and chair Yuanqing Yang; the reception desk in Beijing; factory workers in Lenovo blue.



meanwhile, was looking to expand beyond China.

Two decades earlier, Lenovo had been started by Liu Chuanzhi, a promising engineer from the elite government research center, the Chinese Academy of Sciences. The company, then called Legend, made its name in 1987 when it began selling a circuit board that enabled Western-made PCs to produce Chinese characters. It was not only a breakthrough for Legend, but a milestone in bringing China into the personal computer age. In 1999, the company offered the Conet PC, complete with a Pentium III processor, a 56K modem, and - through a deal with China Telecom - one-button access to the Internet. The Conet was another breakthrough, bringing China's home users into the Net age. It sold more than 200,000 units in the first six months.

In 1989, Liu recruited Yuanqing Yang, a young computer scientist who had finished his master's degree at the University of Science and Technology of China. Yang had planned to continue his studies in the West, but Liu convinced there was much more to be learned by joining Legend. Yang became Liu's protege and was named CEO in 2001, while Liu remained chair.

Yang took over at a difficult time. Legend's growth had slowed dramatically after the dotcom bubble burst in 2000. (Yes, it affected China, too.) The company had snared 30 percent of China's PC market, but demand was cooling. And Legend made only PCs. Yang and his team decided to diversify into cell phones and handhelds.

"The end result was not very successful," Yang, now 41, candidly admits. Wearing a blue suit and wire-rimmed glasses, he sips tea while we speak through an interpreter. He smiles easily, genial even when intensely focused on business topics.

Competition from the likes of Motorola, Nokia, and Sony was unforgiving, he explains. Lenovo was getting hammered in its new product lines, and its share price, about \$4 on the Hong Kong stock exchange in winter 2002, fell to about \$2 in spring 2003.

Yang had little choice but to change course. He refocused Legend on PCs, with an eye toward overseas markets. The company changed its name to Lenovo because *Legend* couldn't be registered as a trademark in the US and Europe. Yang knew it wouldn't be easy for his young company to go up against the likes of Dell, Fujitsu, HP, and Toshiba.

Just then, he says, "IBM knocked on our door."



**SPEAKING IN PERFECT** idiom-laced English, Mary Ma describes her first reaction to the notion of buying part of Big Blue. We're lounging in plush leather chairs inside an elegant conference room at Lenovo's Beijing office. "We thought IBM's PC unit was a lousy business and they were looking for a victim."

IBM had long made desktop PCs and ThinkPad laptops in Chinese factories. Executives in Armonk were familiar with China's tech industry. A few years earlier, someone at IBM - no one seems to recall who - had actually suggested to Lenovo that it buy IBM's PC division. Lenovo at the time was far from ready.

But in early 2004, IBM's CFO, John Joyce, brought the idea to Yang and Ma. Ma was wary until Joyce explained that IBM wanted to retain a stake in the new company and work with Lenovo as a partner. "That got all of us thinking," Ma says.

Ma and Yang made many trips to IBM headquarters. Joyce - and, on

one occasion, IBM CEO Sam Palmisano - traveled to Lenovo. Ma pulled in help from investment banking firm Goldman Sachs and consulting outfit McKinsey. The more Lenovo looked, the more it liked. The companies, unlike HP and Compaq, would have little overlap. Lenovo is strong in China, IBM a powerful brand in the rest of the world. Lenovo has focused on consumers, IBM on business customers. Lenovo excels at manufacturing, IBM at management and marketing. The new Lenovo would triumph in ways the old Lenovo and IBM did not.

Aside from the appealing industrial logic, Yang and Ma found that the deal made financial sense. It would free the PC unit from the high costs of IBM overhead and bring its operations in line with the Chinese firm's lower cost structure. The results: Lenovo's revenue would rise from \$3 billion to \$13 billion; revenue per employee would more than double.

There was, of course, an additional benefit. Purchasing IBM's PC division would bring international respectability. And it could give Lenovo something no big Chinese company had: world-class management.

Both companies insist there was no precondition that Lenovo make an IBMer the CEO of the new entity. Yang had already made the decision. He would become chair of the new Lenovo and give the CEO job to Ward, who was then running IBM's PC group. Yang

**"THE ONLY WAY I CAN DO MY JOB WELL IS TO LEARN THE IBM WAY AS SOON AS POSSIBLE."**

also decided to locate the new headquarters in New York.

"We lacked international experience and capability in managing a multinational company," Yang explains. "We also felt it was critical to make customers and employees feel the new company is a global company."

Terms were reached in December, and soon after, a group of US investors led by Texas Pacific Group agreed to buy a stake in the new enterprise. (TPG had tried to buy IBM's PC division in 2004.) In the end, IBM wound up holding 13.4 percent of Lenovo, cementing the partnership. The TPG-led investors hold 10.2 percent. The rest is owned by the public, Lenovo employees, and the Chinese government.

In Beijing, most Lenovo executives seem comfortable with the unusual relationship to IBM, if not delighted at the prospect of getting a piece of the storied International Business Machines. When senior vice president Song Qiao heard of the impending purchase, he was floored. "I said, What? They want to sell their business to Lenovo? I never would've thought we could buy this big company."

Qiao, the new Lenovo's head of procurement, touts the merits

of having IBM managers atop the org chart. "The only way I can do my job well," he says, "is to learn the way IBM does it as soon as possible."



**MIN YI SITS** at a glass table in Lenovo's atrium, a cup of hot chocolate in her hands. This is the company's informal gathering place, stocked with plants and, on this sunny day, flooded with natural light. Outside is a Beijing business district that just a decade ago was orchards and farming villages. Today it's an oasis of modern office complexes bordered by lumberyards and vast open areas awaiting the arrival of construction cranes.

Yi's smile and energy are contagious. She wears a tan jacket and dark slacks and speaks excellent English. As human resources director, her job is to close the culture gap between Lenovo and IBM, and she tells me the story of Spring Bud. At a meeting of Lenovo and IBM managers before the deal closed, one of the Lenovo employees was asked to present a plan. To organize the presentation, he drew on a Chinese farming analogy. He labeled the first phase "seeding," the second phase "maturing" and, finally, "harvest."

"Americans just say, phase one, phase two, phase three," Yi says. "I told the Lenovo employee, 'It's a beautiful idea, but how are your American colleagues going to understand what you're talking about?' From then on, we called him Spring Bud." And so Spring Bud, along with other Lenovo workers desperate to soak up US business practices, was instructed in droning PowerPoint-speak.

Imagine dozens of those little cultural differences piled one on top of another, day in and day out, and you get a glimpse of the mountain Lenovo and IBM must climb. Lesser differences bogged down Sony's purchase of Hollywood's Columbia Pictures in 1989 and Daimler-Benz's acquisition of Detroit's Chrysler in 1998. America Online and Time Warner suffered from their clashing cultures inside the same country. Think of what faces a young Chinese upstart attempting to conjoin with a division of a 90-year-old US corporation.

For Lenovo and IBM, the chasm begins with language. Ward and other top IBMers don't speak Mandarin. The new company's official language for all business dealings is English, which could put a lot of Lenovo employees (even those for whom English is a second language, like Spring Bud) at a disadvantage.

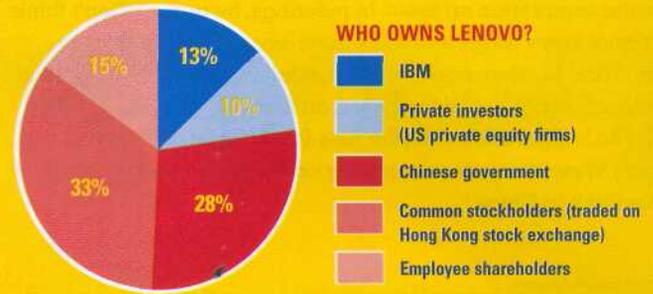
Then there's the 12-hour time gap. When the IBMers on the East Coast are settling in to watch *The Apprentice*, Beijing is already beginning the next workday. Meanwhile Lenovo executives, who almost never did business outside of China, rarely take conference calls - a staple of life inside IBM. "It was not a meeting unless you could see the person," says George He, Lenovo's head of research and technology.

Procurement manager Qiao jokes that one takeaway from his nascent relationship with IBM is a knowledge of American business cliches. "I learned oceans *apart*. And then, after that, *bridge the gap*," he says with a grin. "I especially like this one: *low-hanging fruit*. It's a very good expression."

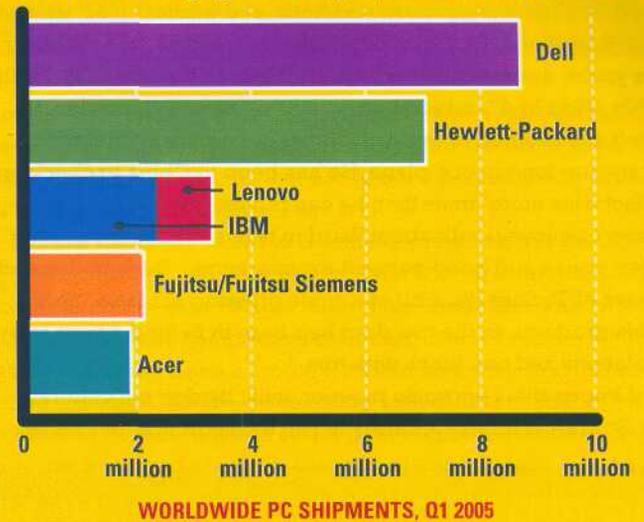
A more useful thing that Lenovo executives can learn from their IBM colleagues is the business of leadership. In China, college admissions are based entirely on exam scores - unlike in the US, it doesn't help to be captain of the high school soccer team or president of the drama club. And the way to get high exam scores is to

## LENOVO BY THE NUMBERS

Lenovo gave up a quarter of the company in the IBM deal ...



... but in exchange got a stronger position in the PC market ...



... and a valuable US base of operations.

	Lenovo (pre-acquisition)	IBM PC division (pre-acquisition)	Lenovo today
<b>HQ</b>	Beijing	Raleigh, North Carolina	Purchase, New York
<b>Employees</b>	9,000	10,000	19,000
<b>Annual revenue</b>	\$3 billion	\$12.8 billion	\$13 billion*
<b>Revenue per employee</b>	\$330,000	\$1,279,400	\$684,211
<b>Share of employees based in US</b>	0	33%	17%
<b>Position in worldwide PC market</b>	No. 9	No. 3	No. 3
<b>Share of worldwide PC market</b>	2%	5%	7%
<b>Official company language</b>	Mandarin	English	English

\*Lenovo projection

Sources: IBM, IDC, Lenovo

learn by rote, obey instructions, and not take chances. The young men and women who excel at those traits get into the best universities and graduate with honors, as brilliant followers. Few, if any, have the skills required of corporate managers.

As I interview Lenovo employees, I find that Ward has made a particular impression on them. In meetings, he urges, "Don't think about what Steve wants me to do; think what Steve wants us to accomplish." In other words, don't just follow orders - understand the strategy. Make decisions based on that.

"Maybe," says Andrew Hu, the Asia-Pacific chief of US-based tech company Wyse, "a modern company could shape the way some people think in China."



**STEVE WARD HAS** immaculate gray hair, a gruff manner, and expressive eyebrows that help make a point. Now 50, he joined IBM in 1978 as an engineer in the storage-products division, climbed through management positions, and wound up as assistant to chair John Akers. At IBM, being appointed assistant to the chair means you're destined for the highest levels of the company. By the mid-'90s, Ward had landed as an executive at the PC division. He says he's accustomed to working across cultures and time zones, never staying long in one place. He has been to China to check on IBM's factories more times than he can remember.

Lenovo employees talk about Ward in terms that walk the line between praise and good-natured exasperation. "Steve is demanding!" says R&D chief He, a bit of a smile crossing his face. "Steve loves his products. In the two days he's here in Beijing, I have two presentations and one lunch with him."

Ward knows that Lenovo, to prosper, must bridge the cultural divide. To start, it hired McKinsey to run focus groups and survey

1,300 employees. Workers in Beijing have been urged to have their kids become pen pals with children of US employees. The management team has been carefully assembled to seem not American or Chinese, but to evenly reflect the new company's heritage. And contrary to China's naming convention of family name followed by first name, Lenovo's management will adopt the Western style. Hence, Qiao Song becomes Song Qiao.

"At the highest level, I would say that working across cultures is working across cultures," Ward says. "You be respectful, work hard, and get it done."

Ward will have help from Lenovo's outside investor Texas Pacific Group. The firm has made a fortune buying struggling business units from larger corporations and turning them around. TPG thus brings processes and rigor to the Lenovo-IBM union. "I had these guys in a session just now," Ward says one day at Lenovo's Beijing office. "I was able to ask them, 'When you did a deal like this, how did you solve this problem?' It's a little like a formula."

Also in Ward's favor are similarities that may help unite the new organization. Take founder Liu, who sits on the new Lenovo's board and is chair of its parent company, Legend Holdings. Like Liu, Thomas Watson Sr. started building his company at age 40. Watson took charge of his ragtag little outfit in 1914 - and ran it for the next 42 years, building IBM into an industrial giant.

Or consider the Chinese characters that for years have been part of the Legend logo. The characters mean *expression of thought*. Or, more simply, *think* - the word that was IBM's famous mantra and iconographic symbol for decades.

Trivial coincidences, sure. But aren't they what people search out when trying to make a connection? "How can you walk into a place that's clearly in a different land, yet feel so much like you belong here?" Ward says. "This may sound corny, but it feels like home."

## BIG RED MEETS BIG BLUE: THE NEW LENOVO ORG CHART

The IBM acquisition gives Lenovo a prized asset: a layer of experienced US managers.



Source: Lenovo



Welcome to the world of Lenovo: Inside a Lenovo store in the retail area of Fuchengmen, a showcase of products that aim to redefine the label "Made in China."



**IT'S MID-AFTERNOON** in western Beijing, inside the Second Ring Road - a busy, vibrant, neighborhood popular with students and full of retail shops, among them a Lenovo store. As I step inside, it's easy to spot both the challenges faced by Lenovo, and its promise.

It's clear this ain't no Apple Store. It's more like a cross between a RadioShack and a hospital examination room. The floors are gray vinyl and the lighting fluorescent. The aisle layout and placement

**LENOVO WANTS TO BE FOR CHINA WHAT SONY WAS FOR JAPAN. AND LENOVO WANTS IT NOW.**

of products seem to have little purpose. Over one doorway, a Christmas display still hangs four months after the holiday. Lenovo, it seems, has a lot to learn about selling.

But take a closer look at what's for sale. There's innovation here that's never been available outside of China. One desktop unit, built for gamers, has a large red dial in the middle that lets the user control the processor clock speed. Dial it up at gaming time and the processor revs to its limit and fans kick on to dissipate the heat. Dial it down when just doing email and the fans turn off so the machine runs almost silently.

Also on the shelves are laptops with swivel screens, wireless

projectors, media PCs with flatscreen monitors, and antibacterial keyboards that Lenovo started making after the SARS scare. Then there are the cell phones that pump out a perfume mist whenever they ring - a smell phone, if you will.

Lenovo wants the world to see these products, buy them, appreciate them - and understand that Chinese companies can compete on the world stage. "China has long been known for its efficient and cost-competitive manufacturing," Yang says. "But so far there has not been a single Chinese company that has combined the manufacturing capability with global branding and marketing." ThinkPad, one of the better-known brands in computing, now belongs to Lenovo. Laptops will continue to use the ThinkPad name, Ward says - although it could be rebranded Lenovo ThinkPad someday soon.

Yang and other Lenovo executives often bring up Sony and Samsung as models. Before Sony - and, around the same time, Toyota and Honda - Japan was the cheap manufacturing center. Beginning in the 1970s, those companies slowly changed their nation's image, paving the way for other Japanese companies. More than a decade later, Samsung began the same crawl, carrying Korea with it.

These are good models, but Lenovo doesn't want to crawl. In China there is a sense of impatience - of everything exploding at once. Lenovo wants to be for China what Sony was for Japan, and it wants to be that now.

With the IBM deal, Lenovo is making a gambit for instant global credibility, and for a place in history as China's breakout company. It has already been tapped as the IT sponsor for the Olympics - first in Turin for the 2006 winter games and then, triumphantly, in Beijing for the 2008 summer games. No Chinese company has ever been an Olympics sponsor before. Lenovo plans to use the games to introduce itself to a worldwide audience. But even that's not fast enough for China.

"A Chinese enterprise that wants to establish an international brand carries a dual responsibility," Yang says. "It's not only a brand for the company itself, but for the country." That makes Lenovo a symbol for the coming of a Chinese Century. ■ ■ ■